

January 4, 2011

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

File Reference No. 1850-100

Via email: director@fasb.org

Re: FASB's Proposed Accounting Standards Update (*"the Proposal"*)—*Leases (Topic 840)*

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 questions:

1. Lessees
3. Short-term leases
6. Contracts that contain service components and lease components
8. Lease term
10. Reassessment
14. Statement of cash flows
16. Transition

All of our views are from the perspective of a lessee since we do not lease tangible assets to third parties. For your convenience, we have repeated the specific questions together with our commentary.

Overall, we support the Board's effort to improve lease accounting and address the criticisms of the current accounting model. We conceptually agree with the viewpoint that an obligation to make lease



payments under a noncancelable contract is a liability and that it gives rise to a corresponding right-of-use asset.

However, we have several concerns with the Exposure Draft, particularly in the area of the definition of the 'Lease Term', which under the proposal is the longest possible term that is more likely than not to occur.

We feel that the proposed definition of 'Lease Term' adds significant complexity, judgment and volatility in both periodic balance sheet and P&L reporting throughout the entire life of the lease and is not necessary to achieve the primary objective of moving operating leases onto the balance sheet.

Overview of salesforce.com and its accounting practice

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

The Company's stock is publicly traded on the New York Stock Exchange and the Company's stock is included in the Standard & Poor 500 Index. Our revenues during the fiscal year ended January 31, 2010 were approximately \$1.3 billion and our total assets on January 31, 2010 were in excess of \$2.4 billion. Our revenue is currently growing in excess of 20 percent annually.

Our principal rental commitments consist of obligations under leases for office space, co-location facilities for data center capacity, our development and test data center and computer equipment and furniture and fixtures. As disclosed in our Form 10-K for the fiscal year ended January 31, 2010:



| (In thousands) Contractual Obligations | Payments Due by Period | | | | |
|--|------------------------|---------------------|--------------------------------|-----------|----------------------|
| | Total | Less than 1 Year | 1-3 Years (in thousands) | 3-5 Years | More than 5 Years |
| Capital lease obligations | \$ 15,583 | \$ 7,249 | \$ 8,334 | \$ — | \$ — |
| Operating lease obligations: | | | | | |
| Facilities space | 229,201 | 49,930 | 83,405 | 45,180 | 50,686 |
| Computer equipment and furniture and fixtures | 51,008 | 32,011 | 18,997 | — | — |

With respect to our rental of facilities space:

Our executive offices and principal office for domestic marketing, sales, professional services and development occupy over 400,000 square feet in San Francisco, California under leases that expire at various times through November 2017. We also lease space in various locations throughout the United States for local sales and professional services personnel. Our foreign subsidiaries lease office space for their operations including local sales and professional services personnel.

Our lease portfolio is comprised of numerous leases, all with varying terms. No one lease is a “material lease” to our business as specified by Item 601(b)(10)(ii)(D) of Regulation S-K. The annual rent expense for our largest office space lease was less than 1 percent of total expenses during the fiscal year ended January 31, 2010.

In San Francisco, for example, where we occupied 400,000 square feet of commercial office space at January 31, 2010, we leased the space from several different landlords and under varying terms and durations. In some cases, we are subleasing from another company who is leasing the space from the owner.

While we conceptually agree with the premise of moving operating leases onto the balance sheet, we are concerned about the complexity and extent of judgment that would have to be applied to account for leases under this Proposal, particularly given the significant number of leases that we have and the assessments and estimates that would be required on an individual lease basis.

We are primarily concerned about the proposed definition of the ‘Lease Term’, as it would apply to our multi-year lease contracts for commercial office space and data center capacity at co-location



facilities.

Question 1: Lessees

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

We conceptually agree with the viewpoint that an obligation to make lease payments under a noncancelable contract is a liability and that it gives rise to a corresponding right-of-use asset.

However, we take exception to the proposed model in determining and measuring the amount of the liability and asset to record.

Under the proposed model, the ‘bar has been lowered’ to the longest possible lease term that is more likely than not to occur based on a probability assessment. The more likely than not criteria equates to a greater than 50 percent likelihood that the lessee will exercise its renewal option. We feel this bar is too low.

We believe that the liability should consist solely of the amount that the lessee is contractually obligated to. If a lessee enters into a 5 year lease for commercial office space, and has the option to renew the lease for another 5 years, under the Proposal, the lease liability would be measured at an amount that is almost double than what the lessee is contractually obligated for.

We also do not believe that the payments that would be made during the renewal period meet the definition of a liability. Our views are analogous to the following situation:



Company A enters into a purchase agreement to acquire several tier 1 servers for use in its data center. Each server costs \$100,000. Under the agreement, Company A purchases three servers immediately. The obligation to acquire the remaining four servers is not binding. Essentially, Company A has the option to purchase the remaining four servers at the agreed upon price of \$100,000 each. The Company will “more likely than not” purchase the remaining four servers within the next several months. Should the Company at the end of its current reporting period establish an asset and liability for the four remaining servers?

Obviously not. We do not see the difference between this example and applying the ‘more likely than not’ criteria in determining whether the company will exercise its renewal option for commercial real estate space.

Question 3: Short-term leases

Do you agree that a lessee or a lessor should account for short-term leases this way? Why or why not? If not, what alternative approach would you propose and why?

Under the Proposal, the lessee’s intentions are not considered in the determination of whether the lease meets the definition of a ‘short-term lease’. A lease is considered short-term if the maximum possible term is 12 months or less.

While we appreciate the Board’s practical exception, we do not think the exception goes far enough. Rather than a practical exception based exclusively on the maximum duration of the lease contract, we think the definition of a ‘short-term lease’ should be revised to focus exclusively on qualitative factors.

We are concerned about the practical application in applying the proposed accounting model on a lease by lease basis. We have numerous leases for low value right-of-use assets such as copiers and



printers, all of which are for terms that have a maximum length in excess of 12 months. From a practical standpoint, the cost and effort to account for such low value right-of-use assets outweighs the benefit.

Question 6: Contracts that contain service components and lease components

Do you agree with either the IASB or FASB approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We conceptually agree with the approach to separate service and lease components. We believe that to include service components would overstate the value of the right-of-use asset since the value could conceivably exceed the amount the company would have paid in cash to acquire the asset.

However, the Exposure Draft does not provide guidance on the accounting for executory costs (e.g. property and use taxes, support costs and common area maintenance charges) and whether those costs are either viewed as a service component or part of the lease. We believe that additional guidance in this area is needed.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We take exception to the proposal to determine the lease term as the longest possible term that is more likely than not to occur. We think that the current definition of 'lease term' under US GAAP, whereby the lease term only includes the noncancelable lease term and renewal periods that are reasonably assured of exercised (e.g., bargain renewals), is the better model.



We believe that:

A) The liability should be limited to the amount that the lessee is contractually obligated to

We believe the liability should essentially reflect the amount that the lessee is contractually obligated to.

Although, under the Proposal, a lessee is required to present on its balance sheet the lease obligation separate and apart from other financial liabilities, we believe that it would be very challenging to describe to investors how much of the lease liability and corresponding interest charges are the result of assumptions as to the renewal period.

B) The proposed definition of the 'Lease Term' could result in a Material Distortion in Trended Results

We also believe that by including the optional renewal periods, the increased interest expense from the corresponding liability would not be consistent with the economics of the underlying lease during the contractual period.

We also think the proposed cumulative probability approach to determine the longest possible term that is more likely than not to occur will result in frequent changes in estimates. We feel that the accounting prescribed in the Proposal for these changes in estimates will drive unnecessary volatility in balance sheet reporting and earnings results while the underlying contractual rights and economics during the contractual lease term have not changed.



Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

Our view is limited to the perspective of the lessee. Additionally, our view is further limited since our contractual leases do not have contingent payment terms.

We conceptually agree with the need for periodic reassessment, particularly given the duration of most leases and the significant estimates and judgments that would be required under the proposed model.

We acknowledge the Board's effort to address the concern of preparers about the cost-benefit of performing the assessments by adding the 'significant change criteria' in the Exposure Draft.

However, from a practical standpoint, indicators of significant change are many times the accumulation of small changes that come to light after considerable hind-sight and second guessing.

We believe that a more practical approach is to require the re-assessment annually, as opposed to each reporting period which for a public company is quarterly.



Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We conceptually agree with proposed classification of financing activities for outflows of cash related to lease payments. However, we believe that separate presentation is only warranted if the amounts are significant.

Question 16: Transition

(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Paragraph 90 requires that provisions of the exposure draft will apply to each outstanding lease on the date of application. We believe this requirement will be particularly costly and onerous.

We believe that the transition rules should provide flexibility in the timing and manner in which an entity elects to adopt the new standard. Accordingly, entities could elect either:

- Prospective application to all leasing arrangements entered into or materially modified after the date of adoption, or

- Retrospective application for all periods presented

We think this recommendation provides entities with the needed flexibility.

Summary

We wish to thank the Board for its careful evaluation of the points in our letter.

We believe that the expansive nature of the definition of ‘Lease Term’ causes significant complexity and judgment and potential volatility in both periodic balance sheet and P&L reporting than is necessary to achieve the primary objective of moving operating leases onto the balance sheet.

We believe the current definition of lease term under US GAAP, whereby the lease term only includes the noncancelable lease term and renewal periods that are reasonably assured of exercised (e.g., bargain renewals), is the better model.

We 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.

