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## Salesforce Announces Fiscal 2017 Second Quarter Results

- **Revenue of \$2.04 Billion, up 25% Year-Over-Year, 26% in Constant Currency**
- **Deferred Revenue of \$3.82 Billion, up 26% Year-Over-Year, 27% in Constant Currency**
- **Unbilled Deferred Revenue of Approximately \$8.0 Billion, up 29% Year-Over-Year**
- **Initiates Third Quarter Revenue Guidance of \$2.11 Billion to \$2.12 Billion**
- **Raises Full Year Revenue Guidance to \$8.275 Billion to \$8.325 Billion**

**SAN FRANCISCO, Calif. – Aug. 31, 2016** – Salesforce (NYSE: CRM), the Customer Success Platform and world's #1 CRM company, today announced results for its second fiscal quarter ended July 31, 2016.

"Second quarter revenue grew 25% in dollars, and 26% in constant currency, propelling Salesforce past the \$2 billion quarterly revenue milestone. No other enterprise software company of our size is growing at this pace," said Marc Benioff, chairman and CEO, Salesforce. "At Dreamforce, you're going to see the next generation of Salesforce when we unveil Salesforce Einstein, the world's first comprehensive artificial intelligence platform for CRM. I've never been more excited about the innovation happening at Salesforce."

"Salesforce grew deferred revenue by 26% in dollars, and 27% in constant currency in the second quarter. We also delivered another quarter of year-over-year non-GAAP operating margin improvement, even as we closed our largest acquisition ever with Demandware," said Mark Hawkins, CFO, Salesforce. "Despite significant FX headwinds which impacted many of our key financial metrics, I'm pleased to raise our top-line guidance for the full fiscal year 2017 to \$8.325 billion in revenue at the high end of the range."

Salesforce delivered the following results for its second fiscal quarter 2017:

**Revenue:** Total revenue was \$2.04 billion, an increase of 25% year-over-year, and 26% in constant currency. Subscription and support revenues were \$1.89 billion, an increase of 24% year-over-year. Professional services and other revenues were \$151 million, an increase of 33% year-over-year.

**Earnings per Share:** GAAP diluted earnings per share was \$0.33, and was benefited by an approximate \$266 million release of a portion of the tax valuation allowance as a result of the acquisition of Demandware. Non-GAAP diluted earnings per share was \$0.24.

**Cash:** Cash generated from operations was \$251 million, a decrease of 18% year-over-year. Total cash, cash equivalents and marketable securities finished the quarter at \$1.72 billion.

**Deferred Revenue:** Deferred revenue on the balance sheet as of July 31, 2016 was \$3.82 billion, an increase of 26% year-over-year, and 27% in constant currency. Unbilled deferred revenue, representing business that is contracted but unbilled and off balance sheet, ended the second

quarter at approximately \$8.0 billion, up 29% year-over-year. This includes approximately \$300 million related to unbilled deferred revenue from the Demandware acquisition.

As of August 31, 2016, the company is initiating revenue, earnings per share, and deferred revenue guidance for its third quarter of fiscal year 2017. In addition, the company is raising its full fiscal year 2017 revenue, maintaining non-GAAP earnings per share guidance, and updating its operating cash flow guidance, previously provided on June 1, 2016. The company is also raising its full fiscal year GAAP earnings per share guidance, previously provided on May 18, 2016. This guidance includes the impact of acquisitions that have closed to date or have signed and are expected to close in the company's third quarter of fiscal 2017.

**Q3 FY17 Guidance:** Revenue is projected to be approximately \$2.11 billion to \$2.12 billion, an increase of 23% to 24% year-over-year.

GAAP loss per share is projected to be (\$0.05) to (\$0.04), while non-GAAP diluted earnings per share is projected to be \$0.20 to \$0.21.

On balance sheet deferred revenue growth is projected to be approximately 20% year-over-year.

**Full Year FY17 Guidance:** Revenue is projected to be approximately \$8.275 billion to \$8.325 billion, an increase of 24% to 25% year-over-year.

GAAP diluted earnings per share is projected to be \$0.27 to \$0.29, while non-GAAP diluted earnings per share is projected to be \$0.93 to \$0.95.

Operating cash flow growth is projected to be 20% to 21% year-over-year.

The following is a per share reconciliation of GAAP diluted earnings per share to non-GAAP diluted earnings per share guidance for the next quarter and full fiscal year:

|  | Fiscal 2017         |                 |
|--|---------------------|-----------------|
|  | Q3                  | FY2017          |
| GAAP (loss) EPS range*   | (\$0.05) - (\$0.04) | \$0.27 - \$0.29 |
| Plus   |                     |                 |
| Amortization of purchased intangibles                            | \$ 0.10             | \$ 0.33         |
| Stock-based expense  | \$ 0.28             | \$ 1.15         |
| Amortization of debt discount, net                               | \$ 0.01             | \$ 0.04         |
| Less   |                     |                 |
| Gains on sales of strategic investments                          | \$ -                | \$ (0.02)       |
| Income tax effects and adjustments**                             | \$ (0.14)           | \$ (0.84)       |
| Non-GAAP diluted EPS   | \$0.20 - \$0.21     | \$0.93 - \$0.95 |
| Shares used in computing basic net income per share (millions)   | 693                 | 688             |
| Shares used in computing diluted net income per share (millions) | 711                 | 703             |

\* For Q3 GAAP (loss) EPS, basic number of shares used for calculation and expected tax rate of 60%. For FY17 GAAP EPS, diluted number of shares used for calculation and expected tax rate of 1325%.

\*\* The Company's non-GAAP tax provision uses a long-term projected tax rate of 35%.

For additional information regarding non-GAAP financial measures see the reconciliation of results and related explanations below.

### **Quarterly Conference Call**

Salesforce will host a conference call at 2:00 p.m. (PT) / 5:00 p.m. (ET) today to discuss its financial results with the investment community. A live web broadcast of the event will be available on the Salesforce Investor Relations website at [www.salesforce.com/investor](http://www.salesforce.com/investor). A live dial-in is available domestically at 866-901-SFDC or 866-901-7332 and internationally at 706-902-1764, passcode 57940359. A replay will be available at (800) 585-8367 or (855) 859-2056 until midnight (ET) September 30, 2016.

### **About Salesforce**

Salesforce, the Customer Success Platform and world's #1 CRM company, empowers companies to connect with their customers in a whole new way. Salesforce has headquarters in San Francisco, with offices in Europe and Asia, and trades on the New York Stock Exchange under the ticker symbol "CRM." For more information about Salesforce, visit: [www.salesforce.com](http://www.salesforce.com).

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**"Safe harbor" statement under the Private Securities Litigation Reform Act of 1995:** This press release contains forward-looking statements about our financial results, which may include expected GAAP and non-GAAP financial and other operating and non-operating results, including revenue, net income (loss), diluted earnings per share, operating cash flow growth, operating margin improvement, deferred revenue growth, expected revenue run rate, expected tax rates, stock-based compensation expenses, amortization of purchased intangibles, amortization of debt discount and shares outstanding. The achievement or success of the matters covered by such forward-looking statements involves risks, uncertainties and assumptions. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, the company's results could differ materially from the results expressed or implied by the forward-looking statements we make.

The risks and uncertainties referred to above include -- but are not limited to -- risks associated with possible fluctuations in the company's financial and operating results; the company's rate of growth and anticipated revenue run rate, including the company's ability to convert deferred revenue and unbilled deferred revenue into revenue and, as appropriate, cash flow, and ability to maintain continued growth of deferred revenue and unbilled deferred revenue; foreign currency exchange rates; errors, interruptions or delays in the company's services or the company's Web hosting; breaches of the company's security measures; the financial impact of any previous and future acquisitions; the nature of the company's business model; the company's ability to continue to release, and gain customer acceptance of, new and improved versions of the company's services; successful customer deployment and utilization of the company's existing and future services; changes in the company's sales cycle; competition; various financial aspects of the company's subscription model; unexpected increases in attrition or decreases in new business; the company's ability to realize benefits from strategic partnerships and strategic investments; the emerging markets in which the company operates; unique aspects of entering or expanding in international markets, the company's ability to hire, retain and motivate employees and manage the company's growth; changes in the company's customer base; technological developments; regulatory developments; litigation related to intellectual property and other matters, and any related claims, negotiations and settlements; unanticipated changes in the company's effective tax rate; factors affecting the company's outstanding convertible notes and revolving credit facility; fluctuations in the number of company shares outstanding and the price of such shares; collection of receivables; interest rates; factors affecting the company's deferred tax assets and ability to value and utilize them; the potential negative impact of indirect tax exposure; the risks and expenses associated with the company's real estate and office facilities space; and general developments in the economy, financial markets, and credit markets.

Further information on these and other factors that could affect the company's financial results is included in the reports on Forms 10-K, 10-Q and 8-K and in other filings we make with the Securities and Exchange Commission from time to time. These documents are available on the SEC Filings section of the Investor Information section of the company's website at [www.salesforce.com/investor](http://www.salesforce.com/investor).

Salesforce.com, inc. assumes no obligation and does not intend to update these forward-looking statements, except as required by law.

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**###**

salesforce.com, inc.

**Consolidated Statements of Operations**

(in thousands, except per share data)

(Unaudited)

|   | Three Months Ended July 31, |              | Six Months Ended July 31, |              |
|---|-----------------------------|--------------|---------------------------|--------------|
|   | 2016                        | 2015         | 2016                      | 2015         |
| <b>Revenues:</b>  |                             |              |                           |              |
| Subscription and support  | \$ 1,886,080                | \$ 1,521,319 | \$ 3,661,573              | \$ 2,926,606 |
| Professional services and other                                   | 150,538                     | 113,365      | 291,648                   | 219,245      |
| Total revenues  | 2,036,618                   | 1,634,684    | 3,953,221                 | 3,145,851    |
| <b>Cost of revenues (1)(2):</b>                                   |                             |              |                           |              |
| Subscription and support  | 360,943                     | 292,737      | 696,771                   | 566,978      |
| Professional services and other                                   | 164,636                     | 112,647      | 325,789                   | 220,208      |
| Total cost of revenues  | 525,579                     | 405,384      | 1,022,560                 | 787,186      |
| Gross profit  | 1,511,039                   | 1,229,300    | 2,930,661                 | 2,358,665    |
| <b>Operating expenses (1)(2):</b>                                 |                             |              |                           |              |
| Research and development  | 291,506                     | 234,100      | 552,476                   | 456,228      |
| Marketing and sales   | 934,931                     | 793,691      | 1,830,791                 | 1,530,629    |
| General and administrative  | 252,051                     | 181,685      | 462,857                   | 357,496      |
| Operating lease termination resulting from purchase of 50 Fremont | 0                           | 0            | 0                         | (36,617)     |
| Total operating expenses  | 1,478,488                   | 1,209,476    | 2,846,124                 | 2,307,736    |
| Income from operations  | 32,551                      | 19,824       | 84,537                    | 50,929       |
| Investment income   | 11,916                      | 3,283        | 20,038                    | 7,844        |
| Interest expense  | (20,708)                    | (18,096)     | (42,719)                  | (34,771)     |
| Other income (expense) (1)  | 524                         | 1,947        | (13,282)                  | 1,029        |
| Gains on sales of strategic investments                           | 0                           | 0            | 12,864                    | 0            |
| Income before benefit from (provision for) income taxes           | 24,283                      | 6,958        | 61,438                    | 25,031       |
| Benefit from (provision for) income taxes (3)                     | 205,339                     | (7,810)      | 206,943                   | (21,791)     |
| Net income (loss)   | \$ 229,622                  | \$ (852)     | \$ 268,381                | \$ 3,240     |
| Basic net income (loss) per share                                 | \$ 0.34                     | \$ 0.00      | \$ 0.40                   | \$ 0.00      |
| Diluted net income (loss) per share                               | \$ 0.33                     | \$ 0.00      | \$ 0.39                   | \$ 0.00      |
| Shares used in computing basic net income (loss) per share        | 681,126                     | 659,366      | 678,929                   | 656,636      |
| Shares used in computing diluted net income (loss) per share      | 695,968                     | 659,366      | 691,714                   | 672,231      |

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

|                             | Three Months Ended July 31, |           | Six Months Ended July 31, |           |
|-----------------------------|-----------------------------|-----------|---------------------------|-----------|
|                             | 2016                        | 2015      | 2016                      | 2015      |
| Cost of revenues            | \$ 25,544                   | \$ 20,839 | \$ 47,759                 | \$ 40,529 |
| Marketing and sales         | 23,151                      | 19,002    | 38,537                    | 39,029    |
| Other non-operating expense | 642                         | 1,301     | 1,348                     | 2,116     |

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

|                            | Three Months Ended July 31, |           | Six Months Ended July 31, |           |
|----------------------------|-----------------------------|-----------|---------------------------|-----------|
|                            | 2016                        | 2015      | 2016                      | 2015      |
| Cost of revenues           | \$ 23,495                   | \$ 16,340 | \$ 50,129                 | \$ 31,721 |
| Research and development   | 38,624                      | 33,732    | 73,792                    | 64,974    |
| Marketing and sales        | 86,323                      | 71,724    | 181,797                   | 142,258   |
| General and administrative | 33,868                      | 25,983    | 65,511                    | 51,386    |

(3) Amounts include a \$265.7 million tax benefit recorded during the three months ended July 31, 2016 as a result of the release of a portion of the valuation allowance related to the Demandware, Inc. acquisition.

**salesforce.com, inc.**  
**Consolidated Statements of Operations**  
**(As a percentage of total revenues)**  
**(Unaudited)**

|   | Three Months Ended July 31, |      | Six Months Ended July 31, |      |
|---|-----------------------------|------|---------------------------|------|
|   | 2016                        | 2015 | 2016                      | 2015 |
| <b>Revenues:</b>  |                             |      |                           |      |
| Subscription and support  | 93%                         | 93 % | 93%                       | 93%  |
| Professional services and other                                   | 7                           | 7    | 7                         | 7    |
| Total revenues  | 100                         | 100  | 100                       | 100  |
| <b>Cost of revenues (1)(2):</b>                                   |                             |      |                           |      |
| Subscription and support  | 18                          | 18   | 18                        | 18   |
| Professional services and other                                   | 8                           | 7    | 8                         | 7    |
| Total cost of revenues  | 26                          | 25   | 26                        | 25   |
| Gross profit  | 74                          | 75   | 74                        | 75   |
| <b>Operating expenses (1)(2):</b>                                 |                             |      |                           |      |
| Research and development  | 14                          | 14   | 14                        | 14   |
| Marketing and sales   | 46                          | 49   | 46                        | 49   |
| General and administrative  | 12                          | 11   | 12                        | 11   |
| Operating lease termination resulting from purchase of 50 Fremont | 0                           | 0    | 0                         | (1)  |
| Total operating expenses  | 72                          | 74   | 72                        | 73   |
| Income from operations  | 2                           | 1    | 2                         | 2    |
| Investment income   | 0                           | 0    | 1                         | 0    |
| Interest expense  | (1)                         | (1)  | (1)                       | (1)  |
| Other income (expense) (1)  | 0                           | 0    | 0                         | 0    |
| Gains on sales of strategic investments                           | 0                           | 0    | 0                         | 0    |
| Income before benefit from (provision for) income taxes           | 1                           | 0    | 2                         | 1    |
| Benefit from (provision for) income taxes                         | 10                          | 0    | 5                         | (1)  |
| Net income (loss)   | 11%                         | 0 %  | 7%                        | 0%   |

(1) Amortization of purchased intangibles from business combinations as a percentage of total revenues, as follows:

|                             | Three Months Ended July 31, |      | Six Months Ended July 31, |      |
|-----------------------------|-----------------------------|------|---------------------------|------|
|                             | 2016                        | 2015 | 2016                      | 2015 |
| Cost of revenues            | 1%                          | 1%   | 1%                        | 1%   |
| Marketing and sales         | 1                           | 1    | 1                         | 1    |
| Other non-operating expense | 0                           | 0    | 0                         | 0    |

(2) Stock-based expense as a percentage of total revenues, as follows:

|                            | Three Months Ended July 31, |      | Six Months Ended July 31, |      |
|----------------------------|-----------------------------|------|---------------------------|------|
|                            | 2016                        | 2015 | 2016                      | 2015 |
| Cost of revenues           | 1%                          | 1%   | 1%                        | 1%   |
| Research and development   | 2                           | 2    | 2                         | 2    |
| Marketing and sales        | 4                           | 4    | 5                         | 4    |
| General and administrative | 2                           | 2    | 1                         | 2    |

**salesforce.com, inc.**  
**Consolidated Balance Sheets**  
**(in thousands)**

|  | July 31,<br>2016     | January 31,<br>2016  |
|--|----------------------|----------------------|
|  | (unaudited)          |                      |
| <b>Assets</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents                                | \$ 1,115,226         | \$ 1,158,363         |
| Short-term marketable securities                         | 59,057               | 183,018              |
| Accounts receivable, net                                 | 1,323,114            | 2,496,165            |
| Deferred commissions                                     | 236,750              | 259,187              |
| Prepaid expenses and other current assets                | 543,852              | 250,594              |
| <b>Total current assets</b>                              | <b>3,277,999</b>     | <b>4,347,327</b>     |
| Marketable securities, noncurrent                        | 545,663              | 1,383,996            |
| Property and equipment, net                              | 1,728,243            | 1,715,828            |
| Deferred commissions, noncurrent                         | 169,245              | 189,943              |
| Capitalized software, net                                | 626,214              | 384,258              |
| Goodwill   | 6,029,895            | 3,849,937            |
| Strategic investments                                    | 548,258              | 520,721              |
| Other assets, net  | 1,455,797            | 370,910              |
| <b>Total assets</b>                                      | <b>\$ 14,381,314</b> | <b>\$ 12,762,920</b> |
| <b>Liabilities and stockholders' equity</b>              |                      |                      |
| Current liabilities:                                     |                      |                      |
| Accounts payable, accrued expenses and other liabilities | \$ 1,567,896         | \$ 1,349,338         |
| Deferred revenue   | 3,808,200            | 4,267,667            |
| <b>Total current liabilities</b>                         | <b>5,376,096</b>     | <b>5,617,005</b>     |
| Convertible 0.25% senior notes, net                      | 1,102,150            | 1,088,097            |
| Term loan  | 496,646              | 0                    |
| Loan assumed on 50 Fremont                               | 198,133              | 197,998              |
| Deferred revenue, noncurrent                             | 15,361               | 23,886               |
| Other noncurrent liabilities                             | 1,060,352            | 833,065              |
| <b>Total liabilities</b>                                 | <b>8,248,738</b>     | <b>7,760,051</b>     |
| Stockholders' equity:                                    |                      |                      |
| Common stock   | 685                  | 671                  |
| Additional paid-in capital                               | 6,519,267            | 5,705,386            |
| Accumulated other comprehensive loss                     | (11,215)             | (49,917)             |
| Accumulated deficit                                      | (376,161)            | (653,271)            |
| <b>Total stockholders' equity</b>                        | <b>6,132,576</b>     | <b>5,002,869</b>     |
| <b>Total liabilities and stockholders' equity</b>        | <b>\$ 14,381,314</b> | <b>\$ 12,762,920</b> |

**salesforce.com, inc.**  
**Consolidated Statements of Cash Flows**  
(in thousands)  
(Unaudited)

|  | Three Months Ended July 31, |                     | Six Months Ended July 31, |                     |
|--|-----------------------------|---------------------|---------------------------|---------------------|
|  | 2016                        | 2015                | 2016                      | 2015                |
| <b>Operating activities:</b>   |                             |                     |                           |                     |
| Net income (loss)  | \$ 229,622                  | \$ (852)            | \$ 268,381                | \$ 3,240            |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                             |                     |                           |                     |
| Depreciation and amortization  | 149,361                     | 131,675             | 282,133                   | 259,602             |
| Amortization of debt discount and transaction costs                                      | 6,868                       | 7,291               | 14,053                    | 13,152              |
| Gains on sales of strategic investments  | 0                           | 0                   | (12,864)                  | 0                   |
| 50 Fremont lease termination   | 0                           | 0                   | 0                         | (36,617)            |
| Amortization of deferred commissions   | 88,783                      | 76,679              | 177,297                   | 153,834             |
| Expenses related to employee stock plans   | 182,310                     | 147,779             | 371,229                   | 290,339             |
| Changes in assets and liabilities, net of business combinations:                         |                             |                     |                           |                     |
| Accounts receivable, net   | (73,167)                    | (141,418)           | 1,234,145                 | 837,752             |
| Deferred commissions   | (70,643)                    | (70,745)            | (134,162)                 | (120,837)           |
| Prepaid expenses and other current assets and other assets                               | (9,728)                     | (18,072)            | (66,399)                  | (29,346)            |
| Accounts payable, accrued expenses and other liabilities                                 | (46,666)                    | 193,771             | (332,894)                 | (45,301)            |
| Deferred revenue   | (206,062)                   | (21,830)            | (499,179)                 | (286,459)           |
| Net cash provided by operating activities (1)  | 250,678                     | 304,278             | 1,301,740                 | 1,039,359           |
| <b>Investing activities:</b>   |                             |                     |                           |                     |
| Business combinations, net of cash acquired  | (2,798,194)                 | (18,451)            | (2,799,993)               | (30,921)            |
| Purchase of 50 Fremont land and building   | 0                           | 0                   | 0                         | (425,376)           |
| Deposit for purchase of 50 Fremont land and building                                     | 0                           | 0                   | 0                         | 115,015             |
| Non-refundable amounts received for sale of land available for sale                      | 0                           | 3,432               | 0                         | 6,284               |
| Strategic investments, net   | (390)                       | (150,434)           | (22,451)                  | (294,896)           |
| Purchases of marketable securities   | (285,795)                   | (136,196)           | (875,131)                 | (343,421)           |
| Sales of marketable securities   | 1,610,724                   | 130,922             | 1,833,658                 | 323,106             |
| Maturities of marketable securities  | 27,253                      | 1,833               | 50,538                    | 16,279              |
| Capital expenditures   | (96,030)                    | (64,883)            | (179,331)                 | (135,970)           |
| Net cash used in investing activities  | (1,542,432)                 | (233,777)           | (1,992,710)               | (769,900)           |
| <b>Financing activities:</b>   |                             |                     |                           |                     |
| Proceeds from term loan, net   | 495,550                     | 0                   | 495,550                   | 0                   |
| Proceeds from employee stock plans   | 133,878                     | 114,799             | 223,019                   | 269,814             |
| Principal payments on capital lease obligations  | (12,795)                    | (41,074)            | (62,763)                  | (57,899)            |
| Payments on revolving credit facility  | 0                           | 0                   | 0                         | (300,000)           |
| Net cash provided by (used in) financing activities (1)                                  | 616,633                     | 73,725              | 655,806                   | (88,085)            |
| <b>Effect of exchange rate changes</b>   | <b>(8,736)</b>              | <b>3,169</b>        | <b>(7,973)</b>            | <b>(140)</b>        |
| <b>Net increase (decrease) in cash and cash equivalents</b>                              | <b>(683,857)</b>            | <b>147,395</b>      | <b>(43,137)</b>           | <b>181,234</b>      |
| <b>Cash and cash equivalents, beginning of period</b>                                    | <b>1,799,083</b>            | <b>941,956</b>      | <b>1,158,363</b>          | <b>908,117</b>      |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 1,115,226</b>         | <b>\$ 1,089,351</b> | <b>\$ 1,115,226</b>       | <b>\$ 1,089,351</b> |

- 1) During the six months ended July 31, 2016, the Company early adopted Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)" ("ASU 2016-09"), which addresses among other items, updates to the presentation and treatment of excess tax benefits related to stock based compensation. Excess tax benefits are no longer classified as a reduction of operating cash flows. The Company has adopted changes to the consolidated statements of cash flows on a retrospective basis. The impact for the three and six months ended July 31, 2015 was a decrease of \$133 and increase of \$4,091 to net cash provided by operating activities with a correlating offset of equal amounts to net cash provided by (used in) financing activities, respectively.



**salesforce.com, inc.**  
**Additional Metrics**  
**(Unaudited)**

|   | <u>Jul 31,<br/>2016</u> | <u>Apr 30,<br/>2016</u> | <u>Jan 31,<br/>2016</u> | <u>Oct 31,<br/>2015</u> | <u>Jul 31,<br/>2015</u> | <u>Apr 30,<br/>2015</u> |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Full Time Equivalent Headcount (1)</b>             | 23,247                  | 21,119                  | 19,742                  | 18,726                  | 17,622                  | 16,852                  |
| <b>Financial data (in thousands):</b>                 |                         |                         |                         |                         |                         |                         |
| Cash, cash equivalents and marketable securities      | \$ 1,719,946            | \$ 3,715,452            | \$ 2,725,377            | \$ 2,301,306            | \$ 2,066,963            | \$ 1,922,476            |
| Strategic investments                                 | \$ 548,258              | \$ 520,750              | \$ 520,721              | \$ 496,809              | \$ 477,886              | \$ 318,716              |
| Deferred revenue, current and noncurrent              | \$ 3,823,561            | \$ 4,006,914            | \$ 4,291,553            | \$ 2,846,510            | \$ 3,034,991            | \$ 3,056,820            |
| Unbilled deferred revenue, a non-GAAP measure (2)     | \$ 8,000,000            | \$ 7,600,000            | \$ 7,100,000            | \$ 6,700,000            | \$ 6,200,000            | \$ 6,000,000            |
| Principal due on our outstanding debt obligations (3) | \$ 1,850,000            | \$ 1,350,000            | \$ 1,350,000            | \$ 1,350,000            | \$ 1,350,000            | \$ 1,350,000            |

(1) Full time equivalent headcount includes 1,050 from the July 2016 acquisition of Demandware, Inc.

(2) Unbilled deferred revenue represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue. As of July 31, 2016, \$300.0 million of the balance presented relates to Demandware, Inc.

(3) In July 2016, the Company borrowed \$500.0 million under a term loan facility to partially fund the acquisition of Demandware, Inc.

**Selected Balance Sheet Accounts (in thousands):**

|  | <u>July 31,<br/>2016</u> | <u>April 30,<br/>2016</u> | <u>January 31,<br/>2016</u> |
|--|--------------------------|---------------------------|-----------------------------|
| <b>Prepaid Expenses and Other Current Assets</b>                                     |                          |                           |                             |
| Prepaid income taxes   | \$ 23,504                | \$ 24,329                 | \$ 22,044                   |
| Customer contract asset (4)  | 225,004                  | 4,950                     | 1,423                       |
| Other taxes receivable   | 28,749                   | 28,117                    | 27,341                      |
| Prepaid expenses and other current assets  | 266,595                  | 249,229                   | 199,786                     |
|  | <u>\$ 543,852</u>        | <u>\$ 306,625</u>         | <u>\$ 250,594</u>           |
| <b>Property and Equipment, net</b>   |                          |                           |                             |
| Land   | \$ 183,888               | \$ 183,888                | \$ 183,888                  |
| Buildings and building improvements  | 619,071                  | 618,510                   | 614,081                     |
| Computers, equipment and software  | 1,374,949                | 1,321,660                 | 1,281,766                   |
| Furniture and fixtures   | 95,995                   | 85,327                    | 82,242                      |
| Leasehold improvements   | 531,760                  | 499,108                   | 473,688                     |
|  | <u>2,805,663</u>         | <u>2,708,493</u>          | <u>2,635,665</u>            |
| Less accumulated depreciation and amortization                                       | (1,077,420)              | (997,021)                 | (919,837)                   |
|  | <u>\$ 1,728,243</u>      | <u>\$ 1,711,472</u>       | <u>\$ 1,715,828</u>         |
| <b>Capitalized Software, net</b>   |                          |                           |                             |
| Capitalized internal-use software development costs, net of accumulated amortization | \$ 133,388               | \$ 131,376                | \$ 123,065                  |
| Acquired developed technology, net of accumulated amortization                       | 492,826                  | 275,654                   | 261,193                     |
|  | <u>\$ 626,214</u>        | <u>\$ 407,030</u>         | <u>\$ 384,258</u>           |

(4) Customer contract asset reflects future billings of amounts that are contractually committed by SteelBrick and Demandware's existing customers as of the acquisition date that will be billed in the next 12 months. As the Company bills these customers this balance will reduce and accounts receivable will increase.

|   | July 31,<br>2016    | April 30,<br>2016   | January 31,<br>2016 |
|---|---------------------|---------------------|---------------------|
| <b>Other Assets, net</b>  |                     |                     |                     |
| Deferred income taxes, noncurrent, net                          | \$ 22,545           | \$ 17,597           | \$ 15,986           |
| Long-term deposits  | 27,426              | 23,650              | 19,469              |
| Purchased intangible assets, net of accumulated amortization    | 803,076             | 267,722             | 258,580             |
| Acquired intellectual property, net of accumulated amortization | 9,839               | 10,564              | 10,565              |
| Customer contract asset, noncurrent (5)                         | 496,461             | 11,928              | 93                  |
| Other (6)   | 96,450              | 77,724              | 66,217              |
|   | <u>\$ 1,455,797</u> | <u>\$ 409,185</u>   | <u>\$ 370,910</u>   |
| <b>Accounts Payable, Accrued Expenses and Other Liabilities</b> |                     |                     |                     |
| Accounts payable  | \$ 101,404          | \$ 54,583           | \$ 71,481           |
| Accrued compensation  | 469,009             | 386,410             | 554,502             |
| Non-cash equity liability                                       | 76,043              | 0                   | 0                   |
| Accrued other liabilities                                       | 520,854             | 429,870             | 447,729             |
| Accrued income and other taxes payable                          | 205,737             | 154,550             | 205,781             |
| Accrued professional costs                                      | 33,717              | 30,095              | 33,814              |
| Customer contract liability (7)                                 | 124,775             | 3,761               | 6,558               |
| Accrued rent  | 16,966              | 15,789              | 14,071              |
| Financing obligation - leased facility, current (8)             | 19,391              | 18,139              | 15,402              |
|   | <u>\$ 1,567,896</u> | <u>\$ 1,093,197</u> | <u>\$ 1,349,338</u> |
| <b>Other Noncurrent Liabilities</b>                             |                     |                     |                     |
| Deferred income taxes and income taxes payable                  | \$ 89,053           | \$ 85,579           | \$ 85,996           |
| Customer contract liability, noncurrent (7)                     | 272,608             | 6,165               | 66                  |
| Financing obligation - leased facility (8)                      | 201,779             | 202,246             | 196,711             |
| Long-term lease liabilities and other                           | 496,912             | 545,735             | 550,292             |
|   | <u>\$ 1,060,352</u> | <u>\$ 839,725</u>   | <u>\$ 833,065</u>   |

(5) Customer contract asset, noncurrent, reflects future billings of amounts that are contractually committed by SteelBrick and Demandware's existing customers as of the acquisition date over a period of 72 months. As the Company bills these customers this balance will reduce and accounts receivable will increase.

(6) In April 2015, the FASB issued ASU 2015-03 which simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability rather than an asset. The Company retrospectively adopted this standard for the January 31, 2016 balance sheet presented, which resulted in an adjustment of \$7.9 million to Other.

(7) Customer contract liability reflects the legal obligation to provide future services that are contractually committed to SteelBrick and Demandware's existing customers but unbilled as of the acquisition dates. As these services are invoiced, this balance will decrease and deferred revenue will increase.

(8) As of January 31, 2016, 350 Mission was in construction. In March 2016, construction was completed on the building.

## Supplemental Revenue Analysis

### Subscription and support revenue by cloud service offering (in millions):

|                     | Three Months Ended July 31, |                   | Six Months Ended July 31, |                   |
|---------------------|-----------------------------|-------------------|---------------------------|-------------------|
|                     | 2016                        | 2015              | 2016                      | 2015              |
| Sales Cloud         | \$ 754.9                    | \$ 671.0          | \$ 1,479.5                | \$ 1,301.4        |
| Service Cloud       | 575.4                       | 445.2             | 1,115.5                   | 852.9             |
| App Cloud and Other | 353.4                       | 247.2             | 679.3                     | 471.2             |
| Marketing Cloud     | 202.4                       | 157.9             | 387.3                     | 301.1             |
|                     | <u>\$ 1,886.1</u>           | <u>\$ 1,521.3</u> | <u>\$ 3,661.6</u>         | <u>\$ 2,926.6</u> |

|  | Three Months Ended July 31, |                     | Six Months Ended July 31, |                     |
|--|-----------------------------|---------------------|---------------------------|---------------------|
|  | 2016                        | 2015                | 2016                      | 2015                |
| <b>Total revenues by geography (in thousands):</b> |                             |                     |                           |                     |
| Americas   | \$ 1,495,201                | \$ 1,202,173        | \$ 2,908,430              | \$ 2,317,293        |
| Europe   | 347,320                     | 286,904             | 675,174                   | 545,709             |
| Asia Pacific                                       | 194,097                     | 145,607             | 369,617                   | 282,849             |
|  | <u>\$ 2,036,618</u>         | <u>\$ 1,634,684</u> | <u>\$ 3,953,221</u>       | <u>\$ 3,145,851</u> |

As a percentage of total revenues:

| <b>Total revenues by geography:</b> |             |             |             |             |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Americas                            | 73%         | 74%         | 74%         | 74%         |
| Europe                              | 17          | 17          | 17          | 17          |
| Asia Pacific                        | 10          | 9           | 9           | 9           |
|                                     | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

| Revenue constant currency growth rates (as compared to the comparable prior periods) | Three Months Ended July 31, 2016 compared to Three Months Ended July 31, 2015 | Three Months Ended April 30, 2016 compared to Three Months Ended April 30, 2015 | Three Months Ended July 31, 2015 compared to Three Months Ended July 31, 2014 |
|--|---|---|---|
| Americas   | 24%   | 27%   | 28%   |
| Europe   | 32%   | 33%   | 29%   |
| Asia Pacific   | 29%   | 29%   | 25%   |
| Total growth   | 26%   | 28%   | 28%   |

We present constant currency information to provide a framework for assessing how our underlying business performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the weighted average exchange rate for the quarter being compared to for growth rate calculations presented, rather than the actual exchange rates in effect during that period.

|  | July 31, 2016 compared to July 31, 2015 | April 30, 2016 compared to April 30, 2015 | July 31, 2015 compared to July 31, 2014 |
|--|---|---|---|
| <b>Deferred revenue, current and noncurrent constant currency growth rates (as compared to the comparable prior periods)</b> |   |   |   |
| Total growth   | 27%                                     | 32%                                       | 33%                                     |

We present constant currency information for deferred revenue, current and noncurrent to provide a framework for assessing how our underlying business performed excluding the effects of foreign currency rate fluctuations. To present the information above, we convert the deferred revenue balances in local currencies in previous comparable periods using the United States dollar currency exchange rate as on the most recent balance sheet date.

**Supplemental Diluted Share Count Information**  
(share data in thousands)

|   | Three Months Ended July 31, |         | Six Months Ended July 31, |         |
|---|-----------------------------|---------|---------------------------|---------|
|   | 2016                        | 2015    | 2016                      | 2015    |
| Weighted-average shares outstanding for basic earnings per share                                    | 681,126                     | 659,366 | 678,929                   | 656,636 |
| Effect of dilutive securities:  |                             |         |                           |         |
| Convertible senior notes (1)  | 2,977                       | 0       | 1,961                     | 728     |
| Employee stock awards   | 11,865                      | 0       | 10,824                    | 14,867  |
| Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per share | 695,968                     | 659,366 | 691,714                   | 672,231 |

- (1) The 0.25% senior notes were not convertible, however there is a dilutive effect for shares outstanding for the three and six months ended July 31, 2016 and the six months ended July 31, 2015.

**Supplemental Cash Flow Information**  
**Free cash flow analysis, a non-GAAP measure**  
(in thousands)

|  | Three Months Ended July 31, |            | Six Months Ended July 31, |              |
|--|-----------------------------|------------|---------------------------|--------------|
|  | 2016                        | 2015       | 2016                      | 2015         |
| Operating cash flow                            |                             |            |                           |              |
| GAAP net cash provided by operating activities | \$ 250,678                  | \$ 304,278 | \$ 1,301,740              | \$ 1,039,359 |
| Less:  |                             |            |                           |              |
| Capital expenditures                           | (96,030)                    | (64,883)   | (179,331)                 | (135,970)    |
| Free cash flow                                 | \$ 154,648                  | \$ 239,395 | \$ 1,122,409              | \$ 903,389   |

Our free cash flow analysis includes GAAP net cash provided by operating activities less capital expenditures. The capital expenditures balance does not include our strategic investments, nor does it include any costs or activities related to our purchase of 50 Fremont land and building, and building - leased facilities.

**Comprehensive Income (Loss)**  
(in thousands)  
(Unaudited)

|  | Three Months Ended July 31, |          | Six Months Ended July 31, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2016                        | 2015     | 2016                      | 2015     |
| Net income (loss)  | \$ 229,622                  | \$ (852) | \$ 268,381                | \$ 3,240 |
| Other comprehensive income (loss), before tax and net of reclassification adjustments: |                             |          |                           |          |
| Foreign currency translation and other losses  | (10,407)                    | (5,391)  | (151)                     | (7,246)  |
| Unrealized gains on investments  | 25,896                      | 5,599    | 36,980                    | 3,210    |
| Other comprehensive income (loss), before tax  | 15,489                      | 208      | 36,829                    | (4,036)  |
| Tax effect   | 1,873                       | 0        | 1,873                     | 0        |
| Other comprehensive income (loss), net of tax  | 17,362                      | 208      | 38,702                    | (4,036)  |
| Comprehensive income (loss)  | \$ 246,984                  | \$ (644) | \$ 307,083                | \$ (796) |

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**GAAP RESULTS RECONCILED TO NON-GAAP RESULTS**

The following table reflects selected GAAP results reconciled to non-GAAP results.

(in thousands, except per share data)

(Unaudited)

|   | Three Months Ended July 31, |              | Six Months Ended July 31, |              |
|---|-----------------------------|--------------|---------------------------|--------------|
|   | 2016                        | 2015         | 2016                      | 2015         |
| <b><u>Non-GAAP gross profit</u></b>                               |                             |              |                           |              |
| GAAP gross profit   | \$ 1,511,039                | \$ 1,229,300 | \$ 2,930,661              | \$ 2,358,665 |
| Plus:   |                             |              |                           |              |
| Amortization of purchased intangibles (a)                         | 25,544                      | 20,839       | 47,759                    | 40,529       |
| Stock-based expense (b)   | 23,495                      | 16,340       | 50,129                    | 31,721       |
| Non-GAAP gross profit   | \$ 1,560,078                | \$ 1,266,479 | \$ 3,028,549              | \$ 2,430,915 |
| <b><u>Non-GAAP operating expenses</u></b>                         |                             |              |                           |              |
| GAAP operating expenses   | \$ 1,478,488                | \$ 1,209,476 | \$ 2,846,124              | \$ 2,307,736 |
| Less:   |                             |              |                           |              |
| Amortization of purchased intangibles (a)                         | (23,151)                    | (19,002)     | (38,537)                  | (39,029)     |
| Stock-based expense (b)   | (158,815)                   | (131,439)    | (321,100)                 | (258,618)    |
| Plus:   |                             |              |                           |              |
| Operating lease termination resulting from purchase of 50 Fremont | 0                           | 0            | 0                         | 36,617       |
| Non-GAAP operating expenses                                       | \$ 1,296,522                | \$ 1,059,035 | \$ 2,486,487              | \$ 2,046,706 |
| <b><u>Non-GAAP income from operations</u></b>                     |                             |              |                           |              |
| GAAP income from operations                                       | \$ 32,551                   | \$ 19,824    | \$ 84,537                 | \$ 50,929    |
| Plus:   |                             |              |                           |              |
| Amortization of purchased intangibles (a)                         | 48,695                      | 39,841       | 86,296                    | 79,558       |
| Stock-based expense (b)   | 182,310                     | 147,779      | 371,229                   | 290,339      |
| Less:   |                             |              |                           |              |
| Operating lease termination resulting from purchase of 50 Fremont | 0                           | 0            | 0                         | (36,617)     |
| Non-GAAP income from operations                                   | \$ 263,556                  | \$ 207,444   | \$ 542,062                | \$ 384,209   |
| <b><u>Non-GAAP non-operating loss (c)</u></b>                     |                             |              |                           |              |
| GAAP non-operating loss   | \$ (8,268)                  | \$ (12,866)  | \$ (23,099)               | \$ (25,898)  |
| Plus:   |                             |              |                           |              |
| Amortization of debt discount, net                                | 6,264                       | 6,110        | 12,490                    | 12,169       |
| Amortization of acquired lease intangible                         | 642                         | 1,301        | 1,348                     | 2,116        |
| Less:   |                             |              |                           |              |
| Gains on sales of strategic investments                           | 0                           | 0            | (12,864)                  | 0            |
| Non-GAAP non-operating loss                                       | \$ (1,362)                  | \$ (5,455)   | \$ (22,125)               | \$ (11,613)  |
| <b><u>Non-GAAP net income</u></b>                                 |                             |              |                           |              |
| GAAP net income (loss)  | \$ 229,622                  | \$ (852)     | \$ 268,381                | \$ 3,240     |
| Plus:   |                             |              |                           |              |
| Amortization of purchased intangibles (a)                         | 48,695                      | 39,841       | 86,296                    | 79,558       |
| Amortization of acquired lease intangible                         | 642                         | 1,301        | 1,348                     | 2,116        |
| Stock-based expense (b)   | 182,310                     | 147,779      | 371,229                   | 290,339      |
| Amortization of debt discount, net                                | 6,264                       | 6,110        | 12,490                    | 12,169       |
| Less:   |                             |              |                           |              |
| Operating lease termination resulting from purchase of 50 Fremont | 0                           | 0            | 0                         | (36,617)     |
| Gains on sales of strategic investments                           | 0                           | 0            | (12,864)                  | 0            |
| Income tax effects and adjustments                                | (297,107)                   | (65,916)     | (388,921)                 | (114,207)    |
| Non-GAAP net income   | \$ 170,426                  | \$ 128,263   | \$ 337,959                | \$ 236,598   |

|  | Three Months Ended July 31, |                | Six Months Ended July 31, |                |
|--|-----------------------------|----------------|---------------------------|----------------|
|  | 2016                        | 2015           | 2016                      | 2015           |
| <b>Non-GAAP diluted earnings per share</b>                         |                             |                |                           |                |
| GAAP diluted net income per share                                  | \$ 0.33                     | \$ 0.00        | \$ 0.39                   | \$ 0.00        |
| Plus:  |                             |                |                           |                |
| Amortization of purchased intangibles                              | 0.07                        | 0.06           | 0.12                      | 0.12           |
| Amortization of acquired lease intangible                          | 0.00                        | 0.00           | 0.00                      | 0.00           |
| Stock-based expense  | 0.26                        | 0.22           | 0.54                      | 0.43           |
| Amortization of debt discount, net                                 | 0.01                        | 0.01           | 0.02                      | 0.02           |
| Less:  |                             |                |                           |                |
| Operating lease termination resulting from purchase of 50 Fremont  | 0.00                        | 0.00           | 0.00                      | (0.05)         |
| Gains on sales of strategic investments                            | 0.00                        | 0.00           | (0.02)                    | 0.00           |
| Income tax effects and adjustments                                 | (0.43)                      | (0.10)         | (0.56)                    | (0.17)         |
| Non-GAAP diluted earnings per share                                | <u>\$ 0.24</u>              | <u>\$ 0.19</u> | <u>\$ 0.49</u>            | <u>\$ 0.35</u> |
| Shares used in computing Non-GAAP diluted net income per share (d) | 695,968                     | 672,627        | 691,714                   | 672,231        |

a) Amortization of purchased intangibles were as follows:

|                     | Three Months Ended July 31, |                  | Six Months Ended July 31, |                  |
|---------------------|-----------------------------|------------------|---------------------------|------------------|
|                     | 2016                        | 2015             | 2016                      | 2015             |
| Cost of revenues    | \$ 25,544                   | \$ 20,839        | \$ 47,759                 | \$ 40,529        |
| Marketing and sales | 23,151                      | 19,002           | 38,537                    | 39,029           |
|                     | <u>\$ 48,695</u>            | <u>\$ 39,841</u> | <u>\$ 86,296</u>          | <u>\$ 79,558</u> |

b) Stock-based expense was as follows:

|                            | Three Months Ended July 31, |                   | Six Months Ended July 31, |                   |
|----------------------------|-----------------------------|-------------------|---------------------------|-------------------|
|                            | 2016                        | 2015              | 2016                      | 2015              |
| Cost of revenues           | \$ 23,495                   | \$ 16,340         | \$ 50,129                 | \$ 31,721         |
| Research and development   | 38,624                      | 33,732            | 73,792                    | 64,974            |
| Marketing and sales        | 86,323                      | 71,724            | 181,797                   | 142,258           |
| General and administrative | 33,868                      | 25,983            | 65,511                    | 51,386            |
|                            | <u>\$ 182,310</u>           | <u>\$ 147,779</u> | <u>\$ 371,229</u>         | <u>\$ 290,339</u> |

c) GAAP non-operating loss consists of investment income, interest expense, other expense and gains on sales of strategic investments.

d) For the three months ended July 31, 2015, the shares used in computing Non-GAAP diluted net income per share include the dilutive effects from employee stock awards and convertible senior notes. However, as there was a GAAP net loss for the respective period, these do not impact the shares used in computing GAAP diluted net income per share as the effects would be anti-dilutive.

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**COMPUTATION OF BASIC AND DILUTED GAAP AND NON-GAAP NET INCOME (LOSS) PER SHARE**

(in thousands, except per share data)

(Unaudited)

|  | Three Months Ended July 31, |            | Six Months Ended July 31, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2016                        | 2015       | 2016                      | 2015       |
| <b>GAAP Basic Net Income (Loss) Per Share</b>                  |                             |            |                           |            |
| Net income (loss)  | \$ 229,622                  | \$ (852)   | \$ 268,381                | \$ 3,240   |
| Basic net income per share                                     | \$ 0.34                     | \$ 0.00    | \$ 0.40                   | \$ 0.00    |
| Shares used in computing basic net income (loss) per share     | 681,126                     | 659,366    | 678,929                   | 656,636    |
|  |                             |            |                           |            |
|  | Three Months Ended July 31, |            | Six Months Ended July 31, |            |
|  | 2016                        | 2015       | 2016                      | 2015       |
| <b>Non-GAAP Basic Net Income Per Share</b>                     |                             |            |                           |            |
| Non-GAAP net income  | \$ 170,426                  | \$ 128,263 | \$ 337,959                | \$ 236,598 |
| Basic Non-GAAP net income per share                            | \$ 0.25                     | \$ 0.19    | \$ 0.50                   | \$ 0.36    |
| Shares used in computing basic Non-GAAP net income per share   | 681,126                     | 659,366    | 678,929                   | 656,636    |
|  |                             |            |                           |            |
|  | Three Months Ended July 31, |            | Six Months Ended July 31, |            |
|  | 2016                        | 2015       | 2016                      | 2015       |
| <b>GAAP Diluted Net Income (Loss) Per Share</b>                |                             |            |                           |            |
| Net income (loss)  | \$ 229,622                  | \$ (852)   | \$ 268,381                | \$ 3,240   |
| Diluted net income per share                                   | \$ 0.33                     | \$ 0.00    | \$ 0.39                   | \$ 0.00    |
| Shares used in computing diluted net income (loss) per share   | 695,968                     | 659,366    | 691,714                   | 672,231    |
|  |                             |            |                           |            |
|  | Three Months Ended July 31, |            | Six Months Ended July 31, |            |
|  | 2016                        | 2015       | 2016                      | 2015       |
| <b>Non-GAAP Diluted Net Income Per Share</b>                   |                             |            |                           |            |
| Non-GAAP net income  | \$ 170,426                  | \$ 128,263 | \$ 337,959                | \$ 236,598 |
| Diluted Non-GAAP net income per share                          | \$ 0.24                     | \$ 0.19    | \$ 0.49                   | \$ 0.35    |
| Shares used in computing diluted Non-GAAP net income per share | 695,968                     | 672,627    | 691,714                   | 672,231    |

**Non-GAAP Financial Measures:** This press release includes information about non-GAAP diluted earnings per share, non-GAAP tax rates, non-GAAP free cash flow, and constant currency results (collectively the “non-GAAP financial measures”). These non-GAAP financial measures are measurements of financial performance that are not prepared in accordance with U.S. generally accepted accounting principles and computational methods may differ from those used by other companies. Non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with the company’s consolidated financial statements prepared in accordance with GAAP. Management uses both GAAP and non-GAAP measures when planning, monitoring, and evaluating the company’s performance.

The primary purpose of using non-GAAP measures is to provide supplemental information that may prove useful to investors who wish to consider the impact of certain non-cash or non-recurring items on the company’s operating performance and to enable investors to evaluate the company’s results in the same way management does. These non-cash or non-recurring items generally consist of one-time items resulting from strategic decisions that affect multiple periods or periods unrelated to when the actual items were incurred. Management believes that supplementing GAAP disclosure with non-GAAP disclosure that excludes items that are not directly related to performance in any particular period provides investors with a more complete view of the company’s operational performance and allows for meaningful period-to-period comparisons and analysis of trends in the company’s business. Further, to the extent that other companies use similar methods in calculating non-GAAP measures, the provision of supplemental non-GAAP information can allow for a comparison of the company’s relative performance against other companies that also report non-GAAP operating results.

Non-GAAP diluted earnings per share excludes the impact of the following items: stock-based compensation, amortization of acquisition-related intangibles, amortization of acquired leases, the net amortization of debt discount on the company’s convertible senior notes, gains/losses on sales of land and building improvements, gains on sales of strategic investments, and termination of office leases, as well as income tax adjustments. These items are excluded because the decisions which gave rise to these items were not made to increase revenue in a particular period, but were made for the company’s long-term benefit over multiple periods.

The purpose of the non-GAAP tax rate is to quantify the excluded tax adjustments and the tax consequences associated with the above excluded items. The company reports a projected long-term tax rate to eliminate the effects of non-recurring and period-specific items, which can vary in size and frequency. This projected long-term non-GAAP tax rate could be subject to change in the future for a variety of reasons, such as, for example, significant changes in the company’s geographic earnings mix including acquisition activity or fundamental tax law changes in major jurisdictions where the company operates.

Specifically, management is excluding the following items from its non-GAAP earnings per share for Q2 and its non-GAAP estimates for Q3 and FY17:

- **Stock-Based Expenses:** The company’s compensation strategy includes the use of stock-based compensation to attract and retain employees and executives. It is principally aimed at aligning their interests with those of our stockholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, stock-based compensation expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.
- **Amortization of Purchased Intangibles and Acquired Leases:** The company views amortization of acquisition- and building-related intangible assets, such as the amortization of the cost associated with an acquired company’s research and development efforts, trade names, customer lists and customer relationships, and acquired lease intangibles, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are continually evaluated for impairment, amortization of the cost of purchased intangibles is a static expense, one that is not typically affected by operations during any particular period.



- **Amortization of Debt Discount:** Under GAAP, certain convertible debt instruments that may be settled in cash (or other assets) on conversion are required to be separately accounted for as liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. Accordingly, for GAAP purposes we are required to recognize imputed interest expense on the company's \$1.15 billion of convertible senior notes due 2018 that were issued in a private placement in March 2013. The imputed interest rate was approximately 2.5% for the convertible notes due 2018, while the actual coupon interest rate of the notes is 0.25%. The difference between the imputed interest expense and the coupon interest expense, net of the interest amount capitalized, is excluded from management's assessment of the company's operating performance because management believes that this non-cash expense is not indicative of ongoing operating performance.
- **Gains and Losses on Sales of Strategic Investments:** The company views gains on sales of its strategic investments resulting from acquisitions initiated by the company in which an equity interest was previously held as discrete events and not indicative of operational performance during any particular period.
- **Lease Termination Resulting From Purchase of Office Building:** The company views the non-cash, one-time gain associated with the termination of its lease at 50 Fremont to be a discrete item.
- **Income Tax Effects and Adjustments:** The Company utilizes a fixed long-term projected non-GAAP tax rate in order to provide better consistency across the interim reporting periods by eliminating the effects of non-recurring and period-specific items such as changes in the tax valuation allowance and tax effects of acquisitions-related costs, since each of these can vary in size and frequency. When projecting this long-term rate, the Company evaluated a three-year financial projection that excludes the direct impact of the following non-cash items: stock-based expenses, amortization of purchased intangibles, amortization of acquired leases, amortization of debt discount, gains/losses on the sales of land and building improvements, gains on sales of strategic investments, and termination of office leases. The projected rate also assumes no new acquisitions in the three-year period, and considers other factors including the Company's tax structure, its tax positions in various jurisdictions and key legislation in major jurisdictions where the company operates. This long-term rate could be subject to change for a variety of reasons, such as significant changes in the geographic earnings mix including acquisition activity, or fundamental tax law changes in major jurisdictions where the company operates. The Company re-evaluates this long-term rate on an annual basis or if any significant events that may materially affect this long-term rate occur. The non-GAAP tax rate for fiscal 2017 is 35.0 percent.

The company defines the non-GAAP measure free cash flow as GAAP net cash provided by operating activities, less capital expenditures. For this purpose, capital expenditures does not include our strategic investments, nor does it include any costs or activities related to our purchase of 50 Fremont land and building, and building - leased facilities.