

July 29, 2009

Financial Accounting Standards Board  
401 Merritt 7  
P. O. Box 5116  
Norwalk, CT 06856-5116

Attention: Technical Director  
File Reference No. 1660-100

Via email: [director@fasb.org](mailto:director@fasb.org)

Re: Preliminary Views on Revenue Recognition in Contracts with Customers

Dear Ladies and Gentlemen:

On behalf of salesforce.com, inc. (the “Company”), we appreciate the opportunity to share our views on a select discussion topic in the joint Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) Discussion Paper entitled “Preliminary Views on Revenue Recognition” (the “proposal”).

Salesforce.com, inc. is a publicly traded company on the New York Stock Exchange and is a member of the Standard & Poor 500 Index. Salesforce.com was incorporated in February 1999 and provides a comprehensive hosted customer relationship management service to businesses of all sizes and industries worldwide and provides a technology platform for customers and developers to build and run applications. The Company offers its services on a subscription basis and reported total revenue during its fiscal year ended January 31, 2009 of approximately \$1.1 billion. The Company recognizes revenue ratably over the term of the subscription contracts, which are generally 12 to 24 months.

While the Company supports the objectives underlying the proposal, we are only commenting on the discussion of cost capitalization, specifically paragraphs 6.45 and 6.47(d), which are as follows:



6.45 A common example of that potential effect is sales commissions and other marketing expenses associated with obtaining a contract. If those costs are not eligible for capitalization in accordance with other standards, they would be recognized as expenses as incurred. Because no revenue would be recognized at contract inception (unless a performance obligation is satisfied), that may lead to the recognition of a loss when a contract is obtained.

6.47(d) *capitalization of costs*. At present, entities sometimes capitalize the costs of obtaining contracts. In the proposed model, costs are capitalized only if they qualify for capitalization in accordance with other standards. For example, commissions paid to a salesperson for obtaining a contract with a customer typically do not create an asset qualifying for recognition in accordance with other standards. As a result, an entity would recognize such costs as expenses as incurred, which may not be the same period in which revenue is recognized.

Salesforce.com defers its sales commissions, which are paid in full shortly after the service contract origination. In the notes to its consolidated financial statements, the Company discloses the following:

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

Since explicit accounting literature does not exist for sales commissions, the Company analogizes its viewpoints to FASB Technical Bulletin 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts." The Company obtained a preferability letter from its external audit firm.

Under the proposal, the Company would no longer be allowed to defer and amortize sales commissions. We ask the FASB and IASB to reconsider its viewpoints.



### The Material Distortion to Operating Results over Time

We believe that it would be inappropriate to reflect a loss in the period of customer origination.

We believe the following example helps illustrate the distortion that would result if all commissions were immediately expensed when the liability is incurred. As discussed above, as a service company, we recognize revenue ratably over the life of our contractual arrangements. The typical subscription term is 12 to 24 months. The commission payments to our sales representatives are paid in full in the month after service commences and are generally based on the total contract values of the arrangements.

*Example.* On the last day of the fourth quarter of fiscal 20XX, Vendor A signed two large customer contracts. The two 24-month noncancelable subscription contracts had a combined value of \$9.6 million over their terms. The commissions due the sales representatives were \$990,000. Had Vendor A not deferred and amortized the commissions, Vendor A would have recorded in the fourth quarter a \$990,000 expense against recognized revenue of only \$13,000, which is equivalent to one day of revenue. Over the next several quarters, Vendor A would record zero commission expense and \$1.2 million of quarterly revenue. If this were the only activity, an investor would see a significant loss in the fourth quarter of fiscal 20XX and significantly higher operating profits in the first quarter of the subsequent fiscal year and later quarters.

We believe that expensing the commission when the liability is incurred would result in a material distortion in any service company's quarterly trend of results of operations (i.e., a loss in the period when the service contract is signed and increased profitability in the future throughout the terms of the contracts). The distortion would be particularly acute if Vendor A experienced seasonality when large customer contracts are signed.



We believe that the deferral and amortization model is the preferable method for service companies since the commission expenses are matched to the ongoing revenue.

In our situation, the amounts deferred consist solely of the commissions paid to our sales representatives. These amounts are associated with customer contracts that have nonrefundable upfront payments and where we have a contractually enforceable right to the remaining payments. As of January 31, 2009, we had approximately \$57 million of deferred commissions on our balance sheet. Total assets were approximately \$1.5 billion.

#### The Deferred Amounts are a Cost of an Asset

Of course, costs may not be deferred and capitalized unless an asset is created. We believe that the sales commissions we described are costs of an asset. The assets are the completed sales transactions as evidenced by legally binding annual or multi-year service contracts. Such contracts are a type of intangible asset that is routinely recognized in a business combination or asset acquisition, and there is no reason such an asset could not be recognized when the contracts are generated through the ordinary course of business. From a realizability standpoint, the assets are supported by the full income stream of the underlying service contracts.

We realize that some analogize sales commissions to transaction fees related to a business combination. Under SFAS 141R, such transaction costs must be expensed as incurred. We believe that sales commissions are fundamentally different than transaction costs arising in a business combination. For example, transactions costs related to a business combination are arguably one-time charges since many companies do not frequently acquire other businesses.

We also recognize that under SFAS 141R, transaction costs are not considered part of the value of the enterprise to the buyer. We agree with that concept. Clearly, the seller in a business combination receives value, and that value should represent the fair value of the business. Using the “exit value” notion of SFAS 157, the transaction



costs cannot be part of the fair value of the business that has just been sold.

However, with sales commissions, these costs represent the cost to acquire a customer, and the full income stream from the binding service contracts have value to an investor or market participant. The exit value (and the fair value) of such a contract is greater than zero. The sales commission represents the initial cost to creating that value. As we continue to pay sales commissions, the economic value of our enterprise increases. Indeed, capitalizing these costs may be thought of as simply recording the asset acquired at its initial fair value, as an application of the “cost method” of valuation.

Under the fair value principles of SFAS 157, the measured value of the asset is essentially the amount paid to sales representatives.

### Summary

We ask that the FASB and IASB review and assess the need to change current practices that allow companies like salesforce.com to analogize to existing accounting rules and principles.

We believe that investors are best served and informed by a set of financial statements that most closely matches expenses with revenue. We also believe that by not deferring and amortizing sales commission expense, the financial results for a service company would be materially distorted over time. We also believe that the deferred sales commissions meet the definition of an asset.



We appreciate the Boards' consideration of this matter and welcome the opportunity to discuss any and all related matters. I can be contacted at (415) 901-7000.

Sincerely,

/s/ Joseph C. Allanson

Joseph C. Allanson  
SVP, Controller  
salesforce.com, inc.

