March 14, 2012

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

Attention: Technical Director

File Reference No. 2011-30

Via email: director@fasb.org

Re: FASB's Proposed Accounting Standards Update (Revised) — *Revenue Recognition (Topic 605): Revenue from Contracts with Customers* (hereinafter referred to as the "Proposal").

Dear Ladies and Gentlemen:

On behalf of salesforce.com, inc. (the "Company"), we appreciate the opportunity to share our views on the above referenced proposal.

Our views are limited to paragraphs 94 – 97 of the Proposal, which requires companies to capitalize the incremental costs of obtaining a contract (such as sales commissions) with the practical expedient; paragraph 98, which describes the amortization of the capitalized amounts; and paragraphs 128 – 129 which describes the financial statement disclosure requirements.

We also want to thank the Board for considering our views in our previous letter dated October 19, 2010 in which we stated our reasons why it would be appropriate to capitalize sales commissions.

A copy of that letter can be found at:

http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175821584578&blobheader=application%2Fpdf

We overwhelmingly support the Board's conceptual view of:

- Including in the final standard a discussion of the accounting for the costs to obtain a customer contract;
- Capitalizing such costs;
- Providing a practical expedient for companies where their customer contracts are one year or less;
- Amortizing the capitalized amounts using a systematic basis consistent with the revenue recognition pattern of the underlying customer contracts; and
- Requiring expanded disclosure for such activity

We also support the Board's desire to have consistency of accounting principles across other standards.

Over the years, because of the lack of guidance for the accounting for contract origination costs, companies like salesforce.com have had to analogize to other accounting rules that were issued years ago and which had a narrow focus. We believe that the guidance in the Proposal provides clarity and will result in a large improvement in the quality of reporting.

Additionally, from our 10 years of experience in capitalizing and amortizing sales commissions, we also believe that users of the financial statements do benefit from the Board's Proposal, particularly when the company has multi-year, customer service contracts. Operating margins and the trend of operating results for a number of financial statement users are as important as revenue recognized.

To underscore our viewpoint, we have included in Appendix A, commentary from the following third parties:

Analysts

- Tom Ernst, Director, Equity Research – Cloud Computing and Software, Deutsche Bank
- Walter Pritchard, Director, Software Analyst at Citigroup
- Brent Thill,, Managing Director of Software Research, UBS and John Byun, Associate Director, Software Research at UBS
- Brad Zelnick, Senior Software Analyst at Macquarie-Capital (USA) Inc.

Institutional Investors

- John Freeman, Senior Research Analyst, Sands Capital Management and Michael Clarke, Research Analyst, Sands Capital Management

Independent Researchers

- Dr. Sinha from Boston University and Dr. Prakash from the College of William and Mary.

<u>While we agree and support the Board's conceptual views on these topics, we believe that the current proposal should be enhanced</u>.

We describe our ideas and our rationale below.

Overview of salesforce.com and its accounting practice for sales commissions

Salesforce.com, inc. is a leading provider of enterprise cloud computing applications. We were incorporated in February 1999 and we provide a comprehensive hosted customer and collaboration relationship management service to businesses of all sizes and industries worldwide, and we provide a technology platform for customers and developers to build and run business applications.

Our stock is listed on the New York Stock Exchange. Since our initial public offering in June 2004, our market capitalization has increased to approximately $20 billion as of February 29, 2012. Our market capitalization places salesforce.com within the 200 most valuable companies in the Standard & Poor 500 Index.

Substantially all of our revenues are from subscription fees paid by customers who are accessing our enterprise cloud computing service. Subscription revenues are recognized ratably over the contract terms beginning on the commencement date of each contract. The typical subscription service term is 12 to 24 months, although terms range up to 60 months. The subscription service contracts are non cancelable.

We capitalize and amortize sales commissions, which are based on the value of the committed deal, and we pay the commissions in the month after the execution of the customer contract.

We have been following this accounting practice for over 10 years. We limit the capitalized amounts to those commissions paid to sales employees who had a direct relationship with the customer contract. We have consistently provided our investors with complete and transparent disclosure of our accounting practice. Please see Appendix B for extracts from our recently filed Form 10-K.

Our significant accounting policy disclosure appears in CCH's *Revenue Recognition Guide*, authored by Scott A. Taub.

Suggested Enhancements

(a) We believe the Board should clarify what it means by "incremental costs." The current concept described in the Proposal may result in the unintended consequence of companies building overly complicated, costly and burdensome processes to maintain. We have been capitalizing sales

commissions for approximately 10 years and we can provide the staff with insight on our experiences and the choices we have made in simplifying the effort.

Discussion: We agree with the Board's conclusion that such costs should be 'clearly identifiable.'

BC 225 of the Exposure draft states… *To limit the acquisition costs to those that can be clearly identified as relating specifically to, and recoverable under, a contract, the Boards propose that only the incremental costs of obtaining a contract should be included in the measurement of the asset. The Boards decided that determining whether other costs relate to a contract can be more subjective.*

However, we recommend that the Board clarify what constitutes 'incremental' as this may be potentially misconstrued by many companies, who may interpret that only a casual relationship (for example, the bonus payments to the sales coordinator, the project executive, the area leader, and the geographic area leader) needs to exist for the costs to meet the definition of incremental costs.

We believe that 'incremental and identifiable' costs should only include those selling costs which have a direct association and correlation with the successful acquisition of a customer contract (for example, the commission paid to the sales person who closed the sale opportunity).

We believe that the addition of the word direct (i.e. *"**incremental direct costs**"*) in the final language would provide the clarity that companies need in making their policy decision on which activities to capitalize.

Additionally, "incremental direct costs" is consistent with footnote 57 of SEC Staff Accounting Bulletin No. 104.

We also ask the staff to provide further clarification on which qualifying costs to capitalize. This would limit the amount of diversity in practice. Besides the actual commission payment, companies incur a number of other costs that are related to the payment (for example, payroll taxes and benefits). The effort to capitalize such indirect amounts can be a challenge since data comes from disparate sources and such amounts are small in comparison to the commission payouts.

(b) We believe that paragraph 98, which involves the amortization of capitalized amounts, should be expanded to clarify that the amortization period should be equal to the initial contract period, and thus exclude renewal provisions in the customer contracts.

Discussion: We agree with provisions of paragraph 98 which states that "*an asset recognized in accordance with paragraph 91 or 94 shall be amortized on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates*.

We believe that the amortization period of the capitalized costs should be over the same period as the underlying contractual arrangement that gives rise to the cost.

However, there is a possible interpretation that the amortization period contemplated under paragraph 98 could be a period longer than the initial contractual term (i.e., to include renewals).

Accordingly, we recommend the Board provide more clarity in this respect. Our view has been that the initial contract acquisition costs are the incremental cost of obtaining the original contract and therefore are not incremental costs to the renewals. Any additional commissions paid that are direct and incremental to obtain the renewal upon completion of the original contract term, should be amortized over the new renewal term.

As per BC 227 *"…. amortizing the asset in accordance with the transfer of goods or services to which the asset relates, those goods or services could be provided under an anticipated contract that the entity can identify specifically."*

We believe that an entity will not be able to determine or identify 'the anticipated contract' at the time of incurring the sales commissions to acquire the original/initial contract. The customer may renew a contract because of the high quality service provided by an entity under the initial contract.

Accordingly, we support amortization of contract acquisition costs over the underlying contractual period that gave rise to the cost.

Summary

We thank the Board for the opportunity to share our views.

Forrester Research forecasts that the global market for Cloud Computing will grow from $40.7 billion in 2011 to more than $241 billion in 2020. As more and more customers shift their preference to long-term technology service contracts with vendors like salesforce.com, we believe that investors will be better served by the Board's conclusions as described in paragraphs 94 – 98 and 128 – 129.

We welcome the opportunity to discuss any and all related matters, and we also welcome the opportunity to share with you our insights and experiences from over the past 10 years of capitalizing and amortizing sales commissions.

I can be contacted at (415) 901 – 7000.

Sincerely,

/s/ Joseph C. Allanson

Joseph C. Allanson
SVP, Chief Accountant and Controller
salesforce.com, inc.

Appendix A -- View points from users of financial statements

Appendix B -- Disclosure Extracts for salesforce.com's Form 10-K for the year ended January 31, 2012

Appendix A -- View points from users of financial statements

The Analysts' Viewpoint

Over 40 Wall Street firms monitor and evaluate the Company's financial results and growth prospects. Leading analyst firms have expressed the following viewpoints in support of the Board's Proposal to allow companies to capitalize and amortize selling costs:

According to Tom Ernst, Director, Equity Research –Cloud Computing and Software at Deutsche Bank

As a result of capitalizing sales commissions, I strongly feel that companies with long term service contracts such as salesforce.com and many other Cloud Service Companies will be able to demonstrate financial results that correlate with its direct sales activity. This will cause the financial results to be comparable to other companies in the technology industry because of the application of reporting rules that are consistent with their business models.

According to Walter Pritchard, Director, Software Analyst at Citigroup

The capitalization of contract acquisition costs for long term service contracts will help market participants fully appreciate the impact of changes in Deferred Revenue on future sales and margins. Accordingly this will reflect greater accuracy in analyst forecasts of earnings and sales which are positively associated with changes in the deferred revenue. FASB should require that companies that defer sales commissions break out deferred sales commissions on the balance sheet in the same way they break out deferred revenue (into short and long term when appropriate). This will enable investors to make adjustments they see fit to relate this deferred expense to the associated deferred revenue.

According to Brent Thill, (Managing Director of Software Research at UBS) and John Byun (Associate Director, Software Research at UBS)

We believe one of the major pillars of financial accounting is correctly recording the expenses directly related to revenues earned in the same period. This enables a clearer understanding of the underlying nature of a business. In the new model of "Cloud-based" software, businesses often sign large multi-year contracts. Accordingly, services are delivered over an extended period of time and vendors recognize revenues ratably as services are delivered. In our opinion, requiring companies to expense related *commissions upfront would distort this dynamic and make successful, rapidly growing software companies appear to be bad businesses, i.e., unprofitable or having low margins. In addition, this would impair the comparability of "Cloud"-focused software companies against those that use a perpetual license model and recognize all revenues upfront. Immediate expensing would also create confusion among our institutional investor clients, who would have to make their own adjustments to improve comparability.*

According to Brad Zelnick, Senior Software Analyst at Macquarie-Capital (USA) Inc.

For cloud computing companies like salesforce.com, I believe direct contract acquisition costs, such as sales commissions, should be capitalized and paired with the revenue recognition associated with such contracts. I believe this practice best reflects the economics of the business on an operating basis. Cloud application software exhibits very sticky customer relationships and hence for these types of businesses, the value associated with commission costs is realized over the duration of the revenue contract. I would therefore be in favor of capitalizing direct contract acquisition costs such as sales commissions.

The view expressed above are Brad's own views and should not be considered the official opinions of Macquarie Group Limited, or any of its subsidiaries.

Institutional Investor's Viewpoint

According to John Freeman, Senior Research Analyst, Sands Capital Management and Michael Clarke, Research Analyst, Sands Capital Management.

Given the longer-tem nature of Salesforce.com contracts, we believe capitalizing sales commissions (rather than expensing) is the more appropriate method of accounting for sales commissions. In our view, expensing sales commissions up front distorts both the near-term (i.e. suppresses the true operating profitability of a contract) and long-term (i.e. inflates the operating profitability of a contract) operating results due to Salesforce.com's subscription model. Capitalizing and amortizing sales commissions over the term of the contract will provide better accuracy in analyst forecasts (relative to expensing sales commissions), which would likely lead to less share price volatility.

Independent Researchers' Viewpoint

According to two business school professors, Dr. Sinha from Boston University and Dr. Prakash from the College of William and Mary, who recently updated and published their paper titled: —" Deferred Revenues and the Matching of Revenues and Expenses".

When revenues are deferred but some of the associated expenses are recognized as incurred, revenue deferrals depress current margins and improve margins in the period in which revenue is recognized. Deferral of revenues without the capitalization of associated costs adversely affects earnings predictability, which, in turn, results in significant errors in analyst forecasts of both sales and margins and in mispriced securities. Market participants use current sales and margins to predict future earnings without making adequate adjustments for the fact that revenue deferrals depress current sales and margins and inflate future sales and margins. Therefore, when revenue deferrals increase, analysts underestimate future earnings and investors undervalue the firm. Conversely, when revenue deferrals decrease, analysts overestimate future earnings and investors overvalue the firm.

Appendix B

Below are extracts from salesforce's recently filed Form 10-K for the year ended January 31, 2012. We have been providing this level of detail and transparency since our June 2004 initial public offering.

Significant Accounting Policy -- Deferred Commissions

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.

Balance Sheet Display

Our consolidated balance sheets have a separate line item for deferred commissions, which is further classified between short-term. See the extract below.

Deferred commissions represent 4 percent of consolidated assets as of January 31, 2012.

salesforce.com,inc **Consolidated Balance Sheets** (in thousands, except share and per share data)		
	January 31, 2012	**January 31, 2011**
Assets		
Deferred commissions	98,471	67,774
Total current assets	*1,672,222*	*1,074,924*
Deferred commissions, noncurrent	78,149	48,842
Total assets	*4,164,154*	*3,091,165*

Statement of Cash Flow Presentation

Our statement of cash flows provides transparency to the amortization expense and separately the cash payments to our direct sales force in the form of commissions. See the extract below:

salesforce.com, inc. **Consolidated Statement of Cash Flows** (in thousands)			
	Fiscal Year Ended January 31,		
	2012	**2011**	**2010**
Operating activities			
Amortization of deferred commissions	107,195	80,159	63,891
Changes in assets and liabilities:			
Deferred commissions	(167,199)	(121,247)	(82,336)
Net cash provided by operating activities	591,507	459,081	270,911

Management's Discussion & Analysis (MD&A)

During fiscal 2012, we deferred $167.2 million of commission expenditures and we amortized $107.2 million to sales expense. During the same period a year ago, we deferred $121.2 million of commission expenditures and we amortized $80.2 million to sales expense. Deferred commissions on our consolidated balance sheets totaled $176.6 million at January 31, 2012 and $116.6 million at January 31, 2011.