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

FORM 10-K

(Mark One)
☒  Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 31, 2006
OR
☐  Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-32224

salesforce.com, inc.
(Exact name of registrant as specified in its charter)

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

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)

Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which registered
Common Stock, par value $0.001 per share New York Stock Exchange, Inc.

Securities registered pursuant to section 12(g) of the Act: Not applicable

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes ☒  No ☐
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of Act. Yes ☐  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 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☒  Accelerated filer ☐  Non-accelerated filer ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐  No ☒
Based on the closing price of the Registrant’s common stock on the last business day of the Registrant’s most recently completed second fiscal quarter, which was July 31, 2005, the aggregate market value of its shares (based on a closing price of $23.55 per share) held by non-affiliates was approximately $1.5 billion. Shares of the Registrant’s common stock held by each executive officer and director and by each entity or person that owned 5 percent or more of the Registrant’s outstanding common stock were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.
As of February 28, 2006, there were approximately 110.8 million shares of the Registrant’s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive proxy statement for its fiscal 2006 Annual Meeting of Stockholders (the “Proxy Statement”), to be filed within 120 days of the Registrant’s fiscal year ended January 31, 2006, are incorporated by reference in Part III of this Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.
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salesforce.com, inc.

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FORWARD-LOOKING INFORMATION

This Annual Report, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements consist of, among other things, trend analyses, statements regarding future events, future financial performance, our business strategy and our plan to build our business, the future expenses associated with expanding our data center capacity and upgrading our new development and test data center, our anticipated growth, trends in our business, our future strategy of acquiring or making investments in complementary companies, services and technologies, the effect of foreign currency exchange rate and interest rate fluctuations on our financial results, the potential impact of current or any future litigation, the potential availability of additional tax assets in the future and related matters, the impact of the new accounting pronouncement to expense stock options and the sufficiency of our capital resources, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “projects,” “intends,” “plans,” “believes,” “estimates,” variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below, under “Risk Factors Which May Impact Future Operating Results” 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.

PART I

ITEM 1. BUSINESS

Overview

We were incorporated in Delaware in February 1999 and we introduced our service offering in February 2000. Our principal executive offices are located in San Francisco, California and our website address is www.salesforce.com. Our office address is The Landmark @ One Market, Suite 300, San Francisco, California 94105.

We are the leading provider, based on market share, of application services that allow organizations to easily share customer information on demand, according to an August 2005 report by International Data Corporation, or IDC. We provide a comprehensive customer relationship management, or CRM, service to businesses of all sizes and industries worldwide.

We designed and developed our hosted service to be a low-cost, easy-to-use application that is easy and quick to deploy, customizable and can be integrated with other software applications. We deliver our service through a standard Web browser. Customers who use our on-demand CRM service are able to avoid many of the expenses and complexities of traditional enterprise software implementations. As a result, our customers incur less risk and lower upfront costs. Our service helps customers more effectively manage and share their sales, support, marketing and partner information on-demand. We market our service to businesses on a subscription basis, primarily through our direct sales efforts and also indirectly through partners. As of January 31, 2006, our customer base had grown to approximately 20,500 worldwide, and we had approximately 399,000 paying subscriptions. We define paying subscriptions as unique user accounts, purchased by customers for use by their employees and other customer-authorized users, that have not been suspended for non-payment and for which we are recognizing subscription revenue.
Industry Background

The Enterprise Application Software Market

Over the last thirty years, there have been several shifts in the way vendors deliver enterprise software applications. In the 1970s and 1980s, vendors delivered application software through centralized mainframe based systems. This evolved in the 1990s to client/server computing.

Many businesses purchased, built and deployed a wide range of enterprise software applications in such areas as enterprise resource planning, or ERP, and CRM. Businesses had no choice but to install, configure, manage and maintain the hardware, software and network services needed to implement the software application in-house. As a result, enterprise software applications were historically available mostly to large businesses with the financial resources to make such investments.

While technology improvements brought increased processing power and application functionality intended to enable businesses to automate and improve their basic processes, businesses have been challenged to realize the benefits of these applications for a variety of reasons, including the following:

- Difficulty of deployment. The increasing number and complexity of applications, operating systems, networks and computer systems have made it difficult and time consuming for businesses to implement and use enterprise software applications.

- High cost of ownership. Enterprise software applications carry a high total cost of ownership. Customers must make significant investments, both initially and on an ongoing basis, in applications and IT infrastructure, including computer systems, networks, software licenses, service and support and maintenance. Additionally, customers typically must employ costly IT staff and consultants to deploy, integrate, customize, support, administer and upgrade these applications.

In an attempt to address these challenges, many enterprise software application vendors adapted their products to be accessible over the Internet. However, as these products were not originally designed to be delivered over the Internet as a service, they failed to address these challenges. In addition, because they are not easy to use, users were hesitant to adopt these complex, non-intuitive installed applications.

Emergence of On-Demand Application Services

The pervasiveness of the Internet, along with the dramatic declines in the pricing of computing technology and network bandwidth, have enabled a new generation of enterprise computing in which substantial components of IT infrastructure can be provisioned and delivered dynamically over the Internet on an outsourced basis. This new computing paradigm is sometimes referred to as utility computing, while the outsourced software applications are referred to as on-demand application services.

On-demand application services enable businesses to subscribe to a wide variety of application services that are developed specifically for, and delivered over, the Internet on an as-needed basis with little or no implementation services required and without the need to install and manage third-party software in-house.

We feel that the key attributes of successful on-demand application services include:

- the availability of enterprise application services to customers of all sizes and across all industries;
- a fully outsourced service accessible over the Internet and through a variety of devices, including laptop computers and PDAs;
- rapid and simple deployment, configuration and training;
- a comprehensive set of application features;
- a scalable, secure and reliable application architecture that can economically support hundreds of thousands of customers simultaneously;
On-demand application services contrast with the traditional enterprise software model, which requires each customer to install, configure, manage and maintain the hardware, software and network services to implement the software application in-house. Moreover, traditional enterprise software vendors must maintain support for numerous legacy versions of their software and compatibility with a wide array of hardware devices and operating environments, and as a result dedicate fewer resources to innovation and incur higher research and development expenses as a percentage of revenue than on-demand application service providers.

On-demand application services also contrast with solutions offered by first-generation application service providers, commonly referred to as ASPs, which host third-party enterprise applications on behalf of their customers. Since these ASPs are deploying traditional third-party enterprise software applications with each customer typically running on a separate instance, or copy, of the software, ASPs remain challenged by the time and expense problems associated with purchasing, implementing, integrating, maintaining and supporting these applications. Additionally, because ASP hosting typically involves the installation of one dedicated server or set of servers to support a small number of customers, ASPs are challenged to cost-effectively scale to support a larger customer base.

We believe the shift to on-demand application services provides significant benefits. Businesses are able to realize many of the benefits offered by traditional enterprise software vendors, such as a comprehensive set of features and functionality and the ability to customize and integrate with other applications, while at the same time reducing the risks and lowering the total costs of owning enterprise software. As a result, we believe the emergence of on-demand application services will continue to bring about a fundamental transformation in the enterprise software industry as businesses will be able to replace their purchased software with subscriptions to a wide range of application services. According to an April 2005 report by IDC, 79% of companies surveyed are now purchasing or reviewing on-demand application offerings.

The Opportunity for On-Demand CRM Application Services

One category of enterprise software applications in which businesses have made significant investments is CRM. CRM software is intended to enable businesses to automate three key functional areas: sales, customer service and support, and marketing. The objective of CRM is to improve interactions with customers by providing a means for recording, managing, accessing and analyzing information regarding all aspects of a company’s interactions with its customers.

The difficulties that companies have faced in deploying and maintaining enterprise software applications in general are particularly relevant to CRM. Despite the significant potential benefits that can be attained from CRM, many enterprises have failed to successfully deploy the CRM software they have purchased.

We believe that traditional CRM applications have generally suffered from the following challenges:

- **Low deployment rates and low user adoption.** Customers have been reluctant to deploy traditional CRM applications as well as add-on applications developed by third-party developers because of the complexity involved in implementing, customizing and integrating them and because end users have not been willing to invest the considerable time and effort required to learn to use these applications.

- **Lack of ubiquitous access.** Given the mobility and geographic diversity of most enterprise sales organizations, ubiquitous access to customer information and application functionality is critical to the effectiveness of CRM applications. As enterprise CRM software application functionality has not been
available or has been difficult to access over the Internet and through laptops and PDAs, full realization of the benefits of sharing access to information and resources has been hindered.

- **Low return on investment.** The cost, time and effort required to implement an enterprise CRM application, combined with low user adoption, have made it difficult for companies to quickly, or ever, realize the benefits of their investment.

- **Inability to serve businesses of all sizes.** Many small and medium-sized businesses seeking the benefits of CRM have been unable to afford the costs associated with traditional enterprise software CRM applications.

We believe that the CRM market is one of the first markets to benefit from the new on-demand application services delivery model. As a result of the high total cost of ownership, low deployment and usage rates, and poor return on investment of traditional CRM software, we believe that businesses are especially open to a new delivery model for CRM. The emergence of on-demand application services, combined with the deficiencies associated with traditional CRM software applications, have created an opportunity for a vendor that can provide on-demand CRM application services that have been specifically designed and built to be delivered over the Internet.

**Our Solution**

We are the leading provider of on-demand CRM, helping companies better track, manage and share information regarding their sales, customer service and support, and marketing operations. As of January 31, 2006, our customer base had grown to approximately 20,500 worldwide, and we had approximately 399,000 paying subscriptions. We provide our service to businesses through our proprietary, scalable and secure multi-tenant application architecture, which allows us to serve large numbers of customers cost-effectively by leveraging a single application code base.

By subscribing to our service, our customers do not have to make large and risky upfront investments in software, additional hardware, extensive implementation services, and additional IT staff. As a result, our service enables businesses to achieve higher productivity from, and a lower total cost of ownership for, their CRM solutions.

Key advantages of our solution include:

- **Rapid deployment.** Our service can be deployed rapidly and provisioned easily, since our customers do not have to spend time installing or maintaining the servers, networking equipment, security products or other infrastructure hardware and software necessary to ensure a scalable and reliable service. We believe the average time that a customer requires to deploy our service is significantly shorter than typical, traditional CRM software deployments. We also offer complementary consulting and training services to assist customers in rapidly deploying and optimizing their use of our service.

- **Enable high levels of user adoption.** We have designed our service to be easy-to-use and intuitive. Since our service contains many tools and features recognizable to users of popular websites such as those of Amazon.com, eBay and Yahoo!, it has a more familiar interface than typical CRM enterprise applications. As a result, our users do not require substantial training on how to use and benefit from our service. We conduct extensive surveys of our users to gauge their experiences with our service so that we may determine potential areas of improvement. In addition, because of the nature of our service, we receive automatic feedback as to which features customers use.

- **Lower total cost of ownership.** We enable customers to achieve significant savings relative to the traditional enterprise software model. Customers also benefit from the predictability of their future costs since they pay for the service, which includes upgrades, on a per subscriber basis for the term of the subscription contract.
Additionally, our service enables customers to automate sales, customer service and support and marketing processes without having to make large and risky upfront investments in software, hardware, implementation services and additional IT staff. Also, because all upgrades are implemented by us on our servers, new features and functionality automatically become part of our service on the release date and therefore benefit all of our customers immediately. Customers are not burdened or disrupted by the need to upgrade systems.

- **Extensive features, functionality and configurability.** We offer a comprehensive array of CRM features that meet the needs of businesses of any size. Our service supports the three key functional areas within CRM—sales, customer service and support, and marketing automation. Most of the features of our service can be accessed through a variety of devices, including laptop computers and PDAs. For example, we offer an offline version of our service that can be used on any PC or laptop. Additionally, through our introduction of the AppExchange Builder (previously called Customforce), our service is highly configurable in a short amount of time, enabling our customers to tailor its appearance, policy settings, language, workflow, reports and other characteristics without the use of significant IT resources or consultants.

- **Secure, scalable and reliable delivery platform.** The delivery platform for our service has been designed to provide our customers with high levels of reliability, performance and security. We have built and continue to invest in a comprehensive security infrastructure, including firewalls, intrusion detection systems and encryption for transmissions over the Internet, which we monitor and test on a regular basis. In addition, all of our customers’ data is replicated in near real-time to help protect the data and ensure service continuity in the event of a major disaster. We built and maintain a multi-tenant application architecture that has been designed to enable our service to scale securely, reliably and cost-effectively to tens of thousands of customers and millions of users. Our multi-tenant application architecture maintains the integrity and separation of customer data while still permitting all customers to use the same application functionality simultaneously. Our architecture also enables customers to segment access privileges across their user base.

- **Ease of integration.** Our platform is designed to enable IT professionals to integrate our service with existing applications quickly and seamlessly. Our AppExchange platform provides a set of application programming interfaces, or APIs, that enable customers and independent developers to integrate our service with existing third-party, custom and legacy applications and write their own application services that integrate with our service. For example, many of our customers use the AppExchange APIs to move customer-related data from custom-developed and legacy applications into our service on a periodic basis to provide greater visibility into their activities.

**Our Strategy**

Our objective is to be the leading provider of on-demand application services for businesses worldwide. We want to manage more than CRM data. However, we believe that CRM still presents a significant growth opportunity. Key elements of our strategy include:

- **Continue to lead the industry transformation to on-demand application services.** We believe that the market transformation to on-demand application services enabled by utility computing is a growing trend in the technology industry. We enable customers of all sizes to be able to benefit from the capabilities of enterprise software applications. We believe we have established a leadership position in this new industry both as a successful vendor of on-demand application services and also as a key thought leader helping to define the architecture and vision of utility computing. We seek to extend our leadership position in this industry by continuing to innovate and bring new on-demand application services and value-added technologies to market.

- **Strengthen and extend our service offering.** We designed our service to easily accommodate new features and functions as well as the release of entirely new application services. We intend to continue to add CRM features and functionality to our core service that we will make available to customers at no
additional charge. We offer advanced modules for an additional subscription fee to customers that require enhanced CRM capabilities. We also
evaluate acquisition or investment opportunities in complementary companies, services and technologies in an effort to strengthen and extend our
service offering. In addition to accommodating new CRM features, we believe that our technology infrastructure is able to support entirely different,
non-CRM application capabilities.

• Pursue new customers and new territories aggressively. We believe that our on-demand CRM application service provides significant value for
businesses of any size, from small businesses to the largest Fortune 500 corporations. As a result, we will continue to aggressively target businesses
of all sizes, primarily through our direct sales force. We have steadily increased and plan to continue to increase the number of direct sales
professionals we employ, and we intend to develop additional distribution channels for our service. We have created several editions of our service to
address the distinct requirements of businesses of different sizes. We also believe that there is a substantial market opportunity for our service
outside of North America. We plan to continue to aggressively market to customers outside of North America by recruiting local sales and support
professionals, building partnerships that help us add customers in these regions and increasing the number of languages we support. As of
January 31, 2006, we offer our service in 12 languages.

• Deepen relationships with our existing customer base. We believe there is significant opportunity to leverage our relationships with existing
customers. We want to sell more subscriptions to existing customers by targeting additional functional areas and business units within the customer
organization and pursuing enterprise-wide deployments, and we want to provide professional service offerings that are complementary to our service
and enable us to sell subscriptions to larger customers who require assistance with complex integrations and customizations.

In addition, by continuously enhancing the functionality of our service, we believe that customers will find more uses for our service and therefore
purchase additional subscriptions, continue to renew their existing subscriptions and upgrade to more fully featured versions such as our
Enterprise Edition.

• Encourage the development of third-party applications on our AppExchange API platform. Our AppExchange API (previously called sforce)
platform enables existing customers and third-party developers to develop and deliver applications complementary to our core service offering. It is a
platform where applications can be built and traded. We believe the ecosystem of developers will address the business requirements of both current
and potential subscribers. The AppExchange API platform enhances the attractiveness of our service, particularly to enterprise customers, by
enabling them to accelerate the integration of our service with their existing applications. With the introduction of the AppExchange Builder, we are
able to continue to augment the tools and services we provide to developers and foster their development of new applications.

In continuing with our efforts to encourage the development of third-party applications that will benefit our customers, in September 2005 we
introduced the AppExchange directory, an online marketplace that we host for our customers, developers and partners to exchange custom
applications that are built on and can integrate with our service.

The salesforce.com Service

We provide a comprehensive array of on-demand CRM and business application services, which enable customers and subscribers to systematically
record, store, and act upon business data and to help businesses manage customer accounts, track sales leads, evaluate marketing campaigns, and provide
post-sales service. We also enable companies to generate reports and summaries of this data and share them with authorized individuals across functional
areas. Our CRM services mainly focus on the following areas:

• Sales Force Automation, which is marketed under our brand Salesforce SFA, enables salespeople to be more productive by automating manual
and repetitive tasks and by providing them with better, more organized data about current and prospective customers. Salesforce SFA helps
companies establish a
system and process for recording, tracking, and sharing information about sales opportunities, sales leads, sales forecasts, the sales process, closed business, and managing sales territories.

- **Marketing Automation**, which is marketed under our brand Salesforce Marketing, enables companies to manage marketing campaigns from initiation through the development of leads that are passed to the sales team and enables them to determine the effectiveness of each campaign by quantifying the revenue generated as a result of specific marketing activities.

- **Customer Service and Support Automation**, which is marketed under our brand Salesforce Service & Support (previously called Supportforce), allows companies to interact better and more efficiently and professionally with their existing customers for a variety of needs, such as requests for repairs, advice about products and services, complaints about faulty goods, and the need for additional goods and services. Using Salesforce Service & Support, customers can create a comprehensive, fully-integrated virtual contact center to support a wide range of customer interactions that occur through voice, chat, email, and in-person interactions.

In September 2005, we introduced the AppExchange directory, which is an on-demand application-sharing service and an on-demand platform that customers can leverage to build and deploy their own custom applications to extend Salesforce beyond CRM services. AppExchange provides a way to browse, test-drive, share, and install applications developed on our on-demand AppExchange platform. Partners, developers, and anyone else who chooses to participate can offer their applications on the AppExchange directory. This directory gives our users an easy way to find and install applications to expand their use of the AppExchange platform to new areas of customer relationship management. We currently do not charge users or partners a fee or royalty for applications in the directory.

As of January 31, 2006, we offered three principal editions of our service for a fee: Team Edition, Professional Edition, and Enterprise Edition. We derived approximately 90 percent or more of our revenues in fiscal 2006, 2005, and 2004 from subscriptions to and support for our service.

- **Team Edition.** Team Edition, which is limited to five subscribers, is targeted primarily at small businesses and workgroups that seek a basic sales force automation and case management solution without the sophisticated features that are required by larger companies. Users can use Team Edition to share important customer data and manage their customer relations—from the start of the sales cycle to closing the deal to providing customer support and service. Team Edition offers access to accounts, contacts, opportunities, cases and reports. It does not include the more advanced customer service and support or marketing automation features such as: campaigns, forecasts, leads, solutions, online case capture, self-service portal, notes and attachments, Offline Edition and mass email capabilities. Using the AppExchange platform, customers can further extend and customize Team Edition by adding additional custom tabs and/or a custom application.

- **Professional Edition.** Professional Edition is targeted primarily at medium-sized and large businesses that need a robust and complete CRM solution, but do not need some of the more advanced administrative features and integration capabilities. Professional Edition offers companies a comprehensive CRM suite that business users can use to manage every aspect of the customer lifecycle. In addition to everything available in Team Edition, it provides users more advanced CRM functionality such as: campaigns, forecasts, lead management, contract management, solutions, online case capture and a self-service portal. Professional Edition also comes with standard, easy-to-use customization, security and sharing, integration and administration tools to facilitate any small- to mid-sized deployment. Using the AppExchange platform, Professional Edition customers have more flexibility than Team Edition customers to further extend and customize their service by adding more custom applications, custom tabs and/or custom objects.

- **Enterprise Edition.** Enterprise Edition is our most fully featured CRM service offering and is designed to meet the complex business needs of large organizations with many divisions or departments. In addition to all of the functionality available in Professional Edition, Enterprise Edition offers customers:
A) our most advanced CRM functionality, such as territory management that uses a rule-based territory assignment engine to categorize accounts and users into territories, products & schedules that tracks revenue and quantity by opportunities;
B) sophisticated Multi-Divisional Sharing and Permissions such as profile-based departmental security and sharing;
C) Workflow and Business Process Control such as workflow automation tasks;
D) Enterprise Customization and Integration tools that can support large-scale deployments, such AppExchange and web service API’s for back-office integration that enables companies to readily integrate Salesforce with ERP applications and other data sources.

With Enterprise Edition, customers also have the maximum flexibility and control to fully extend and customize their Salesforce.com application by adding more custom applications, custom tabs and/or custom objects.

Each of the editions described above entitles customers to our standard customer support services, which are available 12 hours a day, five days a week, with a 48-hour response time guarantee. For advanced customers with more complex business needs, we provide additional levels of fee-based customer support.

In addition to the three editions, we continue to innovate and develop additional products and services as optional add-on subscriptions to better meet different customers’ individual needs. Some examples include:

- **Offline Edition**: Offline Edition allows customers to view and modify their CRM data, such as accounts, contacts, opportunities, tasks, and events while disconnected from the Internet. Offline Edition is included in all Enterprise Edition service subscriptions. Customers of Professional Edition can choose to subscribe as an add-on service.

- **Products & Schedules**: Products & Schedules allows customers to define products, associate it with a price in a price book and establish schedules for products on all sales opportunities. It provides customers the critical information to track and forecast revenue by products. Products & Schedules is included in all Enterprise Edition service subscriptions. Customers of Professional Edition can choose to subscribe as an add-on service.

- **Salesforce Sandbox**: Salesforce Sandbox enables customers to test new customizations or features before deploying them. Customers can use Sandbox to install, modify, and test applications downloaded from the AppExchange or to create a development environment for building and testing integrations and internally built applications. Additionally, customers may use Salesforce Sandbox as an exact replica of their production salesforce system for employee training purposes.

As part of our marketing programs, we also offer a Personal Edition service which includes a contact management database and several other features that are useful to individual sales representatives and others who need a centralized way to organize contact data and access that data over the Internet. It is intended for use by a single user and is currently available at no charge. In addition, we offer a service called Developer Edition, currently at no charge, to developers and others interested in building applications on our AppExchange platform.

Our customers can customize and integrate our application with other software applications in a variety of ways. For example, through our AppExchange API, a customer can integrate our service with multiple ERP systems including Oracle financial software and Siebel customer support software, and an ISV can integrate a customer’s sales force automation and content management data with the professional services management system the ISV built. Additionally, through our AppExchange Builder, a customer can tailor the features of the service to meet their business requirements or create new on-demand applications through a point-and-click interface and without the use of significant IT resources or consultants.

In June 2005, we launched AppExchange OS (previously called Multiforce), which is an extension of the capabilities of AppExchange Builder. Through AppExchange OS, our subscribers can multi-task between
multiple on-demand applications, all running in the same service environment, with a single click. AppExchange OS extends the range of custom applications beyond CRM.

We currently do not charge users a fee or royalty on the AppExchange directory, AppExchange OS, AppExchange Builder, AppExchange API or applications developed with the AppExchange platform.

Professional Services

We offer consulting and implementation services and training that complement our on-demand application service.

Consulting and Implementation Services

We offer consulting and implementation services to our customers to facilitate the adoption of our on-demand CRM application service. Consulting services consist of services such as business process mapping, project management services and guidance on best practices in using our service. Implementation services include systems integration, configuration and data conversion. The majority of our consulting and implementation engagements are billed on a time and materials basis. For many of our small and medium-sized business customers, we also offer for a fixed price certain implementation services that take up to a week to complete.

Training

We offer a number of traditional classroom and online educational classes that address topics such as implementing, using and administering our service. We also offer classes for our partners who implement our service on behalf of our customers.

We bill the traditional classroom and some of the on-line educational classes on a per person, per class basis. The majority of our on-line educational classes are available at no charge to customers who subscribe to our service. We also assist customers in developing and delivering a customized education program for their employees. The majority of these custom training engagements are billed on a time and materials basis.

Technology, Development and Operations

Technology

We believe that our on-demand application service enables us to develop functionality and deliver it to customers more efficiently than traditional enterprise software vendors. We do not provide software that must be written to different hardware, operating system and database platforms, or that depends upon a customer’s unique systems environment. Rather, we have optimized our service to run on a specific database and operating system using the tools and platforms best suited to serve our customers. Performance, functional depth and usability of our service drive our technology decisions and product direction.

We built our service as a highly scalable, multi-tenant application written in Java and Oracle PL/SQL. We use commercially available hardware and a combination of proprietary and commercially available software, including database software from Oracle Corporation, to provide our service. The application server is custom-built and runs on a lightweight Java Servlet and Java Server Pages engine. We have custom-built core services such as database connection pooling and user session management tuned to our specific architecture and environment, allowing us to continue to scale our service. We have combined a stateless environment, in which a user is not bound to a single server but can be routed in the most optimal way to any number of servers, with an advanced data caching layer. Our customers can access the service through any Web browser without installing any software or downloading Java applets or Microsoft ActiveX or .NET controls.
Our service treats all customers as logically separate tenants in central applications and databases. As a result, we are able to spread the cost of delivering our service across our user base. In addition, because we do not have to manage thousands of distinct applications with their own business logic and database schemas, we believe that we can scale our business faster than traditional software vendors, even those that have modified their products to be accessible over the Internet. Moreover, we can focus our resources on building new functionality to deliver to our customer base as a whole rather than on maintaining an infrastructure to support each of their distinct applications.

Our service is also flexible. Every page is dynamically rendered for each specific user, including a choice of 12 languages and a number of currencies with dynamic currency conversion support. In addition, our service can display different views of the data based upon a number of factors, including user, department and area of responsibility in the company. Our service also allows customers to create multiple subtypes or subclasses of our business objects and tie views to each record type. This customization extends to the data model of our service, as our service allows customers to extend existing tables in our database as well as create new tables without actually modifying the underlying physical database schema.

We have also developed extensive reporting and analytics functionality in our service that operates on the online transaction processing, or OLTP, database system to provide real-time analysis of the user’s data. While users can customize any report or dashboard in the service, we dynamically tune the database based upon specific attributes of the user, the data model, the data security layer and the specific customizations to each report or dashboard.

We have built a service-oriented architecture, or SOA, which allows our service to be addressable by other applications on the Internet and by applications behind customers’ firewalls. Through our AppExchange API platform, we allow customers and partners to insert, update, delete and query any of their information in our service. Our full-text search engine, which allows users to perform natural language queries on all the data through a browser, is also exposed as a Web service. In addition, we have mechanisms to protect our service not only from malicious abuse, but from poorly written applications that put undue strain on the service. Each user session is encrypted, and we actively monitor our system to detect intrusion by unauthorized users.

**Development**

Our research and development efforts are focused on improving and enhancing our existing service offerings as well as developing new proprietary services. In addition, from time to time we supplement our internal research and development activities with outside development resources. Because of our common, multi-tenant application architecture, we are able 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 of our application and are able to maintain relatively low research and development expenses. Our research and development expenses were $23.3 million in fiscal 2006, $9.8 million in fiscal 2005 and $7.0 million in fiscal 2004.

**Operations**

As of January 31, 2006, we serve all of our customers and users from a single, third-party Web hosting facility located on the west coast of the United States, operated by Equinix, Inc. The facility is built to the same critical systems building codes as hospitals and other vital infrastructure. The facility is secured by around-the-clock guards, biometric access screening and escort-controlled access, and is supported by on-site backup generators in the event of a power failure. As part of our current disaster recovery arrangements, all of our customers’ data is currently replicated in near real-time in a separate back-up facility located on the east coast. This strategy is designed to both protect our customers’ data and ensure service continuity in the event of a major disaster.

Our agreement with Equinix provides for Equinix to supply space in its secure facilities on the west and east coast as well as power. Bandwidth to the Internet is provided by multiple private companies. The initial term of the service agreement with Equinix expires on January 31, 2007 with the ability to renew on favorable terms.
We regularly rotate tapes of customer data out of the facilities and store them in a secure location in the event of data loss at the facilities. Additionally, we also have an agreement with SunGard Data Systems, a provider of availability services, to provide access to a geographically remote disaster recovery facility that would provide us with access to hardware, software and Internet connectivity in the event the Web hosting facilities become unavailable. Even with the disaster recovery arrangements, our service could be interrupted.

We continuously monitor the performance of our service. The monitoring features we have built or licensed include centralized performance consoles, automated load distribution tools and various self-diagnostic tools and programs.

Customers

As of January 31, 2006, our customer base had grown to approximately 20,500, and we had approximately 399,000 paying subscriptions. As of January 31, 2005, our customer base was approximately 13,900 and our paying subscriptions were approximately 227,000.

Our revenues are divided among small businesses (companies with fewer than 200 employees), medium-size businesses (200 or more employees and up to $1 billion in annual revenues), and large businesses (over $1 billion in annual revenues). The number of paying subscriptions at each of our customers ranges from one to more than 6,000.

None of our customers accounted for more than 5 percent of our revenues in fiscal 2006, 2005 or 2004.

Sales, Marketing and Customer Support

We organize our sales and marketing programs by geographic regions, including North America, Europe, Japan, and the Asia Pacific region other than Japan.

Direct Sales

We sell subscriptions to our service primarily through our direct sales force comprised of inside sales, telesales and field sales personnel. Our small business, general business and enterprise account executives and account managers focus their efforts on small, medium-size and large enterprises, respectively. Sales representatives in our small business group sell to smaller companies, primarily over the phone.

Referral and Indirect Sales

We have a network of partners who refer customer prospects to us and assist us in selling to them. These include consulting firms, other technology vendors and systems integrators. In return, we typically pay these partners a fee based on the first-year subscription revenue generated by the customers they refer. We have also started to develop distribution channels for our service.

Marketing

Our marketing strategy is to generate qualified sales leads, build our brand and raise awareness of salesforce.com as a leading provider of on-demand CRM application services. Our marketing programs include a variety of advertising, events, public relations activities and Web-based campaigns targeted at key executives and decision makers within businesses.

Our principal marketing initiatives include:

• launch events to publicize our service to existing customers and prospects;
• direct mail and email campaigns;
• participation in, and sponsorship of, user conferences, trade shows and industry events;
cooperative marketing efforts with partners, including Web link exchanges, joint press announcements, joint trade show activities, channel marketing campaigns and joint seminars;

• using our website to offer free trials of our service and to provide product and company information; and

• advertising in newspapers, CRM trade magazines, management journals and other business-related periodicals.

Customer Service and Support

We believe that superior customer support is critical to retaining and expanding our customer base. Our customer support groups respond to general customer inquiries, such as questions about the ordering process or the status of an order or payment, technical questions or questions relating to how to use our service, and are available to customers by telephone or email or over the Web.

We have a comprehensive technical support program to assist our customers in the use of our service and to identify, analyze and solve any problems or issues with our service. The support program includes email support, an online repository of helpful information about our service, shared best practices for implementation and use, and telephone support. Telephone support is provided by technical support specialists on our staff, who are extensively trained in the use of our service. In addition, we have supplemented our support specialists with other technical support specialists who work for us on a contract basis. Basic customer support during business hours is available at no charge to customers that purchase our Team Edition, Professional Edition or Enterprise Edition. Premium customer support that includes additional customer support is available for an additional charge.

International Sales

In fiscal 2006, 2005 and 2004, we generated approximately 20 percent, 20 percent and 18 percent of our total revenues, respectively, from customers in Europe and Asia Pacific. We expect international markets to provide increased opportunities for our applications and services in the future. Our current international efforts are focused on strengthening our direct sales and marketing presence in Europe and Asia Pacific, and generating more revenues from these regions.

Competition

The market for CRM applications and enterprise business applications generally, is highly competitive, rapidly evolving and fragmented, and subject to changing technology, shifting customer needs and frequent introductions of new products and services. We compete primarily with vendors of packaged CRM software, whose software is installed by the customer directly or hosted by a first generation ASP on the customer’s behalf, and companies offering on-demand CRM applications. We also compete with internally developed applications and face, or expect to face, competition from enterprise software vendors and online service providers who may develop and/or bundle CRM products with their products in the future. Our current principal competitors include:

• enterprise software application vendors including Amdocs Limited, SSA Global Technologies, Inc., which recently acquired E.piphany, Inc., Epicor, IBM Corporation, Microsoft Corporation, SAP AG, and Oracle Corporation, which recently acquired Siebel Systems, Inc.;

• packaged CRM software vendors, some of whom offer hosted services, such as FrontRange Solutions, Inc., Onyx Software Corp., Pivotal Corporation, which is owned by CDC Software Corporation, a subsidiary of chinadotcom corporation, Sage Group plc, and SugarCRM;

• on-demand CRM application service providers such as Oracle, SAP, NetSuite, Inc., RightNow Technologies, Inc., and Salesnet, Inc.; and

• enterprise application service providers including British Telecom and IBM.
We believe that as enterprise software application vendors shift more of their focus to the hosted applications market, particularly for CRM and the small to medium sized business market, these vendors will be a greater competitive threat.

We believe the principal competitive factors in our market include the following:

- speed and ease of implementation;
- ease of use and rates of user adoption;
- low total cost of ownership and demonstrable cost-effective benefits for customers;
- product functionality;
- performance, security, scalability, flexibility and reliability of the service;
- ease of integration with existing applications;
- quality of customer support;
- availability and quality of implementation, consulting and training services;
- vendor reputation;
- sales and marketing capabilities of the vendor; and
- financial stability of the vendor.

While some of our competitors offer CRM applications with greater complexity than our service, we believe none of them addresses all of the limitations of traditional CRM applications adequately. In many cases, we believe CRM applications with greater complexity have a higher total cost of ownership, take significantly more time to implement and are harder to use than our service. However, many of our competitors and potential competitors have greater name recognition, longer operating histories, larger marketing budgets and significantly greater resources. They may be able to devote greater resources to the development, promotion and sale of their products than we can to ours, which could allow them to respond more quickly than we can to new technologies and changes in customer needs. Additionally, our competitors may offer or develop products or services that are superior to ours or that achieve greater market acceptance.

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

Intellectual Property

We rely on a combination of trademark, copyright, trade secret and patent laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We have U.S. and international patent applications pending and no issued patents. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information.

The following are some of our registered trademarks in the U.S. and elsewhere:

- salesforce.com
- “No Software” logo
- The End of Software
- Success. Not Software
- Team Edition
We have received in the past, and may receive in the future, communications from third parties claiming that we have infringed on the intellectual property rights of others. Any intellectual property claims, regardless of merit, may require us to seek licenses to that technology. In addition, we license third-party technologies that are incorporated into some elements of our services. Licenses from third-party technologies may not continue to be available to us at a reasonable cost, or at all. Additionally, the steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our services. If we fail to protect our proprietary rights adequately, our competitors could offer similar services, potentially significantly harming our competitive position and decreasing our revenues.

Employees

As of January 31, 2006, we had 1,304 employees. We plan to hire additional personnel, particularly in customer-related areas, for the foreseeable future as we continue to execute on our growth plan.

We believe our future success and growth will depend on our ability to attract and retain qualified employees in all areas of our business. None of our employees is represented by a labor union. We consider our relationship with our employees to be good. However, we face competition for qualified employees, and we expect to face continuing challenges in recruiting and retention.

Available Information

You can obtain copies of our Form 10-K, 10-Q, 8-K reports, and other filings with the SEC, and all amendments to these filings, free of charge from our Web site at http://www.salesforce.com/company/sec-filings.jsp as soon as reasonably practicable following our filing of any of these reports with the SEC. You can also obtain copies free of charge by contacting our Investor Relations department at the office address described above.

ITEM 1A. RISK FACTORS

RISK FACTORS WHICH MAY IMPACT FUTURE OPERATING RESULTS

Risks Related to Our Business and Industry

If our on-demand application service is not widely accepted, our operating results will be harmed.

We derive substantially all of our revenue from subscriptions to our on-demand application service, and we expect this will continue for the foreseeable future. As a result, widespread acceptance of our service is critical to our future growth and success. Factors that may affect market acceptance of our service include:

• reluctance by enterprises to migrate to an on-demand application service;
• a limited number of service offerings and risks associated with developing new service offerings;
• the price and performance of our service;
• the level of customization we can offer;
• the availability, performance and price of competing products and services;
• reluctance by enterprises to trust third parties to store and manage their internal data; and
• adverse publicity about us, our service or the viability, reliability or security of on-demand application services generally from third party reviews, industry analyst reports and adverse statements made by competitors.

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

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

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

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

As of January 31, 2006, we serve all of our customers from a single, third-party Web hosting facility located on the west coast of the United States, operated by Equinix, Inc. As part of our current disaster recovery arrangements, all of our customers’ data is currently replicated in near real-time in a separate standby Equinix facility located on the east coast. We do not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at both facilities could result in lengthy interruptions in our service. In addition to the west coast and east coast facilities, we have an agreement with SunGard Data Systems, a provider of availability services, to provide access to a geographically remote disaster recovery facility that would provide us with access to hardware, software and Internet connectivity in the event the Web hosting facilities become unavailable. Even with the disaster recovery arrangements, our service could be interrupted.

As we continue to add data center capacity, we may move or transfer data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service. Further, any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

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

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

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

Our service involves the storage and transmission of customers’ proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, during transfer of data to additional data centers or at any time, and, as a result, someone obtains unauthorized access to one of our customers’ data, our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers.

**The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.**

The market for CRM applications is intensely competitive and rapidly changing, barriers to entry are relatively low, several of our competitors are larger and have more resources than we do, and with the introduction of new technologies and market entrants, we expect competition to intensify in the future. If we fail to compete effectively, our operating results will be harmed. Some of our principal competitors offer their products at a lower price, which has resulted in pricing pressures. If we are unable to maintain our current pricing, our operating results could be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of our service to achieve or maintain more widespread market acceptance, any of which could harm our business.

Our current principal competitors include:

- enterprise software application vendors including Amdocs Limited, SSA Global Technologies, Inc., which recently acquired E.piphany, Inc., Epicor, IBM Corporation, Microsoft Corporation, SAP AG, and Oracle Corporation, which recently acquired Siebel Systems, Inc.;
- packaged CRM software vendors, some of whom offer hosted services, such as FrontRange Solutions, Inc., Onyx Software Corp., Pivotal Corporation, which is owned by CDC Software Corporation, a subsidiary of chinadotcom corporation, Sage Group plc, and SugarCRM;
- on-demand CRM application service providers such as Oracle, SAP, NetSuite, Inc., RightNow Technologies, Inc., and Salesnet, Inc.; and
- enterprise application service providers including British Telecom and IBM.

In addition, we face competition from businesses that develop their own CRM applications internally, as well as from enterprise software vendors and online service providers who may develop and/or bundle CRM products with their products in the future. For small business customers, we also face competition from companies whose offering is based on Microsoft Outlook and Excel for limited contact management functionality.

We also face competition from some of our larger and more established competitors who historically have been packaged CRM software vendors, but who also have directly competitive on-demand CRM application services offerings, such as Siebel Systems’ Siebel CRM OnDemand, which was acquired by Oracle. Our
professional services organization competes with a broad range of large systems integrators, including Accenture Ltd., BearingPoint, Inc. and IBM, as well as smaller independent consulting firms specializing in CRM implementations. We have relationships with many of these consulting companies and frequently work cooperatively on projects with them, even as we compete for business in other customer engagements.

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

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

If we experience significant fluctuations in our operating results and rate of growth and fail to balance our expenses with our revenue and earnings expectations, our results would be harmed and our stock price may fall rapidly and without advance notice.

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

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

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

Our quarterly operating results are likely to fluctuate, and if we fail to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock could decline. Some of the important factors that could cause our revenues and operating results to fluctuate from quarter to quarter include:

• the requirement to begin expensing stock options on February 1, 2006, which is the start of our fiscal 2007;
• our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers’ requirements;
• the renewal rates for our service;
• changes in our pricing policies;
• the introduction of new features to our service;
• the rate of expansion and effectiveness of our sales force;
• the length of the sales cycle for our service;
• new product and service introductions by our competitors;
• our success in selling our service to large enterprises;
• variations in the revenue mix of editions of our service;
technical difficulties or interruptions in our service;
expenses related to our new data centers;
changes in foreign currency exchange rates;
changes in tax rates and adjustments to the valuation allowance for our deferred tax assets;
general economic conditions in our geographic markets;
the timing of additional investments in our on-demand application service and in our consulting service;
regulatory compliance costs;
payment defaults by customers;
costs associated with future acquisitions of companies and technologies; and
extraordinary expenses such as litigation or other dispute-related settlement payments.

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

We have incurred significant operating losses in the past and may incur significant operating losses in the future.

We incurred significant losses in each fiscal quarter from our inception in February 1999 through fiscal 2003 and we have begun generating profits only since fiscal 2003. As we are a relatively young company in an emerging market and with the new requirement to begin expensing stock options in fiscal 2007, we may not be able to maintain profitability and we may again incur significant operating losses in the future. In addition, we expect our costs and operating expenses to increase in the future as we expand our operations. If our revenue does not grow to offset these expected increased costs and operating expenses, we will not continue to be profitable. You should not consider recent quarterly revenue growth as indicative of our future performance. In fact, in future quarters we may not have any revenue growth and our revenue could decline. Furthermore, if our costs and operating expenses exceed our expectations, our financial performance will be adversely affected.

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

We generally recognize revenue from customers ratably over the terms of their subscription agreements, which are typically 12 to 24 months, although terms can range from one to 60 months. As a result, much of the revenue we report in each quarter is deferred revenue from subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter will not necessarily be fully reflected in the revenue in that quarter and will negatively affect our revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect these reduced revenues. Accordingly, the effect of significant downturns in sales and market acceptance of our service may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

The market for our technology delivery model and on-demand application services is immature and volatile, and if it does not develop or develops more slowly than we expect, our business will be harmed.

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

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

**We do not have an adequate history with our subscription model to predict the rate of customer subscription renewals and the impact these renewal rates will have on our future revenue or operating results.**

Our customers have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period and in fact, some customers have elected not to do so. In addition, our customers may renew for a lower priced edition of our service or for fewer subscriptions. We have limited historical data with respect to rates of customer subscription renewals, so we cannot accurately predict customer renewal rates. Our customers’ renewal rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our service and their ability to continue their operations and spending levels. If our customers do not renew their subscriptions for our service, our revenue will decline and our business will suffer.

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

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

We are currently experiencing a period of rapid growth in our headcount and operations, which has placed, and will continue to place, a significant strain on our management, administrative, operational and financial infrastructure. We anticipate that further growth will be required to address increases in our customer base, as well as our expansion into new geographic areas.

Our success will depend in part upon the ability of our senior management to manage this growth effectively. To do so, we must continue to hire, train and manage new employees as needed. If our new hires perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or if we are not successful in retaining our existing employees, our business may be harmed. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. The additional headcount and capital investments we are adding will increase our cost base, which will make it more difficult for us to offset any
future revenue shortfalls by offsetting expense reductions in the short term. If we fail to successfully manage our growth, we will be unable to execute our business plan.

We derive a significant portion of our revenue from small businesses, which have a greater rate of attrition and non-renewal than medium-sized and large enterprise customers.

Our small business customers, which we consider to be companies with fewer than 200 employees, typically have shorter initial subscription periods and, based on our limited experience to date, have had a higher rate of attrition and non-renewal as compared to our medium-sized and large enterprise customers. If we cannot replace our small business customers that do not renew their subscriptions for our service with new customers quickly enough, our revenue could decline.

Our limited operating history may impede acceptance of our service by medium-sized and large customers.

Our ability to increase revenue and maintain profitability depends, in large part, on widespread acceptance of our service by medium-sized and large businesses. Our efforts to sell to these customers may not continue to be successful. In particular, because we are a relatively new company with a limited operating history, these target customers may have concerns regarding our viability and may prefer to purchase critical CRM applications from one of our larger, more established competitors. Even if we are able to sell our service to these types of customers, they may insist on additional assurances from us that we will be able to provide adequate levels of service, which could harm our business.

As more of our sales efforts are targeted at larger enterprise customers, our sales cycle may become more time-consuming and expensive, we may encounter pricing pressure and implementation challenges, and we may have to delay revenue recognition on these customers, all of which could harm our business.

As we target more of our sales efforts at larger enterprise customers, we will face greater costs, longer sales cycles and less predictability in completing some of our sales. In this market segment, the customer’s decision to use our service may be an enterprise-wide decision and, if so, these types of sales would require us to provide greater levels of education to prospective customers regarding the use and benefits of our service. In addition, larger customers may demand more customization, integration services and features. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting sales and professional services resources to a smaller number of larger transactions, while at the same time requiring us to delay revenue recognition on some of these transactions until the technical or implementation requirements have been met. In addition, larger enterprise customers may seek volume discounts and price concessions that could make these transactions less profitable.

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

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

**Any efforts we may make in the future to expand our service beyond the CRM market may not succeed.**

To date, we have focused our business on providing on-demand application services for the CRM market, but we may in the future seek to expand into other markets. In addition, we recently launched the AppExchange directory, an on-line marketplace for on-demand applications running on our on-demand application service platform. However, any efforts to expand beyond the CRM market may never result in significant revenue growth for us. In addition, efforts to expand our on-demand application service beyond the CRM market may divert management resources from existing operations and require us to commit significant financial resources to an unproven business, which may harm our business.

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

As part of our business strategy, we may acquire or make investments in complementary companies, services and technologies in the future. Through January 31, 2006, we have not made any acquisitions or investments to date, and therefore our ability as an organization to make acquisitions or investments is unproven. Acquisitions and investments involve numerous risks, including:

- difficulties in integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- risk of entering new markets in which we have little to no experience;
- potential write-offs of acquired assets or investments;
- potential loss of key employees;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- negative impact to our results of operations because of the depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation, and the loss of acquired deferred revenue;
- delays in customer purchases due to uncertainty and the inability to maintain relationships with customers of the acquired businesses; and
- the need to implement controls, procedures and policies appropriate for a public company at companies that prior to the acquisition lacked such controls, procedures and policies.

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

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

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

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

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

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

Because we sell our service throughout the world, we are subject to risks and challenges that we would otherwise not face if we conducted our business only in the United States. For example, sales in Europe and Asia Pacific together represented approximately 20 percent of our total revenues during fiscal 2006, and we intend to continue to expand our international sales efforts. The risks and challenges associated with sales to customers outside the United States include:

- localization of our service, including translation into foreign languages and associated expenses;
- laws and business practices favoring local competitors;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- foreign currency fluctuations, whose effects we may not be able to mitigate through our hedging program;
- different pricing environments;
- difficulties in staffing and managing foreign operations;
- different or lesser protection of our intellectual property;
- longer accounts receivable payment cycles and other collection difficulties; and
- regional economic and political conditions.

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

Additionally, some of our international subscription fees are currently denominated in U.S. dollars and paid in local currency. As a result, fluctuations in the value of the U.S. dollar and foreign currencies may make the service more expensive for international customers, which could harm our business.
Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business might be harmed. In addition, defending our intellectual property rights might entail significant expense. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have U.S. and international patent applications pending, we currently have no issued patents and may be unable to obtain patent protection for our technology. In addition, if any patents are issued in the future, they may not provide us with any competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

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

We may be sued by third parties for alleged infringement of their proprietary rights.

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

We may be required to purchase the interest in our Japanese joint venture held by our joint venture partner, under certain circumstances, on terms that may not be favorable to us.

In some circumstances, we may be required to purchase the interest of our Japanese joint venture partner. If we default under the terms of our joint venture agreement with our joint venture partner, or if we and our partner disagree over a course of action proposed for the joint venture entity and the disagreement continues, then our partner may require that we purchase its interest in the joint venture. In the event we are required to purchase our partner’s interest in the joint venture, we could be forced to make an unanticipated outlay of a significant amount of capital, which could harm our financial condition. Although the timing and circumstances of any such purchase, were it to be required, are not predictable, if the joint venture were valued based on its most recent financing, which occurred in September 2003, the buyout price could be as much as approximately $13.0 million.

Evolving regulation of the Internet may affect us adversely.

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

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

Our customers can use our service to store contact and other personal or identifying information regarding their customers and contacts. Federal, state and foreign government bodies and agencies, however, have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it. Furthermore, privacy concerns may cause our customers’ customers to resist providing the personal data necessary to allow our customers to use our service effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries. For example, regulations such as the Gramm-Leach-Bliley Act, which protects and restricts the use of consumer credit and financial information, and the Health Insurance Portability and Accountability Act of 1996, which regulates the use and disclosure of personal health information, impose significant requirements and obligations on businesses that may affect the use and adoption of our service.

The European Union has also adopted a data privacy directive that requires member states to impose restrictions on the collection and use of personal data that, in some respects, are far more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States. All of these domestic and international legislative and regulatory initiatives may adversely affect our customers’ ability to collect and/or use demographic and personal information from their customers, which could reduce demand for our service.

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

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

We are subject to rules and regulations by various governing bodies, including the Securities and Exchange Commission, New York Stock Exchange and Public Company Accounting Oversight Board, that are charged with the protection of investors and the oversight of companies whose securities are publicly traded. Our efforts to comply with these new regulations, most notably the Sarbanes-Oxley Act, or SOX, have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

We are required to comply on an on-going basis with the SOX requirements involving the assessment of our internal controls over financial reporting and our independent public accountants’ audit of that assessment. These requirements first became applicable to us on January 31, 2006. Our efforts to comply with the SOX requirements has required, and will continue to require the commitment of significant financial and personnel resources.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, our business may be harmed.
We are dependent on our management team and development and operations personnel, and the loss of one or more key employees or groups could harm our business and prevent us from implementing our business plan in a timely manner.

Our success depends largely upon the continued services of our executive officers and other key personnel, particularly Marc Benioff, our Chief Executive Officer and Chairman of the Board, Steve Cakebread, our Chief Financial Officer, Jim Steele, our President of Worldwide Sales and Distribution, Parker Harris, our Executive Vice President of Technology, Ken Juster, our Executive Vice President of Law, Policy and Corporate Strategy, and John Freeland, our President of Worldwide Operations. We are also substantially dependent on the continued service of our existing development and operations personnel because of the complexity of our service and technologies. We do not have employment agreements with any of our executive officers, key management, development or operations personnel and, therefore, they could terminate their employment with us at any time. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees or groups could seriously harm our business.

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

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

We might require additional capital to support business growth, and this capital might not be available.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new services or enhance our existing service, enhance our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Changes in the accounting treatment of stock options will adversely affect our reported results of operations.

In December 2004, the Financial Accounting Standards Board, or FASB, announced its decision to require companies to expense employee stock options. The pro forma disclosures that the FASB previously permitted
will no longer be an alternative to the financial statement recognition of the expense. We will adopt this new accounting pronouncement, Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, on a prospective basis beginning on February 1, 2006, which is the start of our fiscal 2007. We believe this change in accounting will materially reduce our fiscal 2007 reported results of operations.

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

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

We expect our tax rate in fiscal 2007 to be significantly higher than in previous years. The tax rate is affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, the tax accounting for option activities pursuant to the new requirement to expense stock options and the valuation of deferred tax assets and liabilities. Increases in our effective tax rate could materially affect our net results.

**Risks Related to Ownership of Our Common Stock**

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

The trading prices of the securities of technology companies have been highly volatile. Accordingly, the trading price of our common stock has been and is likely to continue to be subject to wide fluctuations. Further, our common stock has a limited trading history. Factors affecting the trading price of our common stock include:

- variations in our operating results and cash flows;
- the quarterly net increases in the number of customers and paying subscriptions;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- market conditions in our industry, the industries of our customers and the economy as a whole; and
- disruptions in our service due to computer hardware, software or network problems or due to a natural disaster, act of terrorism or other catastrophic event.

In addition, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies within, or outside, our industry even if these events do not directly affect us. Any volatility in our stock price may result in litigation, such as the lawsuits following the approximately 25% decline in our stock price on July 21, 2004, which may harm our business and results of operations.

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

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. If one or more of the analysts who do cover us downgrade our stock, our stock price would likely decline rapidly. Furthermore, if one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.
The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters.

Our executive officers, directors, current 5 percent or greater stockholders and affiliated entities together beneficially own a significant percentage of our outstanding common stock. As a result, these stockholders, acting together, will have control over most matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions, even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

Provisions in our amended and restated certificate of incorporation and bylaws and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

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

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

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on merger, business combinations and other transactions between us and holders of 15 percent or more of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.
ITEM 2. PROPERTIES

Our executive offices and principal office for domestic marketing, sales, professional services and development occupy in excess of 200,000 square feet in San Francisco, California under leases that expire at various times through June 2013. We also lease space in various locations throughout the United States for local sales and professional services personnel. Our foreign subsidiaries lease office space for their operations including local sales and professional services personnel.

We believe that our existing facilities and offices are adequate to meet our requirements for the foreseeable future. See Note 8, “Commitments and Contingencies,” in the Notes to the Consolidated Financial Statements for more information about our lease commitments. If we require additional space, we believe that we will be able to obtain such space on acceptable, commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

On July 26, 2004, a purported class action complaint was filed in the United States District Court for the Northern District of California, entitled Morrison v. salesforce.com, Inc. et al., against the Company, its Chief Executive Officer and its Chief Financial Officer. The complaint alleged violations of Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended (the “1934 Act”), purportedly on behalf of all persons who purchased salesforce.com common stock between June 21, 2004 and July 21, 2004, inclusive. The claims were based upon allegations that defendants failed to disclose an allegedly declining trend in its revenues and earnings. Subsequently, four other substantially similar class action complaints were filed in the same district based upon the same facts and allegations, asserting claims under Section 10(b) and Section 20(a) of the 1934 Act and Section 11 and Section 15 of the Securities Act of 1933, as amended. The actions were consolidated under the caption In re salesforce.com, Inc. Securities Litigation, Case No. C-04-3009 JSW (N.D. Cal.). On December 22, 2004, the Court appointed Chuo Zhu as lead plaintiff. On February 22, 2005, lead plaintiff filed a Consolidated and Amended Class Action Complaint (the “CAC”). The CAC alleged violations of Section 10(b) and Section 20(a) of the 1934 Act, purportedly on behalf of all persons who purchased salesforce.com common stock between June 23, 2004 and July 21, 2004, inclusive. As in the original complaints, the claims in the CAC were based upon allegations that defendants failed to disclose an allegedly declining trend in its revenues and earnings. On April 14, 2005, defendants filed a motion to dismiss the CAC. On April 15, 2005, the Court granted lead plaintiff leave to file an amended/superseding complaint. On April 22, 2005, lead plaintiff filed a Corrected and Superseding [sic] First Amended Class Action Complaint (“FAC”). As in the CAC, the FAC alleged violations of Section 10(b) and Section 20(a) of the 1934 Act, purportedly on behalf of all persons who purchased salesforce.com common stock between June 23, 2004 and July 21, 2004, inclusive. The claims in the FAC were based upon allegations that defendants failed to disclose an internal forecast that earnings for fiscal year 2005 would decline from the prior fiscal year. On April 29, 2005, defendants filed a motion to dismiss the FAC. On December 22, 2005, the court entered an order granting defendants’ motion to dismiss, with prejudice, and directing the clerk to close the file. On January 23, 2006, lead plaintiff filed a motion for leave to file a motion for reconsideration, as well as a notice of appeal to the United States Court of Appeals for the Ninth Circuit. On January 27, 2006, defendants filed a motion to strike as untimely lead plaintiff’s motion for leave to file a motion for reconsideration. On January 26, 2006, the Ninth Circuit entered a time schedule order for the appeal, requiring, inter alia, lead plaintiff to file his opening brief on May 11, 2006, and defendants to file their responsive brief on June 12, 2006. On or about February 2, 2006, lead plaintiff filed a motion with the Ninth Circuit requesting a stay of appellate proceedings pending the district court’s determination of lead plaintiff’s motion for leave and defendants’ motion to strike. Defendants opposed that motion. On February 9, 2006, the Ninth Circuit denied the lead plaintiff’s motion for a stay of appellate proceedings, without prejudice to making a motion for limited remand. On March 1, 2006, the district court denied the lead plaintiff’s motion for leave and defendants’ motion to strike on grounds of lack of jurisdiction. Also on March 1, 2006, the lead plaintiff filed a motion with the district court seeking certification to the Ninth Circuit for limited remand. The Company does not believe that the lawsuit has any merit and intends to continue to defend the action and appeal vigorously.
On August 6, 2004, a shareholder derivative action was filed in the Superior Court of the State of California, San Francisco County, entitled *Borrelli v. Benioff, et al.*, against the Company’s Chief Executive Officer, its Chief Financial Officer and members of its Board of Directors alleging breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment under state common law. Subsequently, a substantially similar complaint was filed in the same court based on the same facts and allegations, entitled *Johnson v. Benioff, et al.* The two actions were consolidated under the caption *Borrelli v. Benioff*, Case No. CGC-04-433615 (Cal. Super. Ct., S.F. Cty.). On October 5, 2004, plaintiffs filed a consolidated complaint, which is based upon the same facts and circumstances as alleged in the shareholder class action discussed above, and asserts that the defendants breached their fiduciary duties by making or failing to prevent salesforce.com, inc. and its management from making statements or omissions that potentially subject the Company to liability and injury to its reputation. The action seeks damages on behalf of salesforce.com in an unspecified amount, among other forms of legal and equitable relief. salesforce.com is named solely as a nominal defendant against which no recovery is sought. The plaintiff shareholders made no demand upon the Board of Directors prior to filing these actions. The deadline for defendants to respond to the consolidated complaint has been extended repeatedly by agreement of the parties, and is now set for June 15, 2006. During this time, no discovery or other proceedings have occurred in this case. The derivative action is still in the preliminary stages, and it is not possible for the Company to quantify the extent of potential liability to the individual defendants, if any. Management does not believe that the lawsuits have any merit and intends to defend the actions vigorously.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2006.

**ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

The following sets forth certain information as of January 31, 2006 regarding our executive officers:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Benioff</td>
<td>41</td>
<td>Chairman of the Board of Directors and Chief Executive Officer</td>
</tr>
<tr>
<td>Jim Steele</td>
<td>50</td>
<td>President, Worldwide Sales and Distribution</td>
</tr>
<tr>
<td>Steve Cakebread</td>
<td>54</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Parker Harris</td>
<td>39</td>
<td>Executive Vice President, Technology</td>
</tr>
<tr>
<td>Kenneth Juster</td>
<td>51</td>
<td>Executive Vice President, Law, Policy and Corporate Strategy</td>
</tr>
<tr>
<td>John Freeland</td>
<td>52</td>
<td>President, Worldwide Operations</td>
</tr>
<tr>
<td>Jim Cavalieri</td>
<td>36</td>
<td>Chief Security &amp; Risk Officer</td>
</tr>
<tr>
<td>David Moellenhoff</td>
<td>36</td>
<td>Chief Technology Officer</td>
</tr>
<tr>
<td>David Schellhase</td>
<td>42</td>
<td>Senior Vice President and General Counsel</td>
</tr>
</tbody>
</table>

Marc Benioff co-founded salesforce.com in February 1999 and has served as Chairman of the Board of Directors since inception. He has served as Chief Executive Officer since November 2001. From 1986 to 1999, Mr. Benioff was employed at Oracle Corporation where he held a number of positions in sales, marketing and product development, lastly as a Senior Vice President. Mr. Benioff also serves as Chairman of the Board of Directors of the salesforce.com/foundation. Mr. Benioff received a Bachelor of Science in Business Administration (B.S.B.A.) from the University of Southern California.
Jim Steele has served as our President, Worldwide Sales and Distribution since December 2004. Previously, he was our President of Worldwide Operations since joining salesforce.com in October 2002. From February 2001 to September 2002, Mr. Steele served as Executive Vice President, Worldwide Sales and Operations for Ariba, Inc., a software company. From February 1978 to January 2001, Mr. Steele served in a variety of globally focused executive roles at IBM Corporation. Mr. Steele received a B.S. from Bucknell University.

Steve Cakebread has served as our Chief Financial Officer since April 2002. From April 1997 to April 2002, Mr. Cakebread served as Senior Vice President and Chief Financial Officer for Autodesk, Inc., a software company. From 1992 to 1997, Mr. Cakebread served as Vice President of Finance for Silicon Graphics, Inc., a computer workstation company. Mr. Cakebread received a B.S. from the University of California at Berkeley and an M.B.A. from Indiana University.

Parker Harris co-founded salesforce.com in February 1999 and served in senior technical positions since inception, including our Senior Vice President, Research and Development. Since December 2004, Mr. Harris has served as our Executive Vice President, Technology. From October 1996 to February 1999, Mr. Harris was a Vice President at Left Coast Software, a Java consulting firm he co-founded. Mr. Harris received a B.A. from Middlebury College.

Kenneth Juster has served as our Executive Vice President of Law, Policy and Corporate Strategy since January 2005. From May 2001 to January 2005, Mr. Juster served as Under Secretary for Industry and Security of the U.S. Department of Commerce. From May 1993 to March 2001, Mr. Juster was a partner at the law firm of Arnold & Porter LLP. Mr. Juster received A.B., M.P.P. and J.D. degrees from Harvard University.

John Freeland has served as our President, Worldwide Operations since October 2005. From September 1989 to October 2005, Mr. Freeland was a partner at Accenture, a management consulting firm, and served as Managing Director from June 2001. Mr. Freeland received a B.A. and an M.B.A. from Columbia University.

Jim Cavalieri has served as our Chief Security & Risk Officer since August 1, 2005. Prior to that, he has served in a variety of executive positions, which have included our Chief Information Officer and Senior Vice President of Service Delivery and Vice President, Systems Engineering. From January 1995 to July 1999, Mr. Cavalieri was employed at Oracle Corporation where he held several technical and management positions, lastly as Senior Technical Program Manager. From June 1991 to December 1994, Mr. Cavalieri worked as a consultant and systems engineer for EDS. Mr. Cavalieri received a B.S. from Cornell University.

David Moellenhoff co-founded salesforce.com in February 1999 and served in senior technical positions since inception, recently as our Chief Technology Officer. Mr. Moellenhoff also serves on the Board of Directors of the salesforce.com/foundation. From October 1996 to February 1999, Mr. Moellenhoff was President of Left Coast Software, a Java consulting firm he co-founded. Mr. Moellenhoff received two B.S. degrees and an M.B.A. from Washington University in St. Louis.

David Schellhase has served as our Vice President and General Counsel since July 2002. He was promoted to Senior Vice President and General Counsel in December 2004. From December 2000 to June 2002, Mr. Schellhase was an independent legal consultant and authored a treatise entitled Corporate Law Department Handbook. From February 2000 to November 2000, Mr. Schellhase was Vice President and General Counsel of Linuxcare, Inc., an IT services and consulting company. From August 1997 to January 2000, Mr. Schellhase was Vice President and General Counsel of The Vantive Corporation, a software company. Mr. Schellhase received a B.A. from Columbia University and a J.D. from Cornell University.
PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Our common stock has been quoted on the New York Stock Exchange under the symbol “CRM” since our initial public offering on June 23, 2004. Prior to that time, there was no public market for our common stock.

The following table sets forth for the indicated periods the high and low sales prices of our common stock as reported by the New York Stock Exchange.

<table>
<thead>
<tr>
<th>Period</th>
<th>High</th>
<th>Low</th>
</tr>
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<tbody>
<tr>
<td>Fiscal year ending January 31, 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First quarter</td>
<td>$16.99</td>
<td>$12.96</td>
</tr>
<tr>
<td>Second quarter</td>
<td>$24.08</td>
<td>$14.09</td>
</tr>
<tr>
<td>Third quarter</td>
<td>$25.73</td>
<td>$18.63</td>
</tr>
<tr>
<td>Fourth quarter</td>
<td>$42.99</td>
<td>$24.70</td>
</tr>
</tbody>
</table>

| Fiscal year ending January 31, 2005 |          |         |
| Second quarter (beginning June 23, 2004) | $17.69   | $11.00  |
| Third quarter                  | $20.60   | $9.00   |
| Fourth quarter                 | $22.70   | $13.35  |

Dividend Policy

We have never paid any cash dividends on our common stock. Our board of directors currently intends to retain any future earnings to support operations and to finance the growth and development of our business and does not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our board.

Stockholders

As of January 31, 2006 there were 297 registered stockholders of record of our common stock, including the Depository Trust Company, which holds shares of salesforce.com common stock on behalf of an indeterminate number of beneficial owners.

Securities Authorized for Issuance under Equity Compensation Plans

The information concerning our equity compensation plans is incorporated by reference herein to the section of the Proxy Statement entitled “Equity Compensation Plan Information.”

Recent Sales of Unregistered Securities

Warrant Exercises

Since November 1, 2005 we issued 493,715 shares of common stock upon the exercise of warrants held by Attractor Funds at an exercise price of $3.89 per share. The warrants were exercised on a “net-exercise” basis and we therefore received no cash proceeds from the exercise. The issuance of the common stock was exempt from registration under the Securities Act of 1933, as amended (the “Act”) pursuant to Section 3(a)(9) of the Act.
Use of Proceeds from the Initial Public Offering

The Securities and Exchange Commission declared our registration statement, filed on Form S-1 (File No. 333-111289) under the Securities Act of 1933 in connection with the initial public offering of our common stock, $0.001 par value, effective on June 22, 2004. The underwriters were Morgan Stanley & Co. Incorporated, Deutsche Bank Securities Inc., UBS Securities LLC, Wachovia Capital Markets, LLC and William Blair & Company, L.L.C.

Our initial public offering commenced on June 23, 2004. All 11,500,000 shares of common stock registered under the Registration Statement, which included 1,500,000 shares of common stock covered by an over-allotment option granted to the underwriters, were sold to the public at a price of $11.00 per share. All of the shares of common stock were sold by us and there were no selling shareholders in the offering. The offering did not terminate until after the sale of all of the securities registered by the Registration Statement.

The aggregate gross proceeds from the shares of common stock sold were $126.5 million. The aggregate net proceeds to us were $113.8 million after deducting $8.8 million in underwriting discounts and commissions and $3.9 million in other costs incurred in connection with the offering.

We have not spent any of the net proceeds from our public offering. In the future, we may use a portion of the net proceeds to acquire or make investments in complementary companies, services and technologies.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management’s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K. The consolidated statement of operations data for the years ended January 31, 2006, 2005 and 2004, and the selected consolidated balance sheet data as of January 31, 2006 and 2005 are derived from, and are qualified by reference to, the audited consolidated financial statements and are included in this Form 10-K. The consolidated statement of operations data for the years ended January 31, 2003 and 2002 and the consolidated balance sheet data as of January 31, 2004, 2003 and 2002 are derived from audited consolidated financial statements which are not included in this Form 10-K.
The customer and subscriber data are unaudited.

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<tbody>
<tr>
<td><strong>Consolidated Statements of Operations:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription and support</td>
<td>$280,639</td>
<td>$157,977</td>
<td>$85,796</td>
<td>$47,656</td>
<td>$21,513</td>
</tr>
<tr>
<td>Professional services and other</td>
<td>29,218</td>
<td>18,398</td>
<td>10,227</td>
<td>3,335</td>
<td>896</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>309,857</td>
<td>176,375</td>
<td>96,023</td>
<td>50,991</td>
<td>22,409</td>
</tr>
<tr>
<td><strong>Cost of revenues (1):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription and support</td>
<td>34,457</td>
<td>12,727</td>
<td>7,782</td>
<td>7,199</td>
<td>3,718</td>
</tr>
<tr>
<td>Professional services and other</td>
<td>34,669</td>
<td>20,727</td>
<td>9,491</td>
<td>3,164</td>
<td>2,329</td>
</tr>
<tr>
<td><strong>Total cost of revenues</strong></td>
<td>69,126</td>
<td>33,454</td>
<td>17,273</td>
<td>10,363</td>
<td>6,047</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>240,731</td>
<td>142,921</td>
<td>78,750</td>
<td>40,628</td>
<td>16,362</td>
</tr>
<tr>
<td><strong>Operating expenses (1):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>23,330</td>
<td>9,822</td>
<td>6,962</td>
<td>4,648</td>
<td>5,308</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>149,598</td>
<td>96,311</td>
<td>54,600</td>
<td>33,522</td>
<td>24,605</td>
</tr>
<tr>
<td>General and administrative</td>
<td>47,986</td>
<td>30,268</td>
<td>16,915</td>
<td>12,958</td>
<td>8,317</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>220,629</td>
<td>136,401</td>
<td>75,032</td>
<td>51,128</td>
<td>45,887</td>
</tr>
<tr>
<td><strong>Income (loss) from operations</strong></td>
<td>20,102</td>
<td>6,520</td>
<td>3,718</td>
<td>(10,500)</td>
<td>(29,525)</td>
</tr>
<tr>
<td>Interest income</td>
<td>7,726</td>
<td>2,658</td>
<td>379</td>
<td>471</td>
<td>755</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(69)</td>
<td>(37)</td>
<td>(22)</td>
<td>(77)</td>
<td>(272)</td>
</tr>
<tr>
<td>Other income</td>
<td>439</td>
<td>12</td>
<td>164</td>
<td>98</td>
<td>8</td>
</tr>
<tr>
<td><strong>Income (loss) before benefit (provision) for income taxes and minority interest</strong></td>
<td>28,198</td>
<td>9,153</td>
<td>4,239</td>
<td>(10,008)</td>
<td>(29,034)</td>
</tr>
<tr>
<td>Benefit (provision) for income taxes</td>
<td>1,310</td>
<td>(1,217)</td>
<td>(541)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Income (loss) before minority interest</strong></td>
<td>29,508</td>
<td>7,936</td>
<td>3,698</td>
<td>(10,008)</td>
<td>(29,034)</td>
</tr>
<tr>
<td>Minority interest in consolidated joint venture</td>
<td>(1,034)</td>
<td>(590)</td>
<td>(184)</td>
<td>292</td>
<td>425</td>
</tr>
<tr>
<td><strong>Net income (loss) (5)</strong></td>
<td>$28,474</td>
<td>$7,346</td>
<td>$3,514</td>
<td>$(9,716)</td>
<td>$(28,609)</td>
</tr>
<tr>
<td><strong>Net income (loss) per share:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$0.27</td>
<td>$0.10</td>
<td>$0.12</td>
<td>(0.37)</td>
<td>(1.36)</td>
</tr>
<tr>
<td>Diluted</td>
<td>0.24</td>
<td>0.07</td>
<td>0.04</td>
<td>(0.37)</td>
<td>(1.36)</td>
</tr>
<tr>
<td><strong>Weighted-average shares used in computing per share amounts:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic (2)</td>
<td>107,274</td>
<td>75,503</td>
<td>29,605</td>
<td>26,375</td>
<td>21,039</td>
</tr>
<tr>
<td>Diluted (2)</td>
<td>118,737</td>
<td>110,874</td>
<td>95,409</td>
<td>26,375</td>
<td>21,039</td>
</tr>
</tbody>
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<tbody>
<tr>
<td><strong>Consolidated Balance Sheet Data:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash, cash equivalents and marketable securities (3)</td>
<td>$296,792</td>
<td>$205,938</td>
<td>$35,812</td>
<td>$16,009</td>
<td>$11,709</td>
</tr>
<tr>
<td>Working capital</td>
<td>68,592</td>
<td>47,044</td>
<td>4,140</td>
<td>1,172</td>
<td>6,497</td>
</tr>
<tr>
<td>Total assets</td>
<td>434,749</td>
<td>280,499</td>
<td>87,511</td>
<td>39,673</td>
<td>29,713</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>169,175</td>
<td>95,900</td>
<td>49,677</td>
<td>19,171</td>
<td>7,128</td>
</tr>
<tr>
<td>Long-term obligations</td>
<td>1,339</td>
<td>2,317</td>
<td>1,830</td>
<td>2,206</td>
<td>7,291</td>
</tr>
<tr>
<td>Convertible preferred stock</td>
<td>—</td>
<td>—</td>
<td>61,137</td>
<td>61,137</td>
<td>61,137</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(36,114)</td>
<td>(64,588)</td>
<td>(71,934)</td>
<td>(75,448)</td>
<td>(65,732)</td>
</tr>
<tr>
<td>Total stockholders’ (deficit) equity</td>
<td>196,371</td>
<td>145,131</td>
<td>46,237</td>
<td>55,875</td>
<td>51,348</td>
</tr>
<tr>
<td><strong>Customer and Subscriber Data (unaudited):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approximate number of customers</td>
<td>20,500</td>
<td>13,900</td>
<td>8,700</td>
<td>5,700</td>
<td>3,500</td>
</tr>
<tr>
<td>Approximate number of paying subscriptions (4)</td>
<td>399,000</td>
<td>227,000</td>
<td>127,000</td>
<td>76,000</td>
<td>53,000</td>
</tr>
</tbody>
</table>
Table of Contents

(1) Cost of revenues and operating expenses include stock-based expenses, consisting of:

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<tbody>
<tr>
<td>Cost of revenues</td>
<td>$575</td>
<td>$634</td>
<td>$655</td>
<td>$428</td>
<td>$369</td>
</tr>
<tr>
<td>Research and development</td>
<td>332</td>
<td>282</td>
<td>462</td>
<td>402</td>
<td>436</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>1,325</td>
<td>1,296</td>
<td>2,029</td>
<td>1,696</td>
<td>1,422</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,216</td>
<td>1,402</td>
<td>1,213</td>
<td>2,241</td>
<td>2,224</td>
</tr>
<tr>
<td><strong>Total stock-based expenses</strong></td>
<td><strong>$3,448</strong></td>
<td><strong>$3,614</strong></td>
<td><strong>$4,359</strong></td>
<td><strong>$4,767</strong></td>
<td><strong>$4,451</strong></td>
</tr>
</tbody>
</table>

(2) For information regarding the computation of per share amounts, refer to note 1 of the notes to our consolidated financial statements.

(3) Cash, cash equivalents and marketable securities includes net proceeds of $113.8 million from our sale of 11,500,000 shares of common stock in June 2004 from our initial public offering.

(4) Paying subscriptions are defined as unique user accounts, purchased by customers for use by their employees and other customer-authorized users that have not been suspended for non-payment and for which we are recognizing subscription revenue.

(5) Net income during fiscal 2006 included a $6.8 million income tax benefit which was recorded during the third quarter. This benefit represented $0.06 of basic and diluted net income per share for the year.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements, including, without limitation, our expectations regarding our outlook and future revenues, expenses, results of operations and liquidity. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements include, but are not limited to, those discussed in the section titled “Risk Factors Which May Impact Future Operating Results.” We assume no obligation to update the forward-looking statements or our risk factors.

Overview

We are the leading provider, based on market share, of application services that allow organizations to easily share customer information on demand, according to an August 2005 report by IDC. We provide a comprehensive CRM service to businesses of all sizes and industries worldwide.

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

In order to increase our revenues and take advantage of our market opportunity, we will need to continue to add substantial numbers of paying subscriptions. We plan to re-invest our revenues for the foreseeable future by expanding our data center capacity and upgrading our new development and test data center; hiring additional personnel, particularly in customer-related areas; expanding our domestic and international selling and marketing activities; increasing our research and development activities to upgrade and extend our service offerings and to develop new services and technologies; expanding the number of locations around the world where we conduct business; adding to our infrastructure to support our growth; and expanding our operational systems to manage a growing business. Additionally, in our effort to further strengthen and extend our service offering, we may also in the future acquire or make investments in complementary companies, services and technologies.

As our revenues increase, we expect marketing and sales costs, which were 48 percent of our total revenues for fiscal 2006 and 55 percent of our total revenues 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 and manage more paying subscribers, build brand awareness and increase the number of marketing events that we sponsor.
Our fiscal year ends on January 31. References to fiscal 2006, for example, refer to the fiscal year ended January 31, 2006.

Sources of Revenues

We derive our revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing our on-demand application service, and from customers purchasing additional support beyond the standard support that is included in the basic subscription fee; and (2) related professional services and other revenues. Other revenues consist primarily of training fees. Subscription and support revenues accounted for 91 percent of our total revenues during fiscal 2006 and 90 percent during the same period a year ago. 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 fiscal 2006 and 2005.

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

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

Cost of Revenues and Operating Expenses

Cost of Revenues. Cost of subscription and support revenues primarily consists of expenses related to hosting our service and providing support, the costs of additional data center capacity, depreciation or operating lease expense associated with computer equipment, costs associated with website development activities, allocated overhead and amortization expense associated with capitalized software. To date, the amortization expense associated with capitalized software has not been material to our cost of revenues. We allocate overhead such as rent and occupancy charges, employee benefit costs and taxes to all departments based on headcount. 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, the cost of subcontractors and allocated overhead. The cost associated with providing professional services is significantly higher as a percentage of revenue than for our on-demand subscription service due to the labor costs associated with providing professional services.

To the extent that our customer base grows, we intend to continue to invest additional resources in our on-demand application service and in our consulting services. The timing of these additional expenses will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues, in a particular quarterly period. For example, we plan to increase the number of employees who are fully dedicated to consulting services. We have also obtained additional data center capacity on the west and east coasts of the United States. We expect the annual cost of these resources to be significant.

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

We recently upgraded our new development and test data center. We expect the annual cost of this data center to be significant.

Marketing and Sales. Marketing and sales expenses are our largest cost and consist primarily of salaries and related 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.

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

General and Administrative. General and administrative expenses consist of salaries and related expenses for finance and accounting, human resources and management information systems personnel, legal costs, professional fees, other corporate expenses and allocated overhead. We expect that in the future, general and administrative expenses will increase in absolute dollars as we add personnel and incur additional professional fees and insurance costs related to the growth of our business, international expansion and operations as a public company, including the cost of our compliance with Section 404 of the Sarbanes-Oxley Act.

Stock-Based Expenses. Our cost of revenues and operating expenses include stock-based expenses related to options and warrants issued to non-employees, option grants to employees in situations where the exercise price was less than the deemed fair value of our common stock at the date of grant and stock awards to board members for board services. These charges have been significant and are reflected in our historical financial results. These amounts do not include the incremental costs and operating expenses associated with the new accounting pronouncement to expense stock options, which we will adopt at the start of fiscal 2007.

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 January 31, 2006, we owned a 63 percent interest in the joint venture. Because of this majority interest, we consolidate the venture’s financial results, which are reflected in each revenue, cost of revenues and expense category in our consolidated statement of operations. We then record minority interest, which reflects the minority investors’ interest in the venture’s results, exclusive of intercompany charges. Through January 31, 2006, the operating performance and liquidity requirements of the Japanese joint venture had 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 of the notes to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, “Revenue Recognition” and Emerging Issues Task Force, or EITF, Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables.”

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

We recognize subscription revenues ratably over the contract terms beginning on the commencement dates of each contract. Support revenues from customers who purchase our premium support offerings are recognized similarly over the term of the support contract. As part of their subscription agreements, customers 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, we allocate the total customer arrangement 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 consolidated balance sheet totaled $1,686,000 at January 31, 2006 and $874,000 at January 31, 2005.

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

During fiscal 2006, we deferred $22.1 million of commission expenditures and we amortized $14.6 million to sales expense. During the same period a year ago, we deferred $14.0 million of commission expenditures and we amortized $15.6 million to sales expense. Deferred commissions on our consolidated balance sheet totaled $17.1 million at January 31, 2006 and $9.6 million at January 31, 2005.

Accounting for Stock-Based Awards. We recorded deferred stock-based compensation charges in the amount by which the exercise price of an option is less than the deemed fair value of our common stock at the date of grant. We have elected not to record stock-based compensation expense when employee stock options are awarded at exercise prices equal to the deemed fair value of our common stock at the date of grant. Prior to the establishment of a public market for our stock in June 2004, our board of directors determined the fair value of our common stock based upon several factors, including, but not limited to, our operating and financial performance, private sales of our common and preferred stock between third parties, issuances of convertible preferred stock and appraisals performed by an appraisal firm. The fair value of our common stock is now determined by the trading price of our stock on the New York Stock Exchange.

We amortize the deferred compensation charges ratably over the four-year vesting period of the underlying option awards. As of January 31, 2006, we had an aggregate of $2.5 million of deferred stock-based compensation remaining to be amortized.

On February 1, 2006, which is the start of our fiscal 2007, we will begin to recognize in our consolidated statement of operations the cost of employee stock options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or SFAS 123R (see Recent Accounting Pronouncement below for further discussion). We believe that the adoption of SFAS 123R will materially reduce our fiscal 2007 reported results of operations.

In the past, we have awarded a limited number of stock options and warrants to non-employees. For these options and warrants, we recognize stock-based compensation expense over the vesting periods of the underlying awards, based on an estimate of their fair value on the vesting dates using the Black-Scholes option-pricing model. As of January 31, 2006, we had recognized compensation expense on all options and warrants issued to non-employees except for options for 50,000 shares of our common stock, all of which will fully vest by July 2007 and have an exercise price of $2.50 per share.

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, tax exposure items or adjustments to the valuation allowance are treated as discrete items in the interim period in which the events occur.

Prior to fiscal 2006, we recorded a full valuation allowance to reserve for the benefit of our deferred tax assets due to the uncertainty surrounding our ability to realize these assets. During fiscal 2006, we recorded an income tax benefit of $1.3 million, which included a partial reversal of the valuation allowance related to certain of our deferred tax assets. The Company continues to maintain a $41.8 million valuation allowance against the deferred tax assets attributable to employee stock option exercises and operating losses from certain foreign subsidiaries. Future reductions in the valuation allowance related to employee stock option activity, which was approximately $40.0 million of the total valuation allowance as of January 31, 2006, will be recorded to additional paid-in capital.
## Results of Operations

The following tables set forth selected consolidated statements of operations data for each of the periods indicated.

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended January 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>(in thousands except customer and subscriber data)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription and support</td>
<td>$280,639</td>
<td>$157,977</td>
</tr>
<tr>
<td>Professional services and other</td>
<td>$29,218</td>
<td>$18,398</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$309,857</td>
<td>$176,375</td>
</tr>
<tr>
<td><strong>Cost of revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription and support</td>
<td>$34,457</td>
<td>$12,727</td>
</tr>
<tr>
<td>Professional services and other</td>
<td>$34,669</td>
<td>$20,727</td>
</tr>
<tr>
<td><strong>Total cost of revenues</strong></td>
<td>$69,126</td>
<td>$33,454</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>$240,731</td>
<td>$142,921</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>$23,330</td>
<td>$9,822</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>$149,598</td>
<td>$96,311</td>
</tr>
<tr>
<td>General and administrative</td>
<td>$47,986</td>
<td>$30,268</td>
</tr>
<tr>
<td>Lease recovery</td>
<td>(285)</td>
<td>(3,445)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>$220,629</td>
<td>$136,401</td>
</tr>
<tr>
<td>Income from operations</td>
<td>$20,102</td>
<td>$6,520</td>
</tr>
<tr>
<td>Interest income</td>
<td>$7,726</td>
<td>$2,658</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(69)</td>
<td>(37)</td>
</tr>
<tr>
<td>Other income</td>
<td>$439</td>
<td>$12</td>
</tr>
<tr>
<td><strong>Income before benefit (provision) for income taxes and minority interest</strong></td>
<td>$28,198</td>
<td>$9,153</td>
</tr>
<tr>
<td>Benefit (provision) for income taxes</td>
<td>$1,310</td>
<td>$(1,217)</td>
</tr>
<tr>
<td><strong>Income before minority interest</strong></td>
<td>$29,508</td>
<td>$7,936</td>
</tr>
<tr>
<td>Minority interest in consolidated joint venture</td>
<td>$(1,034)</td>
<td>$(590)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$28,474</td>
<td>$7,346</td>
</tr>
</tbody>
</table>

In addition to the statement of operations data above:

| Cash flow provided by operating activities | $95,893 | $55,872 | $21,781 |

As of January 31,

|                        | 2006 | 2005 |
| Balance sheet data:    |      |      |
| Cash, cash equivalents and marketable securities (1) | $296,792 | $205,938 |
| Deferred revenue       | 169,175 | 95,900 |
| Customer and subscriber data (unaudited): |      |      |
| Approximate number of customers | 20,500 | 13,900 |
| Approximate number of paying subscriptions (2) | 399,000 | 227,000 |

(1) Includes net proceeds of $113.8 million from the sale of common stock during our initial public offering in June 2004.

(2) Paying subscriptions are defined as unique user accounts, purchased by customers for use by their employees and other customer-authorized users that have not been suspended for non-payment and for which we are recognizing subscription revenue.
Revenues by geography:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>$247,009</td>
<td>$140,871</td>
<td>$78,958</td>
</tr>
<tr>
<td>Europe</td>
<td>43,577</td>
<td>25,201</td>
<td>11,754</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>19,271</td>
<td>10,303</td>
<td>5,311</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$309,857</td>
<td>$176,375</td>
<td>$96,023</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of revenues</td>
<td>$575</td>
<td>$634</td>
<td>$655</td>
</tr>
<tr>
<td>Research and development</td>
<td>332</td>
<td>282</td>
<td>462</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>1,325</td>
<td>1,296</td>
<td>2,029</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,216</td>
<td>1,402</td>
<td>1,213</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$3,448</td>
<td>$3,614</td>
<td>$4,359</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription and support</td>
<td>91%</td>
<td>90%</td>
<td>89%</td>
</tr>
<tr>
<td>Professional services and other</td>
<td>9</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of revenues:</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription and support</td>
<td>11</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Professional services and other</td>
<td>11</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total cost of revenues</strong></td>
<td>22</td>
<td>19</td>
<td>18</td>
</tr>
</tbody>
</table>

| Gross profit | 78   | 81   | 82   |

<table>
<thead>
<tr>
<th>Operating expenses:</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development</td>
<td>8</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>48</td>
<td>55</td>
<td>57</td>
</tr>
<tr>
<td>General and administrative</td>
<td>16</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Lease recovery</td>
<td>—</td>
<td>—</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>72</td>
<td>77</td>
<td>78</td>
</tr>
<tr>
<td>Income from operations</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Interest income</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Income before benefit (provision) for income taxes and minority interest</strong></td>
<td>9</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Benefit (provision) for income taxes</strong></td>
<td>1</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Income before minority interest</strong></td>
<td>10</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Minority interest in consolidated joint venture</td>
<td>(1)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>9%</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>
Overview of Results of Operations for the Fiscal Year Ended January 31, 2006

Revenues during the year ended January 31, 2006 were $309.9 million, an increase of 76 percent over the same period a year ago. The total number of paying subscribers increased to approximately 399,000 as of January 31, 2006 from approximately 227,000 as of January 31, 2005.

Our gross profit during the year ended January 31, 2006 was $240.7 million, or 78 percent of revenues, and operating income was $20.1 million. Operating income for the period included a non-cash stock-based expense of $3.4 million, which consisted primarily of the amortization of our deferred stock-based compensation. During the same period a year ago, we generated a gross profit of $142.9 million, or 81 percent of revenues, and had operating income of $6.5 million. Operating income during the year ended January 31, 2005 also included $3.6 million of non-cash stock-based expense.

During the third quarter of fiscal 2006, we recorded a tax benefit of approximately $6.8 million by reducing our valuation allowance for certain of our deferred tax assets. This determination was primarily based on our cumulative profitability over the past several quarters plus the projected current and future taxable income that we expect to realize, particularly in specific tax jurisdictions such as the United States.

Additionally, during fiscal 2006, we incurred substantial costs and operating expenses related to the expansion of our business. We incurred costs related to adding data center capacity and upgrading our new development and test data center. Additionally, we added sales personnel to focus on adding new customers and increasing the penetration within our existing customer base, professional services personnel to support our consulting services, and developers to broaden and enhance our on-demand service.

During the year ended January 31, 2006, we generated $95.9 million of cash from operating activities, as compared to $55.9 million during the same period a year ago. At January 31, 2006, we had cash, cash equivalents and marketable securities of $296.8 million, as compared to $205.9 million at January 31, 2005, accounts receivable of $76.1 million at January 31, 2006, as compared to $48.9 million at January 31, 2005, and deferred revenue of $169.2 million at January 31, 2006, as compared to $95.9 million at January 31, 2005.

Fiscal Years Ended January 31, 2006 and 2005

Revenues. Total revenues were $309.9 million for the year ended January 31, 2006, compared to $176.4 million during the same period a year ago, an increase of $133.5 million, or 76 percent. Subscription and support
revenues were $280.7 million, or 91 percent of total revenues, for the year ended January 31, 2006, compared to $158.0 million, or 90 percent of total revenues, during the same period a year ago. The increase in subscription and support revenues was due primarily to the increase in the number of paying subscribers to approximately 399,000 as of January 31, 2006 from approximately 227,000 as of January 31, 2005. Professional services and other revenues were $29.2 million, or 9 percent of total revenues, for the year ended January 31, 2006, compared to $18.4 million, or 10 percent of total revenues, for the same period a year ago. The increase in professional services and other revenues was due primarily to the higher demand for services from an increased number of paying subscribers and customers.

Revenues in Europe and Asia Pacific accounted for $62.8 million, or 20 percent of total revenues, during the year ended January 31, 2006, compared to $35.5 million, or 20 percent of total revenues, during the same period a year ago, an increase of $27.3 million, or 77 percent. The increase in revenues outside of the Americas was the result of our efforts to expand the number of locations around the world where we conduct business and our international selling and marketing activities.

Cost of Revenues. Cost of revenues was $69.1 million, or 22 percent of total revenues, during the year ended January 31, 2006, compared to $33.5 million, or 19 percent of total revenues, during the same period a year ago, an increase of $35.6 million. The increase in absolute dollars was primarily due to an increase of $14.6 million in employee-related costs, primarily all of which was due to the 60 percent increase in the headcount of our professional services organization since January 31, 2005, an increase of $11.6 million in service delivery costs, primarily due to our efforts in adding data center capacity, an increase of $1.5 million in depreciation and amortization expenses, an increase of $3.3 million in outside subcontractor and other service costs and an increase of $4.3 million in allocated overhead charges. 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 during the year ended January 31, 2006 by $5.5 million. We increased the professional services headcount in order to meet the anticipated demand for our consulting and training services as our subscriber base has expanded.

As described above, we intend to continue to invest additional resources in our on-demand application service and in our capacity to deliver professional services. The timing of these additional expenses, together with the requirement to expense stock options beginning in fiscal 2007, will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues. We believe that our cost of revenues as a percentage of revenues will approximate recent percentages, exclusive of the new requirement to expense stock options.

Research and Development. Research and development expenses were $23.3 million, or 8 percent of total revenues, during the year ended January 31, 2006, compared to $9.8 million, or 5 percent of total revenues, during the same period a year ago, an increase of $13.5 million. The increase in absolute dollars was primarily due to an increase of $7.7 million in employee-related costs, an increase of $3.6 million in equipment and service costs primarily due to upgrading our new development and test data center and a $1.6 million increase in allocated overhead charges. We increased our research and development headcount by 77 percent since January 31, 2005 in order to upgrade and extend our service offerings and develop new technologies. During the year ended January 31, 2006, we capitalized $1.4 million in development costs associated with planned releases of our application service.

Marketing and Sales. Marketing and sales expenses were $149.6 million, or 48 percent of total revenues, during the year ended January 31, 2006, compared to $96.3 million, or 55 percent of total revenues, during the same period a year ago, an increase of $53.3 million. The increase in absolute dollars was primarily due to an increase of $37.9 million in employee-related costs, $5.0 million in marketing spending related to new service offerings, advertising and events and a $9.1 million increase in allocated overhead. Our marketing and sales headcount increased by 72 percent since January 31, 2005 as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

General and Administrative. General and administrative expenses were $48.0 million, or 16 percent of total revenues, during the year ended January 31, 2006, compared to $30.3 million, or 17 percent of total revenues,
during the same period a year ago, an increase of $17.7 million. The increase was primarily due to an increase of $22.2 million in employee-related costs, $4.1 million in professional and outside service costs and $4.5 million in infrastructure-related costs, which were offset by $15.0 million in increased allocated charges to non-general and administrative departments. Our general and administrative headcount increased by 69 percent since January 31, 2005 as we added personnel to support our growth.

**Lease Recovery.** The lease recovery of $285,000, which occurred during the first quarter of fiscal 2006, was due to the reduction in accruals associated with the San Francisco, California office space that we abandoned in December 2001. In March 2005, we entered into an agreement with our primary landlord that released us from a portion of the future obligations associated with the remaining space abandoned in exchange for an agreement to lease additional space elsewhere in the building at fair value. Accordingly, we recorded a $285,000 credit to reflect the reversal of a portion of the accrual that was directly related to this space.

**Operating Income.** Operating income during the year ended January 31, 2006 was $20.1 million. During the same period a year ago, it was $6.5 million. The increase was primarily due to the increase in revenues, most of which was re-invested in an effort to expand our business.

**Interest Income.** Interest income consists of investment income on cash and marketable securities balances. During the year ended January 31, 2005, interest income also included the interest income on outstanding loans made to individuals who early exercised their stock options. None of these individuals was an executive officer or director of the Company and all of them repaid their loan balances by February 28, 2005. Interest income was $7.7 million during the year ended January 31, 2006 and was $2.7 million during the same period a year ago. The increase was primarily due to increased marketable securities balances resulting from the $113.8 million of net proceeds from the sale of our common stock in our initial public offering in June 2004 and the cash generated by operating activities since January 31, 2005.

**Benefit (Provision) for Income Taxes.** We recorded a benefit for income taxes of $1.3 million during the year ended January 31, 2006, compared to a provision for income taxes of $1.2 million during the same period a year ago. Included in the $1.3 million benefit for income taxes was a partial reversal of the valuation allowance related to certain of our deferred tax assets totaling $7.2 million. Prior to fiscal 2006, we recorded a full valuation allowance to reserve for the benefit of our deferred tax assets due to the uncertainty surrounding our ability to realize these assets. As of January 31, 2006, we had $7.2 million of deferred tax assets, net of deferred tax liabilities, on our consolidated balance sheet.

As of the same date, the Company continues to maintain a $41.8 million valuation allowance against the deferred tax assets attributable to employee stock option exercises and operating losses from certain foreign subsidiaries. Future reductions in the valuation allowance related to employee stock option activity, which was approximately $40.0 million of the total valuation allowance as of January 31, 2006, will be recorded to additional paid-in-capital. To realize the deferred tax assets related to foreign operations, pretax income in those jurisdictions must increase sufficiently to allow management to assume that such deferred tax assets will be utilized. Historic profits in those jurisdictions have proven insufficient to allow us to absorb deferred tax assets incurred to date.

Without the reduction in our valuation allowance, the effective tax rate for fiscal 2006 would have been approximately 20 percent. This effective tax rate differs from the statutory rate primarily due to the utilization of previously unrecognized domestic loss carryovers offset by losses in certain foreign jurisdictions for which no benefit was recognized.

We currently believe that our fiscal 2007 effective tax rate will be significantly higher than in fiscal 2006. Our future effective tax rate is based on the projected mix of full-year income in each tax jurisdiction in which we operate, the related income tax expense in each jurisdiction and the impact of the new accounting requirement to expense stock options. The estimated effective income tax rate is also adjusted for taxes related to significant unusual items. These actual results could vary from those projected.
Fiscal Years Ended January 31, 2005 and 2004

Revenues. Total revenues were $176.4 million for fiscal 2005, compared to $96.0 million during fiscal 2004, an increase of $80.4 million, or 84 percent. Subscription and support revenues were $158.0 million, or 90 percent of total revenues, for fiscal 2005, compared to $85.8 million, or 89 percent of total revenues, during fiscal 2004. The increase in subscription and support revenues was due primarily to the increase in the number of paying subscribers to approximately 227,000 as of January 31, 2005 from approximately 127,000 as of January 31, 2004. Professional services and other revenues were $18.4 million, or 10 percent of total revenues, for fiscal 2005, compared to $10.2 million, or 11 percent of total revenues, for fiscal 2004. The increase in professional services and other revenues was due primarily to the higher demand for services from an increased number of paying subscribers and customers.

Revenues in Europe and Asia Pacific accounted for $35.5 million, or 20 percent of total revenues, during fiscal 2005, compared to $17.1 million, or 18 percent of total revenues, during fiscal 2004, an increase of $18.4 million, or 108 percent. The increase in revenues outside of the Americas was the result of our efforts to expand the number of locations around the world where we conduct business and our international selling and marketing activities.

Cost of Revenues. Cost of revenues was $33.5 million, or 19 percent of total revenues, during fiscal 2005, compared to $17.3 million, or 18 percent of total revenues, during fiscal 2004, an increase of $16.2 million. The increase in absolute dollars was primarily comprised of an increase of $12.1 million in employee-related costs, substantially all of which was due to the 80 percent increase in the headcount of our professional services organization since January 31, 2004, an increase of $1.9 million in service delivery costs and an increase of $1.7 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 during fiscal 2005 by $2.3 million. We increased the professional services headcount in order to meet the anticipated demand for our consulting and training services as our customer base has expanded.

The increase in our gross profit was the result of our ability to leverage our existing infrastructure to serve the increased number of customers and paying subscribers.

Research and Development. Research and development expenses were $9.8 million, or 5 percent of total revenues, during fiscal 2005, compared to $7.0 million, or 7 percent of total revenues, during fiscal 2004, an increase of $2.8 million. The increase in absolute dollars was primarily due to an increase in employee-related costs of $2.3 million and an increase of $0.4 million in allocated overhead. We increased our research and development headcount by 57 percent since January 31, 2004 in order to upgrade and extend our service offerings and develop new technologies.

Marketing and Sales. Marketing and sales expenses were $96.3 million, or 55 percent of total revenues, during fiscal 2005, compared to $54.6 million, or 57 percent of total revenues, during fiscal 2004, an increase of $41.7 million. The increase in absolute dollars was primarily due to an increase of $34.3 million in employee-related costs, $3.5 million in marketing spending related to new service offerings and event costs and $3.4 million in allocated overhead. Of the $34.3 million increase in employee-related costs, $7.0 million was related to the increased amortization expense of deferred commissions. Our marketing and sales headcount increased by 76 percent since January 31, 2004 as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

General and Administrative. General and administrative expenses were $30.3 million, or 17 percent of total revenues, during fiscal 2005, compared to $16.9 million, or 18 percent of total revenues, during fiscal 2004, an increase of $13.4 million. The increase was due to an increase of $8.3 million in employee-related costs and $5.1 million in professional and outside service costs. Our general and administrative headcount increased by 64 percent since January 31, 2004 as we added personnel to support our growth. The increase in professional and
outside service costs was due to the cost of being a public company and the added costs of managing a growing business and expanding outside the United States.

**Lease Recovery.** The lease recovery of $3.4 million during fiscal 2004 was due to the reduction in accruals associated with the San Francisco, California office space that we abandoned in December 2001. In August 2003, we entered into an agreement, releasing us from future obligations for some of the space abandoned, in connection with the landlord’s lease of this space to another tenant. Accordingly, we recorded a $3.4 million credit to reflect the reversal of the accrual that was directly related with this space.

**Operating Income.** Operating income during fiscal 2005 was $6.5 million. During fiscal 2004, it was $3.7 million, substantially all of which consisted of the lease recovery described above. The increase in operating income was primarily due to the increase in revenues, most of which was re-invested in an effort to expand our business.

**Interest Income.** Interest income substantially consists of investment income on cash and marketable securities balances and also includes interest income on outstanding loans made to individuals who early exercised their stock options. None of these individuals was an executive officer or director of the Company and all of them repaid their loan balances by February 28, 2005. Interest income was $2.7 million during fiscal 2005 and was $379,000 during fiscal 2004. The increase was primarily due to increased marketable securities balances resulting from the proceeds from the sale of our common stock in our initial public offering in June 2004.

**Provision for Income Taxes.** We recorded a provision for income tax expense of $1.2 million for fiscal 2005 as compared to a provision for income tax expense of $541,000 for fiscal 2004. The fiscal 2005 provision for income taxes consists of amounts accrued for our estimated domestic federal alternative minimum tax and state income tax liability as well as an estimate of our foreign income tax expense.

**Liquidity and Capital Resources**

At January 31, 2006, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling $296.8 million and accounts receivable of $76.1 million.

Net cash provided by operating activities was $95.9 million during the year ended January 31, 2006 and $55.9 million during the same period a year ago. The improvement in cash flow was due primarily to the increased number of paying subscribers to our service. Cash provided by operating activities has historically been affected by sales of subscriptions and support and professional services, changes in working capital accounts, particularly increases in accounts receivable and deferred revenue and the timing of commission and bonus payments, and add-backs of non-cash expense items such as depreciation and amortization and the expense associated with stock-based awards.

Net cash used in investing activities was $47.8 million during the year ended January 31, 2006 and $149.2 million during the same period a year ago, which included the investment of most of the proceeds from our initial public offering in June 2004. The net cash used in investing activities during the year ended January 31, 2006 primarily related to the changes in restricted cash balances and marketable securities and capital expenditures associated with the purchase of software licenses, computer equipment and furniture and fixtures as we have expanded our infrastructure and work force.

In February 2005, we obtained additional software licenses for use in our business operations at a cost of $8.8 million, which included the cost for support for the first year of the license agreement. Additionally, we obtained additional data center capacity and we upgraded our new development and test data center. For these data center resources, our principal commitments consist of obligations under operating leases for the facilities and computer equipment and contracts for certain services.
Net cash provided by financing activities was $15.8 million during the year ended January 31, 2006 and $118.9 million during the same period a year ago. In June 2004, we completed the sale of 11.5 million shares of common stock during our initial public offering. The net proceeds from the initial public offering were $113.8 million. During the year ended January 31, 2006, the $15.7 million of proceeds from the exercise of employee stock options and warrants and the $727,000 of proceeds from the collection of notes receivable from shareholders were offset by principal payments on capital lease obligations.

As of January 31, 2006, we have a total of $3.4 million in letters of credit outstanding in favor of our landlords for office space in San Francisco, California, Switzerland and Singapore. None of these letters of credit are collateralized. To date, no amounts have been drawn against the letters of credit, which renew annually and mature at various dates through December 2010.

We do not have any special purpose entities, and other than operating leases for office space and computer equipment, we do not engage in off-balance sheet financing arrangements. Additionally, we currently do not have a bank line of credit.

Our principal commitments consist of obligations under leases for office space and co-location facilities for additional data center capacity and the new development and test data center, and computer equipment and furniture and fixtures. We also have long-term liabilities related primarily to lease abandonments. At January 31, 2006, the future minimum payments under these commitments as well as our long-term liability were as follows:

<table>
<thead>
<tr>
<th>Contractual Obligations</th>
<th>Total</th>
<th>Less than 1 Year</th>
<th>1-3 Years</th>
<th>3-5 Years</th>
<th>More than 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital lease obligations</td>
<td>$825</td>
<td>$638</td>
<td>$187</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Operating lease obligations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office space</td>
<td>76,603</td>
<td>20,522</td>
<td>23,624</td>
<td>19,155</td>
<td>13,302</td>
</tr>
<tr>
<td>Computer equipment and furniture and fixtures</td>
<td>49,250</td>
<td>20,758</td>
<td>28,362</td>
<td>130</td>
<td>—</td>
</tr>
<tr>
<td>Contractual commitments</td>
<td>350</td>
<td>350</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Lease abandonment liabilities and other</td>
<td>1,341</td>
<td>186</td>
<td>762</td>
<td>393</td>
<td>—</td>
</tr>
</tbody>
</table>

Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

We believe our existing cash, cash equivalents and short-term marketable securities and cash provided by operating activities will be sufficient to meet our working capital and capital expenditure needs over the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our marketing and sales activities, the timing and extent of spending to support product development efforts and expansion into new territories, the timing of introductions of new services and enhancements to existing services, the timing of capital expenditures and expenses associated with Web hosting and the continuing market acceptance of our services. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing.
During fiscal 2007, we may enter into arrangements to acquire or invest in other businesses, services or technologies. While we believe we have sufficient financial resources, we may be required to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Recent Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or SFAS 123R, which requires all share-based payments to employees, including grants of employee stock options, to be recognized as expenses in the statement of operations based on their fair values and vesting periods. We will adopt the provisions of SFAS 123R on February 1, 2006, which is the start of our next fiscal year.

We believe that the adoption of SFAS 123R will materially reduce our reported results of operations. The full impact is dependent upon, among other things, the timing of when additional employees that we plan to hire commence employment, the outcome of our current assessment of different 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 and the tax benefit that we may or may not receive from stock-based expenses. Had we adopted SFAS 123R in prior periods, the total stock-based expense for all awards before the tax benefit would have approximated the pro forma impact of expensing options as described in Note 1 to the accompanying Notes to the Consolidated Financial Statements.

Additionally, SFAS 123R requires the tax benefits from employee stock plans to be classified as a financing activity in the consolidated statement of cash flows. We currently classify these tax benefits as a source of cash provided by operating activities. These benefits totaled $3,662,000 during the year ended January 31, 2006 and $798,000 for the comparable period a year ago.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange risk

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

Interest rate sensitivity

We had cash, cash equivalents and marketable securities totaling $296.8 million at January 31, 2006. These amounts were invested primarily in money market funds and instruments, corporate notes and bonds, government securities and other debt securities with strong credit ratings. The cash, cash equivalents and short-term marketable securities are held for working capital purposes. We do not enter into investments for trading or speculative purposes.

Our fixed-income portfolio is subject to interest rate risk. An immediate increase or decrease in interest rates of 100-basis points could result in a $1.6 million market value reduction or increase of the same amount. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our investment securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities.

At January 31, 2005, we had cash, cash equivalents and marketable securities totaling $205.9 million. The fixed-income portfolio was also subject to interest rate risk. Changes in interest rates of 100-basis points would have resulted in market value changes of $1.6 million.
ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements are filed as part of this Report:

<table>
<thead>
<tr>
<th>Description</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports of Independent Registered Public Accounting Firm</td>
<td>49</td>
</tr>
<tr>
<td>Consolidated Balance Sheets as of January 31, 2006 and 2005</td>
<td>51</td>
</tr>
<tr>
<td>Consolidated Statements of Operations for each of the three years in the period ended January 31, 2006</td>
<td>52</td>
</tr>
<tr>
<td>Consolidated Statements of Stockholders’ Equity for each of the three years in the period ended January 31, 2006</td>
<td>53</td>
</tr>
<tr>
<td>Consolidated Statements of Cash Flows for each of the three years in the period ended January 31, 2006</td>
<td>56</td>
</tr>
<tr>
<td>Notes to Consolidated Financial Statements</td>
<td>57</td>
</tr>
</tbody>
</table>
Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of salesforce.com, inc.

We have audited the accompanying consolidated balance sheets of salesforce.com, inc. as of January 31, 2006 and 2005, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended January 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of salesforce.com, inc. at January 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of salesforce.com, inc.’s internal control over financial reporting as of January 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Francisco, California
March 15, 2006
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of salesforce.com, inc.

We have audited management’s assessment, included in the accompanying Management’s Report on Internal Control Over Financial Reporting, that salesforce.com, inc. maintained effective internal control over financial reporting as of January 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Salesorce.com’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management’s assessment that salesforce.com, inc. maintained effective internal control over financial reporting as of January 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, salesforce.com, inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of salesforce.com, inc. as of January 31, 2006 and 2005, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended January 31, 2006 and our report dated March 15, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Francisco, California

March 15, 2006

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salesforce.com, inc.

Consolidated Balance Sheets
(in thousands, except share and per share data)

<table>
<thead>
<tr>
<th></th>
<th>January 31, 2006</th>
<th>January 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 99,842</td>
<td>$ 35,731</td>
</tr>
<tr>
<td>Short-term marketable securities</td>
<td>107,723</td>
<td>83,087</td>
</tr>
<tr>
<td>Accounts receivable, net of allowance for doubtful accounts of $1,296 and $611 at January 31, 2006 and 2005, respectively</td>
<td>76,128</td>
<td>48,874</td>
</tr>
<tr>
<td>Deferred commissions</td>
<td>13,186</td>
<td>7,556</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>6,338</td>
<td>3,467</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$ 303,217</td>
<td>$ 178,715</td>
</tr>
<tr>
<td>Marketable securities, noncurrent</td>
<td>89,227</td>
<td>87,120</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>—</td>
<td>3,191</td>
</tr>
<tr>
<td>Fixed assets, net</td>
<td>24,216</td>
<td>7,637</td>
</tr>
<tr>
<td>Deferred commissions, noncurrent</td>
<td>3,889</td>
<td>2,057</td>
</tr>
<tr>
<td>Deferred income taxes, noncurrent</td>
<td>10,416</td>
<td>—</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,784</td>
<td>1,779</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 434,749</td>
<td>$ 280,499</td>
</tr>
</tbody>
</table>

| **Liabilities and stockholders’ equity** |            |                  |
| Current liabilities:          |            |                  |
| Accounts payable | $ 10,212     | $ 2,525          |
| Accrued expenses and other current liabilities | 48,782    | 32,467           |
| Income taxes payable | 2,650        | 216              |
| Deferred income tax liabilities | 3,191       | —                |
| Deferred revenue | 169,175       | 95,900           |
| Current portion of capital lease obligations | 615     | 563              |
| Total current liabilities | $ 234,625    | $ 131,671        |
| Capital lease obligations, net of current portion | 184            | 721              |
| Long-term lease abandonment liability and other | 1,155        | 1,596            |
| Minority interest | 2,414          | 1,380            |
| Total liabilities | $ 238,378     | $ 135,368        |

Commitments and contingencies (Note 8)

Stockholders’ equity:

<table>
<thead>
<tr>
<th></th>
<th>January 31, 2006</th>
<th>January 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred stock, $0.001 par value; 5,000,000 shares authorized and none outstanding at January 31, 2006 and 2005</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Common stock, $0.001 par value; 400,000,000 shares authorized, 110,513,576 and 104,990,816 issued and outstanding at January 31, 2006 and 2005, respectively</td>
<td>111</td>
<td>105</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>237,010</td>
<td>217,248</td>
</tr>
<tr>
<td>Deferred stock-based compensation</td>
<td>(2,531)</td>
<td>(5,908)</td>
</tr>
<tr>
<td>Notes receivables from stockholders</td>
<td>—</td>
<td>(727)</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(2,105)</td>
<td>(999)</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(36,114)</td>
<td>(64,588)</td>
</tr>
<tr>
<td>Total stockholders’ equity</td>
<td>$ 196,371</td>
<td>$ 145,131</td>
</tr>
</tbody>
</table>

Total liabilities and stockholders’ equity | $ 434,749       | $ 280,499         |

See accompanying Notes to Consolidated Financial Statements.
### Consolidated Statements of Operations

(in thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Subscription and support</td>
<td>$280,639</td>
</tr>
<tr>
<td>Professional services and other</td>
<td>29,218</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$309,857</td>
</tr>
<tr>
<td><strong>Cost of revenues (1):</strong></td>
<td></td>
</tr>
<tr>
<td>Subscription and support</td>
<td>34,457</td>
</tr>
<tr>
<td>Professional services and other</td>
<td>34,669</td>
</tr>
<tr>
<td><strong>Total cost of revenues</strong></td>
<td>$69,126</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>$240,731</td>
</tr>
<tr>
<td><strong>Operating expenses (1):</strong></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>23,330</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>149,598</td>
</tr>
<tr>
<td>General and administrative</td>
<td>47,986</td>
</tr>
<tr>
<td>Lease recovery</td>
<td>(285)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>$220,629</td>
</tr>
<tr>
<td><strong>Income from operations</strong></td>
<td>$20,102</td>
</tr>
<tr>
<td><strong>Interest income</strong></td>
<td>$7,726</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>(69)</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>439</td>
</tr>
<tr>
<td><strong>Income before benefit (provision) for income taxes and minority interest</strong></td>
<td>$28,198</td>
</tr>
<tr>
<td><strong>Benefit (provision) for income taxes</strong></td>
<td>$1,310</td>
</tr>
<tr>
<td><strong>Income before minority interest</strong></td>
<td>$29,508</td>
</tr>
<tr>
<td><strong>Minority interest in consolidated joint venture</strong></td>
<td>(1,034)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$28,474</td>
</tr>
<tr>
<td><strong>Basic net income per share</strong></td>
<td>$0.27</td>
</tr>
<tr>
<td><strong>Diluted net income per share</strong></td>
<td>0.24</td>
</tr>
<tr>
<td><strong>Weighted-average number of shares used in per share amounts:</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>107,274</td>
</tr>
<tr>
<td>Diluted</td>
<td>118,737</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td><strong>Cost of revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>$575</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>332</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,325</td>
</tr>
<tr>
<td><strong>Total cost of revenues</strong></td>
<td>$3,448</td>
</tr>
</tbody>
</table>

See accompanying Notes to Consolidated Financial Statements.
### Consolidated Statements of Stockholders’ Equity

(in thousands, except share and per share data)

<table>
<thead>
<tr>
<th>Convertible Preferred Stock</th>
<th>Common Stock</th>
<th>Additional Paid-in Capital</th>
<th>Deferred Stock-Based Compensation</th>
<th>Notes Receivables from Stockholders</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Accumulated Deficit</th>
<th>Total Comprehensive Loss</th>
<th>Total Stockholders’ (Deficit) Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
</tr>
<tr>
<td>Balances at January 31, 2003</td>
<td>58,024,345</td>
<td>$ 61,137</td>
<td>30,480,962</td>
<td>$ 30,700</td>
<td>$ (9,588)</td>
<td>$ (1,574)</td>
<td>$ 6</td>
<td>$ (75,448)</td>
</tr>
<tr>
<td>Deferred compensation related to the issuance of Company and subsidiary stock options</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,339</td>
<td>(2,428)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>—</td>
<td>—</td>
<td>1,041,131</td>
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<td>(23,967)</td>
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<td>(17)</td>
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<td>Fair value of stock awards issued to nonemployees for services</td>
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<td>Accelerated vesting of employee stock options</td>
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<td>Accrued interest on stockholder notes receivable</td>
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<td>—</td>
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<td>Translation adjustment</td>
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<td>—</td>
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<td>4</td>
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<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Comprehensive income, year ended January 31, 2004</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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</tr>
<tr>
<td>Balances at January 31, 2004</td>
<td>58,024,345</td>
<td>$ 61,137</td>
<td>31,530,626</td>
<td>$ 35,590</td>
<td>$ (8,251)</td>
<td>$ (1,674)</td>
<td>$ 10</td>
<td>$ (71,934)</td>
</tr>
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</table>

See accompanying Notes to Consolidated Financial Statements.

53
### salesforce.com, inc.

**Consolidated Statements of Stockholders’ Equity – (Continued)**

(in thousands, except share and per share data)

<table>
<thead>
<tr>
<th>Convertible Preferred Stock</th>
<th>Common Stock</th>
<th>Additional Paid-in Capital</th>
<th>Deferred Stock-Based Compensation</th>
<th>Notes Receivables from Stockholders</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Accumulated Deficit</th>
<th>Total Comprehensive Loss</th>
<th>Total Stockholders’ Equity</th>
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</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Balances at January 31, 2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>Issuance of common stock in connection with initial public offering, net of issuance costs incurred</td>
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<td>11,500,000</td>
<td>12</td>
<td>113,756</td>
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<td>Conversion of preferred stock into common</td>
<td>(58,024,345)</td>
<td>(61,137)</td>
<td>58,024,345</td>
<td>58</td>
<td>61,079</td>
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<td>Deferred compensation related to the issuance of Company and subsidiary stock options</td>
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<td>Amortization of Company and subsidiary deferred stock-based compensation</td>
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<td></td>
<td>—</td>
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<td>—</td>
<td>3,298</td>
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<td>Exercise of stock options and warrants and stock grants to board members for board services</td>
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<td>—</td>
<td>4,126,845</td>
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<td>5,473</td>
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<td>798</td>
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</tr>
<tr>
<td>Repurchase of unvested shares</td>
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<td>(191,800)</td>
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<td>Fair value of stock awards issued to nonemployees for services</td>
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<td>Accrued interest on stockholder notes receivable</td>
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<td>—</td>
<td>—</td>
<td>(96)</td>
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<tr>
<td>Collection of outstanding note receivable balances</td>
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<td>—</td>
<td>1,043</td>
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<tr>
<td>Sale of subsidiary common stock</td>
<td>—</td>
<td>—</td>
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<td>—</td>
<td>25</td>
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<td>Translation adjustment</td>
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<td>—</td>
<td>—</td>
<td>(260)</td>
<td>—</td>
<td>(260)</td>
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<tr>
<td>Unrealized loss on marketable securities</td>
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<td>—</td>
<td>(749)</td>
<td>—</td>
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<td>(749)</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>7,346</td>
</tr>
<tr>
<td>Comprehensive income, year ended January 31, 2005</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Balances at January 31, 2005</td>
<td>—</td>
<td>—</td>
<td>$104,990,816</td>
<td>$105</td>
<td>$217,248</td>
<td>$ (5,908)</td>
<td>$ (272)</td>
<td>$ (999)</td>
</tr>
</tbody>
</table>

See accompanying Notes to Consolidated Financial Statements.

54
## Consolidated Statements of Stockholders’ Equity – (Continued)

### (in thousands, except share and per share data)

<table>
<thead>
<tr>
<th>convertible Preferred Stock</th>
<th>Common Stock</th>
<th>Additional Paid-in Capital</th>
<th>Deferred Stock-Based Compensation</th>
<th>Notes Receivables from Stockholders</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Accumulated Deficit</th>
<th>Total Comprehensive Loss</th>
<th>Total Stockholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at January 31, 2005</td>
<td>—</td>
<td>$ 104,990,816</td>
<td>$ 105</td>
<td>$ 217,248</td>
<td>$ (5,908)</td>
<td>$ (727)</td>
<td>$ (999)</td>
<td>$ (64,588)</td>
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<td>Reversal of deferred compensation resulting from the cancellation of Company and subsidiary stock options</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(269)</td>
<td>612</td>
<td>—</td>
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<td>Amortization of Company and subsidiary deferred stock-based compensation</td>
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<td>Exercise of stock options and warrants and stock grants to board members for board services</td>
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<td>5,547,883</td>
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<td>16,118</td>
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<td>Tax benefits from employee stock plans</td>
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<td>—</td>
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<td>3,662</td>
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<tr>
<td>Repurchase of unvested shares</td>
<td>—</td>
<td>(25,123)</td>
<td>—</td>
<td>(28)</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<td>Fair value of stock awards issued to nonemployees for services</td>
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<td>Collection of outstanding note receivable balances</td>
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<td>—</td>
<td>—</td>
<td>727</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Translation adjustment</td>
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<td>(287)</td>
<td>—</td>
<td>(287)</td>
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<tr>
<td>Unrealized loss on marketable securities</td>
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<td>(819)</td>
<td>—</td>
<td>(819)</td>
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<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>28,474</td>
<td>—</td>
<td>28,474</td>
<td>—</td>
</tr>
<tr>
<td>Comprehensive income, year ended January 31, 2006</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

### Balances at January 31, 2006

<table>
<thead>
<tr>
<th>convertible Preferred Stock</th>
<th>Common Stock</th>
<th>Additional Paid-in Capital</th>
<th>Deferred Stock-Based Compensation</th>
<th>Notes Receivables from Stockholders</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Accumulated Deficit</th>
<th>Total Comprehensive Loss</th>
<th>Total Stockholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
<td>Shares</td>
<td>Amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—</td>
<td>$ 110,513,576</td>
<td>$ 111</td>
<td>$ 237,010</td>
<td>$ (2,531)</td>
<td>$ —</td>
<td>$ (2,105)</td>
<td>$ (36,114)</td>
<td>$ (38,219)</td>
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See accompanying Notes to Consolidated Financial Statements.
## Consolidated Statements of Cash Flows

### (in thousands)

#### Fiscal Year Ended January 31,

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$28,474</td>
<td>$7,346</td>
<td>$3,514</td>
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<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Minority interest in consolidated joint venture</td>
<td>1,034</td>
<td>590</td>
<td>184</td>
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<tr>
<td>Depreciation and amortization</td>
<td>6,027</td>
<td>3,147</td>
<td>2,591</td>
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<tr>
<td>Loss on retirement of fixed assets</td>
<td>48</td>
<td>223</td>
<td>68</td>
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<tr>
<td>Amortization of deferred commissions</td>
<td>14,606</td>
<td>15,598</td>
<td>8,599</td>
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<tr>
<td>Lease recovery</td>
<td>(285)</td>
<td>—</td>
<td>(3,445)</td>
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<tr>
<td>Change in the deferred income tax valuation allowance</td>
<td>(7,225)</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Accrued interest on stockholder notes receivable</td>
<td>—</td>
<td>(96)</td>
<td>(100)</td>
</tr>
<tr>
<td>Expense related to stock-based awards</td>
<td>3,448</td>
<td>3,614</td>
<td>4,359</td>
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<tr>
<td>Tax benefits from employee stock plans</td>
<td>3,662</td>
<td>798</td>
<td>—</td>
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<tr>
<td><strong>Changes in assets and liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(27,254)</td>
<td>(22,338)</td>
<td>(16,955)</td>
</tr>
<tr>
<td>Deferred commissions</td>
<td>(22,068)</td>
<td>(14,055)</td>
<td>(16,320)</td>
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<td>Prepaid expenses and other current assets</td>
<td>(2,871)</td>
<td>65</td>
<td>(2,216)</td>
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<tr>
<td>Other assets</td>
<td>(1,620)</td>
<td>(216)</td>
<td>(723)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>7,687</td>
<td>490</td>
<td>1,429</td>
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<tr>
<td>Accrued expenses and other current liabilities</td>
<td>16,521</td>
<td>14,801</td>
<td>9,756</td>
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<tr>
<td>Income taxes</td>
<td>2,434</td>
<td>(318)</td>
<td>534</td>
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<tr>
<td>Deferred revenue</td>
<td>73,275</td>
<td>46,223</td>
<td>30,506</td>
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<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>95,893</td>
<td>55,872</td>
<td>21,781</td>
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</table>

#### Investing activities

<table>
<thead>
<tr>
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<th>2006</th>
<th>2005</th>
<th>2004</th>
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</thead>
<tbody>
<tr>
<td>Restricted cash</td>
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<td>721</td>
<td>(179)</td>
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<tr>
<td>Purchases of marketable securities</td>
<td>(193,165)</td>
<td>(282,220)</td>
<td>(39,900)</td>
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<tr>
<td>Sales and maturities of marketable securities</td>
<td>165,603</td>
<td>136,608</td>
<td>21,851</td>
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<tr>
<td>Capital expenditures</td>
<td>(23,434)</td>
<td>(4,308)</td>
<td>(2,916)</td>
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<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(47,805)</td>
<td>(149,199)</td>
<td>(21,144)</td>
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#### Financing activities

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from the issuance of common stock, net of issuance costs incurred</td>
<td>—</td>
<td>113,768</td>
<td>—</td>
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<tr>
<td>Proceeds from the exercise of stock options and warrants</td>
<td>15,735</td>
<td>4,746</td>
<td>1,480</td>
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<td>Collection of notes receivables from stockholders</td>
<td>727</td>
<td>1,043</td>
<td>—</td>
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<tr>
<td>Principal payments on capital lease obligations</td>
<td>(614)</td>
<td>(493)</td>
<td>(531)</td>
</tr>
<tr>
<td>Repurchase of unvested shares</td>
<td>(28)</td>
<td>(254)</td>
<td>(17)</td>
</tr>
<tr>
<td>Proceeds from subsidiary stock offerings</td>
<td>—</td>
<td>40</td>
<td>167</td>
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<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td>15,820</td>
<td>118,850</td>
<td>1,099</td>
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<table>
<thead>
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<th>2004</th>
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<tr>
<td>Effect of exchange rate changes</td>
<td>203</td>
<td>(255)</td>
<td>18</td>
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<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>64,111</td>
<td>25,268</td>
<td>1,754</td>
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<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>35,731</td>
<td>10,463</td>
<td>8,709</td>
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<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
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</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$99,842</td>
<td>$35,731</td>
<td>$10,463</td>
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### Supplemental cash flow disclosure:

#### Cash paid during the period for:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
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</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$69</td>
<td>$37</td>
<td>$22</td>
</tr>
<tr>
<td>Income taxes, net of tax refunds</td>
<td>(169)</td>
<td>730</td>
<td>7</td>
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### Nonecash financing and investing activities

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets acquired under capital lease</td>
<td>$129</td>
<td>$1,699</td>
<td>$—</td>
</tr>
<tr>
<td>Conversion of preferred stock into common stock</td>
<td>—</td>
<td>$61,137</td>
<td>—</td>
</tr>
</tbody>
</table>

---

salesforce.com, inc.

Consolidated Statements of Cash Flows
<table>
<thead>
<tr>
<th>Net exercise of warrants</th>
<th>$ 287</th>
<th>$ 15</th>
<th>$ —</th>
</tr>
</thead>
</table>

See accompanying Notes to Consolidated Financial Statements.

56
1. Summary of Business and Significant Accounting Policies

Description of Business
Salesforce.com, Inc. (the “Company”) is the leading provider, based on market share, of application services that allow organizations to easily share customer information on demand. It provides a comprehensive customer relationship management (“CRM”) service to businesses of all sizes and industries worldwide. The Company began to offer its on-demand application service on a subscription basis in February 2000. The Company conducts its business worldwide.

Fiscal Year
The Company’s fiscal year ends on January 31. References to fiscal 2006, for example, refer to the fiscal year ending January 31, 2006.

Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions in the Company’s consolidated financial statements and notes thereto.

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

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

Additionally, the Company holds a majority interest in Kabushiki Kaisha Salesforce.com (“Salesforce Japan”), a Japanese joint venture. As of January 31, 2006, the Company owned a 63 percent interest in the joint venture. Given the Company’s majority ownership interest in the joint venture, the accounts of the joint venture have been consolidated with the accounts of the Company, and a minority interest, net of intercompany charges, has been recorded for the minority investors’ interests in the net assets and operations of the joint venture to the extent of the minority investors’ individual investments. Additionally, the Company records gains and losses resulting from the change of interest in Salesforce Japan directly to stockholders’ equity as additional paid-in capital.

Segments
The Company operates in one segment.

Foreign Currency Translation
The functional currency of the Company’s major foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as part of a separate component of stockholders’ equity. Foreign currency transaction gains and losses are included in net income for the period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date as quoted currently on the Federal Reserve Bank of New York. 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 and Suppliers

The Company’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, restricted cash, 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 problem accounts.

The Company’s accounts receivable and net revenues are derived from a large number of direct customers. No customer accounted for more than 5 percent of accounts receivable at January 31, 2006 and 2005. No single customer accounted for 5 percent or more of total revenue during fiscal 2006, 2005 and 2004.

As of January 31, 2006 and 2005, assets located outside the Americas were 6 percent and 8 percent of total assets, respectively. Revenues by geographical region are as follows (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year Ended January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Americas</td>
</tr>
<tr>
<td>$247,009</td>
</tr>
<tr>
<td>$140,871</td>
</tr>
<tr>
<td>$78,958</td>
</tr>
<tr>
<td>Europe</td>
</tr>
<tr>
<td>43,577</td>
</tr>
<tr>
<td>25,201</td>
</tr>
<tr>
<td>11,754</td>
</tr>
<tr>
<td>Asia Pacific</td>
</tr>
<tr>
<td>19,271</td>
</tr>
<tr>
<td>10,303</td>
</tr>
<tr>
<td>5,311</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>$309,857</td>
</tr>
<tr>
<td>$176,375</td>
</tr>
<tr>
<td>$96,023</td>
</tr>
</tbody>
</table>

As of January 31, 2006, the Company serves all of its customers and users from a single, third-party Web hosting facility located on the west coast of the United States, operated by Equinix, Inc. As part of the Company’s current disaster recovery arrangements, the existing production environment and all of the customers’ data is currently replicated in near real-time in a separate back-up Equinix facility located on the east coast. The Company does not control the operation of any of these facilities, and they are vulnerable to damage or interruption. The Company also has an agreement with SunGard Data Systems, a provider of availability services, to provide access to a geographically remote disaster recovery facility that would provide the Company with access to hardware, software and Internet connectivity in the event the Web hosting facilities become unavailable. Even with the disaster recovery arrangements, the Company’s service could be interrupted.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents, which primarily consist of cash on deposit with banks and money market funds, are stated at cost, which approximates fair value.

 Marketable Securities

Management determines the appropriate classification of investments in marketable securities at the time of purchase in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities and reevaluates such determination at each balance sheet date. Securities, which are classified as available for sale at January 31, 2006 and 2005, 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. Realized gains and losses and declines in value judged to be other-than-temporary on securities available for sale are included as a component of interest income. The cost of securities sold is based on the specific-identification method. Interest on securities classified as available for sale is also included as a component of interest income.
Fair Value of Financial Instruments

The carrying amounts of the Company’s financial instruments, which include cash and cash equivalents, short term marketable securities, restricted cash, accounts receivable, accounts payable, and other accrued expenses, approximate their fair values due to their short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of capital lease obligations approximates fair value.

Fixed Assets

Fixed assets 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 5 years
- Furniture and fixtures: 5 to 7 years
- Leasehold improvements: Shorter of the estimated useful life of 5 years or the lease term

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

Impairment of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS 144”). Long-lived assets are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If such review indicates that the carrying amount of long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value.

In addition to the recoverability assessment, the Company routinely reviews the remaining estimated lives of its long-lived assets. Any reduction in the useful life assumption will result in increased depreciation and amortization expense in the period when such determinations are made, as well as in subsequent periods.

Software and Website Development Costs

The Company follows the guidance of Emerging Issues Task Force (“EITF”) Issue No. 00-2, Accounting for Web Site Development Costs (“EITF 00-2”), and EITF Issue No. 00-3, Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity’s Hardware (“EITF 00-3”). EITF 00-2 sets forth the accounting for website development costs based on the website development activity. EITF 00-3 sets forth the accounting for software in a hosting arrangement. As such, the Company follows the guidance set forth in Statement of Position 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use (“SOP 98-1”), in accounting for the development of its on-demand application service. SOP 98-1 requires companies to capitalize qualifying computer software costs, which are incurred during the application development stage and amortize them over the software’s estimated useful life of three years.
The Company capitalized $1,352,000, $465,000 and $453,000 in internal use software during fiscal 2006, 2005, and 2004, respectively. Amortization expense totaled $443,000, $396,000 and $277,000 during fiscal 2006, 2005 and 2004, respectively.

**Comprehensive Income**

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

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

<table>
<thead>
<tr>
<th>January 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>$ (537)</td>
<td>$ (250)</td>
</tr>
<tr>
<td>Net unrealized losses on available-for-sale marketable securities</td>
<td>(1,568)</td>
<td>(749)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ (2,105)</td>
<td>$ (999)</td>
</tr>
</tbody>
</table>

**Accounting for Stock-Based Compensation**


Under APB 25, compensation expense of fixed stock options is based on the difference, if any, on the date of the grant between the fair value of the Company’s stock and the exercise price of the option. Prior to the establishment of a public market for the Company’s common stock in June 2004, the Company’s board of directors determined the fair value based on several factors. Since the Company’s initial public offering in June 2004, the fair value is determined by the trading price of the Company’s common stock on the New York Stock Exchange. Compensation expense is recognized on a straight-line basis over the option-vesting period of four years. The Company accounts for stock issued to nonemployees in accordance with the provisions of SFAS 123 and EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

Pro forma information regarding the results of operations is determined as if the Company had accounted for its employee stock options using the fair-value method. The fair value of each option grant is estimated on the date of grant using the Black-Scholes method with the following assumptions:

<table>
<thead>
<tr>
<th>Fiscal Year Ended January 31,</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Volatility</td>
<td>50 - 75%</td>
<td>75 - 100%</td>
<td>100%</td>
</tr>
<tr>
<td>Weighted-average estimated life</td>
<td>4 years</td>
<td>4 years</td>
<td>4 years</td>
</tr>
<tr>
<td>Weighted-average risk-free interest rate</td>
<td>3.79 - 4.52%</td>
<td>2.86 - 3.70%</td>
<td>2.92%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
During the second quarter of fiscal 2006, the Company reevaluated the assumptions used to estimate the future volatility of its stock price. The Company estimated its future stock price volatility based upon a blending of both observed option-implied volatilities and historical volatility calculations for both the Company and a group of peer comparable companies. Management believes this is the best estimate of the expected volatility over the 4 year weighted-average expected life of its option grants. During the Company’s initial year as a public company, the volatility assumption was primarily based on the historical volatility of comparable companies. As a result of its reevaluation and the general market decline in share price volatilities, the Company reduced its volatility assumption from 75% to 50% and applied this estimate in valuing the options awarded during the remainder of fiscal 2006.

Had compensation cost for the Company’s stock-based compensation plans been determined using the fair-value method at the grant date for awards under those plans calculated using the Black-Scholes pricing model and recognized on a straight-line basis over the option vesting periods, the Company’s net income would have been decreased to the pro forma amounts indicated below (in thousands, except per share data):

<table>
<thead>
<tr>
<th>Fiscal Year Ended January 31,</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income, as reported</td>
<td>$28,474</td>
<td>$7,346</td>
<td>$3,514</td>
</tr>
<tr>
<td>Add: Total stock-based compensation expense included in the determination of net income</td>
<td>2,765</td>
<td>3,298</td>
<td>3,765</td>
</tr>
<tr>
<td>Deduct: Total stock-based compensation expense determined under the fair-value-based method for all awards. Such expense amounts are not net of tax benefits.</td>
<td>(22,649)</td>
<td>(13,901)</td>
<td>(7,884)</td>
</tr>
<tr>
<td>Net income (loss), pro forma</td>
<td>$8,590</td>
<td>$(3,257)</td>
<td>$(605)</td>
</tr>
</tbody>
</table>

Net income (loss), per share:

<table>
<thead>
<tr>
<th>Basic</th>
</tr>
</thead>
<tbody>
<tr>
<td>As reported</td>
</tr>
<tr>
<td>Pro forma</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Diluted:</th>
</tr>
</thead>
<tbody>
<tr>
<td>As reported</td>
</tr>
<tr>
<td>Pro forma</td>
</tr>
</tbody>
</table>

For the pro forma calculation, the per share weighted-average fair value of options granted are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ended January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Options granted below fair value</td>
</tr>
<tr>
<td>Options equal to fair value</td>
</tr>
<tr>
<td>Weighted-average exercise price: Options granted at or below fair value</td>
</tr>
</tbody>
</table>

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the fiscal period. Diluted net income per share is computed giving effect to all potential dilutive common stock, including options, warrants and convertible preferred stock prior to the completion of the Company’s initial public offering in June 2004.
A reconciliation of the denominator used in the calculation of basic and diluted net income per share is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td><strong>Numerator:</strong></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 28,474</td>
</tr>
<tr>
<td><strong>Denominator:</strong></td>
<td></td>
</tr>
<tr>
<td>Weighted-average shares outstanding for basic earnings per share, net of weighted-average shares of common stock subject to repurchase</td>
<td>107,274</td>
</tr>
<tr>
<td>Effect of dilutive securities:</td>
<td></td>
</tr>
<tr>
<td>Employee stock options and warrants</td>
<td>11,463</td>
</tr>
<tr>
<td>Convertible preferred stock which was converted into shares of common stock upon the closing of the Company’s initial public offering</td>
<td>—</td>
</tr>
<tr>
<td>Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per share</td>
<td>118,737</td>
</tr>
</tbody>
</table>

Outstanding unvested common stock purchased by employees is subject to repurchase by the Company and therefore is not included in the calculation of the weighted-average shares outstanding for basic earnings per share.

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

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Options</td>
<td>387</td>
</tr>
</tbody>
</table>

**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 or adjusted when necessary to reduce deferred tax assets to the amounts expected to be realized. The tax expense or benefits for unusual items or tax exposure items are treated as discrete items in the interim period in which the events occur.

**Revenue Recognition**

The Company derives its revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing its on-demand application service, and from customers purchasing additional support beyond the standard support that is included in the basic subscription fee; and (2) related professional services and other revenue. Other revenues consist primarily of training fees. Because the Company
provides its application as a service, the Company follows the provisions of 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 material basis. Training revenues are recognized after the services are performed. For revenue arrangements with multiple deliverables, the Company allocates the total customer arrangement 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 January 31, 2006 and January 31, 2005, the deferred cost on the accompanying consolidated balance sheet totaled $1,686,000 and $874,000, respectively. These deferred costs are included in prepaid and other current assets and other assets.

On occasion, the Company has purchased from its suppliers goods or services for the Company’s use in its operations at or around the same time these same businesses entered into subscription and/or consulting agreements. The Company generally defines “at or around the same time” as within six months. Revenues recognized from customers who were also suppliers were not significant during fiscal 2006, 2005 and 2004. Both the procurement and revenue agreements are separately negotiated, settled ultimately in cash, and recorded at what the Company considers to be fair value. When any of these factors is not present, the Company does not recognize the revenue from the underlying sale agreements; rather, the revenue is netted with expenses.
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, noncancelable subscription agreements.

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

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

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

The Company has entered into service level agreements with a small number of its customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits or terminate their agreements in the event that the Company fails to meet those levels. During fiscal 2006, the Company recorded a provision of approximately $1.1 million for potential credits and paid out no amounts. As of January 31, 2006, the reserve balance was approximately $1.4 million.

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.

Advertising Expenses
Advertising is expensed as incurred. Advertising expense was $12,932,000, $6,908,000 and $5,048,000 for fiscal 2006, 2005 and 2004, respectively.
Recent Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or SFAS 123R, which requires all share-based payments to employees, including grants of employee stock options, to be recognized as expenses in the statement of operations based on their fair values and vesting periods. The Company will adopt the provisions of SFAS 123R on February 1, 2006, which is the start of its next fiscal year.

The Company believes that the adoption of SFAS 123R will materially reduce the Company’s reported results of operations. The full impact is dependent upon, among other things, the timing of when additional employees that the Company plans to hire commence employment, the outcome of the Company’s current assessment of different 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 and the tax benefit that the Company may or may not receive from stock-based expenses. Had the Company adopted SFAS 123R in prior periods, the total stock-based expense for all awards before the tax benefit would have approximated the impact of expensing options as described above in the disclosure of pro forma net income (loss) and net income (loss) per share.

Additionally, SFAS 123R requires the tax benefits from employee stock plans to be classified as a financing activity in the consolidated statement of cash flows. The Company currently classifies these tax benefits as a source of cash provided by operating activities. These benefits totaled $3,662,000, $798,000 and zero during fiscal 2006, 2005 and 2004, respectively.

2. Joint Venture

On December 7, 2000, the Company entered into a joint venture agreement with SunBridge, Inc., a Japanese corporation, to establish Salesforce Japan. As of January 31, 2006 and 2005, the Company owned a 63 percent interest in the joint venture. Provided that the Company owns at least 30 percent of the outstanding voting shares of the joint venture, the Company has the right to appoint three of the six board members of the joint venture, and together with SunBridge, may appoint a fourth director.

The Board of Directors of the joint venture has authorized option plans to purchase shares in Salesforce Japan. The option plans are in accordance with the rules and regulations of the Commercial Code of Japan. One of the option plans includes antidilution provisions such that the option holders are allowed additional options if the joint venture issues additional stock and the exercise price of their options is reduced if the additional stock is issued for an amount less than such exercise price. These provisions result in variable accounting for this plan, as the number of options awarded is not fixed and no measurement date currently exists.

In fiscal 2006, 2005 and 2004, the joint venture granted options to purchase 23,600, 10,000 and 3,000 shares, respectively, to its employees to purchase shares of common stock in the joint venture. The stock options were issued with an exercise price of ¥4,000 per share (approximately $34 per share), ¥4,000 per share (approximately $37 per share) and ¥3,500 per share (approximately $31 per share) and vest over a two-year period. As a result of these stock option grants, the joint venture recorded zero, $88,000 and $13,000 of deferred stock-based compensation during fiscal 2006, 2005 and 2004, respectively. The joint venture reversed $7,000, $23,000 and $274,000 of deferred stock-based compensation expense during fiscal 2006, 2005 and 2004, respectively. The joint venture reversed $30,000, $2,000 and zero of unamortized deferred stock-based compensation related to terminated employees during fiscal 2006, 2005 and 2004, respectively. Additionally, as a result of an employee termination, during fiscal 2006 and 2005 the joint venture reversed compensation expense of $20,000 and $475,000, respectively, which had been previously recognized.
Given the Company’s majority ownership interest in the joint venture, the accounts of the joint venture have been consolidated with the accounts of the Company, and a minority interest has been recorded for the third party’s interest in the net assets and operations of the joint venture to the extent of the minority partners’ individual investments. All intercompany transactions have been eliminated, with the exception of minority interest.

Under the terms of the joint venture agreement, the joint venture will terminate if the joint venture becomes a public company or is sold to a third party, or upon the mutual agreement of the parties. In addition, if the Company commits a breach of, or if the Company fails to perform, its material obligations under the joint venture agreement, which are not cured in a timely manner, SunBridge can require the Company to purchase all of its shares in the joint venture. The purchase price for SunBridge’s shares would be the then fair market value plus a specified premium. In the event that SunBridge commits a breach of, or if it fails to perform, its material obligations under the joint venture agreement, which it does not cure in a timely manner, or if SunBridge enters into bankruptcy proceedings, the Company can require SunBridge to sell to it all of their shares in the joint venture. The purchase price for SunBridge’s shares would be the then fair market value less a specified discount. Additionally, if the Company and SunBridge are unable to agree on certain operational matters, either party can require the other to purchase all of its shares of the joint venture at a price equal to the then fair value market value. Fair market value is to be determined by mutual agreement of the parties, or if the parties are unable to agree, by an independent appraiser.

3. Balance Sheet Accounts

** Marketable Securities**

As of January 31, 2006, marketable securities consisted of the following (in thousands):

<table>
<thead>
<tr>
<th>Amortized Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate notes and obligations</td>
<td>$98,686</td>
<td>$—</td>
<td>$(749)</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>1,915</td>
<td>—</td>
<td>(52)</td>
</tr>
<tr>
<td>US government and agency obligations</td>
<td>97,917</td>
<td>4</td>
<td>(771)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$198,518</strong></td>
<td><strong>4</strong></td>
<td><strong>(1,572)</strong></td>
</tr>
</tbody>
</table>

As of January 31, 2005, marketable securities consisted of the following (in thousands):

<table>
<thead>
<tr>
<th>Amortized Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate notes and obligations</td>
<td>$78,773</td>
<td>$13</td>
<td>$(418)</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>26,085</td>
<td>—</td>
<td>(35)</td>
</tr>
<tr>
<td>US government and agency obligations</td>
<td>66,098</td>
<td>—</td>
<td>(309)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$170,956</strong></td>
<td><strong>13</strong></td>
<td><strong>(762)</strong></td>
</tr>
</tbody>
</table>

Recorded as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>January 31, 2006</th>
<th>January 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term (due in one year or less)</td>
<td>$107,723</td>
<td>$83,087</td>
</tr>
<tr>
<td>Long-term (due between one and three years)</td>
<td>89,227</td>
<td>87,120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$196,950</strong></td>
<td><strong>$170,207</strong></td>
</tr>
</tbody>
</table>
The unrealized losses are attributable to changes in interest rates. As of January 31, 2006, the following investments were in an unrealized loss position (in thousands):

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Less than 12 Months</th>
<th>12 Months or Greater</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value</td>
<td>Unrealized Losses</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Corporate notes and obligations</td>
<td>$ 51,449</td>
<td>$ (252)</td>
<td>$ 46,488</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>—</td>
<td>—</td>
<td>1,863</td>
</tr>
<tr>
<td>US government and agency obligations</td>
<td>56,274</td>
<td>(144)</td>
<td>40,876</td>
</tr>
<tr>
<td></td>
<td>$ 107,723</td>
<td>$ (396)</td>
<td>$ 89,227</td>
</tr>
</tbody>
</table>

The unrealized loss for each of these fixed rate investments ranged from $25 to $90,850. The Company has the ability to hold these investments to maturity and does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of January 31, 2006. The Company expects to receive the full principal and interest on all of these investment securities.

**Prepaid Expenses and Other Current Assets**

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

<table>
<thead>
<tr>
<th>Description</th>
<th>January 31, 2006</th>
<th>January 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred professional services costs</td>
<td>$ 1,200</td>
<td>$ 874</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>5,138</td>
<td>2,593</td>
</tr>
<tr>
<td></td>
<td>$ 6,338</td>
<td>$ 3,467</td>
</tr>
</tbody>
</table>

**Fixed Assets**

Fixed assets consisted of the following (in thousands):

<table>
<thead>
<tr>
<th>Description</th>
<th>January 31, 2006</th>
<th>January 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers, equipment and software</td>
<td>$ 24,029</td>
<td>$ 12,703</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>2,831</td>
<td>1,755</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>12,355</td>
<td>2,708</td>
</tr>
<tr>
<td></td>
<td>39,215</td>
<td>17,166</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>(14,999)</td>
<td>(9,529)</td>
</tr>
<tr>
<td></td>
<td>$ 24,216</td>
<td>$ 7,637</td>
</tr>
</tbody>
</table>

Depreciation and amortization expense totaled $5,584,000, $2,751,000 and $2,314,000 for fiscal 2006, 2005 and 2004, respectively.

Fixed assets at January 31, 2006 and 2005 included a total of $3,616,000 and $3,487,000, respectively, acquired under capital lease agreements. Accumulated amortization relating to equipment and software under capital leases totaled $2,765,000 and $2,142,000, respectively, at January 31, 2006 and 2005. Amortization of assets under capital leases is included in depreciation and amortization expense.
Other Assets

Other assets consisted of the following (in thousands):

<table>
<thead>
<tr>
<th>Description</th>
<th>January 31, 2006</th>
<th>January 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalized internal-use software development costs, net of accumulated amortization of $1,400 and $957, respectively</td>
<td>$1,550</td>
<td>$641</td>
</tr>
<tr>
<td>Deferred professional service costs, noncurrent portion</td>
<td>486</td>
<td>—</td>
</tr>
<tr>
<td>Long-term deposits</td>
<td>1,542</td>
<td>1,138</td>
</tr>
<tr>
<td>Other</td>
<td>206</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td><strong>$3,784</strong></td>
<td><strong>$1,779</strong></td>
</tr>
</tbody>
</table>

Accrued Expenses and Other Current Liabilities

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

<table>
<thead>
<tr>
<th>Description</th>
<th>January 31, 2006</th>
<th>January 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued compensation</td>
<td>$24,465</td>
<td>$16,836</td>
</tr>
<tr>
<td>Accrued other liabilities</td>
<td>10,844</td>
<td>6,560</td>
</tr>
<tr>
<td>Current portion of lease abandonment liability</td>
<td>186</td>
<td>278</td>
</tr>
<tr>
<td>Liability for early exercise of unvested employee stock options</td>
<td>229</td>
<td>591</td>
</tr>
<tr>
<td>Accrued non-income taxes payable</td>
<td>7,463</td>
<td>5,146</td>
</tr>
<tr>
<td>Accrued professional costs</td>
<td>1,911</td>
<td>2,241</td>
</tr>
<tr>
<td>Accrued rent</td>
<td>3,684</td>
<td>815</td>
</tr>
<tr>
<td></td>
<td><strong>$48,782</strong></td>
<td><strong>$32,467</strong></td>
</tr>
</tbody>
</table>

4. Initial Public Offering

In June 2004, the Company completed the sale of 11,500,000 shares of common stock, which included the underwriters’ exercise of an over-allotment option, at a price of $11.00 per share. A total of $126,500,000 in gross proceeds was raised in this initial public offering. After deducting the underwriting discount of $8,855,000 and offering expenses of $3,877,000, net proceeds were $113,768,000. To date, the Company has not spent any of the net proceeds from the public offering.

Upon the closing of the Company’s initial public offering, the 58,024,345 shares of the Company’s outstanding convertible preferred stock converted, on a one-for-one basis, into shares of common stock.

5. Income Taxes

The domestic and foreign components of income (loss) before provisions for income taxes and minority interest were as follows (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year Ended January 31,</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>$31,240</td>
<td>$12,509</td>
<td>$9,550</td>
</tr>
<tr>
<td>Foreign</td>
<td>(3,042)</td>
<td>(3,356)</td>
<td>(5,311)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$28,198</strong></td>
<td><strong>$9,153</strong></td>
<td><strong>$4,239</strong></td>
</tr>
</tbody>
</table>
The provision (benefit) for income taxes were as follows (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year Ended January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Current:</td>
</tr>
<tr>
<td>Federal</td>
</tr>
<tr>
<td>State</td>
</tr>
<tr>
<td>Foreign</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Deferred:</td>
</tr>
<tr>
<td>Federal</td>
</tr>
<tr>
<td>State</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Provision (benefit) for income taxes</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Fiscal Year Ended January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>U.S. federal taxes at statutory rate</td>
</tr>
<tr>
<td>State taxes, net of the federal benefit</td>
</tr>
<tr>
<td>Foreign losses providing no benefit</td>
</tr>
<tr>
<td>Previously unbenefitted tax assets</td>
</tr>
<tr>
<td>Foreign taxes in excess of the U.S. statutory rate</td>
</tr>
<tr>
<td>Tax credits</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
</tr>
<tr>
<td>Other, net</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax assets were as follows (in thousands):

<table>
<thead>
<tr>
<th>January 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Deferred tax assets:</td>
</tr>
<tr>
<td>Net operating loss carryforwards</td>
</tr>
<tr>
<td>Deferred stock compensation</td>
</tr>
<tr>
<td>Tax credits</td>
</tr>
<tr>
<td>Unrealized losses on marketable securities</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
</tr>
<tr>
<td>Less valuation allowance</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
</tr>
<tr>
<td>Deferred tax liabilities—deferred commissions and prepaid expenses</td>
</tr>
<tr>
<td>Net deferred tax assets</td>
</tr>
</tbody>
</table>
Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been partially offset by a valuation allowance, which increased by $13.6 million in fiscal 2006 and increased by $8.5 million in fiscal 2005. The valuation allowance relates primarily to deferred tax assets arising from employee stock option exercises and operating losses from foreign subsidiaries. Approximately $40.0 million of the valuation allowance at January 31, 2006, related to employee stock options, will be recorded to additional paid-in capital when realized.

At January 31, 2006, the Company had net operating loss carryforwards for federal income tax purposes of approximately $90.0 million, which expire in 2020 through 2026, federal research and development tax credits of approximately $2.3 million, which expire in 2020 through 2026, and minimum tax credits of $72,000, which have no expiration date. The Company also has state net operating loss carryforwards of approximately $101.0 million which expire beginning in 2007 and state research and development tax credits of approximately $2.5 million which have no expiration date.

Utilization of the Company’s net operating loss carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization.

6. Preferred Stock

After the consummation of the initial public offering in June 2004 and the filing of the Company’s amended and restated certificate of incorporation, the Company’s board of directors has the authority, without further action by stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series. The Company’s board of directors may designate the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference, sinking fund terms, and number of shares constituting any series or the designation of any series. The issuance of preferred stock could have the effect of restricting dividends on the Company’s common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock, or delaying or preventing a change in control. The ability to issue preferred stock could delay or impede a change in control. At January 31, 2006 and 2005, no shares of preferred stock were outstanding.

7. Stockholders’ Equity

Stock Options Issued to Employees

The Company has in place the 1999 Stock Option Plan (the “1999 Plan”) which provides for the issuance of incentive and nonstatutory options to employees and nonemployees of the Company. As of January 31, 2006, there were 1,085,190 shares of common stock available for grant under the 1999 Plan. The 1999 Plan provides for grants of immediately exercisable options; however, the Company has the right to repurchase any unvested common stock upon the termination of employment at the original exercise price.

In addition to the 1999 Plan, the Company maintains the 2004 Equity Incentive Plan, 2004 Employee Stock Purchase Plan and the 2004 Outside Directors Stock Plan. These plans, other than the 2004 Outside Directors 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, 2006, 5,000,000 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.
Options issued under the Company’s stock option plans are generally for periods not to exceed 10 years and are 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. Grants made pursuant to the 2004 Equity Incentive Plan generally do not provide for the immediate exercise of options.

Stock option activity is as follows:

<table>
<thead>
<tr>
<th>Shares Available for Grant</th>
<th>Balance as of January 31, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares 10,525,879 Options</td>
</tr>
<tr>
<td>Increase in options authorized</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Granted</td>
<td>7,637,500</td>
</tr>
<tr>
<td>Exercised</td>
<td>(1,041,131)</td>
</tr>
<tr>
<td>Canceled</td>
<td>(1,193,853)</td>
</tr>
<tr>
<td>Repurchased</td>
<td>23,967</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shares Available for Grant</th>
<th>Balance as of January 31, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares 15,928,395 Options</td>
</tr>
<tr>
<td>Increase in options authorized:</td>
<td>2,889,379</td>
</tr>
<tr>
<td>2004 Equity Incentive Plan</td>
<td>4,000,000</td>
</tr>
<tr>
<td>2004 Outside Directors Stock Plan</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Granted under all option plans</td>
<td>6,492,767</td>
</tr>
<tr>
<td>Granted to board members for board services</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Exercised</td>
<td>(3,843,880)</td>
</tr>
<tr>
<td>Canceled</td>
<td>(1,211,693)</td>
</tr>
<tr>
<td>Repurchased</td>
<td>191,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shares Available for Grant</th>
<th>Balance as of January 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares 17,365,589 Options</td>
</tr>
<tr>
<td>Increase in options authorized:</td>
<td>2,759,305</td>
</tr>
<tr>
<td>2004 Equity Incentive Plan</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Granted under all option plans</td>
<td>5,269,685</td>
</tr>
<tr>
<td>Granted to a board member for board services</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Exercised</td>
<td>(4,832,095)</td>
</tr>
<tr>
<td>Canceled</td>
<td>(1,797,272)</td>
</tr>
<tr>
<td>Repurchased</td>
<td>25,123</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shares Available for Grant</th>
<th>Balance as of January 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares 16,005,907 Options</td>
</tr>
<tr>
<td></td>
<td>4,292,015</td>
</tr>
</tbody>
</table>

At January 31, 2006, options to purchase 4,984,198 shares were vested at a weighted average exercise price of $4.67 per share.

As of January 31, 2006, 164,977 shares issued pursuant to exercises of options issued under the 1999 Plan remained subject to repurchase.

During fiscal 2006, 2005 and 2004, the Company recorded zero, $1,773,000 and $3,627,000, respectively, of deferred stock-based compensation expense related to stock option grants under the 1999 Plan for the excess of the deemed fair market value over the exercise price at the date of grant related to stock options granted to employees. The Company reversed unamortized deferred stock-based compensation related to cancellation of options for terminated employees in the amount of $582,000, $798,000 and $1,212,000 during fiscal 2006, 2005.
and 2004, respectively. The Company amortized $2,758,000, $3,275,000 and $3,491,000 of the deferred stock-based compensation during fiscal 2006, 2005 and 2004, respectively. The compensation expense is being recognized on a straight-line basis over the option-vesting period of four years.

During fiscal 2004, the Company accelerated the vesting of certain stock options relating to terminated employees. As a result, the Company recorded compensation expense totaling $146,000. The Company did not accelerate the vesting of any stock options during fiscal 2006 and 2005.

The following table summarizes information about stock options outstanding as of January 31, 2006:

<table>
<thead>
<tr>
<th>Range of Exercise Prices</th>
<th>Options Outstanding</th>
<th>Options Vested</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number Outstanding</td>
<td>Weighted-Average Remaining Contractual Life (Years)</td>
</tr>
<tr>
<td>$0.03 to $2.00</td>
<td>2,339,570</td>
<td>6.17</td>
</tr>
<tr>
<td>$2.50</td>
<td>2,915,905</td>
<td>7.39</td>
</tr>
<tr>
<td>$4.00 to $8.00</td>
<td>2,997,281</td>
<td>8.03</td>
</tr>
<tr>
<td>$12.77 to $14.39</td>
<td>2,594,540</td>
<td>8.92</td>
</tr>
<tr>
<td>$15.00 to $22.64</td>
<td>2,735,926</td>
<td>9.20</td>
</tr>
<tr>
<td>$23.05 to $32.60</td>
<td>1,725,250</td>
<td>9.79</td>
</tr>
<tr>
<td>$39.97</td>
<td>697,435</td>
<td>9.98</td>
</tr>
<tr>
<td></td>
<td>16,005,907</td>
<td></td>
</tr>
</tbody>
</table>

Stock Awards to Non-Employees

During fiscal 2004, the Company granted stock awards of 100,000 shares to non-employees with 4 year vesting terms. Compensation expense is re-measured as the shares vest and is recorded over the vesting periods. Together with past stock awards to non-employees, such expenses amounted to $279,000, $167,000 and $162,000 for fiscal 2006, 2005 and 2004, respectively. Such expense was estimated using the Black-Scholes pricing model with the following weighted-average assumptions:

- Risk-free interest rate: 6.00%
- Contractual lives: 18 - 48 months
- Expected dividend yield: 0%
- Expected volatility: 50 - 100%

Warrants for Common Stock

In August 2002, the Board of Directors authorized the issuance of four warrants, each to purchase 125,000 shares of common stock at $1.10 per share to the salesforce.com/foundation (the “Foundation”), which is a nonprofit related party. The Company’s chairman is the chairman of the Foundation. He, one of the Company’s executive officers and one of the Company’s board members hold three of the Foundation’s nine board seats. The warrants are exercisable for one-year terms beginning on the earlier of the initial public offering of the Company or August 1, 2003, August 1, 2004, August 1, 2005, and August 1, 2006, respectively. The warrants were issued as a charitable contribution to the Foundation. The warrants were fully vested on the date of grant without any performance obligations by the Foundation. Through January 31, 2006, the Foundation exercised 250,000 warrants and as of January 31, 2006, the warrants to purchase an aggregate of 250,000 shares of common stock remain outstanding.
Common Stock

The following shares of common stock are available for future issuance at January 31, 2006:

<table>
<thead>
<tr>
<th>Options outstanding</th>
<th>16,005,907</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warrants outstanding</td>
<td>268,000</td>
</tr>
</tbody>
</table>

Stock available for future grant:

<table>
<thead>
<tr>
<th>Plan</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999 Stock Option Plan</td>
<td>1,085,190</td>
</tr>
<tr>
<td>2004 Equity Incentive Plan</td>
<td>2,339,325</td>
</tr>
<tr>
<td>2004 Employee Stock Purchase Plan</td>
<td>1,000,000</td>
</tr>
<tr>
<td>2004 Outside Directors Stock Plan</td>
<td>867,500</td>
</tr>
</tbody>
</table>

21,565,922

In January 2004, the Board of Directors authorized the issuance of 10,000 shares of common stock to a board member and 22,500 shares to a former board member for past board services. The expense associated with these share issuances was $260,000 and was recognized immediately in fiscal 2004.

During fiscal 2005, the Board of Directors authorized the issuance of 40,000 shares of common stock to two board members for board services. Of the 40,000 shares, 12,500 shares were distributed pursuant to the terms described in the 2004 Outside Directors Stock Plan. The expense associated with these share issuances was $646,000 and was expensed immediately at the time of the issuances.

During fiscal 2006, a board member received stock grants for a total of 20,000 shares of common stock for board services pursuant to the terms described in the 2004 Outside Directors Stock Plan. The expense associated with these share issuances was $389,000 and was expensed immediately at the time of the issuances.

8. Commitments and Contingencies

Letters of Credit

As of January 31, 2006, the Company had a total of $3,351,000 in letters of credit outstanding in favor of its landlords for office space in San Francisco, California, Switzerland and Singapore. None of these letters of credit are collateralized.

These letters of credit renew annually and mature at various dates through December 2010.

Leases

The Company leases facilities and equipment under noncancelable operating and capital leases with various expiration dates through June 2013.
Future minimum lease payments under noncancelable operating and capital leases are as follows (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year Ended January 31:</th>
<th>Capital Leases</th>
<th>Operating Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 638</td>
<td>$ 41,280</td>
</tr>
<tr>
<td>2008</td>
<td>180</td>
<td>31,442</td>
</tr>
<tr>
<td>2009</td>
<td>7</td>
<td>20,544</td>
</tr>
<tr>
<td>2010</td>
<td>—</td>
<td>9,654</td>
</tr>
<tr>
<td>2011</td>
<td>—</td>
<td>9,631</td>
</tr>
<tr>
<td>Thereafter</td>
<td>—</td>
<td>13,302</td>
</tr>
<tr>
<td><strong>Total minimum lease payments</strong></td>
<td><strong>825</strong></td>
<td><strong>$125,853</strong></td>
</tr>
</tbody>
</table>

Less: amount representing interest

| Present value of capital lease obligations | $799 |

The terms of the lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Of the total operating lease commitment balance of $125.9 million, $76.6 million is related to facilities space. The remaining $49.3 million commitment is related computer equipment and other leases.

Our agreements for the facilities and certain services provide us with the option to renew. Our future contractual obligations would change if we exercised these options.

Rent expense for fiscal 2006, 2005 and 2004 was $11,434,000, $6,490,000 and $4,686,000, respectively.

In December 2001, the Company abandoned 19,500 square feet of excess office space in San Francisco and recorded a lease abandonment charge of $7,657,000. This amount consisted of the future rent obligations under the operating leases of $11,368,000, offset by projected subtenant income of $3,711,000.

Of the total space abandoned, the Company subleased 7,500 square feet through the remaining term of its operating lease at the original sublease assumptions. Additionally, in August 2003, the Company executed a Third Amendment to Office Lease with its landlord. This agreement modified the original lease such that the total leased space under the amended agreement excluded 7,200 square feet of the space that was abandoned. As a result of this amendment, the Company recorded a reduction in its lease liability of $4,342,000 during the third quarter of fiscal 2004.

At January 31, 2004, approximately 5,000 square feet of the 19,500 square feet of office space abandoned in December 2001 remained available for sublease. The operating lease for this remaining space expires in April 2011. Due to the difficulty in securing subtenants to occupy the remaining 5,000 square feet of available office space, the Company lowered its subtenant income assumptions and recorded an additional $897,000 lease abandonment charge in its fourth quarter of fiscal 2004 operating results.

During fiscal 2005, the Company subleased 700 square feet of available space. At January 31, 2005, the remaining liability associated with approximately 4,000 remaining square feet of office space abandoned in December 2001 was $1,531,000 and consisted of the future rental obligation offset by an estimate of projected subtenant income of $919,000.

In March 2005, the Company entered into an agreement with its primary landlord that released it from a portion of the future obligations associated with the remaining 4,000 square feet of San Francisco office space.
that was abandoned in December 2001 in exchange for an agreement to lease additional space elsewhere in the building at fair value. Accordingly, the Company recorded a $285,000 credit to reflect the reversal of a portion of the accrual that was directly related with this previously abandoned space.

The following table sets forth the lease abandonment activity:

<table>
<thead>
<tr>
<th>Liability balance at January 31, 2003</th>
<th>$ 6,335,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additions</td>
<td>897,000</td>
</tr>
<tr>
<td>Charges utilized, net of subtenant income of $219,000</td>
<td>(919,000)</td>
</tr>
<tr>
<td>Reversals</td>
<td>(4,342,000)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability balance at January 31, 2004</td>
<td>$1,971,000</td>
</tr>
<tr>
<td>Charges utilized, net of subtenant income of $124,000</td>
<td>(440,000)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability balance at January 31, 2005</td>
<td>$1,531,000</td>
</tr>
<tr>
<td>Charges utilized, net of subtenant income of $96,000</td>
<td>(298,000)</td>
</tr>
<tr>
<td>Reversals</td>
<td>(285,000)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability balance at January 31, 2006</td>
<td>$ 948,000</td>
</tr>
</tbody>
</table>

Legal Proceedings

On July 26, 2004, a purported class action complaint was filed in the United States District Court for the Northern District of California, entitled *Morrison v. salesforce.com, inc. et al.*, against the Company, its Chief Executive Officer and its Chief Financial Officer. The complaint alleged violations of Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended (the “1934 Act”), purportedly on behalf of all persons who purchased salesforce.com common stock between June 21, 2004 and July 21, 2004, inclusive. The claims were based upon allegations that defendants failed to disclose an allegedly declining trend in its revenues and earnings. Subsequently, four other substantially similar class action complaints were filed in the same district based upon the same facts and allegations, asserting claims under Section 10(b) and Section 20(a) of the 1934 Act and Section 11 and Section 15 of the Securities Act of 1933, as amended. The actions were consolidated under the caption *In re salesforce.com, inc. Securities Litigation*, Case No. C-04-3009 JSW (N.D. Cal.). On December 22, 2004, the Court appointed Chuo Zhu as lead plaintiff. On February 22, 2005, lead plaintiff filed a Consolidated and Amended Class Action Complaint (the “CAC”). The CAC alleged violations of Section 10(b) and Section 20(a) of the 1934 Act, purportedly on behalf of all persons who purchased salesforce.com common stock between June 23, 2004 and July 21, 2004, inclusive. As in the original complaints, the claims in the CAC were based upon allegations that defendants failed to disclose an allegedly declining trend in its revenues and earnings. On April 14, 2005, defendants filed a motion to dismiss the CAC. On April 15, 2005, the Court granted lead plaintiff leave to file an amended/superseding complaint. On April 22, 2005, lead plaintiff filed a Corrected and Superceding [sic] First Amended Class Action Complaint (“FAC”). As in the CAC, the FAC alleged violations of Section 10(b) and Section 20(a) of the 1934 Act, purportedly on behalf of all persons who purchased salesforce.com common stock between June 23, 2004 and July 21, 2004, inclusive. The claims in the FAC were based upon allegations that defendants failed to disclose an internal forecast that earnings for fiscal year 2005 would decline from the prior fiscal year. On April 29, 2005, defendants filed a motion to dismiss the FAC. On December 22, 2005, the court entered an order granting defendants’ motion to dismiss, with prejudice, and directing the clerk to close the file. On January 23, 2006, lead plaintiff filed a motion for leave to file a motion for reconsideration, as well as a notice of appeal to the United States Court of Appeals for the Ninth Circuit. On January 27, 2006, defendants filed a motion to strike as untimely lead plaintiff’s motion for leave to file a motion for reconsideration. On January 26, 2006, the Ninth Circuit entered a time schedule order for the appeal, requiring, *inter alia*, lead plaintiff to file his opening brief on May 11, 2006, and defendants to file their responsive brief on June 12, 2006. On or about February 2, 2006, lead plaintiff filed a motion with the Ninth
On August 6, 2004, a shareholder derivative action was filed in the Superior Court of the State of California, San Francisco County, entitled *Borrelli v. Benioff, et al.*, against the Company’s Chief Executive Officer, its Chief Financial Officer and members of its Board of Directors alleging breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment under state common law. Subsequently, a substantially similar complaint was filed in the same court based on the same facts and allegations, entitled *Johnson v. Benioff, et al.* The two actions were consolidated under the caption *Borrelli v. Benioff*, Case No. CGC-04-433615 (Cal. Super. Ct., S.F. Cty.). On October 5, 2004, plaintiffs filed a consolidated complaint, which is based upon the same facts and circumstances as alleged in the shareholder class action discussed above, and asserts that the defendants breached their fiduciary duties by making or failing to prevent salesforce.com, inc. and its management from making statements or omissions that potentially subject the Company to liability and injury to its reputation. The action seeks damages on behalf of salesforce.com in an unspecified amount, among other forms of legal and equitable relief. salesforce.com is named solely as a nominal defendant against which no recovery is sought. The plaintiff shareholders made no demand upon the Board of Directors prior to filing these actions. The deadline for defendants to respond to the consolidated complaint has been extended repeatedly by agreement of the parties, and is now set for June 15, 2006. During this time, no discovery or other proceedings have occurred in this case. The derivative action is still in the preliminary stages, and it is not possible for the Company to quantify the extent of potential liability to the individual defendants, if any. Management does not believe that the lawsuits have any merit and intends to defend the actions vigorously.

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

### 9. Employee Benefit Plan

The Company has a 401(k) plan covering all eligible employees. Since January 1, 2006, the Company has been contributing to the plan. The total contributions during the last month of fiscal 2006 were $318,000.

### 10. Related-Party Transactions

In January 1999, the salesforce.com/foundation, commonly referred to as the Foundation, a non-profit public charity, was chartered to build philanthropic programs that are particularly focused on youth and technology. The Company’s chairman is the chairman of the Foundation. He, one of the Company’s executive officers and one of the Company’s board members hold three of the Foundation’s nine 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 $30,000 per quarter.
salesforce.com, inc.

Notes to Consolidated Financial Statements—(Continued)

In addition to the resource sharing with the Foundation, the Company issued the Foundation warrants in August 2002 to purchase 500,000 shares of common stock. Through January 31, 2006, the Foundation has exercised 250,000 of these warrants. 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 currently approximately $800,000 per month. The Company plans to continue providing free subscriptions to qualified non-profit organizations.

11. Selected Quarterly Financial Data (Unaudited)

Selected summarized quarterly financial information and customer and subscriber metrics for fiscal 2006 and 2005 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>4th Quarter</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscal 2006</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>$ 64,177</td>
<td>$ 71,943</td>
<td>$ 82,673</td>
<td>$ 91,064</td>
<td>$ 309,857</td>
</tr>
<tr>
<td>Gross profit</td>
<td>52,212</td>
<td>55,706</td>
<td>63,089</td>
<td>69,724</td>
<td>240,731</td>
</tr>
<tr>
<td>Lease recovery</td>
<td>285</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>285</td>
</tr>
<tr>
<td>Income from operations</td>
<td>4,270</td>
<td>4,193</td>
<td>6,387</td>
<td>5,252</td>
<td>20,102</td>
</tr>
<tr>
<td>Net income (1)</td>
<td>4,380</td>
<td>5,040</td>
<td>13,097</td>
<td>5,957</td>
<td>28,474</td>
</tr>
<tr>
<td>Basic net income per share (1)</td>
<td>0.04</td>
<td>0.05</td>
<td>0.12</td>
<td>0.05</td>
<td>0.27</td>
</tr>
<tr>
<td>Diluted net income per share (1)</td>
<td>0.04</td>
<td>0.04</td>
<td>0.11</td>
<td>0.05</td>
<td>0.24</td>
</tr>
<tr>
<td><strong>As of each quarter-end date:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approximate number of customers</td>
<td>15,500</td>
<td>16,900</td>
<td>18,700</td>
<td>20,500</td>
<td></td>
</tr>
<tr>
<td>Approximate number of paying subscribers (2)</td>
<td>267,000</td>
<td>308,000</td>
<td>351,000</td>
<td>399,000</td>
<td></td>
</tr>
<tr>
<td><strong>Fiscal 2005</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>$ 34,839</td>
<td>$ 40,581</td>
<td>$ 46,361</td>
<td>$ 54,594</td>
<td>$ 176,375</td>
</tr>
<tr>
<td>Gross profit</td>
<td>28,476</td>
<td>32,399</td>
<td>37,456</td>
<td>44,590</td>
<td>142,921</td>
</tr>
<tr>
<td>Income from operations</td>
<td>361</td>
<td>1,165</td>
<td>1,773</td>
<td>3,221</td>
<td>6,520</td>
</tr>
<tr>
<td>Net income</td>
<td>437</td>
<td>1,170</td>
<td>2,153</td>
<td>3,586</td>
<td>7,346</td>
</tr>
<tr>
<td>Basic net income per share</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
<td>0.10</td>
</tr>
<tr>
<td>Diluted net income per share</td>
<td>—</td>
<td>0.01</td>
<td>0.02</td>
<td>0.03</td>
<td>0.07</td>
</tr>
<tr>
<td><strong>As of each quarter-end date:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approximate number of customers</td>
<td>9,800</td>
<td>11,100</td>
<td>12,500</td>
<td>13,900</td>
<td></td>
</tr>
<tr>
<td>Approximate number of paying subscribers (2)</td>
<td>147,000</td>
<td>168,000</td>
<td>195,000</td>
<td>227,000</td>
<td></td>
</tr>
</tbody>
</table>

(1) Net income during the third quarter of fiscal 2006 includes $6,769,000 of income associated with the reversal of the Company’s deferred tax valuation allowance. This represents $0.06 of basic and diluted net income per share for the third quarter of fiscal 2006.

(2) Paying subscriptions are defined as unique user accounts, purchased by customers for use by their employees and other customer-authorized users that have not been suspended for non-payment and for which the Company is recognizing subscription revenue.
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Annual Report on Form 10-K (the “Evaluation Date”). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in periodic SEC reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2006 based on the guidelines established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of January 31, 2006. We reviewed the results of management’s assessment with our Audit Committee.

Management’s assessment of the effectiveness of our internal control over financial reporting as of January 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included in this Annual Report on Form 10-K.

(c) Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(d) Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all
control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION

Not applicable.
PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning our directors, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, and our code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer required by this Item are incorporated herein by reference to information contained in the sections of the Proxy Statement entitled “Election of Directors” and “Section 16(a)—Beneficial Ownership Reporting Compliance.”

The information concerning our executive officers required by this Item is incorporated by reference herein to the section of this Report in Part I, entitled “Executive Officers of the Registrant.”

We have adopted a Code of Conduct that applies to all employees, including our principal executive officer, Marc Benioff, principal financial and accounting officer, Steve Cakebread, and all other executive officers. The Code of Conduct is available on our Web site at http://www.salesforce.com/company/corporate-governance.jsp. A copy may also be obtained without charge by contacting Investor Relations, salesforce.com, inc., The Landmark @ One Market, Suite 300, San Francisco, California 94105 or by calling (415) 901-7000.

We plan to post on our Web site at the address described above any future amendments or waivers of our Code of Conduct.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to information contained in the sections of the Proxy Statement entitled “Election of Directors—Compensation of Directors” and “Executive Compensation and Other Matters.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to information contained in the sections of the Proxy Statement entitled “Security Ownership of Certain Beneficial Owners and Management and related Stockholder Matters” and “Equity Compensation Plan Information.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to information contained in the section of the Proxy Statement entitled “Employment Contracts and Certain Transactions.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to information contained in the section of the Proxy Statement entitled “Ratification of Appointment of Independent Auditors—Fee Disclosure.”
PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Report:

1. Financial Statements: The information concerning our financial statements, and Report of Independent Registered Public Accounting Firm required by this Item is incorporated by reference herein to the section of this Report in Item 8, entitled “Consolidated Financial Statements and Supplementary Data.”

2. Financial Statement Schedules: Schedule II Valuation and Qualifying Accounts is filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

The Financial Statement Schedules not listed have been omitted because they are not applicable or are not required or the information required to be set forth herein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits: See “Index to Exhibits.”

(b) Exhibits. The exhibits listed below in the accompanying “Index to Exhibits” are filed or incorporated by reference as part of this Annual Report on Form 10-K.

(c) Financial Statement Schedules.

salesforce.com, inc.

Schedule II Valuation and Qualifying Accounts

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance at Beginning of Year</th>
<th>Additions</th>
<th>Deductions</th>
<th>Balance at End of Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal year ended January 31, 2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>$611,000</td>
<td>$1,498,000</td>
<td>$813,000</td>
<td>$1,296,000</td>
</tr>
<tr>
<td>Fiscal year ended January 31, 2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>$349,000</td>
<td>$1,110,000</td>
<td>$848,000</td>
<td>$611,000</td>
</tr>
<tr>
<td>Fiscal year ended January 31, 2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>$180,000</td>
<td>$735,000</td>
<td>$566,000</td>
<td>$349,000</td>
</tr>
</tbody>
</table>
SIGNATURES

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

Dated: March 15, 2006

salesforce.com, inc.

/s/ MARC BENIOFF

Marc Benioff
Chairman of the Board of Directors
And Chief Executive Officer

POWER OF ATTORNEY AND SIGNATURES

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Marc Benioff, Steve Cakebread and David Schellhase, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this annual report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<table>
<thead>
<tr>
<th>Signature</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>/s/ MARC BENIOFF</td>
<td>Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)</td>
<td>March 15, 2006</td>
</tr>
<tr>
<td></td>
<td>Steve Cakebread</td>
<td></td>
</tr>
<tr>
<td>/s/ STEVE CAKEBREAD</td>
<td>Chief Financial Officer (Principal Financial &amp; Accounting Officer)</td>
<td>March 15, 2006</td>
</tr>
<tr>
<td></td>
<td>Craig Conway</td>
<td></td>
</tr>
<tr>
<td>/s/ CRAIG CONWAY</td>
<td>Director</td>
<td>March 15, 2006</td>
</tr>
<tr>
<td></td>
<td>Alan Hassenfeld</td>
<td></td>
</tr>
<tr>
<td>/s/ ALAN H ASSENFELD</td>
<td>Director</td>
<td>March 15, 2006</td>
</tr>
<tr>
<td></td>
<td>Craig Ramsey</td>
<td></td>
</tr>
<tr>
<td>/s/ CRAIG R AMSEY</td>
<td>Director</td>
<td>March 15, 2006</td>
</tr>
<tr>
<td></td>
<td>Sanford R. Robertson</td>
<td></td>
</tr>
<tr>
<td>/s/ SANFORD R. R OBERTSON</td>
<td>Director</td>
<td>March 15, 2006</td>
</tr>
<tr>
<td></td>
<td>Stratton Sclavos</td>
<td></td>
</tr>
<tr>
<td>/s/ STRATTON S CLAVOS</td>
<td>Director</td>
<td>March 15, 2006</td>
</tr>
<tr>
<td></td>
<td>Larry Tomlinson</td>
<td></td>
</tr>
<tr>
<td>/s/ LARRY T OMLINSON</td>
<td>Director</td>
<td>March 15, 2006</td>
</tr>
<tr>
<td></td>
<td>Shirley Young</td>
<td></td>
</tr>
<tr>
<td>/s/ SHIRLEY Y OUNG</td>
<td>Director</td>
<td>March 15, 2006</td>
</tr>
</tbody>
</table>
Table of Contents

Index to Exhibits

Exhibit 3.1 (1)  Restated Certificate of Incorporation of salesforce.com, inc.
Exhibit 3.2 (1)  Amended and Restated Bylaws of salesforce.com, inc.
Exhibit 4.1 (1)  Specimen Common Stock Certificate
Exhibit 10.1* (1)  Form of Indemnification Agreement between salesforce.com, inc and its officers and directors.
Exhibit 10.2*  1999 Stock Option Plan, as amended
Exhibit 10.3*  2004 Equity Incentive Plan, as amended
Exhibit 10.4* (1)  2004 Employee Stock Purchase Plan
Exhibit 10.5*  2004 Outside Directors Stock Plan, as amended
Exhibit 10.6 (3)  Office Lease dated as of June 23, 2000 between salesforce.com, inc. and TMG/One Market, L.P., and amendments thereto
Exhibit 10.7 (6)  Sublease Agreement dated as of August 5, 2003 between salesforce.com, inc. and Vignette Corporation
Exhibit 10.8**  Master Service Agreement dated May 17, 2005 between salesforce.com, inc. and Equinix, Inc.
Exhibit 10.9 (2)  Warrant to purchase shares of Series C Preferred Stock
Exhibit 10.10 (2)  Warrant to purchase shares of Series D Preferred Stock
Exhibit 10.11 (2)  Resource Sharing Agreement dated as of March 3, 2003 between salesforce.com, inc. and salesforce.com/foundation
Exhibit 10.12 (2)  Joint Venture Agreement dated as of December 7, 2000 among salesforce.com, inc., SunBridge, Inc. and Kabushiki Kaisha salesforce.com
Exhibit 10.13 (2)  License Agreement dated as of January 19, 2001 by and between salesforce.com, inc. and Kabushiki Kaisha salesforce.com
Exhibit 10.15*  Form of Offer Letter and schedule of omitted details thereto
Exhibit 10.16* (4)  Offer Letter between salesforce.com, inc. and John Freeland executed as of September 21, 2005
Exhibit 10.17 (5)  Office Lease dated as of November 9, 2004 between salesforce.com, inc. and CA-One Market Limited Partnership, and amendments thereto
Exhibit 10.18* (7)  Severance and Confidentiality Agreement and General and Special Release by and between salesforce.com and Patricia Sueltz dated May 17, 2005
Exhibit 21.1  List of Subsidiaries
Exhibit 23.1  Consent of Independent Registered Public Accounting Firm
Exhibit 24.1  Power of Attorney. (See page 82)
Exhibit 31.1  Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2  Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1  Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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* Denotes a management contract or compensatory plan or arrangement.
** Confidential treatment has been requested for a portion of this exhibit.

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

(2) Incorporated by reference from the Company’s initial registration statement filing on Form S-1 (No. 333-111289) as filed with the Securities and Exchange Commission on December 18, 2003.

(3) Incorporated by reference from the Company’s Form 10-Q for the quarterly period ended July 31, 2005 as filed with the Securities and Exchange Commission on August 19, 2005.

(4) Incorporated by reference from the Company’s Form 8-K as filed with the Securities and Exchange Commission on September 27, 2005.

(5) Incorporated by reference from the Company’s Form 10-Q for the quarterly period ended October 31, 2004 as filed with the Securities and Exchange Commission on November 22, 2004.

(6) Incorporated by reference from the Company’s Form 10-Q for the quarterly period ended April 30, 2005 as filed with the Securities and Exchange Commission on May 20, 2005.

(7) Incorporated by reference from the Company’s Form 8-K as filed with the Securities and Exchange Commission on May 19, 2005.
EXHIBIT 10.2
SALESFORCE.COM, INC.
1999 STOCK OPTION PLAN
(Amended and Restated February 1, 2006)

1. **Establishment, Purpose and Term of Plan.**

   1.1 **Establishment.** This Stock Option Plan (the “Plan”) is hereby established effective as of April 1, 1999 (the “Effective Date”).

   1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group.

   1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Options granted under the Plan have lapsed. However, all Options shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the stockholders of the Company.

2. **Definitions and Construction.**

   2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

   (a) “Board” means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, “Board” also means such Committee(s).

   (b) “Code” means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

   (c) “Committee” means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

   (d) “Company” means SalesForce.com, Inc., a Delaware corporation, or any successor corporation thereto.
(e) "Consultant" means any person, including an advisor, engaged by a Participating Company to render services other than as an Employee or a Director.

(f) "Director" means a member of the Board or of the board of directors of any other Participating Company.

(g) "Disability" means the inability of the Optionee, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of the Optionee’s position with the Participating Company Group because of the sickness or injury of the Optionee.

(h) "Employee" means any person treated as an employee (including an officer or a Director who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a Director nor payment of a director’s fee shall be sufficient to constitute employment for purposes of the Plan.


(j) "Fair Market Value" means, as of any date, the value of a share of Stock or other property as determined by the Board, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

   (i) If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in The Wall Street Journal or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its discretion.

   (ii) If, on such date, there is no public market for the Stock, the Fair Market Value of a share of Stock shall be as determined by the Board in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(k) "Incentive Stock Option" means an Option intended to be (as set forth in the Option Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.
(l) “Insider” means an officer or a Director of the Company or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(m) “Nonstatutory Stock Option” means an Option not intended to be (as set forth in the Option Agreement) or which does not qualify as an Incentive Stock Option.

(n) “Option” means a right to purchase Stock (subject to adjustment as provided in Section 4.2) pursuant to the terms and conditions of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.

(o) “Option Agreement” means a written agreement between the Company and an Optionee setting forth the terms, conditions and restrictions of the Option granted to the Optionee and any shares acquired upon the exercise thereof.

(p) “Optionee” means a person who has been granted one or more Options.

(q) “Parent Corporation” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(r) “Participating Company” means the Company or any Parent Corporation or Subsidiary Corporation.

(s) “Participating Company Group” means, at any point in time, all corporations collectively which are then Participating Companies.

(t) “Rule 16b-3” means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(u) “Securities Act” means the Securities Act of 1933, as amended.

(v) “Service” means an Optionee’s employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. The Optionee’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionee renders Service to the Participating Company Group or a change in the Participating Company for which the Optionee renders such Service, provided that there is no interruption or termination of the Optionee’s Service. Furthermore, an Optionee’s Service with the Participating Company Group shall not be deemed to have terminated if the Optionee takes any military leave, sick leave, or other bona fide leave of absence approved by the Company; provided, however, that if any such leave exceeds ninety (90) days, on the ninety-first (91st) day of such leave the Optionee’s Service shall be deemed to have terminated unless the Optionee’s right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Optionee’s Option Agreement. The Optionee’s Service shall be deemed to have terminated either upon an actual termination of Service or upon
the corporation for which the Optionee performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Optionee’s Service has terminated and the effective date of such termination.

(w) “Stock” means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(x) “Subsidiary Corporation” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

(y) “Ten Percent Owner Optionee” means an Optionee who, at the time an Option is granted to the Optionee, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company within the meaning of Section 422(b)(6) of the Code.

2.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

3. Administration.

3.1 Administration by the Board. The Plan shall be administered by the Board. All questions of interpretation of the Plan or of any Option shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Option.

3.2 Authority of Officers. Any officer of a Participating Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 Administration with Respect to Insiders. With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 Powers of the Board. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Options shall be granted and the number of shares of Stock to be subject to each Option;
(b) to designate Options as Incentive Stock Options or Nonstatutory Stock Options;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Option (which need not be identical) and any shares acquired upon the exercise thereof, including, without limitation, (i) the exercise price of the Option, (ii) the method of payment for shares purchased upon the exercise of the Option, (iii) the method for satisfaction of any tax withholding obligation arising in connection with the Option or such shares, including by the withholding or delivery of shares of stock, (iv) the timing, terms and conditions of the exercisability of the Option or the vesting of any shares acquired upon the exercise thereof, (v) the time of the expiration of the Option, (vi) the effect of the Optionee’s termination of Service with the Participating Company Group on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to the Option or such shares not inconsistent with the terms of the Plan;

(e) to approve one or more forms of Option Agreement;

(f) to amend, modify, extend, cancel, renew, reprice or otherwise adjust the exercise price of, or grant a new Option in substitution for, any Option or to waive any restrictions or conditions applicable to any Option or any shares acquired upon the exercise thereof;

(g) to accelerate, continue, extend or defer the exercisability of any Option or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following an Optionee’s termination of Service with the Participating Company Group;

(h) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt supplements to, or alternative versions of, the Plan, including, without limitation, as the Board deems necessary or desirable to comply with the laws of, or to accommodate the tax policy or custom of, foreign jurisdictions whose citizens may be granted Options; and

(i) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Option Agreement and to make all other determinations and take such other actions with respect to the Plan or any Option as the Board may deem advisable to the extent consistent with the Plan and applicable law.

4. **SHARES SUBJECT TO PLAN.**

4.1 **Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be Two Million (2,000,000) and shall consist of authorized but unissued or
reacquired shares of Stock or any combination thereof. If an outstanding Option for any reason expires or is terminated or canceled or if shares of Stock are acquired upon the exercise of an Option subject to a Company repurchase option and are repurchased by the Company at the Optionee’s exercise price, the shares of Stock allocable to the unexercised portion of such Option or such repurchased shares of Stock shall again be available for issuance under the Plan.

4.2 Adjustments for Changes in Capital Structure. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Options and in the exercise price per share of any outstanding Options. If a majority of the shares which are of the same class as the shares that are subject to outstanding Options are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event, as defined in Section 8.1) shares of another corporation (the “New Shares”), the Board may unilaterally amend the outstanding Options to provide that such Options are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Options shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the exercise price of any Option be decreased to an amount less than the par value, if any, of the stock subject to the Option. The adjustments determined by the Board pursuant to this Section 4.2 shall be final, binding and conclusive.

5. Eligibility and Option Limitations.

5.1 Persons Eligible for Options. Options may be granted only to Employees, Consultants, and Directors. For purposes of the foregoing sentence, “Employees,” “Consultants” and “Directors” shall include prospective Employees, prospective Consultants and prospective Directors to whom Options are granted in connection with written offers of an employment or other service relationships with the Participating Company Group. Eligible persons may be granted more than one (1) Option.

5.2 Option Grant Restrictions. Any person who is not an Employee on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee shall be deemed granted effective on the date such person commences Service with a Participating Company, with an exercise price determined as of such date in accordance with Section 6.1.

5.3 Fair Market Value Limitation. To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by an Optionee for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portions of such options which exceed such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section 5.3, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair
Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 5.3, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 5.3, the Optionee may designate which portion of such Option the Optionee is exercising. In the absence of such designation, the Optionee shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option.

6. TERMS AND CONDITIONS OF OPTIONS.

Options shall be evidenced by Option Agreements specifying the number of shares of Stock covered thereby, in such form, as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Option Agreement. Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 Exercise Price. The exercise price for each Option shall be established in the discretion of the Board; provided, however, that (a) the exercise price per share for an Incentive Stock Option shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option, (b) the exercise price per share for a Nonstatutory Stock Option shall be not less than eighty-five percent (85%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option, and (c) no Option granted to a Ten Percent Owner Optionee shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 Exercise Period. Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria, and restrictions as shall be determined by the Board and set forth in the Option Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner Optionee shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, and (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service with a Participating Company. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall have a term of five (5) years from the effective date of grant of the Option.
6.3 Payment of Exercise Price.

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Optionee having a Fair Market Value (as determined by the Company without regard to any restrictions on transferability applicable to such stock by reason of federal or state securities laws or agreements with an underwriter for the Company) not less than the exercise price, (iii) by the assignment of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a “Cashless Exercise”), (iv) by the Optionee’s promissory note in a form approved by the Company, (v) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Board may at any time or from time to time, by adoption of or by amendment to the standard forms of Option Agreement described in Section 7, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) **Limitations on Forms of Consideration.**

(i) **Tender of Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. Unless otherwise provided by the Board, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Optionee for more than six (6) months or were not acquired, directly or indirectly, from the Company.

(ii) **Cashless Exercise.** The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.

(iii) **Payment by Promissory Note.** No promissory note shall be permitted if the exercise of an Option using a promissory note would be a violation of any law. Any permitted promissory note shall be on such terms, as the Board shall determine at the time the Option is granted. The Board shall have the authority to permit or require the Optionee to secure any promissory note used to exercise an Option with the shares of Stock acquired upon the exercise of the Option or with other collateral acceptable to the Company. Unless otherwise provided by the Board, if the Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company’s securities, any promissory note shall comply with such applicable regulations, and the Optionee shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.
6.4 **Tax Withholding.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable upon the exercise of an Option, or to accept from the Optionee the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to such Option or the shares acquired upon the exercise thereof. Alternatively or in addition, in its discretion, the Company shall have the right to require the Optionee, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise, to make adequate provision for any such tax withholding obligations of the Participating Company Group arising in connection with the Option or the shares acquired upon the exercise thereof. The Company shall have no obligation to deliver shares of Stock or to release shares of Stock from an escrow established pursuant to the Option Agreement until the Participating Company Group’s tax withholding obligations have been satisfied by the Optionee.

6.5 **Effect of Termination of Service.**

(a) **Option Exercisability.** Subject to earlier termination of the Option as otherwise provided herein, an Option shall be exercisable after an Optionee’s termination of Service as follows:

   (i) **Disability.** If the Optionee’s Service with the Participating Company Group is terminated because of the Disability of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee’s Service terminated, may be exercised by the Optionee (or the Optionee’s guardian or legal representative) at any time prior to the expiration of one hundred eighty (180) days (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee’s Service terminated, but in any event no later than the date of expiration of the Option’s term as set forth in the Option Agreement evidencing such Option (the “Option Expiration Date”).

   (ii) **Death.** If the Optionee’s Service with the Participating Company Group is terminated because of the death of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee’s Service terminated, may be exercised by the Optionee’s legal representative or other person who acquired the right to exercise the Option by reason of the Optionee’s death at any time prior to the expiration of one hundred eighty (180) days (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee’s Service terminated, but in any event no later than the Option Expiration Date. The Optionee’s Service shall be deemed to have terminated on account of death if the Optionee dies within thirty (30) days (or such longer period of time as determined by the Board, in its discretion) after the Optionee’s termination of Service.

   (iii) **Other Termination of Service.** If the Optionee’s Service with the Participating Company Group terminates for any reason, except Disability or death, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the
Optionee’s Service terminated, may be exercised by the Optionee within thirty (30) days (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee’s Service terminated, but in any event no later than the Option Expiration Date.

(b) Extension if Exercise Prevented by Law. Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 6.6(a) is prevented by the provisions of Section 11 below, the Option shall remain exercisable until thirty (30) days (or such longer period of time as determined by the Board, in its discretion) after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) Extension if Optionee Subject to Section 16(b). Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.6(a) of shares acquired upon the exercise of the Option would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee’s termination of Service, or (iii) the Option Expiration Date.

7. STANDARD FORMS OF OPTION AGREEMENT.

7.1 General. An Option shall comply with and be subject to the terms and conditions set forth in the form of Option Agreement adopted by the Board concurrently with its adoption of the Plan and as amended from time to time.

7.2 Authority to Vary Terms. The Board shall have the authority from time to time to vary the terms of any of the standard forms of Option Agreement described in this Section 7 either in connection with the grant or amendment of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Option Agreement are not inconsistent with the terms of the Plan.

8. CHANGE IN CONTROL.

8.1 Definitions.

(a) An “Ownership Change Event” shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A “Change in Control” shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a “Transaction”) wherein the stockholders of the Company immediately before the Transaction do not retain immediately after
the Transaction, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the “Transferee Corporation(s)”), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporations which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Board shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

8.2 Effect of Change in Control on Options. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the “Acquiring Corporation”), may either assume the Company’s rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiring Corporation’s stock. For purposes of this Section 8.2, an Option shall be deemed assumed if, following the Change in Control, the Option confers the right to purchase in accordance with its terms and conditions, for each share of Stock subject to the Option immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) to which a holder of a share of Stock on the effective date of the Change in Control was entitled. In the event the Acquiring Corporation elects not to assume or substitute for outstanding Options in connection with a Change in Control, any unexercisable or unvested portions of outstanding Options held by Optionees whose Service has not terminated prior to such date shall become immediately exercisable and vested in full (and any unvested share repurchase option shall lapse) as of the date ten (10) days prior to the date of the Change in Control. The accelerated exercise or vesting of any Option that was permissible solely by reason of this Section 8.2 shall be conditioned upon the consummation of the Change in Control. Any Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, shares acquired upon exercise of an Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of the Option Agreement evidencing such Option except as otherwise provided in such Option Agreement. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 8.1(a)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Board otherwise provides in its discretion.
9. PROVISION OF INFORMATION.

At least annually, copies of the Company’s balance sheet and income statement for the just completed fiscal year shall be made available to each Optionee and purchaser of shares of Stock upon the exercise of an Option. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assure them access to equivalent information.

10. NONTRANSFERABILITY OF OPTIONS.

During the lifetime of the Optionee, an Option shall be exercisable only by the Optionee or the Optionee’s guardian or legal representative. No Option shall be assignable or transferable by the Optionee, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Option Agreement (or amendment thereto) evidencing such Option, a Nonstatutory Stock Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act.

11. COMPLIANCE WITH SECURITIES LAW.

The grant of Options and the issuance of shares of Stock upon exercise of Options shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. Options may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Option may be exercised unless (a) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of any Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

12. INDEMNIFICATION.

In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all
reasonable expenses, including attorneys’ fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

13. **Termination or Amendment of Plan.**

The Board may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company’s stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company’s stockholders under any applicable law, regulation or rule. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Option or any unexercised portion thereof, without the consent of the Optionee, unless such termination or amendment is required to enable an Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option or is necessary to comply with any applicable law, regulation or rule.

14. **Shareholder Approval.**

The Plan or any increase in the maximum aggregate number of shares of Stock issuable thereunder as provided in Section 4.1 (the “Authorized Shares”) shall be approved by the stockholders of the Company within twelve (12) months of the date of adoption thereof by the Board. Options granted prior to shareholder approval of the Plan or in excess of the Authorized Shares previously approved by the stockholders shall become exercisable no earlier than the date of shareholder approval of the Plan or such increase in the Authorized Shares, as the case may be.
The Company has granted to the Optionee, pursuant to a Stock Option Grant Agreement (the “Grant Agreement”) and the Company’s 1999 Stock Option Plan (the “Plan”), an Option to purchase certain shares of Stock, upon the terms and conditions set forth in this Agreement (“the Agreement”). The Option shall in all respects be subject to the terms and conditions of the Grant Agreement and the Plan, the provisions of which are incorporated herein by reference.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Agreement or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

2. **TAX CONSEQUENCES.**

2.1 **Tax Status of Option.** As indicated in the Grant Agreement, this Option is intended to be either an Incentive Stock Option (“ISO”) within the meaning of Section 422(b) of the Code or a nonstatutory stock option, which is not intended to qualify as an ISO. The Optionee should consult with the Optionee’s own tax advisor regarding the tax effects of this Option (and any requirements necessary to obtain favorable income tax treatment under Section 422 of the Code, including, but not limited to, holding period requirements).

2.2 **ISO Fair Market Value Limitation.** If this Option is designated an ISO in the Grant Agreement, to the extent that the Option (together with all Incentive Stock Options granted to the Optionee under all stock option plans of the Participating Company Group, including the Plan) becomes exercisable for the first time during any calendar year for shares having a Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portion of such options which exceeds such amount will be treated as Nonstatutory Stock Options. For purposes of this Section 2.2, options designated as Incentive Stock Options are taken into account in the order in which they were granted, and the Fair Market Value of stock is determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 2.2, such different limitation shall be deemed incorporated herein effective as of the date required or permitted by such amendment to the Code. If the Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 2.2, the Optionee may designate which portion of such Option the Optionee is exercising. In the absence of such designation, the Optionee shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued.
upon the exercise of the Option. (NOTE: If the aggregate Exercise Price of the Option (that is, the Exercise Price multiplied by the Number of Option Shares) plus the aggregate exercise price of any other Incentive Stock Options you hold (whether granted pursuant to the Plan or any other stock option plan of the Participating Company Group) is greater than $100,000, you should contact the Chief Financial Officer of the Company to ascertain whether the entire Option qualifies as an Incentive Stock Option.

3. **EXERCISE OF THE OPTION.**

   3.1 **Right to Exercise.** The Option shall be exercisable during its term in accordance with the vesting schedule set out in the Grant Agreement and prior to the termination of the Option (as provided in Section 5) in an amount not to exceed the vested Number of Option Shares less the number of shares previously acquired upon exercise of the Option.

   3.2 **Method of Exercise.** Exercise of the Option shall be by written notice in the form attached to the Company which must state the election to exercise the Option, the number of whole shares of Stock for which the Option is being exercised and such other representations and agreements as to the Optionee’s investment intent with respect to such shares as may be required pursuant to the provisions of this Agreement. The written notice must be signed by the Optionee and must be delivered in person, by certified or registered mail, return receipt requested, by confirmed facsimile transmission, or by such other means as the Company may permit, to the Chief Financial Officer of the Company, or other authorized representative of the Participating Company Group, prior to the termination of the Option as set forth in Section 5, accompanied by (i) full payment of the aggregate Exercise Price for the number of shares of Stock being purchased and (ii) an executed copy, if required herein, of the then current form of escrow agreement referenced below. The Option shall be deemed to be exercised upon receipt by the Company of such written notice, the aggregate Exercise Price, and, if required by the Company, such executed agreement.

   3.3 **Payment of Exercise Price.**

      (a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash, by check, or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of whole shares of Stock owned by the Optionee having a Fair Market Value (as determined by the Company without regard to any restrictions on transferability applicable to such stock by reason of federal or state securities laws or agreements with an underwriter for the Company) not less than the aggregate Exercise Price, (iii) by means of a Cashless Exercise, as defined in Section 3.3(b), or (iv) by any combination of the foregoing.

      (b) **Limitations on Forms of Consideration.**

         (i) **Tender of Stock.** Notwithstanding the foregoing, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender, or attestation to the ownership, of Stock would constitute a
violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. The Option may not be exercised by tender to
the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Optionee for more than six (6) months or
were not acquired, directly or indirectly, from the Company.

(ii) **Cashless Exercise.** A “Cashless Exercise” means the assignment in a form acceptable to the Company of the proceeds of a
sale or loan with respect to some or all of the shares of Stock acquired upon the exercise of the Option pursuant to a program or procedure approved by the
Company (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of
Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to decline to
approve or terminate any such program or procedure.

3.4 **Tax Withholding.** At the time the Option is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Optionee
hereby authorizes withholding from payroll and any other amounts payable to the Optionee, and otherwise agrees to make adequate provision for (including by
means of a Cashless Exercise to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding
obligations of the Participating Company Group, if any, which arise in connection with the Option, including, without limitation, obligations arising upon
(i) the exercise, in whole or in part, of the Option, (ii) the transfer, in whole or in part, of any shares acquired upon exercise of the Option, (iii) the operation of
any law or regulation providing for the imputation of interest, or (iv) the lapsing of any restriction with respect to any shares acquired upon exercise of the
Option. The Optionee is cautioned that the Option is not exercisable unless the tax withholding obligations of the Participating Company Group are satisfied.
Accordingly, the Optionee may not be able to exercise the Option when desired even though the Option is vested, and the Company shall have no obligation to
issue a certificate for such shares.

3.5 **Certificate Registration.** Except in the event the Exercise Price is paid by means of a Cashless Exercise, the certificate for the shares as to
which the Option is exercised shall be registered in the name of the Optionee, or, if applicable, the Optionee’s heirs.

3.6 **Restrictions on Grant of the Option and Issuance of Shares.** The grant of the Option and the issuance of shares of Stock upon exercise of
the Option shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Option may not
be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law
or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, the Option may not be
exercised unless (i) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable
upon exercise of the Option or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance
with the terms of an applicable exemption from the registration requirements of the Securities Act. THE OPTIONEE IS CAUTIONED THAT THE OPTION
MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. ACCORDINGLY, THE
3.7 Fractional Shares. The Company shall not be required to issue fractional shares upon the exercise of the Option.

4. Nontransferability of the Option.

The Option may be exercised during the lifetime of the Optionee only by the Optionee or the Optionee’s guardian or legal representative and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution. Following the death of the Optionee, the Option, to the extent provided in Section 6, may be exercised by the Optionee’s legal representative or by any person empowered to do so under the deceased Optionee’s will or under the then applicable laws of descent and distribution.

5.Termination of the Option.

The Option shall terminate and may no longer be exercised on the first to occur of (a) the Option Expiration Date, (b) the last date for exercising the Option following termination of the Optionee’s Service as described in Section 6, or (c) pursuant to a Change in Control, to the extent provided in the Plan.

6. Effect of Termination of Service.

6.1 Option Exercisability.

(a) Disability. If the Optionee’s Service with the Participating Company Group is terminated because of the Disability of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee’s Service terminated, may be exercised by the Optionee (or the Optionee’s guardian or legal representative) at any time prior to the expiration of one (1) year after the date on which the Optionee’s Service terminated, but in any event no later than the Option Expiration Date. (NOTE: If the Option is exercised more than ninety (90) days after the date on which the Optionee’s Service as an Employee terminated as a result of a Disability other than a permanent and total disability as defined in Section 22(e)(3) of the Code, the Option will be treated as a Nonstatutory Stock Option and not as an Incentive Stock Option to the extent required by Section 422 of the Code.)

(b) Death. If the Optionee’s Service with the Participating Company Group is terminated because of the death of the Optionee, the Option, to the extent unexercised
and exercisable on the date on which the Optionee’s Service terminated, may be exercised by the Optionee’s legal representative or other person who acquired the right to exercise the Option by reason of the Optionee’s death at any time prior to the expiration of one (1) year after the date on which the Optionee’s Service terminated, but in any event no later than the Option Expiration Date. The Optionee’s Service shall be deemed to have terminated on account of death if the Optionee dies within thirty (30) days after the Optionee’s termination of Service.

(c) Other Termination of Service. If the Optionee’s Service with the Participating Company Group terminates for any reason, except Disability or death, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee’s Service terminated, may be exercised by the Optionee within thirty (30) days of such other longer period of time as determined by the Board, in its sole discretion) after the date on which the Optionee’s Service terminated, but in any event no later than the Option Expiration Date.

6.2 Extension if Exercise Prevented by Law. Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth in Section 6.1 is prevented by the provisions of Section 3.6, the Option shall remain exercisable until thirty (30) days after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date. The Company makes no representation as to the tax consequences of any such delayed exercise. The Optionee should consult with the Optionee’s own tax advisor as to the tax consequences of any such delayed exercise.

6.3 Extension if Optionee Subject to Section 16(b). Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.1 of shares acquired upon the exercise of the Option would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee’s termination of Service, or (iii) the Option Expiration Date. The Company makes no representation as to the tax consequences of any such delayed exercise. The Optionee should consult with the Optionee’s own tax advisor as to the tax consequences of any such delayed exercise.

7. Rights as a Stockholder, Employee or Consultant.

The Optionee shall have no rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of a certificate for the shares for which the Option has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 4.2 of the Plan. If the Optionee is an Employee, the Optionee understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Optionee, the Optionee’s employment is “at will” and is for no specified term. Nothing in this Agreement shall confer upon the Optionee any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the
Optionee’s Service as an Employee or Consultant, as the case may be, at any time. The Optionee further acknowledges that the vesting of the shares covered by the Option pursuant to the vesting schedule set out in the Grant Agreement is earned only by continuing in the Service of a Participating Company at the will of the Participating Company (and not through the act of being hired, being granted an option or purchasing shares hereunder).

8. NOTICE OF SALES UPON DISQUALIFYING DISPOSITION.

The Optionee shall dispose of the shares acquired pursuant to the Option only in accordance with the provisions of this Agreement. In addition, the Optionee shall promptly notify the Chief Financial Officer of the Company if the Optionee处置 of any of the shares acquired pursuant to the Option within one (1) year after the date of the Optionee exercises all or part of the Option or within two (2) years after the Date of Grant. Until such time as the Optionee disposes of such shares in a manner consistent with the provisions of this Agreement, unless otherwise expressly authorized by the Company, the Optionee shall hold all shares acquired pursuant to the Option in the Optionee’s name (and not in the name of any nominee) for the one-year period immediately after the exercise of the Option and the two-year period immediately after Date of Grant. At any time during the one-year or two-year periods set forth above, the Company may place a legend on any certificate representing shares acquired pursuant to the Option requesting the transfer agent for the Company’s stock to notify the Company of any such transfers. The obligation of the Optionee to notify the Company of any such transfer shall continue notwithstanding that a legend has been placed on the certificate pursuant to the preceding sentence.

9. LEGENDS.

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock subject to the provisions of this Agreement. The Optionee shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to the Option in the possession of the Optionee in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include, but shall not be limited to, the following:

9.1 “THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”) AND ARE “RESTRICTED SECURITIES” AS DEFINED UNDER RULE 144 PROMULGATED UNDER THE ACT. THE SECURITIES MAY NOT BE SOLD OR OFFERED FOR SALE OR OTHERWISE DISTRIBUTED EXCEPT (I) IN CONJUNCTION WITH AN EFFECTIVE REGISTRATION STATEMENT FOR THE SHARES UNDER SUCH ACT, (II) IN COMPLIANCE WITH RULE 144, OR (III) PURSUANT TO AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION OR COMPLIANCE IS NOT REQUIRED AS TO SUCH SALE, OFFER OR DISTRIBUTION.”
10. **BINDING EFFECT.**

Subject to the restrictions on transfer set forth herein, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

11. **TERMINATION OR AMENDMENT.**

The Board may terminate or amend the Plan or the Option at any time; provided, however, that except in connection with a Change in Control, no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Optionee unless such termination or amendment is necessary to comply with any applicable law or government regulation or is required to enable the Option to qualify as an Incentive Stock Option. No amendment or addition to this Agreement shall be effective unless in writing.

12. **NOTICES.**

Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Option Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, with postage and fees prepaid, addressed to the other party at the address shown on the Notice or at such other address as such party may designate in writing from time to time to the other party.

13. **INTEGRATED AGREEMENT.**

The Grant Agreement, this Agreement and the Plan constitute the entire understanding and agreement of the Optionee and the Participating Company Group with respect to the subject matter contained herein and therein and there are no agreements, understandings, restrictions, representations, or warranties among the Optionee and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of the Grant Agreement and this Agreement shall survive any exercise of the Option and shall remain in full force and effect.

14. **APPLICABLE LAW.**

This Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.
1. **Establishment, Purpose and Term of Plan.**

   1.1 **Establishment.** The salesforce.com, inc. 2004 Equity Incentive Plan (the “Plan”) is hereby established effective as of March 1, 2004, the date of its approval by the stockholders of the Company (the “Effective Date”).

   1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Purchase Rights, Restricted Stock Bonuses, Performance Shares, Performance Units, Restricted Stock Units and Deferred Compensation Awards.

   1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Awards granted under the Plan have lapsed. However, all Awards shall be granted, if at all, within ten (10) years from the Effective Date.

2. **Definitions and Construction.**

   2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

   (a) **“Affiliate”** means (i) an entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) an entity, other than a Subsidiary Corporation, that is controlled by the Company directly, or indirectly through one or more intermediary entities. For this purpose, the term “control” (including the term “controlled by”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the relevant entity, whether through the ownership of voting securities, by contract or otherwise; or shall have such other meaning assigned such term for the purposes of registration on Form S-8 under the Securities Act.

   (b) **“Award”** means any Option, SAR, Restricted Stock Purchase Right, Restricted Stock Bonus, Performance Share, Performance Unit, Restricted Stock Unit or Deferred Compensation Award granted under the Plan.
(c) "Award Agreement" means a written agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Award granted to the Participant. An Award Agreement may be an “Option Agreement,” an “SAR Agreement,” a “Restricted Stock Purchase Agreement,” a “Restricted Stock Bonus Agreement,” a “Performance Share Agreement,” a “Performance Unit Agreement,” a “Restricted Stock Unit Agreement,” or a “Deferred Compensation Award Agreement.”

(d) “Board” means the Board of Directors of the Company.

(e) "Cause" means, unless otherwise defined by the Participant’s Award Agreement or contract of employment or service, any of the following: (i) the Participant’s theft, dishonesty, or falsification of any Participating Company documents or records; (ii) the Participant’s improper use or disclosure of a Participating Company’s confidential or proprietary information; (iii) any action by the Participant which has a detrimental effect on a Participating Company’s reputation or business; (iv) the Participant’s failure or inability to perform any reasonable assigned duties after written notice from a Participating Company of, and a reasonable opportunity to cure, such failure or inability; (v) any material breach by the Participant of any employment or service agreement between the Participant and a Participating Company, which breach is not cured pursuant to the terms of such agreement; or (vi) the Participant’s conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the Participant’s ability to perform his or her duties with a Participating Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(g) "Committee" means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. If no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

(h) "Company" means salesforce.com, inc., a Delaware corporation, or any successor corporation thereto.

(i) "Consultant" means a person engaged to provide consulting or advisory services (other than as an Employee or a member of the Board) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on a Form S-8 Registration Statement under the Securities Act.

(j) "Deferred Compensation Award" means an award of Restricted Stock Units granted to a Participant pursuant to Section 11 of the Plan.

(k) "Director" means a member of the Board.
(l) “Disability” means the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code.

(m) “Dividend Equivalent” means a credit, made at the discretion of the Committee or as otherwise provided by the Plan, to the account of a Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

(n) “Employee” means any person treated as an employee (including an Officer or a member of the Board who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a member of the Board nor payment of a director’s fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual’s employment or termination of employment, as the case may be. For purposes of an individual’s rights, if any, under the Plan as of the time of the Company’s determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.


(p) “Fair Market Value” means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in The Wall Street Journal or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Committee, in its discretion.

(ii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.
(q) "**Incentive Stock Option**" means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(e) "**Insider**" means an Officer, a member of the Board or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(s) "**Nonstatutory Stock Option**" means an Option not intended to be (as set forth in the Award Agreement) an incentive stock option within the meaning of Section 422(b) of the Code.

(t) "**Officer**" means any person designated by the Board as an officer of the Company.

(u) "**Option**" means the right to purchase Stock at a stated price for a specified period of time granted to a Participant pursuant to Section 6 of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.

(v) "**Parent Corporation**" means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(w) "**Participant**" means any eligible person who has been granted one or more Awards.

(x) "**Participating Company**" means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.

(y) "**Participating Company Group**" means, at any point in time, all entities collectively which are then Participating Companies.

(2) "**Performance Award**" means an Award of Performance Shares or Performance Units.

(aa) "**Performance Award Formula**" means, for any Performance Award, a formula or table established by the Committee pursuant to Section 9.3 of the Plan which provides the basis for computing the value of a Performance Award at one or more threshold levels of attainment of the applicable Performance Goal(s) measured as of the end of the applicable Performance Period.

(bb) "**Performance Goal**" means a performance goal established by the Committee pursuant to Section 9.3 of the Plan.

(cc) "**Performance Period**" means a period established by the Committee pursuant to Section 9.3 of the Plan at the end of which one or more Performance Goals are to be measured.
Performance Share means a bookkeeping entry representing a right granted to a Participant pursuant to Section 9 of the Plan to receive a payment equal to the value of a Performance Share, as determined by the Committee, based on performance.

Performance Unit means a bookkeeping entry representing a right granted to a Participant pursuant to Section 9 of the Plan to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon performance.

Restricted Stock Award means an Award of a Restricted Stock Bonus or a Restricted Stock Purchase Right.

Restricted Stock Bonus means Stock granted to a Participant pursuant to Section 8 of the Plan.

Restricted Stock Purchase Right means a right to purchase Stock granted to a Participant pursuant to Section 8 of the Plan.

Restricted Stock Unit or Stock Unit means a bookkeeping entry representing a right granted to a Participant pursuant to Section 10 or Section 11 of the Plan, respectively, to receive a share of Stock on a date determined in accordance with the provisions of Section 10 or Section 11, as applicable, and the Participant’s Award Agreement.

Restriction Period means the period established in accordance with Section 8.5 of the Plan during which shares subject to a Restricted Stock Award are subject to Vesting Conditions.

Rule 16b-3 means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

SAR or Stock Appreciation Right means a bookkeeping entry representing, for each share of Stock subject to such SAR, a right granted to a Participant pursuant to Section 7 of the Plan to receive payment of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price.

Section 162(m) means Section 162(m) of the Code.

Securities Act means the Securities Act of 1933, as amended.

Service means a Participant’s employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. A Participant’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders such Service or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant’s Service. Furthermore, a Participant’s Service shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, if any such leave taken by a Participant exceeds ninety (90) days, then on the one hundred eighty-first (181st) day
following the commencement of such leave any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and instead shall be treated thereafter as a Nonstatutory Stock Option, unless the Participant’s right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Participant’s Award Agreement. A Participant’s Service shall be deemed to have terminated either upon an actual termination of Service or upon the entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant’s Service has terminated and the effective date of such termination.

(pp) “Stock” means the common stock of the Company, as adjusted from time to time in accordance with Section 4.3 of the Plan.

(qq) “Subsidiary Corporation” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

(rr) “Ten Percent Owner” means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

(ss) “Vesting Conditions” mean those conditions established in accordance with Section 8.5 or Section 10.3 of the Plan prior to the satisfaction of which shares subject to a Restricted Stock Award or Restricted Stock Unit Award, respectively, remain subject to forfeiture or a repurchase option in favor of the Company upon the Participant’s termination of Service.

2.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

3. ADMINISTRATION.

3.1 Administration by the Committee. The Plan shall be administered by the Committee. All questions of interpretation of the Plan or of any Award shall be determined by the Committee, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Award.

3.2 Authority of Officers. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election. The Board may, in its discretion, delegate to a committee comprised of one or more Officers the authority to grant one or more Awards, without further approval of the Board or the Committee,
to any Employee, other than a person who, at the time of such grant, is an Insider; provided, however, that (a) such Awards shall not be granted for shares in excess of the maximum aggregate number of shares of Stock authorized for issuance pursuant to Section 4.1, (b) the exercise price per share of each such Award which is an Option or Stock Appreciation Right shall be not less than the Fair Market Value per share of the Stock on the effective date of grant (or, if the Stock has not traded on such date, on the last day preceding the effective date of grant on which the Stock was traded), and (c) each such Award shall be subject to the terms and conditions of the appropriate standard form of Award Agreement approved by the Board or the Committee and shall conform to the provisions of the Plan and such other guidelines as shall be established from time to time by the Board or the Committee.

3.3 Administration with Respect to Insiders. With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 Committee Complying with Section 162(m). If the Company is a “publicly held corporation” within the meaning of Section 162(m), the Board may establish a Committee of “outside directors” within the meaning of Section 162(m) to approve the grant of any Award which might reasonably be anticipated to result in the payment of employee remuneration that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).

3.5 Powers of the Committee. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock or units to be subject to each Award;

(b) to determine the type of Award granted and to designate Options as Incentive Stock Options or Nonstatutory Stock Options;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares purchased pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of the expiration of any Award, (vii) the effect of the Participant’s termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;
(e) to determine whether an Award of SARs, Performance Shares or Performance Units will be settled in shares of Stock, cash, or in any combination thereof;

(f) to approve one or more forms of Award Agreement;

(g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(h) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant’s termination of Service;

(i) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards; and

(j) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.6 Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys’ fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. Shares Subject to Plan.

4.1 Maximum Number of Shares Issuable. Subject to adjustment as provided in Section 4.2 and Section 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be four million (4,000,000) and shall consist of authorized but
unissued or reacquired shares of Stock or any combination thereof. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company at the Participant’s purchase price, the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan (a) with respect to any portion of an Award that is settled in cash or (b) to the extent such shares are withheld in satisfaction of tax withholding obligations pursuant to Section 15.2. Upon payment in shares of Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced only by the number of shares actually issued in such payment. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, the number of shares available for issuance under the Plan shall be reduced by the net number of shares for which the Option is exercised.

4.2 Annual Increase in Maximum Number of Shares Issuable. The maximum aggregate number of shares of Stock that may be issued under the Plan as set forth in Section 4.1 shall be cumulatively increased as follows:

(a) on February 1, 2005 and February 1, 2006 by a number of shares equal to the smallest of (i) five percent (5%) of the number of shares of Stock issued and outstanding on the immediately preceding January 31, (ii) five million (5,000,000) shares or (iii) an amount determined by the Board;

(b) on February 1, 2007 and February 1, 2008 by a number of shares equal to the smallest of (i) four percent (4%) of the number of shares of Stock issued and outstanding on the immediately preceding January 31, (ii) four million (4,000,000) shares or (iii) an amount determined by the Board; and

(c) on February 1, 2009 and each February 1 thereafter, through and including February 1, 2013, by a number of shares equal to the smallest of (i) three and one half percent (3.5%) of the number of shares of Stock issued and outstanding on the immediately preceding January 31, (ii) three million five hundred thousand (3,500,000) shares or (iii) an amount determined by the Board.

4.3 Adjustments for Changes in Capital Structure. Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, recategorization, stock dividend, stock split, reverse stock split, split-up, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Awards, and in the exercise or purchase price per share under any outstanding Award in order to prevent dilution or enlargement of Participants’ rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be
treated as “effected without receipt of consideration by the Company.” Any fractional share resulting from an adjustment pursuant to this Section 4.3 shall be rounded down to the nearest whole number, and in no event may the exercise or purchase price under any Award be decreased to an amount less than the par value, if any, of the stock subject to such Award. The adjustments determined by the Committee pursuant to this Section 4.3 shall be final, binding and conclusive.

5. **Eligibility and Award Limitations**

5.1 **Persons Eligible for Awards.** Awards may be granted only to Employees, Consultants and Directors. For purposes of the foregoing sentence, “Employees,” “Consultants” and “Directors” shall include prospective Employees, prospective Consultants and prospective Directors to whom Awards are granted in connection with written offers of an employment or other service relationship with the Participating Company Group; provided, however, that no Stock subject to any such Award shall vest, become exercisable or be issued prior to the date on which such person commences Service.

5.2 **Participation.** Awards are granted solely at the discretion of the Committee. Eligible persons may be granted more than one (1) Award. However, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award.

5.3 **Incentive Stock Option Limitations.**

(a) **Persons Eligible.** An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a Parent Corporation or a Subsidiary Corporation (each being an “ISO-Qualifying Corporation”). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee of an ISO-Qualifying Corporation shall be deemed granted effective on the date such person commences Service with an ISO-Qualifying Corporation, with an exercise price determined as of such date in accordance with Section 6.1.

(b) **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which
portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Upon exercise, shares issued pursuant to each such portion shall be separately identified.

6. **TERMS AND CONDITIONS OF OPTIONS.**

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 **Exercisability and Term of Options.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, and (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service. Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, any Option granted hereunder shall terminate five (5) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 **Payment of Exercise Price.**

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or in cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise
(b) **Limitations on Forms of Consideration.**

(i) **Tender of Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. Unless otherwise provided by the Committee, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more than six (6) months (and not used for another Option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) **Cashless Exercise.** The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

### 6.4 Effect of Termination of Service.

(a) **Option Exercisability.** Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Committee in the grant of an Option and set forth in the Award Agreement, an Option shall be exercisable after a Participant’s termination of Service only during the applicable time period determined in accordance with this Section and thereafter shall terminate:

(i) **Disability.** If the Participant’s Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant (or the Participant’s guardian or legal representative) at any time prior to the expiration of one (1) year (or such longer period of time as determined by the Board, in its discretion) after the date on which the Participant’s Service terminated, but in any event no later than the date of expiration of the Option’s term as set forth in the Award Agreement evidencing such Option (the “**Option Expiration Date**”).

(ii) **Death.** If the Participant’s Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant’s legal representative or other person who acquired the right to exercise the Option by reason of the Participant’s death at any time prior to the expiration of one (1) year (or such longer period of time as determined by the Board, in its discretion) after the date on which the Participant’s
Service terminated, but in any event no later than the Option Expiration Date. The Participant’s Service shall be deemed to have terminated on account of death if the Participant dies within ninety (90) days (or such longer period of time as determined by the Board, in its discretion) after the Participant’s termination of Service.

(iii) **Termination for Cause.** Notwithstanding any other provision of the Plan to the contrary, if the Participant’s Service is terminated for Cause, the Option shall terminate and cease to be exercisable immediately upon such termination of Service.

(iv) **Other Termination of Service.** If the Participant’s Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant’s Service terminated, may be exercised by the Participant at any time prior to the expiration of ninety (90) days (or such longer period of time as determined by the Board, in its discretion) after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, other than termination of Service for Cause, if the exercise of an Option within the applicable time periods set forth in Section 6.4(a) is prevented by the provisions of Section 14 below, the Option shall remain exercisable until ninety (90) days (or such longer period of time as determined by the Board, in its discretion) after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, other than termination of Service for Cause, if a sale within the applicable time periods set forth in Section 6.4(a) of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant’s termination of Service, or (iii) the Option Expiration Date.

6.5 **Transferability of Options.** During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant’s guardian or legal representative. Prior to the issuance of shares of Stock upon the exercise of an Option, the Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, a Nonstatutory Stock Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act.
7. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

Stock Appreciation Rights shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No SAR or purported SAR shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing SARs may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

7.1 Types of SARs Authorized. SARs may be granted in tandem with all or any portion of a related Option (a "Tandem SAR") or may be granted independently of any Option (a "Freestanding SAR"). A Tandem SAR may be granted either concurrently with the grant of the related Option or at any time thereafter prior to the complete exercise, termination, expiration or cancellation of such related Option.

7.2 Exercise Price. The exercise price for each SAR shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share subject to a Tandem SAR shall be the exercise price per share under the related Option and (b) the exercise price per share subject to a Freestanding SAR shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the SAR.

7.3 Exercisability and Term of SARs.

(a) Tandem SARs. Tandem SARs shall be exercisable only at the time and to the extent, and only to the extent, that the related Option is exercisable, subject to such provisions as the Committee may specify where the Tandem SAR is granted with respect to less than the full number of shares of Stock subject to the related Option. The Committee may, in its discretion, provide in any Award Agreement evidencing a Tandem SAR that such SAR may not be exercised without the advance approval of the Company and, if such approval is not given, then the Option shall nevertheless remain exercisable in accordance with its terms. A Tandem SAR shall terminate and cease to be exercisable no later than the date on which the related Option expires or is terminated or canceled. Upon the exercise of a Tandem SAR with respect to some or all of the shares subject to such SAR, the related Option shall be canceled automatically as to the number of shares with respect to which the Tandem SAR was exercised. Upon the exercise of an Option related to a Tandem SAR as to some or all of the shares subject to such Option, the related Tandem SAR shall be canceled automatically as to the number of shares with respect to which the related Option was exercised.

(b) Freestanding SARs. Freestanding SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that no Freestanding SAR shall be exercisable after the expiration of five (5) years after the effective date of grant of such SAR.

7.4 Exercise of SARs. Upon the exercise (or deemed exercise pursuant to Section 7.5) of an SAR, the Participant (or the Participant’s legal representative or other person who acquired the right to exercise the SAR by reason of the Participant’s death) shall be entitled...
to receive payment of an amount for each share with respect to which the SAR is exercised equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price. Payment of such amount shall be made in cash, shares of Stock, or any combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing such SAR, payment shall be made in a lump sum as soon as practicable following the date of exercise of the SAR. The Award Agreement evidencing any SAR may provide for deferred payment in a lump sum or in installments. When payment is to be made in shares of Stock, the number of shares to be issued shall be determined on the basis of the Fair Market Value of a share of Stock on the date of exercise of the SAR. For purposes of Section 7, an SAR shall be deemed exercised on the date on which the Company receives notice of exercise from the Participant.

7.5 Deemed Exercise of SARs. If, on the date on which an SAR would otherwise terminate or expire, the SAR by its terms remains exercisable immediately prior to such termination or expiration and, if so exercised, would result in a payment to the holder of such SAR, then any portion of such SAR which has not previously been exercised shall automatically be deemed to be exercised as of such date with respect to such portion.

7.6 Effect of Termination of Service. Subject to earlier termination of the SAR as otherwise provided herein and unless otherwise provided by the Committee in the grant of an SAR and set forth in the Award Agreement, an SAR shall be exercisable after a Participant’s termination of Service only during the applicable time period determined in accordance with Section 6.4 (treating the SAR as if it were an Option) and thereafter shall terminate.

7.7 Nontransferability of SARs. During the lifetime of the Participant, an SAR shall be exercisable only by the Participant or the Participant’s guardian or legal representative. Prior to the exercise of an SAR, the SAR shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution.

8. **Terms and Conditions of Restricted Stock Awards.**

Restricted Stock Awards shall be evidenced by Award Agreements specifying whether the Award is a Restricted Stock Bonus or a Restricted Stock Purchase Right and the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Award or purported Restricted Stock Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 Types of Restricted Stock Awards Authorized. Restricted Stock Awards may be in the form of either a Restricted Stock Bonus or a Restricted Stock Purchase Right. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals.
described in Section 9.4. If either the grant of a Restricted Stock Award or the lapsing of the Restriction Period is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 9.3 through 9.5(a).

8.2 Purchase Price. The purchase price for shares of Stock issuable under each Restricted Stock Purchase Right shall be established by the Committee in its discretion. No monetary payment (other than applicable tax withholding) shall be required as a condition of receiving shares of Stock pursuant to a Restricted Stock Bonus, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock subject to such Restricted Stock Award.

8.3 Purchase Period. A Restricted Stock Purchase Right shall be exercisable within a period established by the Committee, which shall in no event exceed thirty (30) days from the effective date of the grant of the Restricted Stock Purchase Right; provided, however, that no Restricted Stock Purchase Right granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service.

8.4 Payment of Purchase Price. Except as otherwise provided below, payment of the purchase price for the number of shares of Stock being purchased pursuant to any Restricted Stock Purchase Right shall be made (a) in cash, by check, or in cash equivalent, (b) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (iii) by any combination thereof. The Committee may at any time or from time to time grant Restricted Stock Purchase Rights which do not permit all of the foregoing forms of consideration to be used in payment of the purchase price or which otherwise restrict one or more forms of consideration. Restricted Stock Bonuses shall be issued in consideration for past services actually rendered to a Participating Company or for its benefit.

8.5 Vesting and Restrictions on Transfer. Shares issued pursuant to any Restricted Stock Award may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 9.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any Restriction Period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an Ownership Change Event, as defined in Section 13.1, or as provided in Section 8.8. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

8.6 Voting Rights; Dividends and Distributions. Except as provided in this Section, Section 8.5 and any Award Agreement, during the Restriction Period applicable to
shares subject to a Restricted Stock Award, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares. However, in the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, then any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant is entitled by reason of the Participant’s Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

8.7 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Restricted Stock Award and set forth in the Award Agreement, if a Participant’s Service terminates for any reason, whether voluntary or involuntary (including the Participant’s death or disability), then (a) the Company shall have the option to repurchase for the purchase price paid by the Participant any shares acquired by the Participant pursuant to a Restricted Stock Purchase Right which remain subject to Vesting Conditions as of the date of the Participant’s termination of Service and (b) the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Bonus which remain subject to Vesting Conditions as of the date of the Participant’s termination of Service. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

8.8 Nontransferability of Restricted Stock Award Rights. Prior to the issuance of shares of Stock pursuant to a Restricted Stock Award, rights to acquire such shares shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant’s guardian or legal representative.


Performance Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No Performance Award or purported Performance Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Performance Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

9.1 Types of Performance Awards Authorized. Performance Awards may be in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.
9.2 **Initial Value of Performance Shares and Performance Units.** Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share shall have an initial value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.3, on the effective date of grant of the Performance Share, and each Performance Unit shall have an initial value of one hundred dollars ($100). The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

9.3 **Establishment of Performance Period, Performance Goals and Performance Award Formula.** In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period, Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. Unless otherwise permitted in compliance with the requirements under Section 162(m) with respect to “performance-based compensation,” the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each Performance Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Performance Award Formula shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

9.4 **Measurement of Performance Goals.** Performance Goals shall be established by the Committee on the basis of targets to be attained (“Performance Targets”) with respect to one or more measures of business or financial performance (each, a “Performance Measure”), subject to the following:

(a) **Performance Measures.** Performance Measures shall have the same meanings as used in the Company’s financial statements, or, if such terms are not used in the Company’s financial statements, they shall have the meaning applied pursuant to generally accepted accounting principles, or as used generally in the Company’s industry. Performance Measures shall be calculated with respect to the Company and each Subsidiary Corporation consolidated therewith for financial reporting purposes or such division or other business unit as may be selected by the Committee. For purposes of the Plan, the Performance Measures applicable to a Performance Award shall be calculated in accordance with generally accepted accounting principles, but prior to the accrual or payment of any Performance Award for the same Performance Period and excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance Award. Performance Measures may be one or more of the following, as determined by the Committee:

(i) revenue;
(ii) gross margin;
(iii) operating margin;
(iv) operating income;
(v) pre-tax profit;
(vi) earnings before interest, taxes and depreciation;
(vii) net income;
(viii) cash flow;
(ix) expenses;
(x) the market price of the Stock;
(xi) earnings per share;
(xii) return on stockholder equity;
(xiii) return on capital;
(xiv) return on net assets;
(xv) economic value added;
(xvi) number of customers; and
(xvii) market share.

(b) Performance Targets. Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance Award determined under the applicable Performance Award Formula by the level attained during the applicable Performance Period. A Performance Target may be stated as an absolute value or as a value determined relative to a standard selected by the Committee.

9.5 Settlement of Performance Awards.

(a) Determination of Final Value. As soon as practicable following the completion of the Performance Period applicable to a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.
(b) **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award granted to any Participant who is not a “covered employee” within the meaning of Section 162(m) (a “Covered Employee”) to reflect such Participant’s individual performance in his or her position with the Company or such other factors as the Committee may determine. If permitted under a Covered Employee’s Award Agreement, the Committee shall have the discretion, on the basis of such criteria as may be established by the Committee, to reduce some or all of the value of the Performance Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula. No such reduction may result in an increase in the amount payable upon settlement of another Participant’s Performance Award.

(c) **Effect of Leaves of Absence.** Unless otherwise required by law, payment of the final value, if any, of a Performance Award held by a Participant who has taken in excess of thirty (30) days in leaves of absence during a Performance Period shall be prorated on the basis of the number of days of the Participant’s Service during the Performance Period during which the Participant was not on a leave of absence.

(d) **Notice to Participants.** As soon as practicable following the Committee’s determination and certification in accordance with Sections 9.5(a) and (b), the Company shall notify each Participant of the determination of the Committee.

(e) **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee’s determination and certification in accordance with Sections 9.5(a) and (b), payment shall be made to each eligible Participant (or such Participant’s legal representative or other person who acquired the right to receive such payment by reason of the Participant’s death) of the final value of the Participant’s Performance Award. Payment of such amount shall be made in cash, shares of Stock, or a combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing a Performance Award, payment shall be made in a lump sum. An Award Agreement may provide for deferred payment in a lump sum or in installments. If any payment is to be made on a deferred basis, the Committee may, but shall not be obligated to, provide for the payment during the deferral period of Dividend Equivalents or interest.

(f) **Provisions Applicable to Payment in Shares.** If payment is to be made in shares of Stock, the number of such shares shall be determined by dividing the final value of the Performance Award by the value of a share of Stock determined by the method specified in the Award Agreement. Such methods may include, without limitation, the closing market price on a specified date (such as the settlement date) or an average of market prices over a series of trading days. Shares of Stock issued in payment of any Performance Award may be fully vested and freely transferable shares or may be shares of Stock subject to Vesting Conditions as provided in Section 8.5. Any shares subject to Vesting Conditions shall be evidenced by an appropriate Award Agreement and shall be subject to the provisions of Sections 8.5 through 8.8 above.
9.6 **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which the Performance Shares are settled or forfeited. Such Dividend Equivalents, if any, shall be credited to the Participant in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock. The number of additional Performance Shares (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalents may be paid currently or may be accumulated and paid to the extent that Performance Shares become nonforfeitable, as determined by the Committee. Settlement of Dividend Equivalents may be made in cash, shares of Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 9.5. Dividend Equivalents shall not be paid with respect to Performance Units. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant’s Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals as are applicable to the Award.

9.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee in the grant of a Performance Award and set forth in the Award Agreement, the effect of a Participant’s termination of Service on the Performance Award shall be as follows:

(a) **Death or Disability.** If the Participant’s Service terminates because of the death or Disability of the Participant before the completion of the Performance Period applicable to the Performance Award, the final value of the Participant’s Performance Award shall be determined by the extent to which the applicable Performance Goals have been attained with respect to the entire Performance Period and shall be prorated based on the number of months of the Participant’s Service during the Performance Period. Payment shall be made following the end of the Performance Period in any manner permitted by Section 9.5.

(b) **Other Termination of Service.** If the Participant’s Service terminates for any reason except death or Disability before the completion of the Performance Period applicable to the Performance Award, such Award shall be forfeited in its entirety; provided, however, that in the event of an involuntary termination of the Participant’s Service, the Committee, in its sole discretion, may waive the automatic forfeiture of all or any portion of any such Award.
9.8 **Nontransferability of Performance Awards.** Prior to settlement in accordance with the provisions of the Plan, no Performance Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Performance Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant’s guardian or legal representative.

10. **Terms and Conditions of Restricted Stock Unit Awards.**

Restricted Stock Unit Awards shall be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Unit Award or purported Restricted Stock Unit Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Units may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

10.1 **Grant of Restricted Stock Unit Awards.** Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 9.4. If either the grant of a Restricted Stock Unit Award or the Vesting Conditions with respect to such Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 9.3 through 9.5(a).

10.2 **Purchase Price.** No monetary payment (other than applicable tax withholding, if any) shall be required as a condition of receiving a Restricted Stock Unit Award, the consideration for which shall be services actually rendered to a Participating Company or for its benefit.

10.3 **Vesting.** Restricted Stock Units may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 9.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award.

10.4 **Voting Rights, Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to date on which Restricted Stock Units held by such Participant are settled. Such Dividend Equivalents, if any, shall be paid by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Stock. The number of additional Restricted Stock Units shall be determined by dividing the amount of cash dividends paid on the number of whole shares of Stock represented by the Restricted Stock Units held by such Participant, multiplied by the quotient of 1.00 and the number of Restricted Stock Units subject to the Award.
Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time (or as soon thereafter as practicable) as the Restricted Stock Units originally subject to the Restricted Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant’s Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.

10.5 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Restricted Stock Unit Award and set forth in the Award Agreement, if a Participant’s Service terminates for any reason, whether voluntary or involuntary (including the Participant’s death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant’s termination of Service.

10.6 Settlement of Restricted Stock Unit Awards. The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant’s Restricted Stock Unit Award vest or on such other date determined by the Committee, in its discretion, and set forth in the Award Agreement one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 10.4) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes. Notwithstanding the foregoing, if permitted by the Committee and set forth in the Award Agreement, the Participant may elect in accordance with terms specified in the Award Agreement to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

10.7 Nontransferability of Restricted Stock Unit Awards. Prior to the issuance of shares of Stock in settlement of a Restricted Stock Unit Award, the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant’s guardian or legal representative.

11. Deferred Compensation Awards.

11.1 Establishment of Deferred Compensation Award Programs. This Section 11 shall not be effective unless and until the Committee determines to establish a program pursuant to this Section. The Committee, in its discretion and upon such terms and
conditions as it may determine, may establish one or more programs pursuant to the Plan under which:

(a) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to reduce such Participant’s compensation otherwise payable in cash (subject to any minimum or maximum reductions imposed by the Committee) and to be granted automatically at such time or times as specified by the Committee one or more Awards of Stock Units with respect to such numbers of shares of Stock as determined in accordance with the rules of the program established by the Committee and having such other terms and conditions as established by the Committee.

(b) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to be granted automatically an Award of Stock Units with respect to such number of shares of Stock and upon such other terms and conditions as established by the Committee in lieu of:

(i) shares of Stock otherwise issuable to such Participant upon the exercise of an Option;

(ii) cash or shares of Stock otherwise issuable to such Participant upon the exercise of an SAR; or

(iii) cash or shares of Stock otherwise issuable to such Participant upon the settlement of a Performance Award.

11.2 Terms and Conditions of Deferred Compensation Awards. Deferred Compensation Awards granted pursuant to this Section 11 shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No such Deferred Compensation Award or purported Deferred Compensation Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Deferred Compensation Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

(a) Vesting Conditions. Deferred Compensation Awards shall not be subject to any vesting conditions.

(b) Terms and Conditions of Stock Units.

(i) Voting Rights; Dividend Equivalent Rights and Distributions. Participants shall have no voting rights with respect to shares of Stock represented by Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, a Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which Stock Units held by such Participant are settled. Such Dividend Equivalents shall be paid by crediting
the Participant with additional whole and/or fractional Stock Units as of the date of payment of such cash dividends on Stock. The method of determining the number of additional Stock Units to be so credited shall be specified by the Committee and set forth in the Award Agreement. Such additional Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time (or as soon thereafter as practicable) as the Stock Units originally subject to the Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant’s Stock Unit Award so that it represent the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would entitled by reason of the shares of Stock issuable upon settlement of the Award.

(ii) **Settlement of Stock Unit Awards.** A Participant electing to receive an Award of Stock Units pursuant to this Section 11, shall specify at the time of such election a settlement date with respect to such Award. The Company shall issue to the Participant as soon as practicable following the earlier of the settlement date elected by the Participant or the date of termination of the Participant’s Service, a number of whole shares of Stock equal to the number of whole Stock Units subject to the Stock Unit Award. Such shares of Stock shall be fully vested, and the Participant shall not be required to pay any additional consideration (other than applicable tax withholding) to acquire such shares. Any fractional Stock Unit subject to the Stock Unit Award shall be settled by the Company by payment in cash of an amount equal to the Fair Market Value as of the payment date of such fractional share.

(iii) **Nontransferability of Stock Unit Awards.** Prior to their settlement in accordance with the provision of the Plan, no Stock Unit Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant’s guardian or legal representative.

12. **Standard Forms of Award Agreement.**

12.1 **Award Agreements.** Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. Any Award Agreement may consist of an appropriate form of Notice of Grant and a form of Agreement incorporated therein by reference, or such other form or forms as the Committee may approve from time to time.

12.2 **Authority to Vary Terms.** The Committee shall have the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.
13. CHANGE IN CONTROL.

13.1 Definitions.

(a) An “Ownership Change Event” shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company); or (iv) a liquidation or dissolution of the Company.

(b) A “Change in Control” shall mean an Ownership Change Event or series of related Ownership Change Events (collectively, a “Transaction”) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of an Ownership Change Event described in Section 13.1(a)(iii), the entity to which the assets of the Company were transferred (the “Transferee”), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

13.2 Effect of Change in Control on Options and SARs.

(a) Accelerated Vesting. Notwithstanding any other provision of the Plan to the contrary, the Committee, in its sole discretion, may provide in any Award Agreement or, in the event of a Change in Control, may take such actions as it deems appropriate to provide for the acceleration of the exercisability and vesting in connection with such Change in Control of any or all outstanding Options and SARs and shares acquired upon the exercise of such Options and SARs upon such conditions and to such extent as the Committee shall determine.

(b) Assumption or Substitution. In the event of a Change in Control, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the “Acquiror”), may, without the consent of any Participant, either assume the Company’s rights and obligations under outstanding Options and SARs or substitute for outstanding Options and SARs substantially equivalent options and SARs (as the case may be) for the Acquiror’s stock. Any Options or SARs which are not assumed by the Acquiror in connection with the Change in Control nor exercised as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.
(c) **Cash-Out of Options.** The Committee may, in its sole discretion and without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Option or SAR outstanding immediately prior to the Change in Control shall be canceled in exchange for a payment with respect to each vested share of Stock subject to such canceled Option or SAR in (i) cash, (ii) stock of the Company or of a corporation or other business entity a party to the Change in Control, or (iii) other property which, in any such case, shall be in an amount having a Fair Market Value equal to the excess of the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control over the exercise price per share under such Option or SAR (the “Spread”). In the event such determination is made by the Committee, the Spread (reduced by applicable withholding taxes, if any) shall be paid to Participants in respect of their canceled Options and SARs as soon as practicable following the date of the Change in Control.

13.3 **Effect of Change in Control on Restricted Stock Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Restricted Stock Award that, in the event of a Change in Control, the lapsing of the Restriction Period applicable to the shares subject to the Restricted Stock Award held by a Participant whose Service has not terminated prior to the Change in Control shall be accelerated effective immediately prior to the consummation of the Change in Control to such extent as specified in such Award Agreement. Any acceleration of the lapsing of the Restriction Period that was permissible solely by reason of this Section 13.3 and the provisions of such Award Agreement shall be conditioned upon the consummation of the Change in Control.

13.4 **Effect of Change in Control on Performance Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Performance Award that, in the event of a Change in Control, the Performance Award held by a Participant whose Service has not terminated prior to the Change in Control shall become payable effective as of the date of the Change in Control to such extent as specified in such Award Agreement.

13.5 **Effect of Change in Control on Restricted Stock Unit Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Restricted Stock Unit Award that, in the event of a Change in Control, the Restricted Stock Unit Award held by a Participant whose Service has not terminated prior to such date shall be settled effective as of the date of the Change in Control to such extent as specified in such Award Agreement.

13.6 **Effect of Change in Control on Deferred Compensation Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Deferred Compensation Award that, in the event of a Change in Control, the Stock Units pursuant to such Award shall be settled effective as of the date of the Change in Control to such extent as specified in such Award Agreement.

14. **Compliance with Securities Law.**

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system.
upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

15. **TAX WITHHOLDING.**

15.1 **Tax Withholding in General.** The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise of an Option, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group’s tax withholding obligations have been satisfied by the Participant.

15.2 **Withholding in Shares.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Participating Company Group. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

16. **AMENDMENT OR TERMINATION OF PLAN.**

The Committee may amend, suspend or terminate the Plan at any time. However, without the approval of the Company’s stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.3), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company’s stockholders under any applicable law, regulation or rule. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Committee. In any event, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant unless necessary to comply with any applicable law, regulation or rule.
17. **Miscellaneous Provisions.**

17.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

17.2 **Provision of Information.** Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company’s common stockholders.

17.3 **Rights as Employee, Consultant or Director.** No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant’s Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee’s employer or that the Employee has an employment relationship with the Company.

17.4 **Rights as a Stockholder.** A Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.3 or another provision of the Plan.

17.5 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

17.6 **Severability.** If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

17.7 **Beneficiary Designation.** Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant’s death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be
effective only when filed by the Participant in writing with the Company during the Participant’s lifetime. If a married Participant designates a beneficiary other than the Participant’s spouse, the effectiveness of such designation may be subject to the consent of the Participant’s spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant’s death, the Company will pay any remaining unpaid benefits to the Participant’s legal representative.

17.8 **Unfunded Obligation.** Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant’s creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.
Salesforce.com, inc. has granted to the Participant named in the Notice of Grant of Stock Option (the “Grant Notice”) to which this Stock Option Agreement (the “Option Agreement”) is attached an option (the “Option”) to purchase certain shares of Stock upon the terms and conditions set forth in the Grant Notice and this Option Agreement. The Option has been granted pursuant to and shall in all respects be subject to the terms and conditions of the 2004 Equity Incentive Plan (the “Plan”), as amended to the Grant Date, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Option Agreement, the Plan and a prospectus for the Plan in the form most recently registered with the Securities and Exchange Commission (the “Plan Prospectus”), (b) accepts the Option subject to all of the terms and conditions of the Grant Notice, this Option Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Option Agreement or the Plan.

1. Definitions and Construction.

1.1 Definitions. Whenever used herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice, the Plan or as set forth below:

(a) “Exercise Price” means the Exercise Price per share of Stock as set forth in the Grant Notice and as adjusted from time to time pursuant to Section 9.

(b) “Number of Option Shares” means the Number of Option Shares as set forth in the Grant Notice and as adjusted from time to time pursuant to Section 9.

(c) “Option Expiration Date” means the date listed under the heading “Expiration” in the Grant Notice.

(d) “Vested Shares” mean, as of any relevant date, the cumulative portion of the Number of Option Shares which has become exercisable. In no event may the number of Vested Shares exceed the Number of Option Shares. Except as otherwise provided by this Option Agreement, the number of shares (disregarding any fractional share) that will become Vested Shares on a specified date, provided that the Participant’s Service has not terminated prior to such date, is determined as follows:

(i) on the first date listed under the heading “Full Vest” in the Grant Notice, the number of shares first listed under the heading “Shares” in the Grant Notice will become Vested Shares, and

(ii) the remaining shares listed under the heading “Shares” in the Grant Notice will become Vested Shares in substantially equal subsequent installments at the periodic rate set forth under the heading “Vest Type” in the Grant Notice, with the last such installment becoming Vested Shares on the last date set forth under the heading “Full Vest” in the Grant Notice.

1.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Option Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.
2. Tax Consequences.

2.1 Tax Status of Option. This Option is intended to have the tax status designated in the Grant Notice.

(a) Incentive Stock Option. If the Grant Notice so designates, this Option is intended to be an Incentive Stock Option within the meaning of Section 422(b) of the Code, but the Company does not represent or warrant that this Option qualifies as such. The Participant should consult with the Participant’s own tax advisor regarding the tax effects of this Option and the requirements necessary to obtain favorable income tax treatment under Section 422 of the Code, including, but not limited to, holding period requirements. (NOTE TO PARTICIPANT: If the Option is exercised more than three (3) months after the date on which you cease to be an Employee (other than by reason of your death or permanent and total disability as defined in Section 22(e)(3) of the Code), the Option will be treated as a Nonstatutory Stock Option and not as an Incentive Stock Option to the extent required by Section 422 of the Code.)

(b) Nonstatutory Stock Option. If the Grant Notice so designates, this Option is intended to be a Nonstatutory Stock Option and shall not be treated as an Incentive Stock Option within the meaning of Section 422(b) of the Code.

2.2 ISO Fair Market Value Limitation. If the Grant Notice designates this Option as an Incentive Stock Option, then to the extent that the Option (together with all Incentive Stock Options granted to the Participant under all stock option plans of the Participating Company Group, including the Plan) becomes exercisable for the first time during any calendar year for shares having a Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portion of such options which exceeds such amount will be treated as Nonstatutory Stock Options. For purposes of this Section 2.2, options designated as Incentive Stock Options are taken into account in the order in which they were granted, and the Fair Market Value of stock is determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 2.2, such different limitation shall be deemed incorporated herein effective as of the date required or permitted by such amendment to the Code. If the Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 2.2, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option. (NOTE TO PARTICIPANT: If the aggregate Exercise Price of the Option (that is, the Exercise Price multiplied by the Number of Option Shares) plus the aggregate exercise price of any other Incentive Stock Options you hold (whether granted pursuant to the Plan or any other stock option plan of the Participating Company Group) is greater than $100,000, you should contact the Chief Financial Officer of the Company to ascertain whether the entire Option qualifies as an Incentive Stock Option.)

3. Administration.

All questions of interpretation concerning this Option Agreement shall be determined by the Committee. All determinations by the Committee shall be final and binding upon all persons having an interest in the Option. Any Officer shall have the authority to act on
behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

4. **Exercise of the Option.**

   4.1 **Right to Exercise.** Except as otherwise provided herein, the Option shall be exercisable prior to the termination of the Option (as provided in Section 6) in an amount not to exceed the number of Vested Shares less the number of shares previously acquired upon exercise of the Option. In no event shall the Option be exercisable for more shares than the Number of Option Shares, as adjusted pursuant to Section 9.

   4.2 **Method of Exercise.** Exercise of the Option shall be by means of electronic or written notice (the “**Exercise Notice**”) in a form authorized by the Company. An electronic Exercise Notice must be digitally signed or authenticated by the Participant in such manner as required by the notice and transmitted to the Chief Financial Officer of the Company or other authorized representative of the Company (including a third-party administrator designated by the Company). In the event that the Participant is not authorized or is unable to provide an electronic Exercise Notice, the Option shall be exercised by a written Exercise Notice addressed to the Company, which shall be signed by the Participant and delivered in person, by certified or registered mail, return receipt requested, by confirmed facsimile transmission, or by such other means as the Company may permit, to the Chief Financial Officer of the Company, or other authorized representative of the Company (including a third-party administrator designated by the Company). Each Exercise Notice, whether electronic or written, must state the Participant’s election to exercise the Option, the number of whole shares of Stock for which the Option is being exercised and such other representations and agreements as to the Participant’s investment intent with respect to such shares as may be required pursuant to the provisions of this Option Agreement. Further, each Exercise Notice must be received by the Company prior to the termination of the Option as set forth in Section 6 and must be accompanied by full payment of the aggregate Exercise Price for the number of shares of Stock being purchased. The Option shall be deemed to be exercised upon receipt by the Company of such electronic or written Exercise Notice and the aggregate Exercise Price.

4.3 **Payment of Exercise Price.**

   (a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash, by check, or cash equivalent, (ii) if permitted by the Company, by tender to the Company, or attestation to the ownership, of whole shares of Stock owned by the Participant having a Fair Market Value not less than the aggregate Exercise Price, (iii) by means of a Cashless Exercise, as defined in Section 4.3(b), or (iv) by any combination of the foregoing.

   (b) **Limitations on Forms of Consideration.**

      (i) **Tender of Stock.** Notwithstanding the foregoing, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. If required by the Company, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more
than six (6) months or such other period, if any, required by the Company (and not used for another option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) **Cashless Exercise.** A **“Cashless Exercise”** means the delivery of a properly executed notice together with irrevocable instructions to a broker in a form acceptable to the Company providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Stock acquired upon the exercise of the Option pursuant to a program or procedure approved by the Company (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any such program or procedure, including with respect to the Participant notwithstanding that such program or procedures may be available to others.

4.4 **Tax Withholding.** At the time the Option is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for (including by means of a Cashless Exercise to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Participating Company Group, if any, which arise in connection with the Option. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Participating Company Group have been satisfied by the Participant.

4.5 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares acquired by the Participant pursuant to the exercise of the Option. Except as provided by the preceding sentence, a certificate for the shares as to which the Option is exercised shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

4.6 **Restrictions on Grant of the Option and Issuance of Shares.** The grant of the Option and the issuance of shares of Stock upon exercise of the Option shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Option may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, the Option may not be exercised unless (i) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. THE PARTICIPANT IS CAUTIONED THAT THE OPTION MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. ACCORDINGLY, THE PARTICIPANT MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE OPTION IS VESTED. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Option shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of the Option, the Company may require the
Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

4.7 Fractional Shares. The Company shall not be required to issue fractional shares upon the exercise of the Option.

5. NONTRANSFERABILITY OF THE OPTION.

During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant’s guardian or legal representative. Prior to the issuance of shares of Stock upon the exercise of an Option, the Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. Following the death of the Participant, the Option, to the extent provided in Section 7, may be exercised by the Participant’s legal representative or by any person empowered to do so under the deceased Participant’s will or under the then applicable laws of descent and distribution.

6. TERMINATION OF THE OPTION.

The Option shall terminate and may no longer be exercised after the first to occur of (a) the close of business on the Option Expiration Date, (b) the close of business on the last date for exercising the Option following termination of the Participant’s Service as described in Section 7, or (c) a Change in Control to the extent provided in Section 8.

7. EFFECT OF TERMINATION OF SERVICE.

7.1 Option Exercisability.

(a) Disability. If the Participant’s Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant (or the Participant’s guardian or legal representative) at any time prior to the expiration of one (1) year after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date.

(b) Death. If the Participant’s Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant’s legal representative or other person who acquired the right to exercise the Option by reason of the Participant’s death at any time prior to the expiration of one (1) year after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date. The Participant’s Service shall be deemed to have terminated on account of death if the Participant dies within ninety (90) days after the Participant’s termination of Service.

(c) Termination for Cause. Notwithstanding any other provision of the Plan to the contrary, if the Participant’s Service is terminated for Cause, the Option shall terminate and cease to be exercisable immediately upon such termination of Service.
(d) **Other Termination of Service.** If the Participant’s Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant’s Service terminated, may be exercised by the Participant at any time prior to the expiration of ninety (90) days after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date.

7.2 **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing other than termination of the Participant’s Service for Cause, if the exercise of the Option within the applicable time periods set forth in Section 7.1 is prevented by the provisions of Section 4.6, the Option shall remain exercisable until ninety (90) days after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

7.3 **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing other than termination of the Participant’s Service for Cause, if a sale within the applicable time periods set forth in Section 7.1 of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant’s termination of Service, or (iii) the Option Expiration Date.

8. **Effect of Change in Control.**

In the event of a Change in Control, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the “Acquiror”), may, without the consent of the Participant, either assume the Company’s rights and obligations under the Option or substitute for the Option a substantially equivalent option for the Acquiror’s stock. In the event the Acquiror elects not to assume the Company’s rights and obligations under the Option or substitute for the Option in connection with the Change in Control, any unexercised portion of the Option shall become immediately exercisable and vested in full as of the date ten (10) days prior to the date of the Change in Control, provided that the Participant’s Service has not terminated prior to such date. Any exercise of the Option that was permissible solely by reason of this Section shall be conditioned upon the consummation of the Change in Control. The Option shall terminate and cease to be outstanding effective as of the date of the Change in Control to the extent that the Option is neither assumed by the Acquiror in connection with the Change in Control nor exercised as of the date of the Change in Control. Notwithstanding the foregoing, shares acquired upon exercise of the Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of this Option Agreement except as otherwise provided herein. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the Option immediately prior to an Ownership Change Event described in Section 13.1(a)(i) of the Plan constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the Option shall not terminate unless the Board otherwise provides in its discretion.
9. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number, Exercise Price and class of shares subject to the Option, in order to prevent dilution or enlargement of the Participant’s rights under the Option. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as “effected without receipt of consideration by the Company.” Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the Exercise Price be decreased to an amount less than the par value, if any, of the stock subject to the Option. The Committee in its sole discretion, may also make such adjustments in the terms of the Option to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate. The adjustments determined by the Committee pursuant to this Section shall be final, binding and conclusive.

10. **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.**

The Participant shall have no rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of the shares for which the Option has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the shares are issued, except as provided in Section 9. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant’s employment is “at will” and is for no specified term. Nothing in this Option Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant’s Service as a Director, an Employee or Consultant, as the case may be, at any time.

11. **NOTICE OF SALES UPON DISQUALIFYING DISPOSITION.**

The Participant shall dispose of the shares acquired pursuant to the Option only in accordance with the provisions of this Option Agreement. In addition, if the Grant Notice designates this Option as an Incentive Stock Option, the Participant shall (a) promptly notify the Chief Financial Officer of the Company if the Participant disposes of any of the shares acquired pursuant to the Option within one (1) year after the date the Participant exercises all or part of the Option or within two (2) years after the Grant Date and (b) provide the Company with a description of the circumstances of such disposition. Until such time as the Participant disposes of such shares in a manner consistent with the provisions of this Option Agreement, unless otherwise expressly authorized by the Company, the Participant shall hold all shares acquired pursuant to the Option in the Participant’s name (and not in the name of any nominee) for the one-year period immediately after the exercise of the Option and the two-year period immediately after Grant Date. At any time during the one-year or two-year periods set forth above, the Company may place a legend on any certificate representing shares acquired pursuant to the Option requesting the transfer agent for the Company’s stock to notify the Company of any such transfers. The obligation of the Participant to notify the Company of any such transfer shall continue notwithstanding that a legend has been placed on the certificate pursuant to the preceding sentence.
12. **LEGENDS.**

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to the Option in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include, but shall not be limited to, the following:


13. **MISCELLANEOUS PROVISIONS.**

13.1 **Termination or Amendment.** The Board may terminate or amend the Plan or the Option at any time; provided, however, that except as provided in Section 8 in connection with a Change in Control, no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Participant unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Option Agreement shall be effective unless in writing.

13.2 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Option Agreement.

13.3 **Binding Effect.** Subject to the restrictions on transfer set forth herein, this Option Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

13.4 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Option Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address of such party set forth in the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.
(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Option Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company’s stockholders, may be delivered to the Participant electronically. In addition, the Participant may deliver electronically the Exercise Notice called for by Section 4.2 to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 13.4(a) of this Option Agreement and consents to the electronic delivery of the Plan documents and the delivery of the Exercise Notice, as described in Section 13.4(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Chief Financial Officer of the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 13.4(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 13.4(a).

13.5 **Integrated Agreement.** The Grant Notice, this Option Agreement and the Plan, together with any employment, service or other agreement between the Participant and a Participating Company referring to the Option, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein, the provisions of the Grant Notice, the Option Agreement and the Plan shall survive any exercise of the Option and shall remain in full force and effect.

13.6 **Applicable Law.** This Option Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

13.7 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
Salesforce.com, inc. has granted to the Participant named in the Notice of Grant of Stock Option (the “Grant Notice”) to which this Stock Option Agreement (the “Option Agreement”) is attached an option (the “Option”) to purchase certain shares of Stock upon the terms and conditions set forth in the Grant Notice and this Option Agreement. The Option has been granted pursuant to and shall in all respects be subject to the terms and conditions of the salesforce.com, inc. 2004 Equity Incentive Plan (the “Plan”), as amended to the Grant Date, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Option Agreement, the Plan and a prospectus for the Plan in the form most recently registered with the Securities and Exchange Commission (the “Plan Prospectus”), (b) accepts the Option subject to all of the terms and conditions of the Grant Notice, this Option Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Option Agreement or the Plan.

1. Definitions and Construction.

1.1 Definitions. Whenever used herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice, the Plan or as set forth below:

(a) “Exercise Price” means the Exercise Price per share of Stock, expressed in United States Dollars, as set forth in the Grant Notice and as adjusted from time to time pursuant to Section 9.

(b) “Local Law” means with all laws, rules and regulations applicable within [INSERT APPLICABLE COUNTRY] or to its residents.

(c) “Number of Option Shares” means the Number of Option Shares as set forth in the Grant Notice and as adjusted from time to time pursuant to Section 9.

(d) “Option Expiration Date” means the date listed under the heading “Expiration” in the Grant Notice.

(e) “Vested Shares” mean, as of any relevant date, the cumulative portion of the Number of Option Shares which has become exercisable. In no event may the number of Vested Shares exceed the Number of Option Shares. Except as otherwise provided by this Option Agreement, the number of shares (disregarding any fractional share) that will become Vested Shares on a specified date, provided that the Participant’s Service has not terminated prior to such date, is determined as follows:

(i) on the first date listed under the heading “Full Vest” in the Grant Notice, the number of shares first listed under the heading “Shares” in the Grant Notice will become Vested Shares, and
(ii) the remaining shares listed under the heading “Shares” in the Grant Notice will become Vested Shares in substantially equal subsequent installments at the periodic rate set forth under the heading “Vest Type” in the Grant Notice, with the last such installment becoming Vested Shares on the last date set forth under the heading “Full Vest” in the Grant Notice.

1.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Option Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

2. Certain Conditions of the Option.

2.1 Compliance with Local Law. The Participant is a resident of or is domiciled in [INSERT APPLICABLE COUNTRY]. The Participant agrees that the Participant will not acquire shares of Stock pursuant to the Option or transfer, assign, sell or otherwise deal with such shares except in compliance with Local Law.

2.2 Employment Conditions. In accepting the Option, the Participant acknowledges that:

(a) Any notice period mandated under Local Law shall not be treated as Service for the purpose of determining the vesting of the Option; and the Participant’s right to exercise the Option after termination of Service, if any, will be measured by the date of termination of the Participant’s active Service and will not be extended by any notice period mandated under Local Law. Subject to the foregoing and the provisions of the Plan, the Company, in its discretion, shall determine whether the Participant’s Service has terminated and the effective date of such termination.

(b) The Plan is established voluntarily by the Company. It is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Option Agreement.

(c) The grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of Options, or benefits in lieu of Options, even if Options have been granted repeatedly in the past.

(d) All decisions with respect to future Option grants, if any, will be at the sole discretion of the Company.

(e) The Participant is voluntarily participating in the Plan.
The Option is an extraordinary item which is outside the scope of the Participant’s employment contract, if any.

The Option is not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

The future value of the underlying shares of Stock is unknown and cannot be predicted with certainty. If the underlying shares of Stock do not increase in value, the Option will have no value. If the Participant exercises the Option and obtains shares of Stock, the value of those shares acquired upon exercise may increase or decrease in value, even below the Exercise Price.

No claim or entitlement to compensation or damages arises from termination of the Option or diminution in value of the Option or shares of Stock purchased through exercise of the Option resulting from termination of the Participant’s Service (for any reason whether or not in breach of Local Law) and the Participant irrevocably releases the Participating Company Group from any such claim that may arise. If, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen then, by signing this Option Agreement, the Participant shall be deemed irrevocably to have waived the Participant’s entitlement to pursue such a claim.

2.3 Data Privacy Consent.

(a) The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant’s personal data as described in this document by and among the members of a group consisting of the Company and each Participating Company for the exclusive purpose of implementing, administering and managing the Participant’s participation in the Plan.

(b) The Participant understands that the Company (including any other Participating Company) hold certain personal information about the Participant, including, but not limited to, the Participant’s name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all Options or any other entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant’s favor, for the purpose of implementing, administering and managing the Plan (“Data”). The Participant understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in the Participant’s country or elsewhere, and that the recipient’s country may have different data privacy laws and protections than the Participant’s country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Participant’s local human resources representative. The Participant authorizes the recipients to receive, possess, use, retain and
transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant’s participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Participant may elect to deposit any shares acquired upon exercise of the Option. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant’s participation in the Plan. The Participant understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Participant’s local human resources representative. The Participant understands, however, that refusing or withdrawing the Participant’s consent may affect the Participant’s ability to participate in the Plan. For more information on the consequences of the Participant’s refusal to consent or withdrawal of consent, the Participant understands that he or she may contact the Participant’s local human resources representative.

3. ADMINISTRATION.

All questions of interpretation concerning this Option Agreement shall be determined by the Committee. All determinations by the Committee shall be final and binding upon all persons having an interest in the Option. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

4. EXERCISE OF THE OPTION.

4.1 Right to Exercise. Except as otherwise provided herein, the Option shall be exercisable prior to the termination of the Option (as provided in Section 6) in an amount not to exceed the number of Vested Shares less the number of shares previously acquired upon exercise of the Option. In no event shall the Option be exercisable for more shares than the Number of Option Shares, as adjusted pursuant to Section 9.

4.2 Method of Exercise. Exercise of the Option shall be by means of electronic or written notice (the “Exercise Notice”) in a form authorized by the Company. An electronic Exercise Notice must be digitally signed or authenticated by the Participant in such manner as required by the notice and transmitted to the Chief Financial Officer of the Company or other authorized representative of the Company (including a third-party administrator designated by the Company). In the event that the Participant is not authorized or is unable to provide an electronic Exercise Notice, the Option shall be exercised by a written Exercise Notice addressed to the Company, which shall be signed by the Participant and delivered in person, by certified or registered mail, return receipt requested, by confirmed facsimile transmission, or by such other means as the Company may permit, to the Chief Financial Officer of the Company, or other authorized representative of the Company (including a third-party administrator designated by the Company). Each Exercise Notice, whether electronic or written, must state the Participant’s election to exercise the Option, the number of whole shares of Stock for which the Option is being exercised and such other representations and agreements as to the Participant’s
investment intent with respect to such shares as may be required pursuant to the provisions of this Option Agreement. Further, each Exercise Notice must be received by the Company prior to the termination of the Option as set forth in Section 6 and must be accompanied by full payment of the aggregate Exercise Price for the number of shares of Stock being purchased. The Option shall be deemed to be exercised upon receipt by the Company of such electronic or written Exercise Notice and the aggregate Exercise Price.

4.3 Payment of Exercise Price.

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash, by check, or cash equivalent, (ii) if permitted by the Company, by tender to the Company, or attestation to the ownership, of whole shares of Stock owned by the Participant having a Fair Market Value not less than the aggregate Exercise Price, (iii) by means of a Cashless Exercise, as defined in Section 4.3(b), or (iv) by any combination of the foregoing.

(b) **Limitations on Forms of Consideration.**

(i) **Tender of Stock.** Notwithstanding the foregoing, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. If required by the Company, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more than six (6) months or such other period, if any, required by the Company (and not used for another option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) **Cashless Exercise.** A “Cashless Exercise” means the delivery of a properly executed notice together with irrevocable instructions to a broker in a form acceptable to the Company providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Stock acquired upon the exercise of the Option pursuant to a program or procedure approved by the Company (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any such program or procedure, including with respect to the Participant notwithstanding that such program or procedures may be available to others.

4.4 Tax Withholding. Regardless of any action taken by the Company or any other Participating Company with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding (the “Tax Obligations”), the Participant acknowledges that the ultimate liability for all Tax Obligations legally due by the Participant is and remains the Participant’s responsibility and that the Company (a) makes no representations or undertakings regarding the treatment of any Tax Obligations in connection with any aspect of
the Option, including the grant, vesting or exercise of the Option, the subsequent sale of shares acquired pursuant to such exercise, or the receipt of any
 dividends and (b) does not commit to structure the terms of the grant or any other aspect of the Option to reduce or eliminate the Participant’s liability for Tax
 Obligations. At the time of exercise of the Option, the Participant shall pay or make adequate arrangements satisfactory to the Company to satisfy all
 withholding obligations of the Company and any other Participating Company. In this regard, at the time the Option is exercised, in whole or in part, or at any
time thereafter as requested by the Participating Company Group, the Participant hereby authorizes withholding of all applicable Tax Obligations from payroll
and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for withholding of all applicable Tax Obligations by the
Participating Company Group, if any, which arise in connection with the Option. Alternatively, or in addition, if permissible under applicable law, including
Local Law, the Participating Company Group may (i) sell or arrange for the sale of shares acquired by the Participant to satisfy the Tax Obligations, and/or
(ii) withhold in shares, provided that only the amount of shares necessary to satisfy the minimum withholding amount required by applicable law, including
Local Law, is withheld. Finally, the Participant shall pay to the Company or any other Participating Company any amount of the Tax Obligations that any
such company may be required to withhold as a result of the Participant’s participation in the Plan that cannot be satisfied by the means previously described.
The Company shall have no obligation to process the exercise of the Option or to deliver shares of Stock until the Tax Obligations as described in this Section
have been satisfied by the Participant.

4.5 Beneficial Ownership of Shares; Certificate Registration. The Participant hereby authorizes the Company, in its sole discretion, to
deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all
shares acquired by the Participant pursuant to the exercise of the Option. Except as provided by the preceding sentence, a certificate for the shares as to which
the Option is exercised shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

4.6 Restrictions on Grant of the Option and Issuance of Shares. The grant of the Option and the issuance of shares of Stock upon exercise of
the Option shall be subject to compliance with all applicable requirements of United States federal or state law or Local Law with respect to such securities.
The Option may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable United States federal, state or
foreign securities laws, including Local Law, or other law or regulations or the requirements of any stock exchange or market system upon which the Stock
may then be listed. In addition, the Option may not be exercised unless (i) a registration statement under the Securities Act shall at the time of exercise of the
Option be in effect with respect to the shares issuable upon exercise of the Option or (ii) in the opinion of legal counsel to the Company, the shares issuable
upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act.
THE PARTICIPANT IS CAUTIONED THAT THE OPTION MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE
SATISFIED. ACCORDINGLY, THE PARTICIPANT MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE
OPTION IS VESTED. The inability of the Company to obtain from any regulatory body having jurisdiction
the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Option shall relieve
the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition
to the exercise of the Option, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

4.7 Fractional Shares. The Company shall not be required to issue fractional shares upon the exercise of the Option.

5. **NONTRANSFERABILITY OF THE OPTION.**

During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant’s guardian or legal representative. Prior to the issuance of shares of Stock upon the exercise of an Option, the Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. Following the death of the Participant, the Option, to the extent provided in Section 7, may be exercised by the Participant’s legal representative or by any person empowered to do so under the deceased Participant’s will or under the then applicable laws of descent and distribution.

6. **TERMINATION OF THE OPTION.**

The Option shall terminate and may no longer be exercised after the first to occur of (a) the close of business on the Option Expiration Date, (b) the close of business on the last date for exercising the Option following termination of the Participant’s Service as described in Section 7, or (c) a Change in Control to the extent provided in Section 8.

7. **EFFECT OF TERMINATION OF SERVICE.**

7.1 Option Exercisability.

(a) **Disability.** If the Participant’s Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant (or the Participant’s guardian or legal representative) at any time prior to the expiration of one (1) year after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date.

(b) **Death.** If the Participant’s Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant’s legal representative or other person who acquired the right to exercise the Option by reason of the Participant’s death at any time prior to the expiration of one (1) year after the date on which the Participant’s Service
terminated, but in any event no later than the Option Expiration Date. The Participant’s Service shall be deemed to have terminated on account of death if the Participant dies within one hundred eighty (180) days after the Participant’s termination of Service.

(c) **Termination for Cause.** Notwithstanding any other provision of the Plan to the contrary, if the Participant’s Service is terminated for Cause, the Option shall terminate and cease to be exercisable immediately upon such termination of Service.

(d) **Other Termination of Service.** If the Participant’s Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant’s Service terminated, may be exercised by the Participant at any time prior to the expiration of ninety (90) days after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date.

7.2 **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing other than termination of the Participant’s Service for Cause, if the exercise of the Option within the applicable time periods set forth in Section 7.1 is prevented by the provisions of Section 4.6, the Option shall remain exercisable until ninety (90) days after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

7.3 **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing other than termination of the Participant’s Service for Cause, if a sale within the applicable time periods set forth in Section 7.1 of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant’s termination of Service, or (iii) the Option Expiration Date.

8. **Effect of Change in Control.**

In the event of a Change in Control, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the “Acquiror”), may, without the consent of the Participant, either assume the Company’s rights and obligations under the Option or substitute for the Option a substantially equivalent option for the Acquiror’s stock. In the event the Acquiror elects not to assume the Company’s rights and obligations under the Option or substitute for the Option in connection with the Change in Control, any unexercised portion of the Option shall become immediately exercisable and vested in full as of the date ten (10) days prior to the date of the Change in Control, provided that the Participant’s Service has not terminated prior to such date. Any exercise of the Option that was permissible solely by reason of this Section shall be conditioned upon the consummation of the Change in Control. The Option shall terminate and cease to be outstanding effective as of the date of the Change in Control to the extent that the Option is neither assumed by the Acquiror in connection with the Change in Control nor exercised as of the date of the Change in Control. Notwithstanding the
foregoing, shares acquired upon exercise of the Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of this Option Agreement except as otherwise provided herein. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the Option immediately prior to an Ownership Change Event described in Section 13.1(a)(i) of the Plan constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the Option shall not terminate unless the Board otherwise provides in its discretion.

9. **Adjustments for Changes in Capital Structure.**

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number, Exercise Price and class of shares subject to the Option, in order to prevent dilution or enlargement of the Participant’s rights under the Option. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as “effected without receipt of consideration by the Company.” Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the Exercise Price be decreased to an amount less than the par value, if any, of the stock subject to the Option. The Committee in its sole discretion, may also make such adjustments in the terms of the Option to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate. The adjustments determined by the Committee pursuant to this Section shall be final, binding and conclusive.

10. **Rights as a Stockholder, Director, Employee or Consultant.**

The Participant shall have no rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of the shares for which the Option has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the shares are issued, except as provided in Section 9. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant’s employment is “at will” and is for no specified term. Nothing in this Option Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant’s Service as a Director, an Employee or Consultant, as the case may be, at any time.
11. **LEGENDS.**

The Company may at any time place legends referencing any applicable United States federal, state or foreign securities law, including Local Law, restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to the Option in the possession of the Participant in order to carry out the provisions of this Section.

12. **MISCELLANEOUS PROVISIONS.**

12.1 **Termination or Amendment.** The Board may terminate or amend the Plan or the Option at any time; provided, however, that except as provided in Section 8 in connection with a Change in Control, no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Participant unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Option Agreement shall be effective unless in writing.

12.2 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Option Agreement.

12.3 **Binding Effect.** Subject to the restrictions on transfer set forth herein, this Option Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

12.4 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Option Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address of such party set forth in the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Option Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company’s stockholders, may be delivered to the Participant electronically. In addition, the Participant may deliver electronically the Exercise Notice called for by Section 4.2 to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a
(b) Consent to Electronic Delivery. The Participant acknowledges that the Participant has read Section 12.4(a) of this Option Agreement and consents to the electronic delivery of the Plan documents and the delivery of the Exercise Notice, as described in Section 12.4(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Chief Financial Officer of the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 12.4(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 12.4(a).

12.5 Integrated Agreement. The Grant Notice, this Option Agreement and the Plan, together with any employment, service or other agreement between the Participant and a Participating Company referring to the Option, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein, the provisions of the Grant Notice, the Option Agreement and the Plan shall survive any exercise of the Option and shall remain in full force and effect.

12.6 Applicable Law. This Option Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties as evidenced by this Option Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of the County of San Francisco, California, or the federal courts of the United States for the Northern District of California, and no other courts, where this Option Agreement is made and/or performed.

12.7 Counterparts. The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
1. **Establishment, Purpose and Term of Plan.**

1.1 **Establishment.** The salesforce.com, inc. 2004 Outside Directors Stock Plan (the “Plan”) is hereby established effective as of March 1, 2004, the date of its approval by the stockholders of the Company (the “Effective Date”).

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services as Outside Directors of the Company and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Restricted Stock, and Restricted Stock Units.

1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Awards granted under the Plan have lapsed. However, all Awards shall be granted, if at all, within ten (10) years from the Effective Date.

2. **Definitions and Construction.**

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) “**Award**” means any Option, Restricted Stock or Restricted Stock Unit granted under the Plan.

(b) “**Award Agreement**” means a written agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Award granted to the Participant. An Award Agreement may be an “Option Agreement,” a “Restricted Stock Agreement” or a “Restricted Stock Units Agreement.”

(c) “**Board**” means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, “Board” also means such Committee(s).

(d) “**Code**” means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(e) “**Committee**” means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the
Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(f) “Company” means salesforce.com, inc., a Delaware corporation, or any successor corporation thereto.

(g) “Consultant” means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating Company.

(h) “Director” means a member of the Board or of the board of directors of any other Participating Company.

(i) “Disability” means the permanent and total disability of the Participant within the meaning of Section 22(e)(3) of the Code.

(j) “Dividend Equivalent” means a credit, made at the discretion of the Board or as otherwise provided by the Plan, to the account of a Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

(k) “Employee” means any person treated as an employee (including an officer of the Company or a Director who is also treated as an employee) in the records of a Participating Company; provided, however, that neither service as a Director nor payment of a director’s fee shall be sufficient to constitute employment for purposes of the Plan.


(m) “Fair Market Value” means, as of any date, the value of a share of Stock or other property as determined by the Board, in its discretion, or by the Company, in its discretion, subject to the following:

(i) If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in The Wall Street Journal or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its discretion.

(ii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Board in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.
(n) “Inside Director” means a director who is an Employee.

(o) “Officer” means any person designated by the Board as an officer of the Company.

(p) “Option” means a right to purchase Stock (subject to adjustment as provided in Section 4.2) pursuant to the terms and conditions of the Plan. Each Option shall be a nonstatutory stock option, that is an option not intended to qualify as an incentive stock option within the meaning of Section 422(b) of the Code.

(q) “Outside Director” means a Director of the Company who is not an Employee or a Consultant.

(r) “Outside Director Stock Award” means Stock granted to a Participant pursuant to Section 6 of the Plan.

(s) “Parent Corporation” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(t) “Participant” means any eligible person who has been granted one or more Awards.

(u) “Participating Company” means the Company or any Parent Corporation or Subsidiary Corporation.

(v) “Participating Company Group” means, at any point in time, all corporations collectively which are then Participating Companies.

(w) “Restriction Period” means the period established in accordance with Section 8.2 of the Plan during which shares subject to a Restricted Stock Award are subject to Vesting Conditions.

(x) “Restricted Stock” means Stock granted to a Participant pursuant to Section 6 or Section 8 of the Plan.

(y) “Restricted Stock Unit” means a bookkeeping entry representing a right granted to a Participant pursuant to Section 9 of the Plan to receive a share of Stock on a date determined in accordance with the provisions of Section 9 and the Participant’s Award Agreement.

(z) “Rule 16b-3” means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(aa) “Securities Act” means the Securities Act of 1933, as amended.
(bb) “Service” means a Participant’s employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director, or a Consultant. A Participant’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service to the Participating Company Group or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant’s Service. Furthermore, a Participant’s Service shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under a Participant’s Award Agreement. A Participant’s Service shall be deemed to have terminated either upon an actual termination of Service or upon the corporation for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether a Participant’s Service has terminated and the effective date of such termination.

(cc) “Stock” means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(dd) “Subsidiary Corporation” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

(ee) “Vesting Conditions” mean those conditions established in accordance with Section 8.2 or Section 9.2 of the Plan prior to the satisfaction of which shares of Restricted Stock or Restricted Stock Units remain subject to forfeiture to the Company upon the Participant’s termination of Service.

2.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

3. ADMINISTRATION.

3.1 Administration by the Board. The Plan shall be administered by the Board, including any duly appointed Committee of the Board. At any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3. All questions of interpretation of the Plan or of any Award shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Award.

3.2 Authority of Officers. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election.
3.3 **Powers of the Board.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock or units to be subject to each Award;

(b) to determine the type of Award granted;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares purchased pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the time of the expiration of any Award, (vi) the effect of the Participant's termination of Service on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

(e) to approve one or more forms of Award Agreement;

(f) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(g) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant’s termination of Service;

(h) to prescribe, amend or rescind rules, guidelines and policies relating to the plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Board deems necessary or desirable to comply with the laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards; and

(i) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Board may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.4 **Indemnification.** In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys’ fees, actually and
necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. SHARES SUBJECT TO PLAN.

4.1 Maximum Number of Shares Issuable. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be one million (1,000,000) and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company at the Participant’s purchase price, the shares of Stock allocable to the terminated portion of such Award or such forfeiture or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan to the extent such shares are withheld in satisfaction of tax withholding obligations pursuant to Section 13.2. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, the number of shares available for issuance under the Plan shall be reduced by the net number of shares for which the Option is exercised.

4.2 Adjustments for Changes in Capital Structure. Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Awards, and in the exercise per share under any outstanding Award in order to prevent dilution or enlargement of Participants’ rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as “effected without receipt of consideration by the Company.” Any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the exercise or purchase price under any Award be decreased to an amount less than the par value, if any, of the stock subject to such Award. The adjustments determined by the Committee pursuant to this Section 4.2 shall be final, binding and conclusive.
5. **Eligibility for Participation.**

Only those persons who, at the time of grant, are serving as Outside Directors shall be eligible to become Participants and to be granted an Award.

6. **Terms and Conditions of Outside Director Stock Awards.**

This Section 6, as amended, shall be effective September 1, 2005, with respect to Outside Directors who were appointed or elected to the Board subsequent to the effective date of the initial registration by the Company of its Stock under Section 12 of the Exchange Act. With respect to Outside Directors who were appointed or elected to the Board prior to the effective date of the initial registration by the Company of its Stock under Section 12 of the Exchange Act, this Section 6, as amended, shall be effective February 1, 2006, or, if later, the date following the date upon which the Outside Director becomes fully vested in his or her initial option granted upon appointment or election to the Board. Outside Director Stock Awards shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Outside Director Stock Award or purported Outside Director Stock Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions and those terms and conditions set forth in Section 8 which are not inconsistent with the following:

6.1 **Automatic Grant of Outside Director Stock Awards.** On the first day of each fiscal quarter of the Company following the date upon which an Outside Director has completed one (1) year of service on the Board, the Outside Director shall be granted automatically and without further action of the Board an Outside Director Stock Award consisting of two thousand five hundred (2,500) shares of Stock in consideration for the Participant’s service as a Director during the preceding fiscal quarter, provided that his or her Service has not terminated prior to such date. Notwithstanding the foregoing, a Participant may elect not to receive an Outside Director Stock Award by delivering written notice of such election to the Board no later than the day prior to the date such Outside Director Stock Award would otherwise be granted. A Participant so declining an Outside Director Stock Award by delivering written notice of such election to the Board no later than the day prior to the date such Award would be granted pursuant this Section.

6.2 **Purchase Price.** No monetary payment (other than applicable tax withholding, if any) shall be required as a condition of receiving an Outside Director Stock Award, the consideration for which shall be services actually rendered to the Company or for its benefit during the preceding fiscal quarter of the Company;

6.3 **Vesting.** The shares of Stock granted pursuant to an Outside Director Stock Award shall be fully vested on the date of grant.
7. **Terms and Conditions of Options.**

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

7.1 **Exercise Price.** The exercise price for each Option shall be the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner that would qualify under the provisions of Section 424(a) of the Code.

7.2 **Exercisability and Term of Options.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Board and set forth in the Award Agreement evidencing such Option; provided, however, that no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

7.3 **Payment of Exercise Price.**

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a “Cashless Exercise”), (iv) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (v) by any combination thereof. The Board may at any time or from time to time, by approval of or by amendment to the standard forms of Award Agreement described in Section 10, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.
Limitations on Forms of Consideration.

(i) Tender of Stock. Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. Unless otherwise provided by the Board, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more than six (6) months (and not used for another Option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) Cashless Exercise. The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

7.4 Effect of Termination of Service.

(a) Option Exercisability. Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Board in the grant of an Option and set forth in the Award Agreement, an Option shall be exercisable after a Participant’s termination of Service only during the applicable time period determined in accordance with this Section 7.4 and thereafter shall terminate:

(i) Disability. If the Participant’s Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant (or the Participant’s guardian or legal representative) at any time prior to the expiration of one (1) year (or such longer period of time as determined by the Board, in its discretion) after the date on which the Participant’s Service terminated, but in any event no later than the date of expiration of the Option’s term as set forth in the Award Agreement evidencing such Option (the “Option Expiration Date”).

(ii) Death. If the Participant’s Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant’s legal representative or other person who acquired the right to exercise the Option by reason of the Participant’s death at any time prior to the expiration of one (1) year (or such longer period of time as determined by the Board, in its discretion) after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date. The Participant’s Service shall be deemed to have terminated on account of death if the Participant dies within ninety (90) days (or such longer period of time as determined by the Board, in its discretion) after the Participant’s termination of Service.

(iii) Termination After Change in Control. If the Participant’s Service terminates for any reason except Disability or death upon or within one (1)
year following a Change in Control (a “Termination After Change in Control”), then the Option (unless terminated pursuant to Section 11.2), to the extent unexercised and exercisable on the date on which the Participant’s Service terminated, may be exercised by the Participant (or the Participant’s guardian or legal representative) at any time prior to the expiration of one hundred eighty (180) days (or such longer period of time as determined by the Board, in its discretion) after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date.

(iv) Other Termination of Service. If the Participant’s Service terminates for any reason, except Disability, death or Termination After Change in Control, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant’s Service terminated, may be exercised by the Participant at any time prior to the expiration of ninety (90) days (or such longer period of time as determined by the Board, in its discretion) after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date.

(b) Extension if Exercise Prevented by Law. Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 7.4(a) is prevented by the provisions of Section 12 below, the Option shall remain exercisable until ninety (90) days (or such longer period of time as determined by the Board, in its discretion) after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) Extension if Participant Subject to Section 16(b). Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 7.4(a) of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant’s termination of Service, or (iii) the Option Expiration Date.

7.5 Transferability of Options. During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant’s guardian or legal representative. Prior to the issuance of shares of Stock upon the exercise of an Option, the Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Board, in its discretion, and set forth in the Award Agreement evidencing such Option, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act.

7.6 Automatic Grant of Options. Each Outside Director shall be granted automatically and without further action of the Board an Option to purchase 50,000 shares of Stock on the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director but who remains
a Director shall not receive such Option. The Option shall become exercisable as to twenty-five percent of the shares of Stock subject to the Option on the one (1) year anniversary of its date of grant and as to one forty-eighth (1/48) of the shares of Stock subject to the Option thereafter provided that the Optionee continues to serve as an Outside Director on such dates. The Board in its discretion may change and otherwise revise the terms of Options granted under this Section 7.6, including, without limitation, the number of shares of Stock and exercise prices thereof, for Options granted on or after the date the Board determines to make any such change or revision.

8. **TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.**

Restricted Stock Awards shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Board shall from time to time establish. No Restricted Stock Award or purported Restricted Stock Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 **Purchase Price.** No monetary payment (other than applicable tax withholding, if any) shall be required as a condition of receiving shares of Restricted Stock, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Restricted Stock subject to such Award.

8.2 **Vesting and Restrictions on Transfer.** Shares issued pursuant to any Restricted Stock Award may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria as shall be established by the Board and set forth in the Award Agreement evidencing such Award. During any Restriction Period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an Ownership Change Event, as defined in Section 11.1, or as provided in Section 8.5. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Restricted Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Restricted Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

8.3 **Voting Rights; Dividends and Distributions.** Except as provided in this Section, Section 8.2 and any Award Agreement, during the Restriction Period applicable to shares subject to a Restricted Stock Award, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares. However, in the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, then any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant is entitled by reason of the Participant’s Restricted Stock Award shall be
immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

8.4 Effect of Termination of Service. Unless otherwise provided by the Board in the grant of a Restricted Stock Award and set forth in the Award Agreement, if a Participant’s Service terminates for any reason, whether voluntary or involuntary (including the Participant’s death or disability), then the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Award which remain subject to Vesting Conditions as of the date of the Participant’s termination of Service.

8.5 Nontransferability of Restricted Stock Award Rights. Prior to the issuance of shares of Stock pursuant to a Restricted Stock Award, rights to acquire such shares shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant’s guardian or legal representative.

9. TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARDS.

Restricted Stock Unit Awards shall be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Board shall from time to time establish. No Restricted Stock Unit Award or purported Restricted Stock Unit Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Units may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

9.1 Purchase Price. No monetary payment (other than applicable tax withholding, if any) shall be required as a condition of receiving a Restricted Stock Unit Award, the consideration for which shall be services actually rendered to a Participating Company or for its benefit.

9.2 Vesting. Restricted Stock Units may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, as shall be established by the Board and set forth in the Award Agreement evidencing such Award.

9.3 Voting Rights, Dividend Equivalent Rights and Distributions. Participants shall have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Board, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to date on which
Restricted Stock Units held by such Participant are settled. Such Dividend Equivalents, if any, shall be paid by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Stock. The number of additional Restricted Stock Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time (or as soon thereafter as practicable) as the Restricted Stock Units originally subject to the Restricted Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant’s Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.

9.4 Effect of Termination of Service. Unless otherwise provided by the Board in the grant of a Restricted Stock Unit Award and set forth in the Award Agreement, if a Participant’s Service terminates for any reason, whether voluntary or involuntary (including the Participant’s death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant’s termination of Service.

9.5 Settlement of Restricted Stock Unit Awards. The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant’s Restricted Stock Unit Award vest or on such other settlement date determined by the Board, in its discretion, and set forth in the Award Agreement one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 9.3) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes, if any. Notwithstanding the foregoing, if permitted by the Board and set forth in the Award Agreement, the Participant may elect in accordance with terms specified in the Award Agreement to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

9.6 Nontransferability of Restricted Stock Unit Awards. Prior to the issuance of shares of Stock in settlement of a Restricted Stock Unit Award, the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant’s guardian or legal representative.
10. **STANDARD FORMS OF AWARD AGREEMENT.**

10.1 **Award Agreement.** Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Board and as amended from time to time. Any Award Agreement may consist of an appropriate form of Notice of Grant and a form of Agreement incorporated therein by reference, or such other form or forms as the Board may approve from time to time.

10.2 **Authority to Vary Terms.** The Board shall have the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

11. **CHANGE IN CONTROL.**

11.1 **Definitions.**

(a) An "Ownership Change Event" shall be deemed to have occurred if any of the following occurs with respect to the Company:

(i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company;

(ii) a merger or consolidation in which the Company is a party;

(iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or

(iv) a liquidation or dissolution of the Company.

(b) A "Change in Control" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a "Transaction") wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 11.1(a)(iii), the corporation or other business entity to which the assets of the Company were transferred (the "Transferee"), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

11.2 **Effect of Change in Control on Options.**

(a) **Accelerated Vesting.** Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control, each Option held by a Participant whose Service has not terminated prior to the date of such Change in Control shall become immediately exercisable and vested in full as of such date, subject to the consummation of the Change in Control.
(b) Assumption or Substitution. In the event of a Change in Control, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "Acquiror"), may, without the consent of any Participant, either assume the Company’s rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiror’s stock. Any Options which are not assumed by the Acquiror in connection with the Change in Control nor exercised as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

(c) Cash-Out of Options. The Board may, in its sole discretion and without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Option outstanding immediately prior to the Change in Control shall be canceled in exchange for a payment with respect to each vested share of Stock subject to such canceled Option in (i) cash, (ii) stock of the Company or of a corporation or other business entity a party to the Change in Control, or (iii) other property which, in any such case, shall be in an amount having a Fair Market Value equal to the excess of the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control over the exercise price per share under such Option (the "Spread"). In the event such determination is made by the Board, the Spread (reduced by applicable withholding taxes, if any) shall be paid to Participants in respect of their canceled Options as soon as practicable following the date of the Change in Control.

11.3 Effect of Change in Control on Restricted Stock Awards. The Board may, in its discretion, provide in any Award Agreement evidencing a Restricted Stock Award that, in the event of a Change in Control, the lapsing of the Restriction Period applicable to the shares subject to the Restricted Stock Award held by a Participant whose Service has not terminated prior to such date shall be accelerated effective immediately prior to the consummation of the Change in Control to such extent as specified in such Award Agreement. Any acceleration of the lapsing of the Restriction Period that was permissible solely by reason of this Section 11.3 and the provisions of such Award Agreement shall be conditioned upon the consummation of the Change in Control.

11.4 Effect of Change in Control on Restricted Stock Unit Awards. The Board may, in its discretion, provide in any Award Agreement evidencing a Restricted Stock Unit Award that, in the event of a Change in Control, the Restricted Stock Unit Award held by a Participant whose Service has not terminated prior to such date shall be settled effective as of the date of the Change in Control to such extent as specified in such Award Agreement.

12. Compliance with Securities Law.

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares
issued pursuant to an Award unless (i) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award or (ii) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

13. **TAX WITHHOLDING.**

13.1 **Tax Withholding in General.** The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise of an Option, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group’s tax withholding obligations have been satisfied by the Participant.

13.2 **Withholding in Shares.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Participating Company Group. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

14. **AMENDMENT OR TERMINATION OF PLAN.**

The Board may amend, suspend or terminate the Plan at any time. However, without the approval of the Company’s stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2) and (b) no other amendment of the Plan that would require approval of the Company’s stockholders under any applicable law, regulation or rule. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Board. In any event, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant unless necessary to comply with any applicable law, regulation or rule.
15. **MISCELLANEOUS PROVISIONS.**

15.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Board in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

15.2 **Provision of Information.** Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company’s common stockholders.

15.3 **Rights as Outside Director.** No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Outside Director, or interfere with or limit in any way any right of a Participating Company to terminate the Participant’s Service at any time.

15.4 **Rights as a Stockholder.** A Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.2 or another provision of the Plan.

15.5 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

15.6 **Severability.** If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

15.7 **Beneficiary Designation.** Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant’s death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant’s lifetime. If a married Participant designates a beneficiary other than the Participant’s spouse, the effectiveness of such designation may be subject to the consent of the Participant’s spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant’s death, the Company will pay any remaining unpaid benefits to the Participant’s legal representative.
15.8 **Unfunded Obligation.** Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Board or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant’s creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.
SALESFORCE.COM, INC.
2004 OUTSIDE DIRECTORS STOCK PLAN
STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

[Optionee’s Name and Address]

You have been granted an option to purchase Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Number: __________________________
Date of Grant: __________________________
Vesting Commencement Date: ________________
Exercise Price per Share: $ ___________________
Total Number of Shares Granted: ________________
Total Exercise Price: $ ___________________
Type of Option: Nonstatutory Stock Option
Term/Expiration Date: _______________________

Vesting Schedule:
This Option may be exercised, in whole or in part, in accordance with the following schedule:

[25% of the Shares subject to the Option shall vest twelve months after the Vesting Commencement Date, and 1/48 of the Shares subject to the Option shall vest each month thereafter, subject to the Optionee continuing to be a Service Provider on such dates].
Termination Period:
This Option may be exercised for [ninety (90) days] after Optionee’s Service ceases for any reason except death, Disability or Termination After Change in Control. Upon the death or Disability of the Optionee, this Option may be exercised for [one (1) year] after Optionee’s Service ceases. Upon the Termination After Change in Control, this Option may be exercised for [one hundred eighty (180) days] after Optionee’s Service ceases. In no event shall this Option be exercised later than the Term/Expiration Date as provided above.

II. AGREEMENT
A. Grant of Option.

The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant attached as Part I of this Agreement (the “Optionee”) an option (the “Option”) to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the “Exercise Price”), subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 14 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

B. Exercise of Option.

1. Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

2. Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the “Exercise Notice”), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the “Exercised Shares”), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to the Chief Financial Officer of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.
C. Method of Payment.

1. Forms of Consideration Authorized. Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash, by check, or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of whole shares of Stock owned by the Optionee having a Fair Market Value (as determined by the Company without regard to any restrictions on transferability applicable to such stock by reason of federal or state securities laws or agreements with an underwriter for the Company) not less than the aggregate Exercise Price, (iii) by means of a Cashless Exercise, as defined in Section C(2)(b), or (iv) by any combination of the foregoing.

2. Limitations on Forms of Consideration.

(a) Tender of Stock. Notwithstanding the foregoing, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender, or attestation to the ownership, of Stock would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. The Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Optionee for more than six (6) months or were not acquired, directly or indirectly, from the Company.

(b) Cashless Exercise. A “Cashless Exercise” means the assignment in a form acceptable to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Stock acquired upon the exercise of the Option pursuant to a program or procedure approved by the Company (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to decline to approve or terminate any such program or procedure.

D. Non-Transferability of Option.

This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

E. Term of Option.

The Option shall terminate and may no longer be exercised on the first to occur of (a) the Option Expiration Date, (b) the last date for exercising the Option following termination of the Optionee’s Service as described in Part I, above, or (c) pursuant to a Change in Control, to the extent provided in the Plan.

F. Tax Consequences.

Some of the federal tax consequences relating to this Option, as of the date of this Option, are set forth below. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.
G. Exercising the Option.

1. Exercise of the Option. The Optionee may incur regular federal income tax liability upon exercise of a NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. Optionee agrees to make appropriate arrangements with the Company for the satisfaction of all Federal, state, and local income and employment tax withholding requirements applicable to the Option exercise. The Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

2. Disposition of Shares. If the Optionee holds NSO Shares for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

H. Entire Agreement; Governing Law.

The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee’s interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

I. NO GUARANTEE OF CONTINUED SERVICE.

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE’S RIGHT OR THE COMPANY’S RIGHT TO TERMINATE OPTIONEE’S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

By your signature and the signature of the Company’s representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.
<table>
<thead>
<tr>
<th>OPTIONEE:</th>
<th>SALESFORCE.COM, INC.</th>
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<tbody>
<tr>
<td>Signature</td>
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<td>Print Name</td>
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<td>Residence Address</td>
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EXHIBIT A
SALESFORCE.COM, INC.
2004 OUTSIDE DIRECTORS STOCK PLAN
EXERCISE NOTICE

salesforce.com, inc.
[Address]
Attention: [Title]

1. **Exercise of Option.** Effective as of today, __________, ______, the undersigned (“Purchaser”) hereby elects to purchase __________ shares (the “Shares”) of the Common Stock of salesforce.com, inc. (the "Company") under and pursuant to the 2004 Outside Directors Stock Plan (the “Plan”) and the Stock Option Agreement dated, ______ (the “Option Agreement”). The purchase price for the Shares shall be $ ______, as required by the Option Agreement.

2. **Delivery of Payment.** Purchaser herewith delivers to the Company the full purchase price for the Shares.

3. **Representations of Purchaser.** Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. **Rights as Shareholder.** Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 4.2 of the Plan.

5. **Tax Consultation.** Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser’s purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. **Successors and Assigns.** The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.
7. **Interpretation.** Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

8. ** Entire Agreement; Governing Law.** The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser’s interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

9. **Severability.** In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Exercise Notice will continue in full force and effect.

Submitted by:

PURCHASER:

Signature

Print Name              Its

Address

Accepted by:

SALESFORCE.COM, INC.

By

Address:

SALESFORCE.COM, INC.

[address]

Date Received
This Master Service Agreement ("Agreement") is entered into on May 17, 2005 ("MSA Effective Date" and commencement date) by and between the Equinix Entities and the undersigned customer ("Customer"), and includes the following exhibits:

a. Exhibit A – Confidentiality Provisions;
b. Exhibit B – Sublicensing Provisions;
c. Exhibit C – Service Level Agreement; and
d. Exhibit D – Policies.

Capitalized terms used herein but not otherwise defined will have the meaning ascribed to them in Section 10.

1. Services.

a. Subject to the terms and conditions set forth in this Agreement, Equinix will provide the Services to Customer.
b. All Services performed by Equinix Entities for Customer will be performed (i) in a workmanlike manner in accordance with industry standards and practices applicable to the performance of such Services; (ii) in accordance with this Agreement (including applicable Orders); and (iii) in accordance with all material respects with applicable laws.
c. Equinix will maintain the IBX Centers in a reasonably neat and orderly manner, and Equinix Entities will behave in a courteous and professional manner within the IBX Centers and the IBX Center Properties.
d. In the event that Equinix and Customer do not specifically agree to a time in which Equinix will begin performance of a Service, Equinix agrees to work with reasonable diligence to begin performance of such a Service.
e. Upon reasonable prior notice from Customer (but in all cases upon at least one (1) week’s prior notice) and with reasonable frequency (but at least once per quarter), Equinix will provide Customer and/or Customer’s authorized agents with reasonable access to documentation regarding Equinix’s policies, controls and processes to assist Customer with its SAS70 compliance. Customer may provide access to such documentation to its auditors and advisors, however, Customer will be responsible for ensuring that the information contained in such documentation is kept confidential by such auditors and advisors. At each such review, to the extent required by Customer’s auditors Equinix agrees to sign reasonable and customary letters of representation that the audited controls were in place during the reviewed period and that the audited process records to which Customer was given access, were accurate as of the date of such review.

2. Ordering.

a. Customer may request Services during the Term by (i) executing a Sales Order, (ii) placing an Online Order, or (iii) placing a Phone Order. Each Order, which will only be effective when accepted by Equinix, will be governed by the terms and conditions of this Agreement.
b. Equinix will provide Customer with an account and password to access the Customer Care Website. Customer is responsible for maintaining the confidentiality of its account and password and for restricting and granting access thereto. Notwithstanding anything in this Agreement to the contrary, Customer is responsible and liable for all activities that occur under Customer’s account (including all payments owed for any Orders that are placed under Customer’s account, regardless of whether such activities are conducted by Customer, a Sublicensee or any other third party, and regardless of whether such Orders are authorized by Customer. Notwithstanding the foregoing, Customer is neither responsible nor liable for activities caused by a breach in Equinix’s security policies governing the Customer Care Website (including, but not limited to, hacking) or activities caused by Equinix’s gross negligence. None of the Equinix Entities have any obligation to verify that anyone using Customer’s account and password has Customer’s authorization. Equinix shall send Customer an electronic mail confirmation to confirm Online/Phone Orders. Such confirmation shall be sent to the person authorized by Customer to place Online/Phone Orders who is designated on the Order.

3. Payment Terms and Taxes

a. Unless otherwise agreed between the parties in writing, Service Fees for the Services will begin to accrue on the Billing Commencement Date. If Equinix fails to deliver a Service by the applicable Billing Commencement Date, and such failure is not caused by Customer or Customer’s contractors or agents, Customer shall not be obligated to pay for such Service until Equinix delivers such Service. Equinix will invoice Customer for the Services on a monthly basis (partial months will be billed on a pro rata basis) and Customer will pay for the Services in accordance with this Section 3 and the Orders. Customer will pay in full all invoices from Equinix within [***] of the date of invoice. Any past due amounts owed by Customer will accrue interest at the lesser of [***] per month or the highest rate permitted by applicable law. Unless otherwise stated in the Order, all invoices will be paid in U.S. Dollars. In the event that a Billing Dispute is resolved in Equinix’s favor, Customer shall immediately pay Equinix the full amount that is the subject of the Billing Dispute which such amount will accrue interest at a rate of [***] per month.
b. The Service Fees for Services ordered through Sales Orders will be listed on the Sales Orders. For all other Orders, the Service Fees for Services will be the price for such Services agreed to by the parties in writing or in an Order Confirmation. Customer agrees to pay for and Equinix shall provide the Services for the duration of the Term. Notwithstanding anything in this Agreement to the contrary, for each Service, excluding Power Services, upon the expiration of the initial Service Term, the rates and fees for such Service will be subject to change, at a rate not to exceed [***] per year upon ninety (90) days’
c. Notwithstanding anything to the contrary in this Agreement, including Section 3(b), upon sixty (60) days’ prior notice to Customer, Equinix may change the rates and fees for the Power Services at any time after the first year of the Service Term for such Power Services, at a rate not to exceed [***] per year.

d. No Equinix Entity is responsible or in any way liable for any Taxes or third-party charges related to the activities, or the ownership or operation of the equipment (including Customer’s Equipment) at any IBX Center, or attributable to, any IBX Center by any of the following: Customer, Customer’s Authorized Persons, Accompanying Persons, and Associated Entities. Without limiting the foregoing, Customer will be responsible for paying any and all Taxes separately imposed, levied or assessed against Customer by, and preparing and filing any necessary return with, any governmental, quasi-governmental or tax authorities by the date such payments and returns are due. In no event will Customer’s Equipment be construed to be fixtures.

e. Service Fees are exclusive of any Taxes imposed on Service Fees. Customer will be responsible for paying any Taxes imposed on Service Fees at the same time it pays the Service Fees. Customer will be responsible for timely paying in full all Taxes.

f. If Customer is required to make any deduction or withholding or to make any payment, on account of any Taxes in any jurisdiction, in respect of any amounts payable hereunder by Customer to the Equinix Entities, such amounts will be increased to the extent necessary to ensure that after the making of such deduction, withholding or payment, the Equinix Entities receive when due and retain (free from any liability in respect of any such deduction, withholding or payment) an amount equal
*** Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [***]. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

to what would have been received and retained had no such deduction, withholding or payment been required or made.

g. In the event that Customer’s account is past due two (2) or more times in any twelve (12) – month period, Equinix may charge Customer a deposit equal to [***] of the recurring Service Fees that are billable at the time such deposit is charged (the “Deposit”). The Deposit shall be held by Equinix and returned or credited to Customer, without interest, upon termination of this Agreement. Equinix shall, without limiting its remedies otherwise available, have the right to apply the Deposit to amounts that are past due (excluding amounts for which there is a Billing Dispute).

4. Access and Use of the IBX Centers, and Use of Customer’s Equipment

a. Subject to the terms and conditions of this Agreement, Customer will have access to the Licensed Space twenty-four (24) hours per day, three hundred sixty-five (365) days per year.

b. Unless otherwise expressly provided in an Order (and then only to the extent otherwise expressly provided therein), Customer will be responsible for configuring, providing, placing, installing, upgrading, adding, maintaining, repairing, and operating Customer’s Equipment, which actions Customer may engage in only to the extent permitted by, and subject to, the terms and conditions of this Agreement. Equinix will not engage in and will not allow third parties to engage in the activities set forth in the prior sentence unless expressly provided in an Order, without Customer’s prior written consent. Customer represents, warrants and covenants that Customer has the legal right and authority (including regulatory consents), and will continue to have the legal right and authority throughout the Term, to operate, configure, provide, place, install, upgrade, add, maintain and repair Customer’s Equipment as contemplated by this Agreement. Without limiting the foregoing, Customer will obtain, and maintain throughout the Term, such consent of Customer’s sub contractors, third party providers, vendors, Sublicensees and any other parties as may be necessary for Equinix (including any contractors or others acting at Equinix’s request) to have the right to use and access Customer’s Equipment for the purpose of providing Services. Equinix shall provide the location of any Licensed Space to Customer prior to Customer signing a Sales Order for such Licensed Space. Once a Licensed Space is determined and agreed upon by Customer, Equinix may not relocate Customer without Customer’s prior written permission, to be granted or withheld in Customer’s sole and absolute discretion.

c. At all times during the Term, Equinix and Customer agree to comply with the Policies attached hereto as Exhibit D as such Polices may be amended from time to time in accordance herewith, which are at all times incorporated by reference into this Agreement. Customer acknowledges that it has received a copy of the current Policies prior to the execution of this Agreement. Any modification by Equinix to the Policies will be effective upon thirty (30) days prior written notice to Customer, except modifications to the Shipping Policies, which will be effective upon five (5) Business Days prior written notice. In the event a modification is materially adverse to Customer’s use of the Services within the Licensed Space as conducted at such time, such modification shall not be effective without Customer’s written approval (which may be given or withheld in Customer’s reasonable discretion); provided that if Customer fails to notify Equinix in writing within ten (10) days after Customer’s receipt of written notification from Equinix of such modification in the Policies that it is withholding its approval of the proposed modification Customer shall be deemed to approve such modification. In the event of a direct conflict between this Agreement and the Policies (as such may be amended), the terms and conditions of this Agreement shall prevail.

d. Customer will be responsible and liable for all acts or omissions of Customer’s Authorized Persons, Accompanying Persons, and Associated Entities, and all such acts or omissions will be attributed to Customer for all purposes under this Agreement (to the same extent as if Customer had committed the act or omission), including for purposes of determining responsibility, liability and indemnification obligations. The Equinix Entities will be responsible and liable for all acts or omissions of the Equinix Parties, and all acts or omissions of the Equinix Parties will be attributed to the Equinix Entities for all purposes under this Agreement, including for purposes of determining responsibility, liability and indemnification obligations.

e. Customer will not file a mechanic’s lien or similar lien on the Licensed Space or IBX Centers, and Customer will be responsible for any mechanic’s lien or similar lien filed by any Authorized Person, Accompanying Person or Associated Entity. Without limiting the foregoing, in the event any such lien is filed, Customer will be responsible for the immediate satisfaction, payment or bonding of any such lien.

f. Equinix will not permit third parties or Equinix’s employees to photograph or videograph the Licensed Space without Customer’s prior written approval.

g. Notwithstanding anything to the contrary in the Policies, Equinix may only access Customer’s Licensed Space without Customer’s prior consent: (i) during an emergency; (ii) to perform Services for Customer; and (iii) as otherwise permitted under this Agreement.

h. Equinix will give Customer reasonable prior notice (which, notwithstanding Section 9(a) may include e-mail only), of any work that will occur over or under Customer’s Licensed Space.

i. Notwithstanding anything to the contrary in the Policies, except in emergency situations, Equinix will provide Customer with reasonable notice prior to the entry of Equinix’s landlord in Customer’s Licensed Space.

j. Equinix will allow Customer to install and manage its own supplemental security systems to protect its space and vault environments, such approval not to be unreasonably withheld, conditioned or delayed. This may include sensors, cameras and other devices. In installing and managing such supplemental security systems, Customer will comply with the Policies, including all security procedures and procedures governing the installation and maintenance of such equipment. Such systems will not: (i) view, videotape or photograph any other customer’s space or equipment, (ii) limit Equinix’s ability to access the Licensed Space in the event of an emergency, or (iii) limit/affect any area outside of the Licensed Space.

k. Upon Customer’s request, Equinix will provide Customer with the shipping rules applicable to an IBX Center.

l. In the event that Equinix chooses to employ security measures in addition to those set forth in the IBX Center Policies in effect as of the MSA Effective Date, and such measures have a material impact on Customer, Equinix shall notify Customer at least thirty (30) days prior to employing such security measures.
m. In the event that Equinix becomes aware of any damage or threat of damage to the IBX Center that may impact Customer’s use of the Licensed Space or damage to Customer’s Equipment, Equinix will promptly inform Customer of such damage.

5. **Indemnification.**

   a. The Equinix Entities will indemnify, defend and hold harmless the Customer Parties from any and all liability, damages, costs and expenses (including reasonable attorneys’ fees and expenses) for personal injury or damage to tangible property resulting from the gross negligence or willful misconduct of (i) the Equinix Entities, (ii) the Equinix Parties with respect to their provision of Services and (iii) any independent contractor or other third party that performs any of the Applicable Equinix Entities’ obligations hereunder pursuant to Section 9(m) hereof.

   b. Customer will indemnify, defend and hold harmless the Equinix Parties from any and all liability, damages, costs and expenses (including reasonable attorneys’ fees and expenses) for (i) personal injury or damage to tangible property resulting from the gross negligence or willful misconduct of Customer or Authorized Persons, Accompanying Persons or Associated Entities; (ii) any claim by any of Customer’s Authorized Persons, Accompanying Persons or Associated Entities or any employee of Customer other than a claim based on the gross negligence or willful misconduct of Equinix or the Equinix Entities; (iii) any third-party claim relating to, or arising out of, Customer’s, or any of its customers’, services, equipment (including Customer’s Equipment) or Customer’s use of the Services provided under this Agreement (including claims relating to interruptions, suspensions, failures, defects, delays, impairments or inadequacies in any of the aforementioned services, including the Services from Equinix); and (iv) any claim resulting from Customer’s failure to obtain or maintain the required consents pursuant to Section 4(b).
6. Warranty Disclaimer, Limitation of Liability, Credits.

a. NONE OF THE EQUINIX ENTITIES WARRANT THAT THE SERVICES PROVIDED HEREUNDER WILL BE UNINTERRUPTED, ERROR-FREE, OR COMPLETELY SECURE. THE EQUINIX ENTITIES DO NOT MAKE, AND THE EQUINIX ENTITIES HEREBY DISCLAIM, ANY AND ALL IMPLIED WARRANTIES, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, THE EQUINIX ENTITIES DO NOT MAKE, AND HEREBY DISCLAIM, ALL EXPRESS WARRANTIES. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH HEREIN, ALL SERVICES PROVIDED PURSUANT TO THIS AGREEMENT ARE PROVIDED OR PERFORMED ON AN “AS IS”, “AS AVAILABLE” BASIS, AND CUSTOMER’S USE OF THE SERVICES IS SOLELY AT ITS OWN RISK.

b. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, IN NO EVENT WILL ANY OF THE EQUINIX ENTITIES OR CUSTOMER BE LIABLE TO THE OTHER PARTY FOR ANY CONSEQUENTIAL, INDIRECT, INCIDENTAL, SPECIAL, RELIANCE, EXEMPLARY OR PUNITIVE DAMAGES, INCLUDING LOST PROFITS, LOSS OF BUSINESS, LOSS OF REVENUES, LOSS OF DATA, INTERRUPTION OR CORRUPTION OF DATA, EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, OR ANY OTHER TYPE OF DAMAGES OTHER THAN DIRECT DAMAGES.

c. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, THE EQUINIX ENTITIES’ TOTAL LIABILITY TO CUSTOMER IN THE AGGREGATE FOR THE ENTIRE TERM (AND REGARDLESS OF WHETHER THE CLAIMS ARE Brought DURING OR AFTER THE TERM) WITH RESPECT TO ALL CLAIMS ARISING FROM OR RELATED TO THE SUBJECT MATTER OF THIS AGREEMENT (INCLUDING ATTORNEYS’ FEES), EXCEPT FOR CLAIMS ARISING OUT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE EQUINIX ENTITIES, WILL NOT EXCEED THE AMOUNT ACTUALLY PAID BY CUSTOMER FOR THE [***] PERIOD IMMEDIATELY PRECEDING THE MONTH IN WHICH THE FIRST CLAIM AROSE OR IF DURING THE FIRST [***] MONTHS OF THE TERM THE AMOUNT CUSTOMER WILL BE OBLIGATED TO PAY DURING THE FIRST [***] MONTHS OF THE TERM. AS A FURTHER LIMITATION, EXCEPT FOR CLAIMS ARISING OUT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE EQUINIX ENTITIES, THE EQUINIX ENTITIES’ MAXIMUM LIABILITY FOR ANY CLAIMS RELATING TO SERVICES OFFERED OR PROVIDED BY EQUINIX (I) FOR A NON-RECURRING CHARGE ONLY, OR (II) AS SMART HANDS SERVICES, SHALL NOT EXCEED [***] PROVIDED ON THE OCCASION GIVING RISE TO THE CLAIM.

d. THE LIMITATIONS SET FORTH IN SECTIONS 6(b)-(c) WILL APPLY TO ANY AND ALL CLAIMS AND CAUSES OF ACTION WHATSOEVER, REGARDLESS OF WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR OTHER THEORY.

e. [Intentionally Deleted.]

f. Nothing in this Agreement will be construed as limiting the liability of either party for personal injury or death or damage to personal property resulting from gross negligence of a party.

g. Customer shall have no obligation to pay any Service Fees for the Licensed Space or any portion thereof on any calendar day during which the Licensed Space is not reasonably usable by Customer for any portion thereof; provided that Customer shall continue to be obligated to pay Service Fees for the Licensed Space if such inability to use the Licensed Space is a result of (i) the actions or omissions of Customer, Customer’s Authorized Persons, Accompanying Persons or Associated Entities; (ii) failure of Customer’s Equipment, or the equipment of any of Customer’s Authorized Persons, Accompanying Persons, or Associated Entities; or (iii) a Force Majeure Event. If the Licensed Space is not usable for a period of forty-eight (48) hours consecutively or for more than forty-eight (48) hours in any calendar month or for one (1) consecutive week if the Licensed Space is unusable due to a Force Majeure Event as defined in Section 9(n) of this Agreement, then Customer shall have the right to terminate this Agreement by written notice given not later than thirty (30) days after the occurrence giving Customer such right, such termination to be effective on a date specified by Customer in such notice not later than thirty (30) days after such notice is given, subject in each case to Customer’s rights with respect to the Transition Period. Except for the specific remedy set forth above in this Section 6(g), Customer agrees that the Service Level Agreement attached as Exhibit C shall be Customer’s sole and exclusive remedy for interruptions, suspensions, failures, defects, impairments or inadequacies in any of the Services.

7. Insurance.

a. Customer agrees to maintain, at its expense, for each IBX Center during the entire time this Agreement is in effect, (i) Commercial General Liability Insurance in an amount not less than One Million U.S. Dollars ($1,000,000), or the local currency equivalent, per occurrence for bodily injury, death and property damage, which policy will include contractual liability coverage related to this Agreement; (ii) Workers’ Compensation and employer’s liability insurance in an amount not less than that prescribed by law; and (iii) umbrella or excess liability insurance with a combined single limit of no less than Two Million U.S. Dollars ($2,000,000) or the local currency equivalent. Upon Equinix’s written request, Customer will furnish Equinix with certificates of insurance that evidence the minimum levels of insurance set forth herein and which name as additional insureds the Equinix Entities and other parties with an interest in the Licensed Space or the IBX Center, as designated by Equinix. None of the Equinix Entities have any obligation to insure any property belonging to or in the possession of Customer.

b. Equinix agrees to maintain, at its expense, with respect to any IBX Center in which Customer has Licensed Space during the Term, (i) Commercial General Liability Insurance in an amount not less than One Million U.S. Dollars ($1,000,000) or the local currency equivalent per occurrence for bodily
injury, death and property damage; (ii) Workers’ Compensation and employer’s liability insurance in an amount not less than that prescribed by law and (iii) umbrella or excess liability insurance with a combined single limit of no less than Two Million U.S. Dollars ($2,000,000) or the local currency equivalent. Upon Customer’s written request, Equinix will furnish Customer with certificates of insurance that evidence the minimum levels of insurance set forth herein and which name Customer as an additional insured. None of the Equinix Entities have any obligation to insure any property belonging to or in the possession of Customer. Customer does not have any obligation to insure any property belonging to or in the possession of Equinix.

c. As to each insurance policy referred to in Section 7(a), Customer will obtain a waiver of subrogation in favor of Equinix. As to each insurance policy referred to in Section 7(b), Equinix will obtain a waiver of subrogation in favor of Customer. Except as set forth in Section 5 or for liability arising out of Customer’s gross negligence or willful misconduct, Customer will not have any responsibility for any loss or damage to equipment owned by any of the Equinix Entities. Except as set forth in Section 5 or for liability arising out of Equinix’s gross negligence or willful misconduct, none of the Equinix Entities will have any responsibility for any loss or damage to Customer’s Equipment.

8. **Term of Agreement, Suspension of Service, Termination, and Removal of Customer’s Equipment.**

   a. This Agreement will commence on the MSA Effective Date. Unless earlier terminated in accordance with its terms, this Agreement will terminate on the date the last Order then in effect expires or is terminated pursuant to the terms and conditions set forth in this Agreement (which will be the date on which the last Service Term of such last Order expires or is terminated pursuant to the terms and conditions of this Agreement). Unless otherwise agreed to by Equinix and Customer in writing, (i) the initial Services Term of all Services in an IBX
Center will end when the initial Service Term of the Licensed Space on the first Sales Order that contains Licensed Space for that IBX Center ends (such Service Term for each IBX, the “First Space Service Term”), or at the end of the then-current renewal term of the First Space Service Term if such Services are ordered during a renewal term of the First Space Service Term. Unless otherwise agreed to by the parties in writing or in an applicable change order agreed to by the parties, for each Service, upon expiration of the initial Service Term, and upon expiration of each renewal, the Service Term for such Service will renew automatically for additional terms of three (3) months each, unless either Equinix notifies Customer, or Customer notifies Equinix at least ninety (90) days prior to the end of the then-current Service Term for such Service that it has elected to terminate the Service Term for such Service, in which event the Service Term for such Service will terminate at the end of such then-current Service Term.

b. Either Party may terminate this Agreement by giving written notice of termination to the other Party if the other Party breaches any material term or condition of this Agreement and fails to cure such breach within thirty (30) days after receipt of written notice of the same. Notwithstanding the foregoing, except where Customer has failed to timely cure a monetary breach, if a Party fails to timely cure a material breach as to only one IBX Center, and Customer has Licensed Space in more than one IBX Center, then the non-breaching Party may only terminate this Agreement (and the corresponding Orders) as to the IBX Center where the material breach has not been timely cured, and this Agreement will remain in full force and effect as to all other IBX Centers. Notwithstanding the prior sentence, if Customer notifies Equinix’s Accounts Receivable Department in writing that any payment should be apportioned among balances owed for specific IBX Centers, Equinix shall honor such apportionment and if Customer fails to cure a monetary breach, Equinix may only terminate this Agreement (the corresponding Orders) as to IBX Centers for which there is an outstanding balance after applying such apportionment.

c. Notwithstanding Section 8(b), the Equinix Entities may terminate this Agreement after written notice to Customer (or, at Equinix’s sole discretion, suspend the provision of Services, including discontinuing the supply of power and denying access to the IBX Center) if (i) Customer fails to cure any monetary breach of this Agreement (e.g. fails to pay any amounts owed) within ten (10) days of written notice of the same (five (5) days in the event Customer’s account is past due on three (3) or more occasions during a six (6)-month period); (ii) Customer liquidates, ceases to do business, or becomes insolvent; (iii) Customer materially breaches any provision of this Agreement that in Equinix’s reasonable judgment materially interferes with Equinix’s operation or maintenance of the IBX Center or with its other customers’ use thereof, and Customer fails to cure such breach within two (2) hours of being notified of the same or (iv) Customer materially breaches any provision of this Agreement that in Equinix’s reasonable judgment has the potential to materially interfere with Equinix’s operation or maintenance of the IBX Center or with its other customers’ use thereof, and Customer fails to cure such breach within forty-eight (48) hours of being notified of the same. Notwithstanding the foregoing, if clause (iii) or (iv) above is applicable, while Equinix may suspend the provision of Services in accordance with the above, Equinix will not terminate this Agreement based on such clauses alone unless Customer’s breach continues for at least ten (10) days. If Equinix suspends a Service pursuant to this Section 8(c), unless Equinix has subsequently terminated this Agreement as permitted herein, Equinix will resume the discontinued Service within twenty-four (24) hours after it is reasonably satisfied Customer has cured the breach(es) which gave rise to Equinix’s right to suspend the Service. Equinix may charge a reinstatement fee equal to the direct out-of-pocket expenses incurred by Equinix to resume the discontinued Service.

d. The Equinix Entities or Customer may terminate this Agreement as to any affected Licensed Space or IBX Center if any portion of the IBX Center in which the affected Licensed Space is located becomes subject to a condemnation proceeding or is condemned, Equinix’s possession is otherwise terminated or abated, or as a result of a casualty (including a Force Majeure Event as defined in Section 9(n)), Equinix cannot provide Customer with the Service(s) or with access to the affected Licensed Space as contemplated herein for a period exceeding thirty (30) days.

e. Subject to Section 8(j), upon expiration or termination of an Order (or any portion thereof), all other rights of Customer with respect to the Licensed Space licensed under such Order (or the affected portion thereof) ("Terminated Space") will terminate, and Customer will remove all of Customer’s Equipment and other property belonging to Customer or Customer’s Authorized Persons, Accompanying Persons and/or Associated Entities, but excluding any wiring, cable or other equipment or property owned, leased or licensed by any of the Equinix Entities, from the Terminated Space no later than the effective date of such termination. If Customer fails to remove any such property in accordance with this Section 8(e), the Equinix Entities will be entitled to pursue all available legal remedies against Customer, including one or more of the following remedies: (i) immediately removing any or all such property and storing it at Customer’s expense at an on-site or off-site location, (ii) shipping such property to the address set forth at the end of this Agreement at Customer’s risk and expense, or (iii) upon providing thirty (30) days’ prior notice to Customer, and if Customer fails to remove such property within thirty (30)-day period, liquidating such property in any commercially reasonable manner and charging Customer for all costs associated with the liquidation.

f. While Customer has no right to use the Services provided under an Order after the end of the Service Term (as such Service Term may be extended by any Transition Period), if Customer does so, Customer will be obligated to pay for such Services pursuant to the terms and conditions of this Agreement and any such Order, and any such Order will continue in effect for as long as the Services are used by Customer. Notwithstanding the foregoing, in such event, any such Order will be terminable at will by Equinix effective upon ten (10) days written notice to Customer. In addition, notwithstanding anything in this Agreement to the contrary, if this Agreement would have otherwise terminated prior to Customer’s cessation of its use of the Services, this Agreement will continue in effect for as long as the Services are used by Customer, but this Agreement will be terminable at will by the Equinix Entities upon ten (10) days written notice to Customer.

g. The Equinix Entities waive, release and relinquish any statutory, common law or constitutional liens they may have or at any time hereafter may be entitled to assert against the personal property, trade fixtures and telecommunications or other equipment which Customer installs, or is otherwise located, in the Licensed Space.

h. Neither Party will be liable to the other Party for properly terminating this Agreement or any portion thereof in accordance with its terms, but Customer will be liable to the Equinix Entities for any amounts owed prior to the effective date of termination.

i. Subject to Section 8(j), notwithstanding anything in this Agreement (including in any Order) to the contrary, under no circumstances will any Order survive the expiration or earlier termination of this Agreement, and under no circumstances will any Order pertaining to an IBX Center survive the termination of this Agreement as to that IBX Center. Subject to Section 8(j), none of the Equinix Entities will have any obligation to provide any Services after the
expiration or earlier termination of this Agreement, and none of the Equinix Entities will have any obligation to provide any Services at an IBX Center after the expiration or earlier termination of this Agreement as to such IBX Center.

j. In the event that Customer terminates this Agreement due to Equinix’s material breach, Customer may, in Customer’s termination notice, designate an effective date of termination that is no later than three (3) months after the end of the thirty-day cure period (the “Transition Period”), and each party shall be bound by all terms and conditions of this Agreement until such effective date of termination. During the Transition Period, Customer shall have the right to continue to receive Services pursuant to the terms and conditions (including the obligation to pay charges for the Services) of this Agreement and to use the Smart Hands Service at Equinix’s then-current published list rates minus [***] and shall continue to pay for the Services until the end of the Transition Period.

9. **Miscellaneous.**

   a. Except where otherwise expressly stated in the Agreement, (and regardless of whether certain provisions in this Agreement expressly require written notice, consent or approval) all notices, consents, or approvals required by this Agreement will only be effective if in writing and sent by (i) certified or registered air mail, postage prepaid, (ii) overnight delivery requiring a signature upon receipt, (iii) delivery by
hand, or (iv) facsimile or electronic mail (promptly confirmed by certified or registered mail or overnight delivery), to the parties at the respective street addresses, facsimile numbers, or electronic mail addresses set forth at the end of this Agreement or such other addresses or facsimile numbers as may be designated in writing by the respective parties. Notices, consents and approvals will be deemed effective on the date of receipt. Notwithstanding anything to the contrary in this Agreement, notices sent by Equinix pursuant to Sections 3(b), 3(c) and 4(c) may be sent by first class US mail, and receipt of such notices shall be presumed (which presumption shall be rebuttable to the extent not actually received) to occur five (5) days after mailing.

b. This Agreement will be governed in all respects by the internal laws of the State of California without regard to its conflict of laws provisions. The Parties irrevocably agree to the exclusive jurisdiction of the courts of San Francisco, California. If any legal action is brought by either Party arising from, or related to, the subject matter of this Agreement, the prevailing Party will be entitled to an award of its reasonable attorneys’ fees and costs.

c. No Party’s directors, officers or employees will have any liability to any other Party with respect to the Agreement. Except as may be specifically otherwise consented to in writing by an Affiliate of a Party (and none of the other terms of this Agreement shall be deemed to constitute such consent), no Party’s Affiliates will have any liability to any other Party to this Agreement, including with respect to any Orders.

d. Any Order may be amended by a change order that expressly provides it amends such Order, but only if such change order is either executed by Equinix and Customer, or is prepared by Equinix and agreed to by Equinix and Customer, and Equinix’s and Customer’s agreement to such amendment to the Order is reflected in the manner required by the change order. Any Order amended by a change order shall thereafter, as amended, continue to be governed by the terms and conditions of this Agreement. This Agreement, the exhibits, the Policies then in effect, and all Orders executed at any time during the Term, all of which are incorporated herein by reference into this Agreement, constitute the complete and entire agreement between the parties with respect to the subject matter hereof, and supersede and replace any and all prior or contemporaneous discussions, negotiations, proposals, understandings and agreements, written and oral, regarding such subject matter, as well as any industry custom. This Agreement will be effective only when signed by each Party. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument. Subject to the next sentence below, this Agreement may be amended only in writing by an instrument signed by each Party. For purposes of clarification, the prior sentence is not intended to modify or limit Equinix’s and Customer’s rights to (i) agree to Online Orders or Phone Orders pursuant to the terms of Section 9(f) below or (ii) enter into a Sales Order executed only by Customer and Equinix.

e. No waiver of any breach of any provision of this Agreement will constitute a waiver of any prior, concurrent or subsequent breach of the same or any other provisions hereof, and no waiver will be effective unless made in writing and signed by an authorized representative of the waiving Party.

f. If Customer and Equinix execute multiple Orders, each additional Order will supplement rather than replace the prior Orders, unless otherwise stated by the parties in writing. Notwithstanding anything in this Agreement to the contrary, (i) Equinix has no obligation to execute, or to amend, any Order with Customer, (ii) no Sales Order will be effective unless executed by both parties, (iii) no Online Order or Phone Order will be effective unless made by Customer and agreed to by Equinix, which agreement by Equinix will be reflected either by Equinix’s written confirmation of such Online Order or Phone Order or by Equinix’s commencement of the provision of the Services ordered under the Online Order or Phone Order, and (iv) no amendment to an Order will be effective unless the change order that is amending such Order is prepared by Equinix, and expressly provides that it amends such Order.

g. Each Party acknowledges and agrees that it has reviewed, and has had an opportunity to have reviewed, this Agreement (including the exhibits and the Policies), and it is the parties’ intent that this Agreement will not be construed against any Party. The section headings and captions throughout this Agreement are for convenience and reference only, and will not be used to construe this Agreement.

h. If any provision of this Agreement, as applied to any Party or to any circumstance, is adjudged by a court to be invalid, illegal or unenforceable, the same will not affect the validity, legality, or enforceability of the portion of the provision, if any, that is not invalid, illegal or unenforceable, the application of such provision in any other circumstances, or the validity, legality, or enforceability of any other provision of this Agreement, provided that Customer maintains the right to utilize the Licensed Space for its intended purposes. All terms and conditions of this Agreement will be deemed enforceable to the fullest extent permissible under applicable law, and, when necessary, the court in any action between the Parties is requested to reform any and all terms or conditions to give them as much effect as possible.

i. Sections 5, 6, 8, 9(b), (c), (e), (g), (i), (j), (n), Exhibit A, and Section (g) of Exhibit B will survive the termination of this Agreement (for a period of three (3) years after the termination of this Agreement in the case of Exhibit A of this Agreement). In addition, all provisions of this Agreement that can only be given proper effect if they survive the termination of this Agreement will survive the termination of this Agreement. This Agreement will be valid as to any obligation incurred prior to termination of this Agreement. Without limiting the foregoing, Customer will pay all accrued amounts owed to the Equinix Entities under this Agreement, including any amounts that are not due until after the expiration or earlier termination of this Agreement. Each Party recognizes and agrees that the warranty disclaimers and liability and remedy limitations in this Agreement are material bargained for bases of this Agreement and that they have been taken into account and reflected in determining the consideration to be given by each Party under this Agreement and in the decision by each Party to enter into this Agreement. The parties agree that the warranty disclaimers and liability and remedy limitations in this Agreement will survive and apply even if found to have failed of their essential purpose.

j. Except where otherwise expressly stated herein, and subject to the limitations set forth in Section 6, the rights and remedies provided for herein are cumulative and not exclusive of any rights or remedies that a Party would otherwise have.

k. The Equinix Entities on the one hand, and Customer on the other hand, are independent contractors and this Agreement will not establish any relationship of partnership, joint venture, employment, franchise or agency between the Equinix Entities and Customer. Neither the Equinix Entities nor Customer will have the power to bind the other or incur obligations on the other’s behalf without the other’s prior written consent. Neither Customer nor the Equinix Entities grants the other the right to use its trademarks, service marks, trade names, logos, copyrights, or other intellectual property rights or other designations in any promotion, publication, or press release without the prior written consent of the other Party in each case.

l. This Agreement, and the rights of Customer hereunder, are, without any further action by any Party, subject and subordinate to the leases for the IBX Centers and all superior instruments to such leases (including, without limitation, mortgages or ground leases for the IBX Centers). This Agreement is a services agreement and is not intended to and will not constitute a lease of any real or personal property. Customer acknowledges and agrees that (i) it has been granted only a license (“License”) to use the Licensed Space in accordance with this Agreement; (ii) Customer has not been granted any real property interest under this Agreement; and (iii) Customer has no rights as a tenant or otherwise under any real property or landlord/tenant laws, regulations, or ordinances.
The Equinix Entities hereby reserve, with respect to the IBX Centers, all rights not specifically granted to Customer in this Agreement, including, without limitation, the right (i) of access to and use of the IBX Centers for their own use or the use of others; (ii) to grant additional licenses to other persons or co-location customers for the use of portions of the IBX Centers; and (iii) to exercise or grant other rights not inconsistent with the rights granted in this Agreement.

m. Any Equinix Entity (the “Applicable Equinix Entity”) may permit any other Equinix Entity, or any independent contractor or other third party to perform any of the Applicable Equinix Entity’s obligations hereunder. Any Equinix Entity may assign or transfer any of its rights under this Agreement to any other Equinix Entity, and any Equinix Entity may assign, delegate or transfer its rights and obligations under this Agreement to an Equinix Affiliate, or to a party acquiring all or
substantially all of an Equinix Entity’s business or assets, including through a merger, and in the event of any such assignment, transfer or delegation, and the assumption by the transferee of the obligations of such Equinix Entity hereunder, such Equinix Entity will be released from any further liability or obligation under this Agreement arising from and after the date of such assignment, transfer or delegation. Accordingly, the Equinix Entities may assign, delegate or transfer their rights and obligations under this Agreement to an Equinix Affiliate, or to a party acquiring all or substantially all of the Equinix Entities’ business or assets, including through merger and in the event of any such assignment, transfer or delegation, and the assumption by the transferee of the obligations of the Equinix Entities hereunder, the Equinix Entities will be released from any further liability or obligation under this Agreement from and after the date of such assignment, transfer or delegation. In the event that Equinix intends to so assign, delegate or transfer its rights and/or obligations in this Agreement, Equinix shall provide Customer with written notice of such intent, and unless Customer provides Equinix with written notice of its desire to terminate this Agreement no later than ten (10) days of Equinix’s notice, Customer will be deemed to have agreed to such intended assignment, delegation or transfer once it is effected.

Customer may assign this Agreement without the Equinix Entities’ consent only where the party to whom this Agreement is assigned by Customer is either an Affiliate of Customer, or is acquiring all or substantially all of Customer’s business or assets, including through merger. This Agreement will be binding upon and inure to the benefit of all successors and permitted assigns of the Equinix Entities and Customer, who will be bound by all of the obligations of their predecessors or assigns. Except as set forth in Exhibit B of this Agreement with respect to sublicensing only, and this Section 9(m) with respect to an assignment of the entire Agreement under the conditions specified above only, Customer will not assign, delegate, transfer or sublicense all or any part of the Licensed Space.

n. Except for Customer’s obligation to pay for Services rendered, neither Party will be responsible or in any way liable, and neither Party will have any termination or other rights, arising out of or relating to any failure by the other Party to perform or any hindrance in the performance of its obligations under this Agreement if such failure or hindrance is caused by events or circumstances beyond such Party’s control, including acts of God, war, third-party labor strike, terrorist act, fire, flood, earthquake, any law, order, regulation or other action of any governing authority or agency thereof, or failure of the Internet, (each a “Force Majeure Event”); provided, however, that the Parties agree that performance by Equinix of the Services shall not be excused by reasons of interruptions of utility services or failure of power to be delivered to the IBX Center(s) by any third party (including any local utility provider).

o. All Orders are at all times subject to all of the terms and conditions of this Agreement. In the event of a conflict between the body of this Agreement and an Order, the body of this Agreement will control, unless the body of this Agreement or the Order states that the conflicting term in the Order controls.

p. Unless otherwise expressly agreed to by the parties in writing, Equinix and the applicable Equinix Entities will retain title to all parts and materials used or provided by Equinix or any of the Equinix Entities or third parties acting on Equinix’s behalf in the performance and/or furnishing of the Services.

q. The Parties agree that, with the exception of the applicable landlords of any of the Equinix Entities, there will be no third party beneficiaries to this Agreement, including, but not limited to, any Sublicensee, end user, customer or the insurance providers for either Party.

r. The parties specifically exclude application of the United Nations Convention on Contracts for the International Sale of Goods to this Agreement.

s. The Equinix Entities represent that (i) they have the legal right to enter into this Agreement and perform its obligations hereunder; (ii) the performance of their obligations and delivery by Equinix of the Services to Customer do not violate any applicable laws or regulations; (iii) all requisite action has been taken by the Equinix Entities and all requisite consents required of the Equinix Entities have been obtained in connection with this Agreement, the instruments, and documents referenced herein, and the consummation of the transaction contemplated hereby, and no consent of any other party is required; (iv) neither the execution of this Agreement nor the consummation of the transactions contemplated hereby shall result in a material breach of or constitute a material default under any agreement, document, instrument, or other obligation to which the Equinix Entities are a party or by which the Equinix Entities may be bound, or under any law, statute, ordinance, rule, governmental regulation, writ, injunction, order, or decree of any court or governmental body, as applicable to the Equinix Entities; (v) there has not been filed by or against any of the Equinix Entities or any Affiliate thereof a petition in bankruptcy, voluntary or otherwise, any assignment for the benefit of creditors, any petition seeking reorganization or arrangement under the bankruptcy laws of the United States or any state thereof, or any other action brought pursuant to such bankruptcy laws with respect to Equinix; and (vi) the Equinix Entities are not in default under any lease affecting any IBX Center in which any Licensed Space is located, nor has any event occurred which, with the giving of notice or the passage of time or both, would constitute a default by Equinix or the Equinix Entities. Notwithstanding Section 6(c), in the event of a breach of the warranties set forth in this Section 9(s), Customer shall have all rights and remedies available at law and equity.

t. Upon written request by Customer, Equinix shall negotiate in good faith with one or more reputable telecommunications utility provider(s) or internet service provider designated by Customer (any such utility or internet service provider, an “Approved Fiber Provider”) to license access to, space in and use of points of entry, risers, conduits and other facilities in an IBX Center so that such Approved Fiber Provider may provide its services to Customer to the extent that Equinix is permitted to grant such access, space and right of use; provided that Equinix does not reasonably conclude that granting such access space or right of use is against Equinix’s business interests. Equinix agrees that it will provide such access, space and facilities on commercially reasonable terms as compared with terms Equinix makes available to other similar providers buying similar services at the Equinix Entities’ U.S. IBX Centers.

10. Definitions.

Accompanying Person: Each person (other than an employee of an Equinix Entity) who is accompanied by an Authorized Person while at an IBX Center.

Affiliate: As to a party, means any entity controlling, controlled by, or under common control with such party, where the term “control” and its correlative meanings, “controlling,” “controlled by,” and “under common control with,” means the legal, beneficial or equitable ownership, directly or indirectly, of more than fifty percent (50%) of the aggregate of all voting equity interests in an entity. Without limiting the foregoing, but in addition thereto, any Affiliate of, or subsidiary of, Equinix, Inc. shall be deemed to be an Affiliate of Equinix.

Associated Entity: Each individual, company, partnership or other entity of any type which employs, contracts with, or is otherwise associated or affiliated with any of Customer’s Authorized Persons or Accompanying Persons. Without limiting the foregoing definition, each Sublicensee that has sublicensed Subleased Space at an IBX Center will be an Associated Entity at such IBX Center.

Authorized Person: Each person who is included on a list of Authorized Persons given to Equinix by Customer in accordance with the Policies.
**Billing Commencement Date:** For each Service, unless otherwise agreed to by the parties in writing, (i) for a Service ordered in a Sales Order, the date designated in the Sales Order as the date charges will begin to accrue, and (ii) for a Service ordered in an Online Order or Phone Order, the date Equinix begins providing the Service to Customer, unless otherwise agreed to by the parties in the Order.

**Billing Dispute:** A reasonable dispute by Customer regarding an amount charged by Equinix and explained to Equinix in writing no later than thirty (30) days after the stated due date of such amount if Customer withholds payment due to such dispute.

**Business Days:** Any day other than a Saturday, Sunday or federal holiday.

**Cross-Connect:** A physical or wireless interconnection within an IBX Center that (i) exits Customer’s cage or (ii) connects Customer to another Equinix customer.
**Customer Care Website:** The customer care website accessible via the Internet at a location designated by Equinix, which it has the right to change from time to time.

**Customer Cross-Connect:** A physical interconnection, including cable, connections, and other wiring, that (i) does not exit Customer’s cage, (ii) does not connect Customer to another Equinix customer, and (iii) interconnects (a) Equipment belonging to the Customer or (b) POD Equipment that is provided by an Equinix Entity and that is in Customer’s cage with Customer’s Equipment.

**Customer’s Equipment:** All network and/or computer equipment (including wiring and Customer Cross-Connects between such equipment and Customer’s POD Equipment) that is located in the Licensed Space, regardless of whether such equipment is owned, leased, licensed or otherwise obtained for use by Customer, Customer’s Authorized Persons, Accompanying Persons, or Associated Entities (but this does not include Cross-Connects or POD Equipment that is provided by an Equinix Entity and that is located in Customer’s Licensed Space).

**Customer Parties:** Customer and the Affiliates, owners, officers, directors, employees, contractors and agents of Customer or of the Affiliates of Customer.

**Equinix:** References to Equinix refer to the Equinix Service Provider(s) who will provide the applicable Service(s), although in any of those references an Equinix Entity selected by Equinix, Inc. may act on behalf of such applicable Equinix Service Provider(s).

**Equinix Entities:** Equinix Operating Co., Inc., Equinix Inc. and Equinix Pacific, Inc., and each of which individually is an Equinix Entity

**Equinix Parties:** Each of the Equinix Entities and the Affiliates, owners, officers, directors, employees, contractors and agents of one or more of the Equinix Entities or of the Affiliates of one or more of the Equinix Entities.

**Equinix Service Providers:** Each Equinix Entity that has agreed to one or more Orders with Customer. Notwithstanding the foregoing, if, on behalf of another Equinix Entity, an Equinix Entity agrees to an Order with Customer, it is the Equinix Entity that will provide the Services and on whose behalf the Order was entered into who will be deemed both (i) the Equinix Service Provider for such Order and (ii) the Party who executed or agreed to such Order for all purposes under this Agreement.

**IBX Centers:** The Internet Business Exchange Centers leased or owned by an Equinix Entity in which Customer licenses Licensed Space or receives Services from Equinix pursuant to an Order.

**Licensed Space:** The areas licensed by Customer under this Agreement and the Orders and as identified in the Orders as to the amount of space. Subject to Section 4(b), for each Licensed Space, Equinix will determine at all times during the Term the exact location in the IBX Centers where the Licensed Space will be located, and Equinix will notify Customer accordingly.

**Online Order:** An Order for Services placed by Customer via the Customer Care Website and accepted by Equinix pursuant to Equinix’s then current ordering procedures (as well as any amendment to such Order reflected in a change order agreed to by the parties in accordance with the terms of the applicable change order, the Order and this Agreement).

**Online/Phone Order Term:** For each Service ordered by an Online Order or Phone Order, the period commencing on the Billing Commencement Date for such Service and ending (i) when the License (as defined in Section 9(l)) for the Licensed Space into which such Service is provided expires or terminates pursuant to this Agreement or (ii) one (1) year after the Billing Commencement Date if such Service is not provided in a Licensed Space.

**Order:** Any Sales Order, Online Order or Phone Orders between Customer and Equinix. A change order that amends an Order is not itself considered to be an Order under this Agreement, but is instead considered to be an amendment of an existing Order under this Agreement.

**Order Confirmation:** A document which confirms, among other things, the Services, the quantity of such Services and the prices of such Services ordered in an Online Order or Phone Order and which is issued by Equinix and returned to Equinix pursuant to the instructions set forth in such document.

**Party:** Customer and each of the Equinix Entities. References to “each Party” include Customer and each Equinix Entity. References to the “other Party,” means, as to Customer, each of the Equinix Entities, and as to each of the Equinix Entities, such references mean Customer. Where the Agreement provides that “either Party” has a right to take an action under certain circumstances, one or more Equinix Entities may take such action (i.e. if one or more Equinix Entities wishes to take such action, it is not necessary that all Equinix Entities take such action).

**Phone Orders:** An Order for Services placed by Customer via telephone and accepted by Equinix pursuant to Equinix’s then current ordering procedures (as well as any amendment to such Order reflected in a change order agreed to by the parties in accordance with the terms of the applicable change order, the Order and this Agreement).

**POD Equipment:** The (i) patch panels, DSX panels for category 5 twisted pair, co-axial, single and multi-mode fiber, or (ii) other appropriate (as reasonably determined by Equinix) point of demarcation equipment.

**Policies:** The procedures, rules, regulations, security practices and policies adopted by Equinix that are then in effect for the IBX Centers, and as they may be amended from time to time by Equinix in accordance with this Agreement and so notified to Customer. The version of the Policies in effect as of the MSA Effective Date is set forth in Exhibit D of this Agreement.

**Power Services:** Power circuits ordered by Customer. For the avoidance of doubt, Power Services do not include power provided by Equinix as part of a bundled service.

**Sales Orders:** All written sales orders executed by Customer and Equinix that provide that such sales orders are governed by, and incorporated by reference into, this Agreement (as well as any amendment to such Order reflected in a change order agreed to by the parties in accordance with the terms of the applicable change order, the Order and this Agreement).

**Services:** All services, goods and other offerings of any kind set forth in an Order to be provided by Equinix to Customer pursuant to this Agreement.

**Service Fees:** Charges and fees for Services charged to Customer by Equinix pursuant to this Agreement.
Service Term: Each Service in an Order will have a Service Term, which for each Service will be the length of time from the agreed to effective date for the Service Term until the last day Equinix is required to provide such Service pursuant to the terms and conditions set forth in this Agreement or as otherwise agreed to by the parties in the applicable Order.

Shipping Policies: The portion of the Policies entitled Shipping Policies.

Sublicensed Space: The portion of the Licensed Space sublicensed to a Sublicensee by Customer pursuant to the terms of this Agreement.

Sublicensee: A customer of Customer or other third party who sublicenses all or part of the Licensed Space from Customer.

Taxes: Sales, use, transfer, privilege, excise, VAT, GST, consumption tax, and other similar taxes and duties, whether foreign, national, state or local, however designated, now in force or enacted in the future, which are levied or imposed by reason of the performance by Equinix or Customer under this Agreement or by Customer with respect to its operations and use of the Services, but excluding taxes on Equinix’s net income.

Term: The term of this Agreement as determined in accordance with Section 8(a) of this Agreement.
This Master Service Agreement has been entered into between the parties as of the MSA Effective Date.

Customer to complete:
The person signing below hereby warrants and represents that he or she has full authority to execute this Agreement for the Party on whose behalf he or she is signing.

Customer Name: SALESFORCE.COM, INC., a Delaware corporation

Authorized Signature: /s/ David Schellhase
Printed Name: David Schellhase
Title: VP & General Counsel
Street address for notices:
The Landmark @ One Market
3rd Floor
San Francisco, California 94105
Attn: General Counsel
Phone: 415 901 7000
Facsimile number: 415 901 7040
Electronic mail address: [***]

With a copy to:
Salesforce.com, Inc.
The Landmark @ One Market, 3rd Floor
San Francisco, California 94105
Attn: Vice President - Procurement

With a copy to:
Winston & Strawn LLP
101 California Street, Suite 3900
San Francisco, California 94111
Attn: Stephen I. Berkman

Equinix, Inc., Equinix Operating Co., Inc., and Equinix Pacific, Inc. to complete:
The person signing below hereby warrants and represents that he or she has full authority to execute this Agreement for the Parties on whose behalf he or she is signing.

Authorized Signature: /s/ Monica Brown Andrews
Printed Name: Monica Brown Andrews
Title: Director of Customer Contracts
Street addresses for notices:
301 Velocity Way, 5th Floor
Foster City, California 94404, USA
Phone: +1 650-513-7000
Facsimile number: +1 650-618-1857
ELECTRONIC MAIL ADDRESS: contracts@Equinix.com
Exhibit A
Confidentiality Provisions

The following provisions apply with respect to the treatment of confidential information disclosed by the Parties hereto. All capitalized terms not defined in this exhibit will have the respective meanings specified in the Master Service Agreement to which this Exhibit A is attached and incorporated by reference.

a. Except as expressly permitted in this Exhibit A, no Party will, without the prior written consent of the other Party, disclose any Confidential Information of the other Party to any third party. Information will be considered Confidential Information of a Party if (i) it is disclosed by the Party to the other Party in tangible form and is conspicuously marked “Confidential”, “Proprietary” or the like; (ii) it contains the disclosing Party’s customer lists, customer information, technical information, pricing information, pricing methodologies, or information regarding the disclosing Party’s business planning or business operations; or (iii) if it is information that a reasonable person would believe to be confidential information. In addition, notwithstanding anything in this Agreement to the contrary, (i) the terms of this Agreement will be deemed Confidential Information of each Party; and (ii) the design of the IBX Centers, the Services provided and equipment used at the IBX Centers and the configuration, interconnection, switching and routing of telecommunication cables, networks and services at the IBX Centers will be considered Confidential Information of the Equinix Entities.

b. Other than the terms and conditions of this Agreement, information will not be deemed Confidential Information hereunder if such information (i) is known to the receiving Party prior to receipt from the disclosing Party directly or indirectly from a source other than one having an obligation of confidentiality to the disclosing Party; (ii) becomes known (independently of disclosure by the disclosing Party) to the receiving Party directly or indirectly from a source other than one having an obligation of confidentiality to the disclosing Party; (iii) becomes publicly known or otherwise ceases to be secret or confidential, except through a breach of this Agreement by the receiving Party; (iv) is disclosed after the end of the Term; or (v) is independently developed by the receiving Party. Notwithstanding the foregoing, the terms and conditions of this Agreement will cease being confidential if, and only to the extent that, they become publicly known, except through a breach of this Agreement by the receiving Party.

c. Each Party will secure and protect the Confidential Information of the other Party (including, without limitation, the terms of this Agreement) in a manner consistent with the steps taken to protect its own trade secrets and confidential information, but not less than a reasonable degree of care. Each Party may disclose the other Party’s Confidential Information where (i) the disclosure is required by applicable law or regulation or by an order of a court or other governmental body having jurisdiction after giving reasonable notice to the other Party with adequate time for such other Party to seek a protective order; (ii) if in the opinion of counsel for such Party, disclosure is advisable under any applicable securities laws regarding public disclosure of business information; or (iii) the disclosure is reasonably necessary and is to that Party’s, or its Affiliates’, employees, officers, directors, attorneys, accountants and other advisors, or the disclosure is otherwise necessary for a Party to exercise its rights and perform its obligations under this Agreement, so long as in all cases the disclosure is no broader than necessary and the person or entity who receives the disclosure agrees prior to receiving the disclosure to keep the information confidential. Each Party is responsible for ensuring that any Confidential Information of the other Party that the first Party discloses pursuant to this Exhibit A (other than disclosures pursuant to clauses (i) and (ii) above that cannot be kept confidential by the first Party) is kept confidential by the person receiving the disclosure.

d. Notwithstanding the restrictions set forth in this Exhibit A or Section 9(k), during the Term, (i) any Equinix Entity may issue a press release announcing Customer’s entry into the IBX Centers after obtaining Customer’s prior consent, which consent shall not be unreasonably delayed withheld or conditioned; (ii) Customer may issue a press release announcing Customer’s entry into the IBX Centers after obtaining Equinix’s prior consent, which consent shall not be unreasonably delayed withheld or conditioned and (iii) either Party may publicly refer to the other Party, orally and in writing, as a customer or vendor of services of or to the other Party, as the case may be, without obtaining consent from such Party. In no event shall either Party disclose the specific IBX Centers in which Customer is located unless required to do so by law or applicable governmental regulation.

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Exhibit B
Sublicensing Provisions

The following provisions apply with respect to any sublicense of Licensed Space (all capitalized terms herein having the respective meanings specified in the Master Service Agreement to which this Exhibit is attached and incorporated by reference).

a. Customer may sublicense the Sublicensed Space to Sublicensees provided that (i) the terms and conditions of such Sublicense will be no less restrictive than this Agreement, (ii) Customer will not in its dealing with such Sublicensees act or purport to act on behalf of any Equinix Entity or landlords of any Equinix Entity, (iii) Customer will require the Sublicensees to abide by the rules set forth in the Policies, and (iv) Customer will cause all Sublicensees to agree in writing that in consideration for the sublicense, Sublicensees waive, to the maximum extent permitted under law, any and all claims of any and all types against the Equinix Entities and the landlords of any Equinix Entity, at all times, and that in no event will any Equinix Entity, or landlords of any Equinix Entity, have any liability to such Sublicensees, including liability to such Sublicensees for any damages whatsoever, including direct damages.

b. Notwithstanding anything in this Agreement to the contrary, Customer will remain responsible to the Equinix Entities for the performance of all of Customer’s obligations under this Agreement (including the payment of all amounts owed under this Agreement) and all other agreements between any Equinix Entity and Customer (“Related Agreements”). No sublicense agreement or arrangement between Customer and any Sublicensees will relieve Customer from any liability under this Agreement or any Related Agreements. Without limiting the foregoing, Customer is responsible for paying the Service Fees for all of the Licensed Space (including Sublicensed Space) and the charges for Services for, or relating to, any or all of the Licensed Space (including Sublicensed Space). In no event will any Equinix Entity be deemed to be providing any Services to any Sublicensee for, or relating to, the Sublicensed Space, as the provision of any such Services will be deemed to be to Customer for all purposes under this Agreement. In addition, notwithstanding anything in this Agreement to the contrary, under no circumstances shall any Equinix Entity be deemed to have any obligations to any Sublicensee.

c. Customer must ensure that each and every sublicense agreement or other sublicense arrangement that Customer has with a Sublicensee does not have any terms and conditions that (i) are inconsistent with this Agreement, or (ii) seek to provide any Sublicensee with rights that Customer does not have under this Agreement. Without limiting the foregoing or any other restrictions on Sublicensees, no Sublicensee will have any right to use its Sublicensed Space in any manner that Customer is not permitted to use the Licensed Space.

d. Sublicensees do not have any rights, separate and apart from Customer’s rights, to access their Sublicensed Space. Accordingly, only Customer’s Authorized Persons at an IBX Center may access the Sublicensed Space of Sublicensees at such IBX Center. Furthermore, none of the Equinix Entities are responsible for restricting a Sublicensee’s access to Customer’s Licensed Space located in a cage or suite to which that Sublicensee has access.

e. Notwithstanding anything in this Agreement to the contrary, a Sublicensee has no right to sublicense, delegate, assign or otherwise transfer its rights to use the Sublicensed Space to any other person or entity without Equinix’s written consent, which consent may be withheld for any reason whatsoever or no reason. Any such sublicense, delegation, assignment or transfer will be null and void.

f. [Intentionally deleted]

g. Without limiting Customer’s indemnification obligations under Section 5, Customer will indemnify and hold harmless the Equinix Parties from any and all liability, damages, costs and expenses (including reasonable attorneys’ fees and expenses) arising from or relating to (i) any claim from any person or entity, including any Sublicensee, arising from or relating to a sublicense of any Licensed Space by Customer in violation of this Exhibit B; (ii) any claim from any person or entity, including any Sublicensee, arising from or relating to any sublicense of any Licensed Space by Customer to the extent such claim is not based on Equinix’s or the Equinix Entities’ gross negligence or willful misconduct; (iii) any claim by a customer, vendor, third-party provider or end-user of any Sublicensee, or any person or entity acting on behalf, or at the direction, of any Sublicensee relating to, or arising out of, a Sublicensee’s or any of its customers’ services, Customer’s or any of its customers’ services, or the Services provided under this Agreement (including claims relating to interruptions, suspensions, failures, defects, delays, impairments or inadequacies in any of the aforementioned services, including the Services from Equinix); and (iv) any claim by a Sublicensee to the extent that such claim, if sustained, would result in any greater obligation or liability of any Equinix Entity to such Sublicensee than such Equinix Entity has undertaken to Customer under this Agreement.
Exhibit C
Service Level Agreement

Power
Equinix will provide an uninterrupted supply of power to each properly ordered circuit pair Redundant Power Circuit Pair (defined below). For purposes of this Exhibit C, Redundant Power Circuit Pair shall mean two identical power circuits installed in the same cabinet or rack, neither of which is a part of another pair of circuits in the same cabinet or rack and the aggregate draw of such two circuits does not exceed the rated capacity pursuant to the National Electrical Code of one (1) of the power circuits in such two circuits.

In the event a cabinet containing functioning equipment or any other location in which power is delivered to Customer Equipment (“Loaded Cabinet”) in Customer’s Licensed Space is powered by two (2) circuits from different power busses and both circuits experience a simultaneous interruption in electrical power, such that the Loaded Cabinet experiences an interruption in power (a “Power Outage”) which lasts longer than [***] but less than [***], Equinix shall credit Customer’s account for the monthly recurring charges for all failed power circuits and the monthly recurring charges attributable to that Loaded Cabinet, for the [***] after which the interruption occurs. Equinix warrants that it will provide all Redundant Power Circuit Pairs such that each circuit in the pair is from different busses, or if unable to do so, it will notify Customer in writing and be held to all provisions in this Exhibit C relating to power as if the circuits had been provided through separate busses.

If a Loaded Cabinet in Customer’s Licensed Space is powered by two (2) circuits from different power busses and both circuits experience a simultaneous interruption in electrical power, such that the Loaded Cabinet experiences a Power Outage which lasts longer than [***] but less than [***], Equinix shall credit Customer’s account for the monthly recurring charges for all failed power circuits and the monthly recurring charges attributable to that Loaded Cabinet, for [***]. For each [***] thereafter in which there is a continuing Power Outage, Equinix shall credit Customer’s account an additional credit equal to the monthly recurring charges for all failed power circuits and monthly recurring charges attributable to that Loaded Cabinet, for [***].

If Customer experiences any Power Outage longer than [***], Customer may terminate this Agreement upon written notice to Equinix (including the availability of the Transition Period) in addition to claiming the applicable credit set forth in this SLA, provided that such written notice is provided to Equinix within thirty (30) days of the occurrence of the last event giving rise to any termination right under this paragraph.

If Customer experiences [***] Power Outages of any duration in any [***] period, Customer may terminate the Agreement upon written notice to Equinix (including the availability of the Transition Period) in addition to claiming the credits set forth in this SLA, provided that such written notice is provided to Equinix within thirty (30) days of the occurrence of the last event giving rise to any termination right under this paragraph.

IBX Facility Access
Equinix will provide continuous access for authorized persons to its IBX Center, subject to its security policies.

Equinix will not permit people other than Authorized Persons or Accompanying persons to enter the Licensed Space unless otherwise specifically permitted in this Agreement.

If any Authorized Person is denied access to the Licensed Space (such denial, an “Access Denial”) for more than [***] after entrance to the lobby of the IBX Center on [***] or more occasions within any [***] period and such Authorized Person has presented valid identification to the IBX Center security officer, Equinix shall credit Customer’s account [***] recurring charges. If any Authorized Person is denied access to the Licensed Space for more than [***] after entrance to the lobby of the IBX Center, and such Authorized Person
has presented valid identification to the IBX Center security officer, Equinix will provide [***] credit as well as an additional [***] credit for each additional [***] thereafter that such person is denied access to the Licensed Space. Notwithstanding the foregoing, Customer shall not be entitled to a credit to the extent access is denied because of the presence of any emergency situations at the relevant IBX Center.

**Heating, Ventilation and Air Conditioning (“HVAC”)**

Equinix will maintain an ambient temperature of sixty-six (66) degrees, +/- ten (10) degrees, at all times in the collocation area of each IBX Center. In addition, Equinix will maintain an ambient humidity of forty-five percent (45%), +/- fifteen percent (15%), at all times in the collocation area of the IBX.

For purposes of this Service Level Agreement, the temperature and humidity within each IBX Center is measured five (5) feet from the floor and no closer than twelve (12) inches from the cool air intake side of a cabinet.

**a. Temperature**

If the temperature drops below fifty-five (55) degrees or exceeds seventy-eight (78) degrees Fahrenheit for more than [***] (a “Temperature Irregularity”) [***] or more times during a calendar month, or for more than [***] on any single occasion during a calendar month, then upon such occurrence or subsequent occurrence, as the case may be, in such calendar month Equinix shall credit Customer’s account [***]. If Customer experiences [***] Temperature Irregularities of any duration in any [***] period Customer may terminate the Agreement upon written notice to Equinix in addition to claiming the applicable credits set forth in this SLA, provided that such written notice is provided to Equinix within thirty (30) days of the occurrence of the last event giving rise to any termination right under this paragraph.

**b. Humidity**

If the humidity inside any of Customer’s Licensed Space drops below thirty percent (30%) or exceeds sixty percent (60%) for more than [***] (a “Humidity Irregularity”) [***] or more times during a calendar month, or for more than [***] on any single occasion during a calendar month, than upon such occurrence or subsequent occurrence, as the case may be, in such calendar month Equinix shall credit Customer’s account [***]. If Customer experiences [***] Humidity Irregularities of any duration in any [***] period Customer may terminate the Agreement upon written notice to Equinix in addition to claiming the applicable credits set forth in this SLA, provided that such written notice is provided to Equinix within thirty (30) days of the occurrence of the last event giving rise to any termination right under this paragraph.

**Cross-Connects**

Equinix will install and warrants that the connectors, copper, and fiber it uses for Cross-Connects will be effective media for interconnection, and that the path created by those connectors, copper, or fiber will be available; provided that Customer does not introduce any active components in the path of the Cross-Connects. If the path, connectors, or other passive physical media fail for Cross-Connects (“Media Failure”), Equinix shall credit Customer’s account the monthly recurring charges attributable to that Cross-Connect for the month after which such Media Failure occurs; provided that Customer shall allow Equinix to test all Cross-Connects for which Customer reports Media Failure. Unavailability of a Cross-Connect during such testing shall not be considered Media Failure hereunder. Customer may receive a maximum of [***] per Cross-Connect that experiences Media Failure in any calendar month. In the event that Equinix performs testing pursuant to this paragraph because Customer has reported Media Failure, and such testing reveals that there is no Media Failure, Customer shall be charged for such testing at the then-current Smart Hands hourly rate, except that Customer shall be entitled to [***] per calendar month of testing that reveals no Media Failure free of charge. If Customer experiences [***] Media Failures of any duration in any [***] period Customer may terminate the Agreement without any penalties upon written notice to Equinix (including the availability of
Problem Resolution/Escalation

Equinix will be responsible for coordinating all incident isolation, testing and repair work relating to the IBX Center. Severity levels will be reasonably determined by Equinix. During the incident isolation and troubleshooting process, Equinix will communicate incident resolution progress to Customer and escalate its problem resolution efforts based upon the times specified in the table below.

The following steps will be taken when Customer escalates a trouble within the Equinix Response Center (“ERC”).

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<th>SEVERITY LEVEL</th>
<th>DESCRIPTION</th>
<th>ERC COVERAGE</th>
<th>RESPONSE TIME</th>
<th>RESOLUTION GOAL</th>
<th>WORK EFFORT</th>
</tr>
</thead>
</table>
| S1             | Customer’s Service is not operational and no workaround is possible, or work around exists but is unacceptable to the Customer due to the impact on the customer’s business.  
Customer’s Service is operational but performance is seriously degraded. If a workaround has been provided, the loss in performance can only be sustained for a few working days.  
Customer’s Service is operational. However, a problem has been identified that causes a slight degradation in performance. A workaround is available and the workaround is acceptable to Customer. | 24 X 7       | [***]         | [***]           | [***]       |

Customer’s Escalation Contacts

Escalation 1
Equinix Response Center
[***]  
[***]

C-3
**Escalation 2**
Customer’s Implementation Manager

Or

Manager Response Center

**Escalation 3**
Manager – IT/Network Support ERC

**Installations**

1. **Power Installations**

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>DESCRIPTION</th>
<th>REQUIREMENTS</th>
<th>NONCOMPLIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Power Circuit</td>
<td>1 to 9 AC circuits</td>
<td>5 business days if the IBX Center is in Green status or 8 business days if the IBX Center is in Yellow status (or such other period as may be mutually agreed to in writing by the parties regardless of Green or Yellow status) from Equinix’s acceptance of the applicable Order, provided that:</td>
<td>***</td>
</tr>
<tr>
<td>Circuit Installations –AC</td>
<td>Circuits</td>
<td>• Cage is pre-wired;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Circuits</td>
<td>• Circuits are 120v: 20-amp, 30-amp; 208v: 20-amp (single-and three-phase), or 30-amp (single-and three-phase).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Circuits</td>
<td>• Standard termination of power strip or hard-wired to customer equipment.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Circuits</td>
<td>If the IBX Center is in Red status, Equinix and Customer will work together in good faith to determine a delivery date, which delivery date will not exceed 15 business days from Equinix’s acceptance of the applicable Order.</td>
<td></td>
</tr>
<tr>
<td>Regular Power Circuit</td>
<td>1 to 6 DC circuits</td>
<td>6 business days if the IBX Center is in Green status or 9 business days if the IBX Center is in Yellow status (or such other period as may be mutually agreed to in writing by the parties regardless of Green or Yellow status) from Equinix’s acceptance of the applicable Order, provided that:</td>
<td>***</td>
</tr>
<tr>
<td>Circuit Installations –DC</td>
<td>Circuits</td>
<td>• Cage is pre-wired;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Circuits</td>
<td>• Standard DC power is 30-amp and 60-amp; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Circuits</td>
<td>• Standard termination of fuse panel or hard-wired to Customer equipment.</td>
<td></td>
</tr>
</tbody>
</table>

C-4
2. Cross-Connect Installations

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>DESCRIPTION</th>
<th>REQUIREMENTS</th>
<th>NONCOMPLIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-Connect</td>
<td>1-3 Cross-Connects</td>
<td>Installation within 24 hours following receipt of acceptance of the other Equinix customer to which the Cross-Connects runs</td>
<td>[***]</td>
</tr>
<tr>
<td>Installations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-6 Cross-Connects</td>
<td>Installation within 36 hours following receipt of acceptance of the other Equinix customer to which the Cross-Connects runs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7-9 Cross-Connects</td>
<td>Installation within 48 hours following receipt of acceptance of the other Equinix customer to which the Cross-Connects runs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 or more Cross-</td>
<td>Installation within number of hours agreed to in applicable</td>
<td>E-mail Order</td>
<td></td>
</tr>
<tr>
<td>Connects</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exceptions and Conditions

Equinix will exercise all reasonable efforts to ensure service level commitments are met, however, Equinix does not extend service level guarantees in the event of a Force Majeure Event.

In addition, Equinix’s service level commitments stated herein shall not apply if Equinix’s failure to meet them (i) results from any actions or inactions of Customer or its representatives (including, without limitation, a Power Outage caused by Customer drawing more than eighty percent (80%) of the rated amperage on a power circuit); or (ii) results from Customer’s Equipment.

The service level credits stated herein are Customer’s sole and exclusive remedy for Power Outages, Access Denials, Temperature Irregularities, Humidity Irregularities, Media Failures and failures to meet the installation requirements set forth in this Exhibit C.

In no event shall the maximum credit to which Customer may be entitled in a calendar month exceed the [***] attributed to Customer’s Licensed Space in the affected IBX Center for that calendar month.

Notification

Credit will be given as provided above only if Customer notifies the Equinix Response Center not later than five (5) business days after its actual knowledge of, or the Equinix Response Center obtains actual knowledge from any source of, the event entitling Customer to a credit, and Customer notifies Equinix of its intent to seek a credit within thirty (30) Business Days of obtaining actual knowledge of any such event. Unless otherwise designated by Equinix, the Equinix Response Center can be reached 1) via email to support@equinix.com; 2) via telephone [***] if inside the United States (Outside US: [***]), or 3) via website [***].

[The remainder of this page is intentionally left blank.]
These Internet Business Exchange Center Policies apply to IBX Centers located in the United States only. Please contact your Account Manager if you need a copy of the Policies that apply to IBX Centers outside of the United States.

Equinix is entitled to make changes to the Policies from time to time at its reasonable discretion, but Equinix agrees that any future changes to the Policies will not materially adversely affect each Customer’s use of the Services. Changes to the Policies will be effective for each Customer upon notice to that Customer (except for changes to the Shipping Policies which will be effective immediately upon change of such policies). All capitalized terms not defined elsewhere in the Policies are defined in the Definitions section at the end of the Policies.

For all purposes under the Policies, each Customer has full responsibility and liability for all acts or omissions of Customer’s Authorized Persons, Accompanying Persons, and Associated Entities, and all such acts or omissions will be attributed to Customer for all purposes, including for the purposes of determining whether Customer has breached (i.e., failed to abide by) the Policies. Without limiting the foregoing, Customer is responsible and must ensure that Customer’s Authorized Persons, Accompanying Persons and Associated Entities do not take any actions that Customer is prohibited from taking under the Policies.

The Policies are not intended to impose upon any Equinix Entity any liability (or obligations) to a Customer for which an Equinix Entity is excluded from being liable (or responsible) for under the Master Service Agreement for such Customer. The Policies also are not intended to increase the liability (e.g., the limits of liability) of any Equinix Entity with regard to any matter for which such liability is limited under the Master Service Agreement (e.g., such as where the liability is limited in the limitation of liability provisions of the Master Service Agreement).

A. SERVICES

The Services Equinix offers under Master Service Agreements with Customers consist of (1) Licensing of Space and Set-Up; (2) Core Services; and (3) Additional Services. The first two classifications of Services are not optional and will be provided to all Customers.

1. Licensing of Space and Set-Up
   a. Licensing of Space

Depending on availability, Equinix offers its Customers the right to license space at the IBX Centers sufficient to hold one or more racks or cabinets (or partial racks or cabinets to the extent offered by Equinix). If a Customer places an order for five or more full racks or full cabinets at an IBX Center, depending on space availability, these racks or cabinets may be located in a private cage (i.e., a cage that is not used by other Customers). Otherwise, Customer’s racks or cabinets may be in a cage or area shared with other Customers. In private cages, a Customer may provide Equinix-approved racks or cabinets for each of the Customer’s Licensed Space or request that Equinix provide the racks and/or cabinets. In shared cages, Customers must use Equinix-provided cabinets and/or racks.

   b. Set-Up

Prior to each Customer’s use of its Licensed Space, Equinix will install Equinix-provided POD Equipment (of a type reasonably determined by Equinix) in order to demarcate Customer’s Equipment, unless otherwise agreed to by Equinix.

2. Core Services

The Core Services consist of the following, as further described below: (1) Access to the Customer Care Website; (2) Core Security; (3) Core Back-up Power; (4) Core Fire Detection and Suppression; (5) Core HVAC; (6) Core Temperature Control and (7) Core Humidity Control.

   a. Access to the Customer Care Website

Equinix grants each Customer access to the Customer Care Website under the terms and conditions set forth in the Customer Care Website Usage Policies, if any, and the Master Service Agreement with such Customer. Each Customer is responsible for maintaining the confidentiality of its account and password and for restricting and granting access thereto, and is responsible and liable for all activities that occur under its account, regardless of whether such
activities are conducted by Customer, a Sublicensee or any other third party, and regardless of whether such Orders are authorized by Customer. Equinix may modify the functionality and content of the Customer Care Website at any time and in any manner, and if Equinix develops Customer Care Website Usage Policies, Customer must comply with the Customer Care Website Usage Policies then in effect.

b. Core Security

Equinix offers the following security features at IBX Centers:

- security personnel onsite 24 x 7 x 365;
- visitor screening upon entry for verification of identity;
- keyless security with biometric hand geometry readers with required additional pass code for access to:
  - enter the security tunnel from the welcome area;
  - leave the security tunnel to enter the main center;
  - enter the colocation area;
  - enter a Customer cage; and
- CCTV digital camera coverage of IBX Center, integrated with access control and alarm system.

In addition, Equinix may take other reasonable security measures that it chooses to employ.

c. Core Back-Up Power

Each IBX Center will have back-up power sources that will ordinarily provide power for a period of at least 48 hours if the primary source of power is unavailable.

d. Core Fire Detection and Suppression

Each IBX Center will have an early warning fire detection system and fire suppression system.

e. Core HVAC

Each IBX Center will have redundant (n +1) HVAC.

f. Core Temperature Control

Each IBX Center will ordinarily maintain a temperature of 64 - 76 degrees Fahrenheit.

g. Core Humidity Control

Each IBX Center will ordinarily maintain a relative humidity of 20% - 70%
Condition 1 (even if it is then meeting Condition 2), or subsequently fails to meet Condition 2 (even if it is then meeting Condition 1), such power circuit shall thereafter be deemed a primary power circuit.

c. Smart Hands

Smart Hands is designed to provide Customers with onsite technical assistance and may include, for example, Equinix complying with Customer’s simple instructions relating to remote management, installation or troubleshooting of its equipment within an IBX Center or any other services Equinix deems to be Smart Hands. With respect to the Smart Hands service offered by Equinix, Equinix’s only obligation is to carry out the express instructions of Customer; and Equinix reserves the right to reject a Customer’s request if such rejection is reasonable or if such service is not offered as part of Smart Hands. In addition, Equinix reserves the right to require that a Customer’s instructions be given in additional detail and in writing (which may be by electronic mail). Notwithstanding the foregoing, Equinix has the right to perform Smart Hands services where the Customer fails to timely act or Equinix has the right to act under the Policies at Customer’s expense as part of the Smart Hands service.

d. Installation of Customer Equipment

A Customer may request that Equinix install Customer’s Equipment. Equinix, at its discretion, may agree to perform such installation, but Customer must enter into a separate agreement with Equinix to perform such work.

4. Use of Unordered Services

In the event that a Customer uses an Unordered Service, Equinix shall so notify the Customer (which notification may be delivered only by e-mail or regular US Mail, notwithstanding anything to the contrary in the Master Service Agreement) and provide Customer with a change order which lists the Unordered Service. If the Customer does not execute such change order and return it to Equinix within ten (10) days of the date of such notification, Equinix may charge such Customer for such Unordered Service at its then current list price for such Unordered Service commencing on the date Customer began using the Unordered Services.

B. NOTIFICATIONS

1. Equinix will provide contact information for each Customer to use at any time in the event of an emergency or otherwise as needed by Customer. The Equinix Response Center may be reached at 888-892-0607.

2. Each Customer will designate one or more persons whom Equinix may contact at any time in the event of an emergency or otherwise as needed by Equinix. Each Customer will provide to Equinix a means of contacting such persons at any and all times. Equinix prefers, but does not require, that such contact method be the telephone number of a twenty-four (24) hour operations center staffed by persons familiar with the Customer’s use of its Licensed Space and Equipment located within the Customer’s Licensed Space.

C. NETWORK SYSTEM NUMBERS AND TELECOMMUNICATIONS

1. Equinix strongly encourages each Customer to have its own autonomous system number as designated by the American Registry of Internet Numbers or its successor.

2. Each Customer will be responsible for obtaining telecommunications services as needed from the carrier of its choice. Equinix will not be responsible for providing or installing such services except that Equinix will perform Cross-Connects as agreed to by Equinix and a Customer pursuant to the Master Service Agreement for such Customer.

D. EQUIPMENT

1. Each Customer will ensure that:
   a. all of its Equipment will be installed, operated, maintained and repaired in compliance with all applicable Laws and manufacturer specifications and requirements;
   b. the installation and use of its Equipment complies with applicable safety codes and product safety agency listings;
   c. all of the cables and wiring in its Licensed Space (other than any Cross-Connects or Equinix’s POD Equipment) are neatly wrapped and tied together (if a Customer fails to do so, Equinix may at its sole option neatly wrap and tie such wires and cables, and Equinix may charge the Customer for doing so under Smart Hands);
   d. none of its Equipment is stacked or resting on any of its other Equipment or the Equipment of any other Customer, sublicensee or third-party, including Equinix;
c. all of Customer’s Equipment is securely fixed onto a cabinet or rack in a manner reasonably satisfactory to Equinix. If a Customer has equipment that is too large or heavy for a rack or cabinet, including but not limited to large servers, Equinix may affix such Equipment directly to the floor and Equinix may charge Customer for doing so under Smart Hands.

2. Each Customer may install and maintain Customer Cross-Connects. No Equinix Entity has any obligation to install, maintain or repair any Customer Cross-Connects.

3. Equinix may require a Customer to remove from any IBX Center Equipment that, in Equinix’s sole discretion, (i) causes a threat to safety (including any risk of fire or other hazard) to the operations of the IBX Center or the IBX Center Property, or (ii) unreasonably interferes with the operations of Equinix, another Customer or any other person or entity that is licensing, sublicensing, leasing or subleasing space or otherwise utilizing any portion of the IBX Center or the IBX Center Property.

4. If a Customer wants to identify its Equipment or its Licensed Space, the means of identification will be subject to Equinix’s prior approval before the Customer uses such means of identification. Equinix will not identify the location of any Customer’s Equipment in the IBX Center, and no Equinix Entity will be responsible for labeling Ports except that Equinix is responsible for connecting a Customer’s Equipment to Equipment belonging to other Customers at an IBX Center.

5. Equinix will not touch, maintain, use, upgrade, repair or operate a Customer’s Equipment, except in an emergency, or where explicitly or implicitly authorized by the Customer’s use of Smart Hands, or as otherwise permitted in the Customer’s Master Service Agreement or the Policies.

6. Customer is solely responsible for any loss or theft of or damage to Customer’s Equipment left unattended outside of Customer’s Licensed Space in a shared cage.

7. No Equinix Entity is responsible for any electronic interference that may occur with respect to Customer’s use of wireless communications Equipment.

E. USE

1. Each Customer will:
   a. use its Licensed Space only for the purposes of configuring, providing, placing, installing, upgrading, adding, maintaining, repairing and operating its Equipment in a safe and lawful manner;
   b. comply with all applicable laws in its use of its Licensed Space (including OSHA), and comply with all signs posted at any time (including changes in such signs) at the IBX Centers concerning security procedures relating to the IBX Centers;
   c. use the restrooms, any shared work area, and any other common spaces in the IBX Centers and the parking areas outside of the IBX Centers in accordance with the terms of its Master Service Agreement, the Policies and any rules or signs then posted by Equinix in or near such areas;
   d. maintain its Licensed Space in an orderly and clean manner and in good repair and condition (reasonable wear and tear only excepted);
   e. deposit litter in designated trash receptacles or in appropriate locations outside the IBX Centers;
   f. behave in a courteous and professional manner within the IBX Centers and the IBX Center Properties;
   g. immediately notify Equinix of any damage or risk of damage to the IBX Centers or the IBX Center Properties, or damage to any equipment or property of any person in the IBX Centers or the IBX Center Properties;
   h. comply with all applicable property control procedures, which may include providing Equinix with a description and the serial numbers of items brought into an IBX Center that are valued by Equinix at more than $1,000 and/or providing Equinix with the name, contact number and signature of the person removing such items.

2. Each Customer will ensure that it does not do any of the following:
   a. install, touch, access, tamper with, damage, adjust, repair, interfere with, or breach the security of, the Licensed Space of other Customers or the Equipment, property or services of any other Customers, vendors, contractors or other parties who license, sublicense, lease or sublease space or otherwise utilize space at the IBX Center or the IBX Center Properties, or provide services or products to those who do;
   b. alter, tamper with, damage, adjust, repair, interfere with, or breach the security of its Licensed Space, the IBX Centers or the IBX Center Properties (including, without limitation, the electrical and other
building systems of the IBX Centers or the IBX Center Properties), or any equipment or property leased, licensed or owned by Equinix (including, without limitation, any Cross-Connects and the Equinix Power Distribution System, which only Equinix will install, repair or alter);

c. install or otherwise perform any Cross-Connects;

d. affix or maintain labels to any Ports or any POD Equipment that connects Customer’s Equipment to Equipment belonging to other Customers (Equinix will affix and maintain such labels, which will contain information as determined by Equinix, including circuit identification and other information needed to identify each Equinix-provided Port);

e. encumber or obstruct the sidewalks, driveways, yards, entrances, hallways, stairs or any common areas in or around the IBX Centers or the IBX Center Properties;

f. store or leave any loose items (including Equipment) inside or outside of its Licensed Space in the IBX Centers. If a Customer leaves any loose items inside or outside of its Licensed Space in the IBX Centers, Equinix may so notify the Customer. If the Customer fails to remove or to secure such items within twenty-four (24) hours of such notice, Equinix may, in addition to any other remedies it may have, remove such items and charge the Customer Equinix’s Smart Hands rates for such removal. If Equinix removes items pursuant to the prior sentence, Equinix will temporarily store such items in a safe place for ten (10) days, except that if such items are empty cartons or packaging, Equinix may discard such items instead of storing them. If the Customer fails to retrieve items stored by Equinix during such ten (10) day period, the items will, at Equinix’s sole discretion, either become the property of Equinix or be discarded by Equinix at the Customer’s expense;

g. unless Equinix expressly consents, use any common areas at the IBX Centers or the IBX Center Properties (other than a shared work area where Equinix permits Customers to repair Equipment) for any purpose other than ingress and egress to and from its Licensed Space;

h. use a shared work area that Equinix permits Customers to use for any purpose other than to repair its Equipment;

i. use the Services to compete with any Services offered by Equinix;

j. create any nuisances at the IBX Centers or the IBX Center Properties;

k. manufacture, generate, treat, transport, dispose of, release, discharge, or store on, under or about the IBX Centers, the IBX Center Properties or any surrounding properties, any Hazardous Materials;

l. eat, drink or use tobacco products within the IBX Centers except within areas designated by Equinix for such purposes; or

m. bring recording equipment in, or take photographs of (whether by use of a camera, video camera, cell phone, wireless handset or otherwise), any part of the IBX Centers, except for the following limited exception: a Customer in a private cage may request, at the time the Customer’s visit is scheduled, that Equinix take photographs of that Customer’s private cage and of that Customer’s Equipment within such private cage, but Equinix will do so only if (i) the Customer completes the required documents provided by Equinix; and (ii) an Equinix IBX staff member takes the photographs with Customer’s recording equipment, and the Equinix IBX staff member at all times controls the recording equipment while it is inside the IBX Center.

n. place furniture in its Licensed Space except as permitted by the IBX Center Site Manager in his/her reasonable discretion. In the event that a Customer places furniture in its Licensed Space with the necessary consent from the IBX Center Site Manager, Equinix may at any time thereafter notify the Customer that the furniture must be removed within five (5) days of the notice. If the Customer fails to remove the furniture within the five-day period, Equinix may remove the furniture, charge the Customer Smart Hands rates for doing so, and store the furniture at the Customer’s expense.

o. install any surveillance cameras or other surveillance equipment without Equinix’s prior consent. Equinix reserves the right to require Customers to remove or relocate any surveillance cameras or surveillance equipment that Equinix deems to threaten or impede the security of the IBX Center (including the security of other Equinix customers).

p. block any exit route or aisle way or create a fire hazard.

q. use VRLA (valve-regulated lead-acid) batteries within the IBX Centers, unless the batteries are a manufacturer-installed and integrated part of equipment that is listed as an express exception to this rule in the Customer Welcome Document.

r. use circuit splitters on any Equinix-provided power circuit.

s. use UPS systems that are not provided by Equinix.
t. use 48v DC rectifiers that are not provided by Equinix without obtaining advance approval from Equinix.

F. ACCESS

1. No Customer may attempt to gain fraudulent access to an IBX Center or any Equinix website.

2. Subject to the terms and conditions of the Customer’s Master Service Agreement (including the Policies), a Customer will have access to its Licensed Space twenty-four (24) hours per day, three hundred sixty-five (365) days per year. In the event of an emergency situation at any IBX Center or IBX Center Property (e.g., fire, building evacuation, medical emergency, weather-related emergency, terrorist attack, etc.), or drill, each Customer present at the IBX Center will be required to follow instructions given by the on-site Equinix Site Manager, or the designee.

3. Each Customer will provide Equinix with a list for each IBX Center (which list will be provided in writing or entered through the Customer Care Website) of Authorized Persons who may enter Customer’s Licensed Space in such IBX Center. Except where specifically designated otherwise by a Customer, each Authorized Person for an IBX Center will have the right to authorize entry by any other person who is accompanied by such Authorized Person at the IBX Center. Each Customer will provide Equinix with written notification of any changes to Customer’s list of Authorized Persons for any IBX Center at least one (1) full business day in advance of the effectiveness of such change. Equinix will refuse entry at an IBX Center to any person who is not named on a Customer’s list of Authorized Persons for such IBX Center, unless such person is an Accompanying Person. Equinix reserves the right to refuse or withdraw approval of a person on any Customer’s list for any IBX Center if such refusal or withdrawal is reasonable (such as where the person violates, or has previously violated, any of the Policies). Equinix also reserves the right to deny access to an Accompanying Person at an IBX Center if the denial is reasonable (such as where the Accompanying Person violates, or has previously violated, any of the Policies).

4. Each Customer is strongly encouraged (but not required, except as herein set forth) to give twenty-four (24) hours prior notice to Equinix (through the contact provided by Equinix) prior to visiting an IBX Center. Except in an emergency (as reasonably determined by Equinix), any Customer visiting a cage area shared with other Customers will give at least twenty-four (24) hours prior notice to Equinix.

5. Non-scheduled visits by a Customer may lead to a delay in access or may be denied. For all non-scheduled visits by a Customer, Equinix at its discretion may require Customer’s administrative contact to call the Equinix Response Center to authorize the person’s entry into the IBX Center and Customer’s Licensed Space.

6. For any site tours of an IBX Center, Customer must, no later than 5:00 p.m. the day before the requested tour, arrange such site tour with Equinix and provide Equinix with the following data: Customer’s organization name; purpose of tour; date/time of tour; names of visitors; authorization to access a specific Licensed Space (for existing Customers only); and any special instructions associated with a specific tour. Tour size is limited to a maximum of five (5) guests and one authorized tour guide on all tours unless Equinix agrees to accommodate more persons. If so, Equinix will arrange for one authorized tour guide or Equinix security officer for every five (5) guests.

7. Access by a Customer to any shared work area (or any other common area where Equinix permits access by Customers) may be restricted by Equinix at any time, including when another Customer is in such area.

8. Equinix may, at its discretion, require any or all Authorized Persons of any Customer to have a full-face photograph taken at the IBX Centers for purposes of secure identification.

9. Every person who accesses an IBX Center must use the then-in-use secure access means to enter and exit the IBX Center.

10. Upon any Customer’s entry into an IBX Center, Equinix may (at its discretion) accompany Customer inside the IBX Center, and Equinix may (at its discretion) remain with Customer for the entire time that Customer is in the IBX Center. However, Customer will have privacy when Customer is in its Licensed Space, and Equinix will maintain sufficient distance from Customer at such times that Equinix will not have access to Customer’s confidential information or activities.

11. Repeat visitors of a Customer requiring freedom of movement within certain areas of an IBX Center may be entered into the Security Access System (“SAS”) if Customer’s administrative contact requests this for a specific person in conjunction with a work visit. The person being registered in SAS is required to produce a government-issued photo ID for identity verification (driver’s license or passport), and complete the on-site enrollment process with the assistance of Equinix security officers. After the visitor places his/her hand on the reader for scanning of biometric identification information into the SAS, the computer will identify/request which doors the person may access and automatically update the readers in real-time.

D-6
12. Equinix may access any Customer’s Licensed Space (i) during an emergency; (ii) to perform Smart Hands or other services for Customer; (iii) as needed to perform those services necessary for the use of the IBX Center by some or all Customers; or (iv) as otherwise permitted under such Customer’s Master Service Agreement.

13. If the landlord or owner of an IBX Center or an IBX Property wishes to access, or permit others to access, a Customer’s Licensed Space, Equinix will accompany such persons during such visit, and Customer shall, if practicable, receive advance notice from Equinix and have an opportunity to be present.

14. Equinix reserves the right to deny IBX Center access to Authorized Persons and Accompanying Persons who do not have a business purpose at an IBX Center where access is requested.

15. Equinix reserves the right to exclude or expel from the IBX Center any person who, in Equinix’s judgment, is under the influence of alcohol or drugs or who, in Equinix’s judgment, poses a risk to persons or property in the IBX Center.

16. Customers, Authorized Persons and Accompanying Persons must follow the instructions of the IBX Center Manager or his designee during an emergency.

G. SHIPPING POLICIES

1. The shipping policies are subject to change by Equinix without notice, and such changes are effective immediately.

2. Each Customer is responsible for, among other things, (i) scheduling with a shipper all shipments for Customer from and to the IBX Centers; (ii) paying all fees associated with the shipments, including all shipping, retrieval and related fees charged by the shipper; (iii) completing all necessary paperwork for the shipments; and (iv) notifying the shipper that all shipments will be shipped to, or retrieved from, the shipping/receiving areas designated by Equinix for each IBX Center. No shipments of any size will be accepted in an IBX Center lobby.

3. Each Customer is also responsible for notifying its shippers of all shipping rules for any multi-tenant buildings in which IBX Centers are located. If an IBX Center is located in a multi-tenant building, shippers are responsible for conforming to all shipping rules of that building, and the Equinix Response Center will provide a Customer, upon request, with the specific shipping rules for each multi-tenant building in which an IBX Center is located.

4. Each Customer will ensure that all shipments (including the boxes) are clearly labeled with the company name and/or identifier of Customer. Unidentified packages will not be accepted.

5. Each Customer that wishes to ship items from or to an IBX Center will schedule through the Customer Care Website (or any other Equinix-approved scheduling method) the incoming or outgoing shipment at least twenty-four (24) hours in advance (and at least four business days in advance where the IBX Center is in a multi-tenant building). For incoming shipments only, a Customer may also (under the same timeframes set forth above) schedule the shipments by phone through the Equinix Response Center. Equinix reserves the right to reject any shipments to an IBX Center that are not delivered at the time scheduled.

6. Emergency shipments to an IBX Center must be scheduled directly by calling the Equinix Response Center. If such advance notification is provided to Equinix, Equinix will make reasonable efforts to accommodate after-hours emergency deliveries.

7. Each Customer will ensure that all shipments for Customer to or from IBX Centers where Equinix is the sole tenant in the building will be made during the business day (Monday - Friday), from 7:00 a.m. until 5:00 p.m. local time. Shipment times may vary for multi-tenant buildings in which IBX Centers are located. The Equinix Response Center will provide each Customer, upon request, with the specific shipping times for such multi-tenant buildings, and each Customer will ensure that all shipments to such buildings comply with the applicable shipping rules.

8. Equinix reserves the right to visually and/or physically inspect any and all shipments to or from the IBX Centers when such shipments arrive at the shipping/receiving area. Shipments containing liquids, combustibles and any Hazardous Materials are prohibited, and, to the extent Equinix is so aware of the contents of such shipments, will not be accepted at any time.

9. At the time of Equinix’s inspection of any shipments to or from the IBX Centers, Equinix may record serial numbers for Equipment of a Customer with estimated value of more than $1,000, as estimated by Customer. Accordingly, when packing Equipment for shipping, each Customer should be aware that Equinix personnel will need access to the serial numbers on the Equipment being shipped, and should seal boxes after serial numbers are recorded.

10. Customers are requested to contact the Equinix Response Center to extend or cancel the shipment receipt date if the shipment does not arrive at the scheduled time.
11. Customers are responsible for moving their shipments from the shipping/receiving area (or secure storage area where they are placed by Equinix at Customer’s expense under the Smart Hands service if the shipment is not removed by Customer immediately upon its arrival) to their Licensed Space and from their Licensed Space to the shipping/receiving area. If a Customer wishes for Equinix to perform such functions as well as packing or unpacking the shipments and disposing of packing materials, the Customer may do so by using the Smart Hands service.

12. Except where Equinix removes the packing materials as a part of a Customer’s Smart Hands order, each Customer is required to take all packing materials to the shipping/receiving area or other designated area for disposal immediately after completing installation. Cardboard and packing materials are not to be stored in cages.

13. Customers will move the shipments from the shipping/receiving area (or secure storage area where they are placed by Equinix) to Customer’s Licensed Space within three (3) business days after notification of arrival (the Equinix Response Center ordinarily will contact a Customer by email and/or phone within twelve (12) hours after arrival, and either e-mail or phone communication by Equinix to the Customer will constitute notification for all purposes under this Section G of the Policies, notwithstanding anything in the Customer’s Master Service Agreement to the contrary). Moving equipment will be available to assist Customer, if necessary (dolly’s, hand trucks, etc.), if Customer schedules the use of such moving equipment with Equinix at the shipping/receiving area.

14. If a Customer has not retrieved its shipment from a secured area forty-eight (48) hours after the shipment has arrived, the Equinix Response Center will notify Customer that if the shipment is not retrieved before the three business days has elapsed (starting with the notification of arrival), the shipment may be returned to the “shipped from” address at Customer’s expense under the Smart Hands service.

15. Unless prior arrangements are made with Equinix by a Customer during the original request (or Smart Hands is purchased for Equinix to move the shipment to Customer’s Licensed Space), Equinix reserves the right to ship the shipment back to the “shipped from” address, at Customer’s expense, three (3) business days after notification of arrival.

16. Equinix is not responsible or liable for any missing or damage to any Customer’s Equipment which may occur during the packaging and/or shipment of such equipment.

H. DEFINITIONS
The following terms shall have the respective meanings stated below for the purposes of these Policies. In addition, for each Customer, the following terms shall have the respective meanings stated below for purposes of such Customer’s Master Service Agreement to the extent that such Master Service Agreement uses but does not define a term defined below:

1. **Accompanying Person** shall mean, for each Customer, each person (other than an Equinix employee) who is accompanied by an Authorized Person while at an IBX Center.

2. **Associated Entity** shall mean, for each Customer, each individual, company, partnership or other entity of any type which employs, contracts with, or is otherwise associated or affiliated with any of Customer’s Authorized Persons or Accompanying Persons. Without limiting the foregoing definition, for each Customer, each Sublicensee that has sublicensed Sublicensed Space at an IBX Center will be an Associated Entity at such IBX Center.

3. **Authorized Person** shall mean, for each Customer, each person who is included on a list of Authorized Persons given to Equinix by Customer.

4. **Cross-Connect** shall mean a physical or wireless interconnection within an IBX Center that (i) exits a Customer’s cage or (ii) connects a Customer to another Equinix customer.

5. **Customer** shall mean any party which is party to a Master Service Agreement with one or more Equinix Entities relating to an IBX Center or other agreement pursuant to which Equinix provides services to such party at an IBX Center.

6. **Customer Care Website** shall mean Equinix’s customer care website accessible via the Internet at a location designated by Equinix (which location Equinix may change from time to time at its discretion).

7. **Customer Care Website Usage Policies** shall mean the website usage policies that Equinix at any time adopts for the Customer Care Website, and which may be changed from time to time at Equinix’s discretion.

8. **Customer Cross-Connect** shall mean a physical interconnection, including cable, connections, and other wiring, that (i) does not exit a Customer’s cage; (ii) does not connect a Customer to another Equinix customer; and (iii) interconnects (a) Equipment belonging to a Customer or (b) Equinix-provided POD Equipment in a Customer’s cage with Customer’s Equipment.

9. **Equinix** shall mean Equinix Operating Co., Inc. Notwithstanding the foregoing, if, on behalf of Equinix, another Equinix Entity agrees to an Order with Customer, it is the Equinix Entity that will provide the Services and who will be deemed Equinix for such Order.
10. **Equinix Entities** shall mean Equinix Operating Co., Equinix Inc. and Equinix Pacific, Inc., and each of which individually is an Equinix Entity.

11. **Equinix Power Distribution System** shall mean any and all Hendry panels (or other Equinix specifications-compliant DC distribution panels), locks, and power strips and electrical, utility, or power distribution systems and items that are installed by Equinix.

12. **Equipment** shall mean, for each Customer, all network and/or computer equipment (including wiring and Customer Cross-Connects between such equipment and the Customer’s POD Equipment) that is located in the Customer’s Licensed Space, regardless of whether such equipment is owned, leased, licensed or otherwise obtained for use by the Customer or the Customer’s Authorized Persons, Accompanying Persons, or Associated Entities (but this does not include Cross-Connects or Equinix POD Equipment located in the Customer’s Licensed Space).

13. **Hazardous Materials** shall mean (i) asbestos, or any substance containing asbestos; (ii) polychlorinated biphenyls; (iii) lead; (iv) radon; (v) pesticides; (vi) petroleum or any other substances containing hydrocarbons; (vii) any substance which, when on the IBX Centers or the IBX Center Properties, is prohibited by any environmental Laws; (viii) those matters described in the Environmental Response Compensation and Liability Act, as amended, 42 U.S.C. §9601 et. seq. (“CERCLA”); and (ix) any other substance, material or waste which, (a) by any environmental Laws requires special handling or notification of any governmental authority in its collection, storage, treatment, or disposal or (b) is defined or classified as hazardous, dangerous or toxic pursuant to any legal requirement.

14. **IBX Center Property** shall mean the real property on which, and the building in which, an IBX Center is located.

15. **IBX Centers** shall mean, for each Customer, the Internet Business Exchange Centers leased or owned by Equinix in which Customer licenses Licensed Spaces or receives Services from Equinix pursuant to an Order.

16. **Laws** shall mean all applicable federal, state, local, municipal or other laws, regulations, rules, ordinances, rulings, decrees, orders, directives, requirements, codes (including building codes), and as they may be instituted or amended from time to time.

17. **Licensed Space** shall mean, for each Customer, the areas licensed by a Customer under the Customer’s Master Service Agreement and as identified in the Orders as to the amount of space. For each Licensed Space, Equinix will determine at all times during the term the exact location in the IBX Centers where the Licensed Space for each Customer will be located, and Equinix will notify each Customer accordingly.

18. **Master Service Agreement** shall mean, for each Customer, the Master Service Agreement executed by Customer and one or more Equinix Entities (or the document with a similar function if no document entitled Master Service Agreement has been signed by Customer and one or more Equinix Entities) to which these Policies are incorporated by reference.

19. **Online Order** shall mean, for each Customer, an Order for Services placed by the Customer via the Customer Care Website and accepted by Equinix pursuant to Equinix’s then current ordering procedures (as well as any amendment to such Order reflected in a change order agreed to by the parties in accordance with the terms of the applicable change order, the Order and the Master Service Agreement).

20. **Order** shall mean, for each Customer, any Sales Orders, Online Order or Phone Order between the Customer and Equinix.

21. **Phone Order** shall mean, for each Customer, an Order for Services placed by the Customer via telephone and accepted by Equinix pursuant to Equinix’s then current ordering procedures (as well as any amendment to such Order reflected in a change order agreed to by the parties in accordance with the terms of the applicable change order, the Order and the Master Service Agreement).

22. **Point of Demarcation Equipment or POD Equipment** shall mean (1) patch panels, DSX panels for category 5 twisted pair, co-axial, single and multi-mode fiber, or (2) other appropriate (as reasonably determined by Equinix) point of demarcation equipment.

23. **Policies** shall mean the procedures, rules, regulations, security practices and policies adopted by Equinix that are then in effect for the IBX Centers, including these Internet Business Exchange Center Policies, and as they may be amended from time to time by Equinix.

24. **Ports** shall mean all wiring, connections, circuitry and utility ports at the POD Equipment.

25. **Redundant Circuit Pair** shall mean two identical power circuits installed in the same cabinet or rack, neither of which is a part of another pair of circuits in the same cabinet or rack.

26. **Sales Order** shall mean, for each Customer, a written order for services (as well as any amendment to such Order reflected in a change order agreed to by the Parties in accordance with the terms of the applicable change order, the Order and the Master Service Agreement).
27. **Sublicensed Space** shall mean the portion of the Licensed Space sublicensed to a Sublicensee by a Customer pursuant to the terms of the Customer’s Master Service Agreement.

28. **Sublicensee** shall mean a customer of a Customer or other third party who sublicenses all or part of the Licensed Space from such Customer.

29. **Unordered Service** shall mean an Equinix Service used by Customer without an Order for such Service.
### Section A: Space and Colocation Services

<table>
<thead>
<tr>
<th>Space Type</th>
<th>Private Cage</th>
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<th>Quantity</th>
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<th>MRC per Unit</th>
<th>Non-Recurring Charges</th>
<th>Monthly Recurring Charges</th>
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<tr>
<td>19” Open Cabinet-Equivalent - CAB90002</td>
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<td>Power - 20-amp, 208 V AC single-phase - POW00035</td>
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<td>Cross Connect - CC 90002</td>
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<td>350 square feet of office flex space</td>
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**SALES ORDER TOTAL**

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<tr>
<th>Quantity</th>
<th>NRC per Unit</th>
<th>MRC per Unit</th>
<th>Non-Recurring Charges</th>
<th>Monthly Recurring Charges</th>
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</table>

This sales order (the “Sales Order”) is between Equinix Operating Co. Inc. (“Equinix”) and the customer identified above (“Customer”), who wishes to order the products and/or services set forth above (each a “Service”).

Unless otherwise agreed to by the parties in writing, each Service shall be delivered at the Internet Business Exchange Center identified above (“IBX Center”). Notwithstanding anything in this Sales Order to the contrary, this Sales Order is governed by, and incorporated by reference in, the Master Service Agreement (or the document with a similar function if no document entitled Master Service Agreement has been signed by the parties) having an effective date of 17 May, 2005 between Customer and Equinix Inc., and/or one or more of its wholly-owned subsidiaries (“Agreement”). All exhibits, addenda and policy documents referenced in this Sales Order are incorporated by reference in this Sales Order, and therefore in the Agreement. The meanings of all capitalized terms defined in this Sales Order shall apply whenever such terms are used in this Sales Order, unless otherwise stated in this Sales Order. For purposes of this Sales Order the terms “monthly recurring charges” and “MRC” may be used interchangeably, and the term “non-recurring charges” and “NRC” may be used interchangeably.

Notwithstanding anything to the contrary in the Agreement, the term of this Sales Order shall begin on the date this Sales Order is signed by both parties (the “Sales Order Effective Date”), and this Sales Order shall remain in effect until the last Service Term (as defined below) in effect expires or is terminated pursuant to the Agreement, including this Sales Order. Each Service in this Sales Order shall have a “Service Term”, which for each Service shall begin on the Billing Commencement Date (defined below) and end upon completion of the period of time designated above as the Service Term. In addition, for each Service, the initial Service Term for such Service shall automatically renew for additional terms of three (3) months each, unless either party notifies the other party at least ninety (90) days prior to the end of the then-current Service Term for such Service that it has elected to terminate the Service Term for such Service, in which event the Service Term for such Service will terminate at the end of such then-current Service Term. Notwithstanding anything to the contrary in this Sales Order, (a) Equinix’s provision of any Service, and Customer’s use of such Service, are at all times governed by the Agreement, even if Customer begins using such Service prior to the beginning of its Service Term and (b) under no circumstances will a Service Term for any Service in this Sales Order survive the termination of this Sales Order.

Notwithstanding anything to the contrary in the Agreement, (a) if the Agreement expires prior to the expiration of this Sales Order’s then-current term, all of the terms and conditions of the Agreement (including limitation of liability and indemnification) will continue to apply to this Sales Order and all Services, until this Sales Order expires or is terminated, and (b) if the Agreement is terminated by either party prior to its full term, then this Sales Order, if still in effect, shall terminate upon the termination of the Agreement. If the Equinix entity providing the products and/or services set forth above (the “Equinix Provider”) is not currently a party to the Agreement, notwithstanding anything in the Agreement to the contrary, the parties agree that the execution of the Sales Order shall automatically (i.e., without further action by either party) result in the Equinix Provider becoming, as of the Sales Order Effective Date, a party to the Agreement (such that all references to Equinix under the Agreement, including, without limitation, references to limitation of liability and indemnification, shall be deemed to include the Equinix Provider, as well as any Equinix entities that were already parties to the Agreement). Any change by Equinix to the prices set forth above shall be made in accordance with the Agreement. Prices shown above do not include any applicable taxes, surcharges and shipping charges which are the responsibility of the Customer.

This Sales Order shall be of no force or effect unless (a) it is executed by both parties and (b) Customer and Equinix have entered into a currently effective Agreement.
Agreement under which this Sales Order is executed. Customer agrees to provide Equinix access to its cage, cabinets, racks and/or equipment as necessary for the installation of the Services as set forth in this Sales Order in accordance with this Agreement.

For purposes of this Sales Order, a 19" Open Cabinet Equivalent means a footprint equal to [***] square feet.
Customer Name: Salesforce.com  
Account Manager: Tom Offenbach  
Sales Order Number: A0Q0A000AC

Customer agrees to pay the Waiver of Subrogation Fee set forth above in exchange for Equinix’s agreement to obtain the waivers of subrogation that Equinix is required to obtain pursuant to Section 7(c) of the Agreement.

Billing:
Notwithstanding anything to the contrary, Customer’s obligation to pay the total monthly recurring charges and total non-recurring charges set forth in Section A shall begin twenty-one (21) days after the Sales Order Effective Date (the “Billing Commencement Date”). If Equinix fails to deliver a Service by the applicable Billing Commencement Date, and such failure is not caused by Customer or Customer’s contractors or agents, Customer shall not be obligated to pay for such Service until Equinix delivers such Service.

If Equinix is unable to deliver any Service on or before the Billing Commencement Date because Customer has failed to provide Equinix with the information necessary to deliver such Service (e.g., configuration information). Customer shall be billed for such Service beginning on the Billing Commencement Date even if such Service has not been delivered.

Customer may order services in addition to the cabinets set forth on this Sales Order for the Cage (defined below) (such additional services (including services other than cabinets set forth in this Sales Order), “Additional Services”). Services delivered by Equinix in space other than the Cage are not Additional Services.

Notwithstanding anything to the contrary in this Sales Order:
1. Prior to February 1, 2006, Customer shall pay the monthly recurring charges agreed to by Equinix and Customer for Additional Services in the applicable orders for such Additional Services.

2. Beginning February 1, 2006, Customer shall pay monthly recurring charges for Additional Services each month equal to the greater of i) the sum of the monthly recurring charges agreed to by Equinix and Customer for Additional Services in the applicable orders or ii) $[***].

3. Beginning August 1, 2006, Customer shall pay monthly recurring charges for Additional Services each month equal to the greater of i) the sum of the monthly recurring charges agreed to by Equinix and Customer for Additional Services in the applicable orders or ii) $[***].

Notwithstanding anything to the contrary in this Sales Order, Customer will pay the nonrecurring charges for Additional Services as set for in the applicable orders for such services and in the Agreement. For the avoidance of doubt, Customer shall pay monthly recurring charges and nonrecurring charges for cabinets as set forth in the first two paragraphs of this “Billing” section in addition to the charges for Additional Services.

Equinix will reserve out of the power delivery capacity available to the Cage (defined below) [***] of electrical power to be made available to Customer in increments requested by Customer through circuit orders (including the circuits ordered on this Sales Order). Such electrical power will be UPS critical power in an N+1 configuration. Equinix will further provide cooling capacity in the Cage to meet all requirements set forth in the Agreement (including Exhibit C of the Agreement and the Policies as defined in the Agreement). For the avoidance of doubt, a Temperature Irregularity or a Humidity Irregularity (as defined in Exhibit C of the Agreement) does not constitute Equinix’s failure to provide cooling capacity as contemplated in the prior sentence (the “Cooling Capacity”). Equinix’s failure to provide Cooling Capacity means Equinix’s failure to provide the infrastructure reasonably necessary to provide the Cooling Capacity.

Power Cap:
Customer may not draw more than an aggregate of [***] (the “Power Cap”) in the Cage depicted in Attachment 1 of this Sales Order (the “Cage”). In the event that Equinix measures Customer’s draw in the Cage and such draw exceeds the Power Cap, Equinix may require Customer to reduce the power draw in the Cages to the Power Cap within twenty-four (24) hours of such measurement. In the event that Customer’s power draw in the Cage exceeds the Power Cap three (3) times in a calendar month, Equinix may disconnect power circuits until the aggregate rated capacity of all circuits in the Cage equals the Power Cap. Customer shall pay Equinix’s Smart Hands rate for Equinix’s measurement of draw in the Cage. In the event that Equinix fails to make [***] of power available to Customer in the Cage. Equinix will be responsible for Customer’s actual and direct out of pocket costs and damages resulting from such failure, not to exceed [***]. For the avoidance of doubt, a Power Outage, as defined in Exhibit C of the Agreement, does not constitute Equinix’s failure to make power available as contemplated in the prior sentence. Equinix’s failure to make the power available means Equinix’s refusal to install or energize such power or to fail to maintain the infrastructure required to deliver such power.

Customer to complete:
Authorized Signature /s/ David Schellhase  
Printed name: David Schellhase  
Title: VP & General Counsel  
Date signed: 17 May, 2005  
Billing Information Billing Contact Name: Accounts Payable  
Billing Address: Salesforce.com, Inc.

Equinix to complete:
Authorized Signature /s/ Monica Brown Andrews  
Printed name: Monica Brown Andrews  
Title: Director of Customer Contracts  
Date signed: 5/24/05  
Billing: Please fax a signed copy of this Sales Order to:  
(650) 618-1857
The Landmark@one Market, # 300
San Francisco, CA 94105

Phone Number: (415) 901-7000
E-mail Address: AccountsPayable@salesforce.com

and mail two sets of originals to:

Equinix
Attn: Contracts
301 Velocity Way, 5th Floor
Foster City, CA 94404

Please sign and return all referenced exhibits, addenda and/or policy documents with this order. Failure to do so may result in a delay in processing.
Section A: Space and Colocation Services

<table>
<thead>
<tr>
<th>Space Type</th>
<th>Quantity</th>
<th>NRC per Unit</th>
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<td>19&quot; Open Cabinet-Equivalent - CAB90002</td>
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Unless otherwise agreed to by the parties in willing, each Service shall be delivered at the Internet Business Exchange Center identified above (“IBX Center”). Notwithstanding anything in this Sales Order to the contrary, this Sales Order is governed by, and incorporated by reference in, the Master Service Agreement (or the document with a similar function if no document entitled Master Service Agreement has been signed by the parties) having an effective date of 17 May, 2005 between Customer and Equinix Inc., and/or one or more of its wholly-owned subsidiaries (“Agreement”). All exhibits, addenda and policy documents referenced in this Sales Order are incorporated by reference in this Sales Order, and therefore in the Agreement. The meanings of all capitalized terms defined in this Sales Order shall apply whenever such terms are used in this Sales Order, unless otherwise stated in this Sales Order. For purposes of this Sales Order the terms “monthly recurring charges” and “MRC” may be used interchangeably, and the term “non-recurring charges” and “NRC” may be used interchangeably.

Notwithstanding anything to the contrary in the Agreement, the term of this Sales Order shall begin on the date this Sales Order is signed by both parties (the “Sales Order Effective Date”), and this Sales Order shall remain in effect until the last Service Term (as defined below) in effect expires or is terminated pursuant to the Agreement, including this Sales Order. Each Service in this Sales Order shall have a “Service Term”, which for each Service shall begin on the Billing Commencement Date (defined below) and end upon completion of the period of time designated above as the Service Term. In addition, for each Service, the initial Service Term for such Service shall automatically renew for additional terms of three (3) months each, unless either party notifies the other party at least ninety (90) days prior to the end of the then-current Service Term for such Service that it has elected to terminate the Service Term for such Service, in which event the Service Term for such Service will terminate at the end of such then-current Service Term. Notwithstanding anything to the contrary in this Sales Order, (a) Equinix’s provision of any Service, and Customer’s use of such Service, are at all times governed by the Agreement, even if Customer begins using such Service prior to the beginning of its Service Term and (b) under no circumstances will a Service Term for any Service in this Sales Order survive the termination of this Sales Order.

Notwithstanding anything to the contrary in the Agreement, (a) if the Agreement expires prior to the expiration of this Sales Order’s then-current term, all of the terms and conditions of the Agreement (including limitation of liability and indemnification) will continue to apply to this Sales Order and all Services, until this Sales Order expires or is terminated, and (b) if the Agreement is terminated by either party prior to its full term, then this Sales Order, if still in effect, shall terminate upon the termination of the Agreement. If the Equinix entity providing the products and/or services set forth above (the “Equinix Provider”) is not currently a party to the Agreement, notwithstanding anything in the Agreement to the contrary, the parties agree that the execution of the Sales Order shall automatically (i.e., without further action by either party) result in the Equinix Provider becoming, as of the Sales Order Effective Date, a party to the Agreement (such that all references to Equinix under the Agreement, including, without limitation, references to limitation of liability and indemnification, shall be deemed to include the Equinix Provider, as well as any Equinix entities that were already parties to the Agreement). Any change by Equinix to the prices set forth above shall be made in accordance with the Agreement. Prices shown above do not include any applicable taxes, surcharges and shipping...
charges which are the responsibility of the Customer.

This Sales Order shall be of no force or effect unless (a) it is executed by both parties and (b) Customer and Equinix have entered into a currently effective Agreement under which this Sales Order is executed. Customer agrees to provide Equinix access to its cage, cabinets, racks and/or equipment as necessary for the installation of the Services as set forth in this Sales Order in accordance with this Agreement.
For purposes of this Sales Order, a 19” Open Cabinet Equivalent means a footprint equal to [***] square feet.

Customer agrees to pay the Waiver of Subrogation Fee set forth above in exchange for Equinix’s agreement to obtain the waivers of subrogation that Equinix is required to obtain pursuant to Section 7(c) of the Agreement.

Billing:

Notwithstanding anything to the contrary, Customer’s obligation to pay the total monthly recurring charges and total non-recurring charges set forth in Section A shall begin twenty-one (21) days after the Sales Order Effective Date (the “Billing Commencement Date”). If Equinix fails to deliver a Service by the applicable Billing Commencement Date, and such failure is not caused by Customer or Customer’s contractors or agents, Customer shall not be obligated to pay for such Service until Equinix delivers such Service.

If Equinix is unable to deliver any Service on or before the Billing Commencement Date because Customer has failed to provide Equinix with the information necessary to deliver such Service (e.g., configuration information), Customer shall be billed for such Service beginning on the Billing Commencement Date even if such Service has not been delivered.

Equinix will reserve out of the power delivery capacity available to the Cage (defined below), 900 kW of electrical power to be made available to Customer in increments requested by Customer through circuit orders (including the circuits ordered on this Sales Order). Such electrical power will be UPS critical power in an N+1 configuration. Equinix will further provide cooling capacity in the Cage to meet all requirements set forth in the Agreement (including Exhibit C of the Agreement and the Policies as defined in the Agreement). For the avoidance of doubt, a Temperature Irregularity or a Humidity Irregularity (as defined in Exhibit C of the Agreement) does not constitute Equinix’s failure to provide Cooling Capacity as contemplated in the prior sentence (the “Cooling Capacity”). Equinix’s failure to provide Cooling Capacity means Equinix’s refusal to provide the Infrastructure reasonably necessary to provide the Cooling Capacity.

Power Cap:

Customer may not draw more than an aggregate of [***] (the “Power Cap”) in the Cage depicted in Attachment 1 of this Sales Order (the “Cage”). In the event that Equinix measures Customer’s draw in the Cage and such draw exceeds the Power Cap, Equinix may require Customer to reduce the power draw in the Cages to the Power Cap within twenty-four (24) hours of such measurement. In the event that Customer’s power draw in the Cage exceeds the Power Cap three (3) times in a calendar month, Equinix may disconnect power circuits until the aggregate rated capacity of all circuits in the Cage equals the Power Cap. Customer shall pay Equinix’s Smart Hands rate for Equinix’s measurement of draw in the Cage. In the event that Equinix fails to make [***] of power available to Customer in the Cage. Equinix will be responsible for Customer’s actual and direct out of pocket costs and damages resulting from such failure, not to exceed [***]. For the avoidance of doubt, a Power Outage, as defined in Exhibit C of the Agreement, does not constitute Equinix’s failure to make power available as contemplated in the prior sentence. Equinix’s failure to make the power available means Equinix’s refusal to install or energize such power or to fail to maintain the infrastructure required to deliver such power.

Customer to complete:

<table>
<thead>
<tr>
<th>Authorised Signature</th>
<th>/s/ David Sehellhase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printed name</td>
<td>David Sehellhase</td>
</tr>
<tr>
<td>Title</td>
<td>VP &amp; General Counsel</td>
</tr>
<tr>
<td>Date signed</td>
<td>17 May, 2005</td>
</tr>
</tbody>
</table>

Equinix to complete:

<table>
<thead>
<tr>
<th>Authorised Signature</th>
<th>/s/ Monica Brown Andrews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printed name</td>
<td>Monica Brown Andrews</td>
</tr>
<tr>
<td>Title</td>
<td>Director of Customer Contracts</td>
</tr>
<tr>
<td>Date signed</td>
<td>5/25/05</td>
</tr>
</tbody>
</table>

Billing Information:

<table>
<thead>
<tr>
<th>Billing Contact Name</th>
<th>Accounts Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billing Address</td>
<td>Salesforce.Com, Inc.</td>
</tr>
<tr>
<td></td>
<td>The Landmark@Due Market, # 300</td>
</tr>
<tr>
<td></td>
<td>San Francisco, CA 94105</td>
</tr>
<tr>
<td>Phone Number</td>
<td>415 901 7000</td>
</tr>
<tr>
<td>Email Address</td>
<td>Accounts <a href="mailto:Payable@salesforce.com">Payable@salesforce.com</a></td>
</tr>
</tbody>
</table>

Please fax a signed copy of this Sales Order to:

(650) 618-1857

and mail two sets of originals to:

Equinix
Attn: Contracts
301 Velocity Way, 5th Floor
Foster City, CA 94404

Please sign and return all referenced exhibits, addenda and/or policy documents with this order. Failure to do so may result in a delay in processing.
Dear [NAME]:

I am pleased to offer you a position with Salesforce.com, Inc. (the “Company”) as its [ ] commencing on [ ]. If you decide to join us, you will receive an annual salary of [ ], less applicable withholding, which will be paid semi-monthly in accordance with the Company’s normal payroll procedures. As a Company employee, you are also eligible to receive certain employee benefits including Company stock options. Subject to Board approval you will be granted an option to acquire [ ] shares of Common stock, vesting 1/4 at the end of one year, and 1/48 monthly thereafter so long as your employment with the Company continues. The exercise price will be equal to the fair market value of the common stock as determined by the Board.

If you choose to accept this offer, your employment with the Company will be voluntarily entered into and will be for no specified period. As a result, you will be free to resign at any time, for any reason or for no reason, as you deem appropriate. The Company will have a similar right and may conclude its employment relationship with you at any time, with or without cause.

For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within seven (7) business days of your date of hire, or our employment relationship with you may be terminated.

In the event of any dispute or claim relating to or arising out of our employment relationship, this agreement, or the termination of our employment relationship (including, but not limited to, any claims of wrongful termination or age, sex, disability, rate or other discrimination), you and the Company agree that all such disputes shall be fully, finally and exclusively resolved by binding arbitration conducted by the American Arbitration Association in San Francisco, California, and we waive our rights to have such disputes tried by a court or jury. However, we agree that this arbitration provision shall not apply to any disputes or claims relating to or arising out of the misuse or misappropriation of the Company’s trade secrets or proprietary information.

To indicate your acceptance of the Company’s offer, please sign and date this letter in the space provided below and return it to me. A duplicate original is enclosed for your records. You will be required to sign a Employee Inventions and Proprietary Rights Assignment Agreement as a condition of your employment. This letter, along with any agreements relating to proprietary rights between you and the Company, set forth the terms of your employment with the Company and supersede any prior representations or agreements, whether written or oral. This letter may not be modified or amended except by a written agreement, signed by the Company and by you.
We look forward to working with you at Salesforce.com. Welcome aboard!

Sincerely,

/s/ MARC BENIOFF

Marc Benioff
Chairman of the Board

AGREED TO AND ACCEPTED

[NAME]
### SCHEDULE TO EXHIBIT 10.15

<table>
<thead>
<tr>
<th>Date of Offer Letter</th>
<th>Salary</th>
<th>Options</th>
<th>Change in Control Provision</th>
<th>Bonuses</th>
<th>Other Key Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Benioff</td>
<td>None</td>
<td>None</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Steve Cakebread</td>
<td>4/26/2002</td>
<td>Annual salary of $250,000 per offer letter. Mr. Cakebread’s salary in fiscal 2006 was $300,000.</td>
<td>1,000,000 shares; 1/4th to vest at end of 1 year, 1/48th monthly thereafter; 50,000 shares vest upfront.</td>
<td>N/A</td>
<td>If salesforce.com’s IPO is not completed before 5/31/03, Mr. Cakebread may receive a $25,000 quarterly bonus based on the realization of business objectives in the discretion of the Board.</td>
</tr>
<tr>
<td>Parker Harris</td>
<td>3/1/1999</td>
<td>Annual salary of $100,000 per offer letter. Mr. Harris’ salary in fiscal 2006 was $250,000.</td>
<td>1,250,000 shares; 1/4th to vest at end of 1 year, 1/48th monthly thereafter. Since the date of the offer letter, Mr. Harris has received options to purchase an aggregate of 150,000 shares of common stock.</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Kenneth Juster</td>
<td>12/1/2004</td>
<td>Annual salary of $400,000; variable compensation of $50,000 quarterly based on Company matrix (guaranteed during first 12 months of employment) per offer letter.</td>
<td>300,000 shares; 1/4th to vest at end of 1 year, 1/48th monthly thereafter. Mr. Juster is entitled to receive 6 months acceleration of vesting of unvested stock options automatically from the date of the change in control upon termination without cause within 12 months following a change in control.</td>
<td>N/A</td>
<td>If Mr. Juster is terminated without cause during the first 12 months of employment with salesforce.com, he will receive 6 months of his base salary and the greater of (i) accelerated vesting of 6 months of his original stock option grant or (ii) monthly vesting through his termination date, plus 6 months of COBRA. salesforce.com shall reimburse up to $100,000 of Mr. Juster’s relocation expenses.</td>
</tr>
<tr>
<td>Jim Steele</td>
<td>9/18/2002</td>
<td>Annual salary of $300,000 per offer letter.</td>
<td>1,350,000 shares; 1/4th to vest at end of 1 year, 1/48th monthly thereafter.</td>
<td>N/A</td>
<td>If Mr. Steele terminated within 1st year of employment, he will receive 6 months base compensation and 6 months acceleration of vesting. This provision has expired.</td>
</tr>
</tbody>
</table>

This schedule sets forth the material terms of the offer letters with certain executive officers of salesforce.com, inc. The form is filed herewith.
<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFDC Australia Pty. Ltd.</td>
<td>Australia</td>
</tr>
<tr>
<td>Salesforce.com Canada Corporation</td>
<td>Canada</td>
</tr>
<tr>
<td>Salesforce.com Information Technology (Shanghai) Co., Ltd.</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>SFDC (EMEA) Limited</td>
<td>Switzerland</td>
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<tr>
<td>Salesforce.com France SAS</td>
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<td>Salesforce.com Germany GmbH</td>
<td>Germany</td>
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<tr>
<td>Salesforce.com Hong Kong Ltd.</td>
<td>Hong Kong</td>
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<tr>
<td>Salesforce.com India Pvt. Ltd.</td>
<td>India</td>
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<td>SFDC International Ltd.</td>
<td>Isle of Man</td>
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<td>SFDC Ireland Ltd.</td>
<td>Ireland</td>
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<td>Salesforce.com Italy S.r.l</td>
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<tr>
<td>Kabushiki Kaisha salesforce.com</td>
<td>Japan</td>
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<td>salesforce.com, LLC</td>
<td>Delaware</td>
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<tr>
<td>SFDC Luxembourg</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>SFDC Mexico S. de R.L. de C.V.</td>
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<td>SFDC Netherlands B.V.</td>
<td>The Netherlands</td>
</tr>
<tr>
<td>Salesforce.com Singapore Pte. Ltd</td>
<td>Singapore</td>
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<tr>
<td>Salesforce Spain, S.L.</td>
<td>Spain</td>
</tr>
<tr>
<td>SFDC Sweden AB</td>
<td>Sweden</td>
</tr>
<tr>
<td>Salesforce.com Sàrl</td>
<td>Switzerland</td>
</tr>
<tr>
<td>SFDC UK Ltd.</td>
<td>United Kingdom</td>
</tr>
</tbody>
</table>
Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 Nos. 333-117860 and 333-123656) pertaining to the 1999 Stock Option Plan, 2004 Equity Incentive Plan, 2004 Outside Directors Stock Plan, and the 2004 Employee Stock Purchase Plan of salesforce.com, inc., of our reports dated March 15, 2006, with respect to the consolidated financial statements and schedule of salesforce.com, inc., salesforce.com management’s assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of salesforce.com, inc. included in this Annual Report (Form 10-K) for the year ended January 31, 2006.

/s/   ERNST & YOUNG LLP

San Francisco, California
March 15, 2006
CERTIFICATION

I, Marc Benioff, certify that:

1. I have reviewed this Annual Report on Form 10-K of salesforce.com, inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 15, 2006

/s/  MARC BENIOFF

Marc Benioff
Chairman of the Board of Directors and
Chief Executive Officer
CERTIFICATION

I, Steve Cakebread, certify that:

1. I have reviewed this Annual Report on Form 10-K of salesforce.com, inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 15, 2006

/s/ STEVE CAKEBREAD

Steve Cakebread
Chief Financial Officer
CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Based on my knowledge, I, Marc Benioff, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of salesforce.com, inc. on Form 10-K for the fiscal year ended January 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

/s/    MARC BENIOFF

Marc Benioff
Chairman of the Board of Directors and
Chief Executive Officer

Based on my knowledge, I, Steve Cakebread, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of salesforce.com, inc. on Form 10-K for the fiscal year ended January 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

/s/    STEVE CAKEBREAD

Steve Cakebread
Chief Financial Officer