

SALESFORCE COM INC
Form 10-Q
November 25, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended October 31, 2013

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

94-3320693
(IRS Employer

Edgar Filing: SALESFORCE COM INC - Form 10-Q

incorporation or organization)

Identification No.)

The Landmark @ One Market, Suite 300

San Francisco, California 94105

(Address of principal executive offices)

Telephone Number (415) 901-7000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 31, 2013, there were approximately 603.0 million shares of the Registrant's Common Stock outstanding.

Table of Contents

salesforce.com, inc.

INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of October 31, 2013 and January 31, 2013</u>	1
<u>Condensed Consolidated Statements of Operations for the three and nine months ended October 31, 2013 and 2012</u>	2
<u>Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended October 31, 2013 and 2012</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the three and nine months ended October 31, 2013 and 2012</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	57
Item 4. <u>Controls and Procedures</u>	58
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	59
Item 1A. <u>Risk Factors</u>	59
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	76
Item 3. <u>Defaults Upon Senior Securities</u>	76
Item 4. <u>Mine Safety Disclosures</u>	76
Item 5. <u>Other Information</u>	76
Item 6. <u>Exhibits</u>	77

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

salesforce.com, inc.

Condensed Consolidated Balance Sheets

(in thousands)

	October 31, 2013 (unaudited)	January 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 651,750	\$ 747,245
Short-term marketable securities	51,792	120,376
Accounts receivable, net	604,045	872,634
Deferred commissions	126,054	142,311
Prepaid expenses and other current assets	367,245	133,314
Total current assets	1,800,886	2,015,880
Marketable securities, noncurrent	381,765	890,664
Property and equipment, net	1,205,349	604,669
Deferred commissions, noncurrent	109,273	112,082
Capitalized software, net	505,829	207,323
Goodwill	3,495,021	1,529,378
Other assets, net	599,511	168,960
Total assets	\$ 8,097,634	\$ 5,528,956
Liabilities, temporary equity and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 839,302	\$ 597,706
Deferred revenue	1,686,262	1,798,640
Convertible 0.75% senior notes, net	541,125	521,278
Term loan, current	30,000	0
Total current liabilities	3,096,689	2,917,624
Convertible 0.25% senior notes, net	1,041,083	0
Term loan, noncurrent	262,500	0
Deferred revenue, noncurrent	48,357	64,355
Other noncurrent liabilities	702,918	175,732
Total liabilities	5,151,547	3,157,711
Temporary equity	33,731	53,612
Stockholders' equity:		
Common stock (1)	603	586
Additional paid-in capital (1)	3,121,481	2,410,892
Accumulated other comprehensive income	16,806	17,137
Accumulated deficit	(226,534)	(110,982)

Edgar Filing: SALESFORCE COM INC - Form 10-Q

Total stockholders' equity	2,912,356	2,317,633
Total liabilities, temporary equity and stockholders' equity	\$ 8,097,634	\$ 5,528,956

- (1) Prior period results have been adjusted to reflect the four-for-one stock split through a stock dividend which occurred in April 2013.
See accompanying Notes.

Table of Contents

salesforce.com, inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended October 31, 2013	2012	Nine Months Ended October 31, 2013	2012
Revenues:				
Subscription and support	\$ 1,004,476	\$ 740,600	\$ 2,749,541	\$ 2,083,313
Professional services and other	71,558	47,798	176,220	132,201
Total revenues	1,076,034	788,398	2,925,761	2,215,514
Cost of revenues (1)(2):				
Subscription and support	198,809	134,183	513,267	361,446
Professional services and other	69,378	52,065	181,631	138,771
Total cost of revenues	268,187	186,248	694,898	500,217
Gross profit	807,847	602,150	2,230,863	1,715,297
Operating expenses (1)(2):				
Research and development	170,690	114,074	450,708	308,292
Marketing and sales	581,229	428,507	1,528,340	1,178,456
General and administrative	153,859	113,757	434,143	318,452
Total operating expenses	905,778	656,338	2,413,191	1,805,200
Loss from operations	(97,931)	(54,188)	(182,328)	(89,903)
Investment income	1,110	3,887	8,851	15,521
Interest expense	(22,929)	(8,190)	(54,468)	(22,593)
Other expense	(4,291)	(4,360)	(6,843)	(4,776)
Loss before benefit from (provision for) income taxes	(124,041)	(62,851)	(234,788)	(101,751)
Benefit from (provision for) income taxes	(393)	(157,446)	119,236	(147,850)
Net loss	\$ (124,434)	\$ (220,297)	\$ (115,552)	\$ (249,601)
Basic net loss per share (3)	\$ (0.21)	\$ (0.39)	\$ (0.19)	\$ (0.45)
Diluted net loss per share (3)	\$ (0.21)	\$ (0.39)	\$ (0.19)	\$ (0.45)
Shares used in computing basic net loss per share (3)	600,467	568,812	594,346	559,836
Shares used in computing diluted net loss per share (3)	600,467	568,812	594,346	559,836

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

	Three Months Ended October 31, 2013	2012	Nine Months Ended October 31, 2013	2012
Cost of revenues	\$ 33,844	\$ 23,247	\$ 77,699	\$ 58,363
Marketing and sales	15,211	2,995	22,147	8,829

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

	Three Months Ended October 31, 2013	2012	Nine Months Ended October 31, 2013	2012
Cost of revenues	\$ 12,119	\$ 9,336	\$ 32,778	\$ 24,453
Research and development	27,935	21,984	78,396	53,740

Edgar Filing: SALESFORCE COM INC - Form 10-Q

Marketing and sales	73,296	55,304	189,231	142,072
General and administrative	28,186	18,488	66,336	51,530

- (3) Prior period results have been adjusted to reflect the four-for-one stock split through a stock dividend which occurred in April 2013.
See accompanying Notes.

Table of Contents

salesforce.com, inc.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Net loss	\$ (124,434)	\$ (220,297)	\$ (115,552)	\$ (249,601)
Other comprehensive income (loss), before tax and net of reclassification adjustments:				
Foreign currency translation and other gains (losses)	5,590	3,134		
Forward Contract Date	Floor Price	Threshold Price		
03/14/2003	\$ 14.07	\$ 22.87		
06/19/2003	\$ 23.3713	\$ 30.3827		
07/15/2003	\$ 23.0112	\$ 29.9146		

Alternatively, each Reporting Person has the option to settle the Master Agreement for cash, in which case the cash settlement amount payable would be equal to the result obtained by multiplying the number of shares to be delivered on the Delivery Date by the Settlement Value. Unless there is a default under the Master Agreement, each Reporting Person retains all voting rights with respect to the shares of Smithfield Common Stock pledged by such Reporting Person until such shares are delivered in settlement of the Master Agreement. The unaffiliated third party buyer is entitled to any dividends received by the

1/ For the Forward Contracts dated March 14, 2003, this price is the closing price on the Delivery Date. For the Forward Contracts dated June 19, 2003 and July 15, 2003, this price is the volume weighted average price per share as displayed on Bloomberg on each of the 10 business days prior to and including the Delivery Date.

Reporting Persons on the Number of Forward Contract Shares. The Forward Contracts are subject to early termination upon the occurrence of certain events.

In addition to the Number of Forward Contract Shares subject to the Forward Contract the following table also sets forth the amount of the cash payment received by each Reporting Person pursuant to the respective Master Agreement.

Reporting Person	Forward Contract Date	Master Agreement Date	Delivery Date	Shares Subject to Forward Contract	Cash Received
Harry D. Murphy	03/14/2003	02/27/2003	03/14/2006	359,533	\$ 4,624,199
Stratton K. Murphy	03/14/2003	02/27/2003	03/14/2006	182,471	\$ 2,346,884
Marc D. Murphy	03/14/2003	02/27/2003	03/14/2006	182,471	\$ 2,346,884
Wendell H. Murphy	06/19/2003	06/16/2003	06/19/2006	174,762	\$ 3,537,104
Wendell H. Murphy, Jr.	06/19/2003	06/16/2003	06/19/2006	113,436	\$ 2,295,893
Wendy Murphy Crumpler	06/19/2003	06/16/2003	06/19/2006	33,516	\$ 678,349
Joyce Murphy Minchew	06/19/2003	06/16/2003	06/19/2006	59,866	\$ 1,211,661
Angela Norman Brown	06/19/2003	06/16/2003	06/19/2006	18,420	\$ 372,813
Wendell H. Murphy	07/15/2003	06/19/2003	07/15/2008	243,154	\$ 4,783,952
Wendell H. Murphy, Jr.	07/15/2003	06/19/2003	07/15/2008	160,100	\$ 3,149,900
Wendy Murphy Crumpler	07/15/2003	06/19/2003	07/15/2008	47,303	\$ 930,666
Joyce Murphy Minchew	07/15/2003	06/19/2003	07/15/2008	84,494	\$ 1,662,384
Angela Norman Brown	07/15/2003	06/19/2003	07/15/2008	25,998	\$ 511,500
Total				1,685,524	\$28,452,189

As noted above, although the Reporting Persons have entered into the Forward Contracts and have pledged the shares of the Smithfield Common Stock listed above under the column Shares Subject to Forward Contracts, the Reporting Persons have retained all voting rights with respect to these shares and accordingly continue to be deemed the beneficial owners of such shares. As a result of the pledge of the shares, however, the Reporting Persons do not have dispositive power with respect to the pledged shares.

Edgar Filing: SALESFORCE COM INC - Form 10-Q

CUSIP No. 832248 95 9

Page 14 of 19 Pages

Open Market Sales:

Between May 28, 2003 and June 9, 2003, the following Reporting Persons sold shares of Smithfield Common Stock in transactions on the New York Stock Exchange (the Open Market Sales).

The Open Market Sales of Wendell H. Murphy are as follows:

<u>Date of sale</u>	<u>Number of shares sold</u>	<u>Price per share</u>	<u>Gross Proceeds</u>
05/28/2003	37,533	\$ 20.75	\$ 778,810
05/29/2003	11,356	\$20.7549	\$ 235,693
05/30/2003	44,764	\$20.9628	\$ 938,379
06/02/2003	3,597	\$ 21.016	\$ 75,595
06/05/2003	19,701	\$22.3228	\$ 439,781
06/06/2003	86,021	\$22.4325	\$1,929,666
06/09/2003	23,945	\$22.2766	\$ 533,413
Total	226,917		\$4,931,337

The Open Market Sales of Wendell H. Murphy, Jr. are as follows:

<u>Date of sale</u>	<u>Number of shares sold</u>	<u>Price per share</u>	<u>Gross Proceeds</u>
05/28/2003	24,303	\$ 20.75	\$ 504,287
05/29/2003	5,008	\$20.7549	\$ 103,941
05/30/2003	31,243	\$20.9628	\$ 654,941
06/02/2003	2,569	\$ 21.016	\$ 53,990
06/05/2003	12,036	\$22.3228	\$ 268,677
06/06/2003	55,683	\$22.4325	\$1,249,109
06/09/2003	16,446	\$22.2766	\$ 366,361
Total	147,288		\$3,201,306

The Open Market Sales of Wendy Murphy Crumpler are as follows:

<u>Date of sale</u>	<u>Number of shares sold</u>	<u>Price per share</u>	<u>Gross Proceeds</u>
05/28/2003	7,180	\$ 20.75	\$148,985
05/29/2003	1,480	\$20.7549	\$ 30,717
05/30/2003	9,231	\$20.9628	\$193,508
06/02/2003	760	\$ 21.016	\$ 15,972
06/05/2003	3,556	\$22.3228	\$ 79,380
06/06/2003	16,452	\$22.4325	\$369,059
06/09/2003	4,859	\$22.2766	\$108,242
Total	43,518		\$945,863

The Open Market Sales of Joyce Murphy Minchew are as follows:

Edgar Filing: SALESFORCE COM INC - Form 10-Q

<u>Date of sale</u>	<u>Number of shares sold</u>	<u>Price per share</u>	<u>Gross Proceeds</u>
05/28/2003	12,826	\$ 20.75	\$ 266,140
05/29/2003	2,643	\$ 20.7549	\$ 54,855
05/30/2003	16,489	\$ 20.9628	\$ 345,656
06/02/2003	1,356	\$ 21.016	\$ 28,498

06/05/2003	6,352	\$ 22.3228	\$ 141,794
06/06/2003	29,387	\$ 22.4325	\$ 659,224
06/09/2003	8,679	\$ 22.2766	\$ 193,339
Total	77,732		\$ 1,689,506

The Open Market Sales of Angela Norman Brown are as follows:

<u>Date of sale</u>	<u>Number of shares sold</u>	<u>Price per share</u>	<u>Gross Proceeds</u>
05/28/2003	3,946	\$ 20.75	\$ 81,880
05/29/2003	813	\$ 20.7549	\$ 16,874
05/30/2003	5,073	\$ 20.9628	\$ 106,344
06/02/2003	418	\$ 21.016	\$ 8,785
06/05/2003	1,954	\$ 22.3228	\$ 43,619
06/06/2003	9,042	\$ 22.4325	\$ 202,835
06/09/2003	2,671	\$ 22.2766	\$ 59,501
Total	23,917		\$ 519,838

Current Beneficial Ownership of the Reporting Persons:

As of the date of this Amendment, the Reporting Persons beneficially own an aggregate of 17,174,345 shares of Smithfield Common Stock (such number includes 208 shares of Smithfield Common Stock owned directly by MurFam and 575,972 Additional Acquisition Shares). The shares beneficially owned by the Reporting Persons represent approximately 15.7% (assuming the receipt by the Reporting Persons of the Escrowed Acquisition Shares and the Additional Acquisition Shares referred to in the Schedule 13D) of the 109,730,431 shares of Smithfield Common Stock outstanding on September 5, 2003, as set forth in the Form 10-Q of Smithfield filed on September 10, 2003. The number of shares of Smithfield Common Stock beneficially owned by each Reporting Person is as follows:

<u>Reporting Person</u>	<u>Total Number of Shares Beneficially Owned</u>	<u>Percentage of Outstanding Common Stock</u>	<u>Additional Acquisition Shares^{2/}</u>
Wendell H. Murphy	5,186,679	4.7%	208,968
Harry D. Murphy	2,925,051	2.7%	38,092
Joyce Murphy Minchew	1,782,629	1.6%	76,318
Wendell H. Murphy, Jr.	3,396,120	3.1%	145,621
Wendy Murphy Crumpler	999,019	0.9%	43,748
Stratton K. Murphy	1,168,274	1.1%	19,970
Marc D. Murphy	1,168,274	1.1%	19,970
Angela Norman Brown	548,299	0.5%	23,285
Total	17,174,345	15.70%	575,972

Each Reporting Person has sole voting and dispositive power over those shares of Smithfield Common Stock individually beneficially owned by such Reporting Person and not pledged pursuant to the

^{2/} The Additional Acquisition Shares are included in the Total Number of Shares Beneficially Owned column.

CUSIP No. 832248 95 9

Page 16 of 19 Pages

Forward Contracts; each Reporting Person has shared voting and dispositive power over those shares of Smithfield Common Stock beneficially owned by such Reporting Person by virtue of such Reporting Person's ownership interest in MurFam; and each Reporting Person has sole voting power (but no dispositive power) over those shares of Smithfield Common Stock beneficially owned by such Reporting Person pledged pursuant to the Forward Contracts, as follows:

Reporting Person	Sole Voting and Dispositive Power	Shared Voting and Dispositive Power	Sole Voting Power
Wendell H. Murphy	4,768,690	73	417,916
Wendell H. Murphy, Jr.	3,122,533	51	273,536
Wendy Murphy Crumpler	918,185	15	80,819
Joyce Murphy Minchew	1,638,243	26	144,360
Angela Norman Brown	503,873	8	44,418
Harry D. Murphy	2,565,501	17	359,533
Stratton K. Murphy	985,794	9	182,471
Marc D. Murphy	985,794	9	182,471
Total	15,488,613	208	1,685,524

Item 6 Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer

Item 6 is hereby amended by adding the following information:

Each of the Reporting Persons entered into the Forward Contracts described in Item 5 above pursuant to which they pledged the Number of Forward Contract Shares indicated above.

Item 7 Material to be Filed as Exhibits

- Exhibit 1 Trade Confirmations dated March 14, 2003 from Merrill Lynch, Pierce, Fenner & Smith Incorporated to each of Marc D. Murphy, Stratton K. Murphy and Harry D. Murphy.
- Exhibit 2 Form of ISDA Master Agreement dated February 27, 2003 between Merrill Lynch, Pierce, Fenner & Smith Incorporated and each of Marc D. Murphy, Stratton K. Murphy and Harry D. Murphy.
- Exhibit 3 Variable Prepaid Forward Confirmation dated June 19, 2003 from Credit Suisse First Boston Capital LLC to each of Wendell H. Murphy, Wendell H. Murphy, Jr., Wendy Murphy Crumpler, Joyce Murphy Minchew and Angela Norman Brown.
- Exhibit 4 Variable Prepaid Forward Confirmation dated July 15, 2003 from Credit Suisse First Boston Capital LLC to each of Wendell H. Murphy, Wendell H. Murphy, Jr., Wendy Murphy Crumpler, Joyce Murphy Minchew and Angela Norman Brown.
- Exhibit 5 Form of Variable Prepaid Forward Agreement dated June 16, 2003 and June 19, 2003 between Credit Suisse First Boston Capital LLC and each of Wendell H. Murphy, Wendell H. Murphy, Jr., Wendy Murphy Crumpler, Joyce Murphy Minchew and Angela Norman Brown.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Amendment No. 2 to Schedule 13D is true, complete and correct.

Date: October 23, 2003

Wendell H. Murphy

/s/ Mark Roberts

Mark Roberts
Attorney-in-Fact

Harry D. Murphy

/s/ Mark Roberts

Mark Roberts
Attorney-in-Fact

Joyce Murphy Minchew

/s/ Mark Roberts

Mark Roberts
Attorney-in-Fact

Wendell H. Murphy, Jr.

/s/ Mark Roberts

Mark Roberts
Attorney-in-Fact

Wendy Murphy Crumpler

/s/ Mark Roberts

Mark Roberts
Attorney-in-Fact

Stratton K. Murphy

/s/ Mark Roberts

Mark Roberts
Attorney-in-Fact

CUSIP No. 832248 95 9
Marc D. Murphy

Page 18 of 19 Pages

/s/ Mark Roberts
Mark Roberts
Attorney-in-Fact

Angela Norman Brown

/s/ Mark Roberts
Mark Roberts
Attorney-in-Fact

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
1	Confirmations dated March 14, 2003 from Merrill Lynch, Pierce, Fenner & Smith Incorporated to each of Marc D. Murphy, Stratton K. Murphy and Harry D. Murphy.
2	Form of ISDA Master Agreement dated February 27, 2003 between Merrill Lynch, Pierce, Fenner & Smith Incorporated and each of Marc D. Murphy, Stratton K. Murphy and Harry D. Murphy.
3	Variable Prepaid Forward Confirmation dated June 19, 2003 from Credit Suisse First Boston Capital LLC to each of Wendell H. Murphy, Wendell H. Murphy, Jr., Wendy Murphy Crumpler, Joyce Murphy Minchew and Angela Norman Brown.
4	Variable Prepaid Forward Confirmation dated July 15, 2003 from Credit Suisse First Boston Capital LLC to each of Wendell H. Murphy, Wendell H. Murphy, Jr., Wendy Murphy Crumpler, Joyce Murphy Minchew and Angela Norman Brown.
5	Form of Variable Prepaid Forward Agreement dated June 16, 2003 and June 19, 2003 between Credit Suisse First Boston Capital LLC and each of Wendell H. Murphy, Wendell H. Murphy, Jr., Wendy Murphy Crumpler, Joyce Murphy Minchew and Angela Norman Brown.
6	Joint Filing Agreement dated October 23, 2003 among Wendell H. Murphy, Harry D. Murphy, Joyce Murphy Minchew, Wendell H. Murphy, Jr., Wendy Murphy Crumpler, Stratton K. Murphy, Marc D. Murphy, and Angela Norman Brown.