

Consolidated Balance Sheets

Condensed Consolidated Balance Sheets

(amounts in thousands)

	As of January 31,				Fiscal 2004				Fiscal 2005				Fiscal 2006			
	2000	2001	2002	2003	Apr 30, 2003	Jul 31, 2003	Oct 31, 2003	Jan 31, 2004	Apr 30, 2004	Jul 31, 2004	Oct 31, 2004	Jan 31, 2005	Apr 30, 2005	Jul 31, 2005	Oct 31, 2005	Jan 31, 2006
Assets																
Cash and cash equivalents	12,609	22,200	11,708	8,709	4,941	6,130	6,536	10,463	5,560	61,093	22,756	35,731	40,604	25,140	87,355	
Marketable securities, current & long-term	0	0	0	7,300	15,394	17,650	23,950	25,349	38,173	111,534	162,258	170,207	176,400	207,570	169,498	
Accounts receivable, net	0	1,718	5,709	9,581	12,124	15,328	16,607	26,536	24,490	29,944	37,535	48,874	42,383	50,184	53,407	
Deferred commissions, current & long-term	0	0	629	3,435	3,899	4,836	6,613	11,156	9,911	9,501	8,779	9,613	9,613	10,543	12,218	
Deferred income taxes, current & long-term	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6,458	
Prepays and other current assets	326	1,098	768	1,332	1,581	2,278	5,166	3,532	4,687	3,500	4,145	3,467	4,874	6,714	6,000	
Restricted cash	0	3,500	3,500	3,733	3,752	3,760	3,912	3,912	3,918	3,158	2,927	3,191	3,285	3,307	0	
Fixed assets	1,164	8,149	6,966	4,988	4,592	4,430	4,429	5,069	4,548	5,986	6,525	7,637	15,289	17,280	20,853	
Other long-term	97	382	433	595	684	621	755	1,494	1,690	1,797	1,778	1,779	2,186	2,937	3,651	
Total assets	14,196	37,047	29,713	39,673	46,967	55,033	67,968	87,511	92,977	226,513	246,703	280,499	294,634	323,675	359,440	
Liabilities																
AP and accruals	882	3,073	5,190	9,624	10,714	12,419	17,918	20,329	21,010	28,123	31,574	35,771	33,572	37,496	46,750	
Deferred revenue	0	1,780	7,128	19,171	24,310	29,449	34,408	49,677	52,340	61,557	74,240	95,900	104,645	117,311	127,110	
Total current liabilities	882	4,853	12,318	28,795	35,024	41,868	52,326	70,006	73,350	89,680	105,814	131,671	138,217	154,807	173,860	
Long-term liabilities	36	1,425	7,291	5,206	4,826	4,525	804	1,830	1,754	2,693	2,504	2,317	1,815	1,660	1,454	
Minority interest	0	246	315	410	393	399	693	775	792	953	1,030	1,380	1,604	1,806	2,147	
Total liabilities	918	6,524	19,924	34,411	40,243	46,792	53,823	72,611	75,896	93,326	109,348	135,368	141,636	158,273	177,461	
Equity	13,278	30,523	9,789	5,262	6,724	8,241	14,145	14,900	17,081	133,187	137,355	145,131	152,998	165,402	181,979	
Total liabilities and equity	14,196	37,047	29,713	39,673	46,967	55,033	67,968	87,511	92,977	226,513	246,703	280,499	294,634	323,675	359,440	



Consolidated Income Statement

Condensed Consolidated Statements of Operations

(amounts in thousands, except per share data and headcount)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004					Fiscal 2005					Fiscal 2006					
					Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD	
Revenues																				
Subscription and support	0	5,022	21,513	47,656	16,922	19,592	22,480	26,802	85,796	31,116	36,017	41,465	49,379	157,977	58,190	65,638	74,386		198,214	
Professional services and other	0	413	896	3,335	1,991	2,031	2,954	3,251	10,227	3,723	4,564	4,896	5,215	18,398	5,987	6,305	8,287		20,579	
Total revenues	0	5,435	22,409	50,991	18,913	21,623	25,434	30,053	96,023	34,839	40,581	46,361	54,594	176,375	64,177	71,943	82,673		218,793	
Cost of revenues																				
Subscription and support	0	1,730	3,718	7,199	1,597	1,819	2,143	2,223	7,782	2,282	2,699	3,546	4,200	12,727	5,336	8,013	10,069		23,418	
Professional services and other	0	1,692	2,329	3,164	1,758	2,009	2,525	3,199	9,491	4,081	5,483	5,359	5,804	20,727	6,629	8,224	9,515		24,368	
Total cost of revenues	0	3,422	6,047	10,363	3,355	3,828	4,668	5,422	17,273	6,363	8,182	8,905	10,004	33,454	11,965	16,237	19,584		47,786	
Gross profit	0	2,013	16,362	40,628	15,558	17,795	20,766	24,631	78,750	28,476	32,399	37,456	44,590	142,921	52,212	55,706	63,089		171,007	
Gross profit %	N/A	37.0%	73.0%	79.7%	82.3%	82.3%	81.6%	82.0%	82.0%	81.7%	79.8%	80.8%	81.7%	81.0%	81.4%	77.4%	76.3%		78.2%	
Research and development	1,089	3,366	5,308	4,648	1,240	1,685	1,880	2,157	6,962	2,127	2,074	2,462	3,159	9,822	4,302	5,470	6,602		16,374	
Marketing and sales	2,499	25,392	24,605	33,522	10,656	12,205	14,597	17,142	54,600	20,415	22,525	24,940	28,431	96,311	34,502	34,688	37,905		107,095	
General and administrative	1,976	6,855	8,317	12,958	3,645	3,771	4,320	5,179	16,915	5,573	6,635	8,281	9,779	30,268	9,423	11,355	12,195		32,973	
Lease abandonment (recovery)	0	0	7,657	0	0	0	(4,342)	897	(3,445)	0	0	0	0	0	(285)	0	0		(285)	
Total operating expenses	5,564	35,613	45,887	51,128	15,541	17,661	16,455	25,375	75,032	28,115	31,234	35,683	41,369	136,401	47,942	51,513	56,702		156,157	
Operating (loss) income	(5,564)	(33,600)	(29,525)	(10,500)	17	134	4,311	(744)	3,718	361	1,165	1,773	3,221	6,520	4,270	4,193	6,387		14,850	
Other income (expense), net	112	1,736	491	492	384	15	46	76	521	163	353	799	1,318	2,633	1,485	2,359	1,950		5,794	
Income tax benefit (expense)	0	0	0	0	(49)	(22)	(455)	(15)	(541)	(70)	(202)	(342)	(603)	(1,217)	(1,151)	(1,310)	5,101		2,640	
(Loss) income before min int	(5,452)	(31,864)	(29,034)	(10,008)	352	127	3,902	(683)	3,698	454	1,316	2,230	3,936	7,936	4,604	5,242	13,438		23,284	
Minority interest	0	193	425	292	16	(5)	(113)	(82)	(184)	(17)	(146)	(77)	(350)	(590)	(224)	(202)	(341)		(767)	
Net (loss) income	(5,452)	(31,671)	(28,609)	(9,716)	368	122	3,789	(765)	3,514	437	1,170	2,153	3,586	7,346	4,380	5,040	13,097		22,517	
** Basic EPS	(0.55)	(2.38)	(1.36)	(0.37)	0.01	0.00	0.13	(0.02)	0.12	0.01	0.02	0.02	0.03	0.10	0.04	0.05	0.12		0.21	
** Diluted EPS	(0.55)	(2.38)	(1.36)	(0.37)	0.00	0.00	0.04	(0.02)	0.04	0.00	0.01	0.02	0.03	0.07	0.04	0.04	0.11		0.19	
Basic share count	10,000	13,314	21,039	26,375	28,660	29,236	29,906	30,617	29,605	31,688	64,524	102,337	103,458	75,503	105,221	106,614	107,781		106,547	
* Diluted share count	10,000	13,314	21,039	26,375	91,618	91,973	95,521	30,617	95,409	100,398	107,749	116,176	116,808	110,874	116,367	117,974	118,655		117,764	
Stock based expense																				
Cost of sales	-	345	369	428	160	153	177	165	655	170	187	172	105	634	150	160	135		445	
R&D	214	431	436	402	120	124	109	109	462	89	80	77	36	282	88	91	77		256	
Marketing & sales	386	1,350	1,422	1,696	514	521	529	465	2,029	414	408	386	88	1,296	362	365	301		1,028	
G&A	498	1,326	2,224	2,241	290	246	194	483	1,213	204	425	556	217	1,402	256	322	312		890	
	1,098	3,452	4,451	4,767	1,084	1,044	1,009	1,222	4,359	877	1,100	1,191	446	3,614	856	938	825		2,619	
Full time equivalent headcount	53	176	159	311	329	357	412	444	444	518	594	679	767	767	876	1,059	1,116		1,116	

* When there is a net loss, diluted EPS is calculated using the basic share count.

** The GAAP basic and diluted EPS for the third quarter of fiscal 2006 includes a one time income tax benefit equal to \$0.06 per share.



Consolidated Statements of Cash Flows

Condensed Consolidated Statements of Cash Flows

(amounts in thousands)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004					Fiscal 2005					Fiscal 2006					
					Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD	
Operating activities																				
Net (loss) income	(5,452)	(31,671)	(28,609)	(9,716)	368	122	3,789	(765)	3,514	437	1,170	2,153	3,586	7,346	4,380	5,040	13,097			22,517
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:																				
Minority interest	0	(193)	(425)	(292)	(16)	5	113	82	184	17	146	77	350	590	224	202	341			767
Depreciation and amortization	98	861	2,403	2,664	618	707	631	635	2,591	748	679	800	920	3,147	1,121	1,468	1,490			4,079
Loss on retirement of fixed assets	0	0	0	589	17	26	25	0	68	0	0	42	181	223	48	0	0			48
Amortization of deferred commissions	0	0	241	2,885	1,452	1,799	2,232	3,116	8,599	3,593	3,875	4,255	3,875	15,598	3,402	3,326	3,629			10,357
Lease abandonment (recovery)	0	0	7,657	0	0	0	(4,342)	897	(3,445)	0	0	0	0	0	(285)	0	0			(285)
Expenses related to stock-based awards	1,098	3,452	4,451	4,767	1,084	1,044	1,009	1,222	4,359	877	1,100	1,191	446	3,614	856	938	825			2,619
Tax benefits from employee stock plans	0	0	0	0	0	0	0	0	0	0	0	0	798	798	0	1,918	794			2,712
Changes in assets and liabilities	495	865	1,116	4,316	1,238	283	3,431	959	5,911	987	7,965	4,632	10,972	24,556	8,164	1,180	4,395			13,739
Net cash (used in) provided by operating activities	(3,761)	(26,686)	(13,166)	5,213	4,761	3,986	6,888	6,146	21,781	6,659	14,935	13,150	21,128	55,872	17,910	14,072	24,571			56,553
Investing activities																				
Restricted cash	0	(3,500)	0	(233)	(19)	(8)	(152)	0	(179)	(6)	760	231	(264)	721	(94)	(22)	3,307			3,191
Changes in marketable securities	0	0	0	(7,300)	(8,094)	(2,256)	(6,300)	(1,399)	(18,049)	(12,824)	(73,361)	(50,724)	(8,703)	(145,612)	(6,515)	(31,518)	37,750			(283)
Capital expenditures	(1,262)	(5,869)	(713)	(2,022)	(331)	(488)	(712)	(1,385)	(2,916)	(278)	(484)	(1,281)	(2,265)	(4,308)	(9,157)	(3,372)	(5,291)			(17,820)
Net cash (used in) provided by investing activities	(1,262)	(9,369)	(713)	(9,555)	(8,444)	(2,752)	(7,164)	(2,784)	(21,144)	(13,108)	(73,085)	(51,774)	(11,232)	(149,199)	(15,766)	(34,912)	35,766			(14,912)
Financing activities																				
Proceeds from issuance of preferred stock	16,925	44,223	1,285	0	0	0	0	0	0	0	0	0	0	0	0	0	0			0
Proceeds from issuance of common stock	20	0	1,632	0	0	0	0	0	0	0	113,768	0	0	113,768	0	0	0			0
Proceeds from exercise of stock options	688	1,288	254	1,580	61	114	640	665	1,480	1,642	92	459	2,553	4,746	2,152	5,290	2,209			9,651
Collection of notes receivable	0	0	0	0	0	0	0	0	0	0	0	0	1,043	1,043	727	0	0			727
Capital lease payments	0	(105)	(656)	(757)	(151)	(159)	(136)	(85)	(531)	(58)	(157)	(139)	(139)	(493)	(140)	(171)	(152)			(463)
Repurchase of unvested shares	(1)	(150)	(227)	(342)	(5)	(11)	0	(1)	(17)	(36)	(7)	(211)	0	(254)	(4)	(24)	0			(28)
Subsidiary stock offerings	0	439	1,259	551	0	0	167	0	167	0	40	0	0	40	0	0	0			0
Net cash (used in) provided by financing activities	17,632	45,695	3,547	1,032	(95)	(56)	671	579	1,099	1,548	113,736	109	3,457	118,850	2,735	5,095	2,057			9,887
Effect of exchange rate changes	0	(49)	(159)	310	10	11	11	(14)	18	(2)	(53)	178	(378)	(255)	(6)	281	(179)			96
Net (decrease) increase in cash and cash equivalents	12,609	9,591	(10,491)	(3,000)	(3,768)	1,189	406	3,927	1,754	(4,903)	55,533	(38,337)	12,975	25,268	4,873	(15,464)	62,215			51,624
Cash and cash equivalents, beginning of period	0	12,609	22,200	11,709	8,709	4,941	6,130	6,536	8,709	10,463	5,560	61,093	22,756	10,463	35,731	40,604	25,140			35,731
Cash and cash equivalents, end of period	12,609	22,200	11,709	8,709	4,941	6,130	6,536	10,463	10,463	5,560	61,093	22,756	35,731	35,731	40,604	25,140	87,355			87,355



Customers & Paying Subscribers By Date

Q4 Fiscal 2001 to Q3 Fiscal 2006

	<u>Customers</u>	<u>Subscribers</u>
FY01	1,500	30,000
FY02	3,500	53,000
FY03	5,700	76,000
Q1 FY04	6,300	85,000
Q2 FY04	7,000	96,000
Q3 FY04	7,700	107,000
Q4 FY04	8,700	127,000
Q1 FY05	9,800	147,000
Q2 FY05	11,100	168,000
Q3 FY05	12,500	195,000
Q4 FY05	13,900	227,000
Q1 FY06	15,500	267,000
Q2 FY06	16,900	308,000
Q3 FY06	18,700	351,000



salesforce.com, inc.

GAAP / Non-GAAP Reconciliation

(unaudited)

(in thousands, except per share data)

Three Months ended October 31,
2005 **2004**

Nine Months ended October 31,
2005 **2004**

A reconciliation between operating expenses on a GAAP basis and non-GAAP operating expenses is as follows:

GAAP operating expenses	\$56,702	\$35,683	\$156,157	\$95,032
Lease recovery	0	0	285	0
Non-GAAP operating expenses	56,702	35,683	156,442	95,032

A reconciliation between income from operations on a GAAP basis and non-GAAP income from operations is as follows:

GAAP income from operations	\$6,387	\$1,773	\$14,850	\$3,299
Lease recovery	0	0	(285)	0
Non-GAAP income from operations	6,387	1,773	14,565	3,299

A reconciliation between income before provision (benefit) for income taxes and minority interest and non-GAAP income before provision (benefit) for income taxes and minority interest is as follows:

GAAP income before provision (benefit) for income taxes and minority interest	\$8,337	\$2,572	\$20,644	\$4,614
Lease recovery	0	0	(285)	0
Non-GAAP income before provision (benefit) for income taxes and minority interest	8,337	2,572	20,359	4,614



salesforce.com, inc.

GAAP / Non-GAAP Reconciliation

(unaudited)

(in thousands, except per share data)

	Three Months ended October 31,		Nine Months ended October 31,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
A reconciliation between provision (benefit) for income taxes on a GAAP basis and non-GAAP provision (benefit) for income taxes is as follows:				
GAAP provision (benefit) for income taxes	(\$5,101)	\$342	(\$2,640)	\$614
Reversal of deferred tax valuation allowance	6,769	0	6,769	0
Income tax effect of lease recovery	0	0	(57)	0
Non-GAAP provision (benefit) for income taxes	1,668	342	4,072	614
A reconciliation between income before minority interest on a GAAP basis and non-GAAP income before minority interest is as follows:				
GAAP income before minority interest	\$13,438	\$2,230	\$23,284	\$4,000
Reversal of deferred tax valuation allowance	(6,769)	0	(6,769)	0
Lease recovery	0	0	(285)	0
Income tax effect	0	0	57	0
Non-GAAP income before minority interest	6,669	2,230	16,287	4,000
A reconciliation between net income on a GAAP basis and non-GAAP net income is as follows:				
GAAP net income	\$13,097	\$2,153	\$22,517	\$3,760
Reversal of deferred tax valuation allowance	(6,769)	0	(6,769)	0
Lease recovery	0	0	(285)	0
Income tax effect	0	0	57	0
Non-GAAP net income	6,328	2,153	15,520	3,760



salesforce.com, inc.
GAAP / Non-GAAP Reconciliation
(unaudited)

(in thousands, except per share data)

	Three Months ended October 31,		Nine Months ended October 31,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
A reconciliation between basic net income per share on a GAAP basis and non-GAAP basic net income per share is as follows:				
GAAP basic net income per share	\$0.122	\$0.021	\$0.211	\$0.057
Reversal of deferred tax valuation allowance	(0.063)	0.000	(0.064)	0.000
Lease recovery	0.000	0.000	(0.003)	0.000
Income tax effect	0.000	0.000	0.001	0.000
Non-GAAP basic net income per share	\$0.059	\$0.021	\$0.146	\$0.057
A reconciliation between diluted net income per share on a GAAP basis and non-GAAP diluted net income per share is as follows:				
GAAP diluted net income per share	\$0.110	\$0.019	\$0.191	\$0.035
Reversal of deferred tax valuation allowance	(0.057)	0.000	(0.057)	0.000
Lease recovery	0.000	0.000	(0.002)	0.000
Income tax effect	0.000	0.000	0.000	0.000
Non-GAAP diluted net income per share	\$0.053	\$0.019	\$0.132	\$0.035

To supplement our consolidated financial statements presented on a GAAP basis, salesforce.com uses non-GAAP measures of income from operations, net income and earnings per diluted share, which are adjusted to exclude certain costs and income that we believe are appropriate to enhance the overall understanding of our past financial performance and also our prospects for the future. These adjustments to our GAAP results are made with the intent of providing both management and investors a more complete understanding of salesforce.com's underlying operational results and trends and our performance.

We believe the lease recovery item recorded in the first quarter of fiscal 2006 and the partial reversal of the deferred tax valuation allowance reserve in the third quarter of fiscal 2006 to be outside of our core operating results and thus appropriate to exclude from our financial results.

The presentation of additional information is not meant to be considered in isolation or as a substitute for net income or diluted net income per share prepared in accordance with generally accepted accounting principles in the United States.

