

SALESFORCE COM INC

Form 10-Q

November 21, 2016

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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, 2016

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

94-3320693

(State or other jurisdiction of (IRS Employer
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, 2016, there were approximately 696.7 million shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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Consolidated Balance Sheets

(in thousands)

	October 31, 2016 (unaudited)	January 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$1,145,736	\$1,158,363
Short-term marketable securities	55,071	183,018
Accounts receivable, net	1,281,425	2,496,165
Deferred commissions	237,729	259,187
Prepaid expenses and other current assets	281,593	250,594
Total current assets	3,001,554	4,347,327
Marketable securities, noncurrent	550,323	1,383,996
Property and equipment, net	1,756,673	1,715,828
Deferred commissions, noncurrent	167,839	189,943
Capitalized software, net	637,877	384,258
Goodwill	6,616,999	3,849,937
Strategic investments	555,968	520,721
Other assets, net	1,100,436	370,910
Total assets	\$14,387,669	\$12,762,920
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$1,496,841	\$1,349,338
Deferred revenue	3,478,693	4,267,667
Total current liabilities	4,975,534	5,617,005
Convertible 0.25% senior notes, net	1,109,236	1,088,097
Term loan	496,934	0
Loan assumed on 50 Fremont	198,201	197,998
Deferred revenue, noncurrent	16,440	23,886
Other noncurrent liabilities	785,287	833,065
Total liabilities	7,581,632	7,760,051
Stockholders' equity:		
Common stock	697	671
Additional paid-in capital	7,281,753	5,705,386
Accumulated other comprehensive loss	(62,943)	(49,917)
Accumulated deficit (See Note 1)	(413,470)	(653,271)
Total stockholders' equity	6,806,037	5,002,869
Total liabilities and stockholders' equity	\$14,387,669	\$12,762,920

See accompanying Notes.

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Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Revenues:				
Subscription and support	\$1,983,981	\$1,596,333	\$5,645,554	\$4,522,939
Professional services and other	160,794	115,634	452,442	334,879
Total revenues	2,144,775	1,711,967	6,097,996	4,857,818
Cost of revenues (1)(2):				
Subscription and support	411,363	303,045	1,108,134	870,023
Professional services and other	174,159	120,638	499,948	340,846
Total cost of revenues	585,522	423,683	1,608,082	1,210,869
Gross profit	1,559,253	1,288,284	4,489,914	3,646,949
Operating expenses (1)(2):				
Research and development	311,459	239,212	863,935	695,440
Marketing and sales	997,993	818,820	2,828,784	2,349,449
General and administrative	246,765	186,818	709,622	544,314
Operating lease termination resulting from purchase of 50 Fremont	0	0	0	(36,617)
Total operating expenses	1,556,217	1,244,850	4,402,341	3,552,586
Income from operations	3,036	43,434	87,573	94,363
Investment income	3,709	3,507	23,747	11,351
Interest expense	(21,946)	(18,249)	(64,665)	(53,020)
Other income (expense) (1)	1,782	(7,093)	(11,500)	(6,064)
Gain on sales of land and building improvements	0	21,792	0	21,792
Gains on sales of strategic investments	833	0	13,697	0
Income (loss) before benefit from (provision for) income taxes	(12,586)	43,391	48,852	68,422
Benefit from (provision for) income taxes (3)	(24,723)	(68,548)	182,220	(90,339)
Net income (loss)	\$(37,309)	\$(25,157)	\$231,072	\$(21,917)
Basic net income (loss) per share	\$(0.05)	(0.04)	\$0.34	(0.03)
Diluted net income (loss) per share	\$(0.05)	(0.04)	\$0.33	(0.03)
Shares used in computing basic net income (loss) per share	690,468	664,131	683,075	659,160
Shares used in computing diluted net income (loss) per share	690,468	664,131	696,257	659,160

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Cost of revenues	\$36,703	\$20,296	\$84,462	\$60,825
Marketing and sales	28,064	18,966	66,601	57,995
Other non-operating expense	579	761	1,927	2,877

(2) Amounts include stock-based expense, as follows

	Three Months Ended October 31,	Nine Months Ended October 31,
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	2016	2015	2016	2015
Cost of revenues	\$26,783	\$17,516	\$76,912	\$49,237
Research and development	50,372	31,534	124,164	96,508
Marketing and sales	93,718	69,561	275,515	211,819
General and administrative	33,878	25,706	99,389	77,092

(3) Amounts include a \$205.6 million tax benefit recorded during the nine months ended October 31, 2016 as a result of the release of a portion of the valuation allowance related to the Demandware, Inc. acquisition. See Note 8 "Income Taxes."

See accompanying Notes.

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Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2016	2015	2016	2015
Net income (loss)	\$(37,309)	\$(25,157)	\$231,072	\$(21,917)
Other comprehensive loss, before tax and net of reclassification adjustments:				
Foreign currency translation and other losses	(28,372)	(1,173)	(28,523)	(8,419)
Unrealized gains (losses) on investments	(16,019)	(2,873)	20,961	337
Other comprehensive loss, before tax	(44,391)	(4,046)	(7,562)	(8,082)
Tax effect	(7,337)	(1,135)	(5,464)	(1,135)
Other comprehensive loss, net of tax	(51,728)	(5,181)	(13,026)	(9,217)
Comprehensive income (loss)	\$(89,037)	\$(30,338)	\$218,046	\$(31,134)

See accompanying Notes.

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Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2016	2015	2016	2015
Operating activities:				
Net income (loss)	\$(37,309	) \$(25,157	) \$231,072	) \$(21,917
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	169,346	134,236	451,479	393,838
Amortization of debt discount and transaction costs	7,281	7,138	21,334	20,290
Gain on sales of land and building improvements	0	(21,792	) 0	(21,792
Gains on sales of strategic investments	(833	) 0	(13,697	) 0
50 Fremont lease termination	0	0	0	(36,617
Abandonment of leasehold improvement	0	7,086	0	7,086
Amortization of deferred commissions	93,230	78,934	270,527	232,768
Expenses related to employee stock plans	204,751	144,317	575,980	434,656
Changes in assets and liabilities, net of business combinations:				
Accounts receivable, net	42,653	15,262	1,276,798	853,014
Deferred commissions	(92,803	) (80,030	) (226,965	) (200,867
Prepaid expenses and other current assets and other assets	40,676	33,841	(25,723	) 4,495
Accounts payable, accrued expenses and other liabilities	57,836	57,577	(275,058	) 12,276
Deferred revenue	(330,516	) (188,898	) (829,695	) (475,357
Net cash provided by operating activities (1)	154,312	162,514	1,456,052	1,201,873
Investing activities:				
Business combinations, net of cash acquired	(32,117	) (27,759	) (2,832,110	) (58,680
Proceeds from land and building improvements held for sale	0	127,066	0	127,066
Purchase of 50 Fremont land and building	0	0	0	(425,376
Deposit for purchase of 50 Fremont land and building	0	0	0	115,015
Non-refundable amounts received for sale of land available for sale	0	0	0	6,284
Strategic investments, net	(16,877	) (30,330	) (39,328	) (325,226
Purchases of marketable securities	(111,731	) (200,001	) (986,862	) (543,422
Sales of marketable securities	93,391	91,153	1,927,049	414,259
Maturities of marketable securities	14,203	7,166	64,741	23,445
Capital expenditures	(140,653	) (80,041	) (319,984	) (216,011
Net cash used in investing activities	(193,784	) (112,746	) (2,186,494	) (882,646
Financing activities:				
Proceeds from term loan, net	0	0	495,550	0
Proceeds from employee stock plans	92,846	98,016	315,865	367,830
Principal payments on capital lease obligations	(10,997	) (10,945	) (73,760	) (68,844
Payments on revolving credit facility	0	0	0	(300,000
Net cash provided by (used in) financing activities (1)	81,849	87,071	737,655	(1,014
Effect of exchange rate changes	(11,867	) (2,872	) (19,840	) (3,012
Net increase (decrease) in cash and cash equivalents	30,510	133,967	(12,627	) 315,201
Cash and cash equivalents, beginning of period	1,115,226	1,089,351	1,158,363	908,117
Cash and cash equivalents, end of period	\$1,145,736	\$1,223,318	\$1,145,736	\$1,223,318

During the nine months ended October 31, 2016, the Company early adopted Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)" ("ASU 2016-09"), which addresses among other items, updates to the presentation and treatment of excess tax benefits related to stock based compensation. Excess tax benefits are no longer classified as a reduction of operating cash flows. The Company has adopted changes to the consolidated statements of cash flows on a retrospective basis. The impact for the three and nine months ended October 31, 2015 was an increase of \$44,607 and \$48,698 to net cash provided by operating activities with a correlating decrease of equal amounts to net cash provided by (used in) financing activities, respectively.

See accompanying Notes.

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Consolidated Statements of Cash Flows

Supplemental Cash Flow Disclosure

(in thousands)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Supplemental cash flow disclosure:				
Cash paid during the period for:				
Interest	\$11,365	\$4,085	\$41,400	\$32,756
Income taxes, net of tax refunds	\$11,220	\$8,248	\$25,451	\$24,450
Non-cash operating, financing and investing activities:				
Fixed assets acquired under capital leases	\$180	\$2,065	\$765	\$7,191
Building - leased facility acquired under financing obligation	\$0	\$38,477	\$0	\$75,336
Fair value of loan assumed on 50 Fremont	\$0	\$0	\$0	\$198,751
Fair value of equity awards assumed	\$26,406	\$0	\$47,199	\$0
Fair value of common stock issued as consideration for business combinations	\$492,842	\$0	\$771,214	\$0
Non-cash equity liability (See Note 6)	\$(1,473)	\$0	\$74,570	\$0

See accompanying Notes.

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Notes to Consolidated Financial Statements

1. Summary of Business and Significant Accounting Policies

Description of Business

Salesforce.com, inc. (the “Company”) is a leading provider of enterprise cloud computing solutions, with a focus on customer relationship management, or CRM. The Company introduced its first CRM solution in February 2000, and has since expanded its service offerings with new editions, solutions, features and platform capabilities.

The Company's mission is to help its customers transform themselves into customer-centric companies by empowering them to connect with their customers in entirely new ways. The Company's Customer Success Platform includes, among other things, sales force automation, customer service and support, marketing automation, commerce, community management, analytics, application development, Internet of Things integration and professional cloud services, which provide the next-generation platform of enterprise applications and services to enable customer success.

Fiscal Year

The Company’s fiscal year ends on January 31. References to fiscal 2017, for example, refer to the fiscal year ending January 31, 2017.

Basis of Presentation

The accompanying consolidated balance sheet as of October 31, 2016 and the consolidated statements of operations, the consolidated statements of comprehensive income (loss) and the consolidated statements of cash flows for the three and nine months ended October 31, 2016 and 2015, respectively, are unaudited.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company’s management, the unaudited consolidated financial statements include all adjustments necessary for the fair presentation of the Company’s balance sheet as of October 31, 2016, and its results of operations, including its comprehensive income (loss), and its cash flows for the three and nine months ended October 31, 2016 and 2015. All adjustments are of a normal recurring nature. The results for the three and nine months ended October 31, 2016 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2017.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2016, filed with the Securities and Exchange Commission (the “SEC”) on March 7, 2016 as updated by the Form 8-K filed with the SEC on September 1, 2016.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in the Company’s consolidated financial statements and notes thereto.

Significant estimates and assumptions made by management include the determination of:

- the best estimate of selling price of the deliverables included in multiple deliverable revenue arrangements,
- the fair value of assets acquired and liabilities assumed for business combinations,
- the recognition, measurement and valuation of current and deferred income taxes,
- the fair value of stock awards issued and related forfeiture rates,
- the useful lives of intangible assets, property and equipment and building and structural components, and
- the valuation of strategic investments and the determination of other-than-temporary impairments.

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Actual results could differ materially from those estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the result of which forms the basis for making judgments about the carrying values of assets and liabilities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Segments

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker, who is the chief executive officer, in deciding how to allocate resources and assessing performance. Over the past few years, including fiscal 2017, the Company has completed a number of acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in various market segments of the enterprise cloud computing market. While the Company has offerings in multiple enterprise cloud computing market segments, including as a result of the Company's acquisitions, the Company's business operates in one operating segment because the majority of the Company's offerings operate on a single platform and are deployed in an identical way, and the Company's chief operating decision maker evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the consolidated financial statements.

Concentrations of Credit Risk and Significant Customers

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and trade accounts receivable. Collateral is not required for accounts receivable. The Company maintains an allowance for doubtful accounts receivable balances. This allowance is based upon historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with delinquent accounts.

No single customer accounted for more than five percent of accounts receivable at October 31, 2016 and January 31, 2016. No single customer accounted for five percent or more of total revenue during the three and nine months ended October 31, 2016 and 2015.

Geographic Locations

As of October 31, 2016 and January 31, 2016, assets located outside the Americas were 9 percent and 11 percent of total assets, respectively.

Revenues by geographical region are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2016	2015	2016	2015
Americas	\$1,598,344	\$1,258,148	\$4,506,774	\$3,575,441
Europe	337,497	302,704	1,012,671	848,413
Asia Pacific	208,934	151,115	578,551	433,964
	\$2,144,775	\$1,711,967	\$6,097,996	\$4,857,818

Americas revenue attributed to the United States was approximately 96 percent and 95 percent during the three and nine months ended October 31, 2016 and 2015, respectively. No other country represented more than ten percent of total revenue during the three and nine months ended October 31, 2016 and 2015.

Revenue Recognition

The Company derives its revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing the Company's enterprise cloud computing services and from customers paying for additional support beyond the standard support that is included in the basic subscription fees; and (2) related professional services such as process mapping, project management, implementation services and other revenue. "Other revenue" consists primarily of training fees.

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The Company commences revenue recognition when all of the following conditions are satisfied:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- the collection of the fees is reasonably assured; and
- the amount of fees to be paid by the customer is fixed or determinable.

The Company's subscription service arrangements are non-cancelable and do not contain refund-type provisions.

Subscription and Support Revenues

Subscription and support revenues are recognized ratably over the contract terms beginning on the commencement date of each contract, which is the date the Company's service is made available to customers.

Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Professional Services and Other Revenues

The Company's professional services contracts are either on a time and material or fixed fee basis. When these services are not combined with subscription revenues as a single unit of accounting, as discussed below, these revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. Training revenues are recognized as the services are performed.

Multiple Deliverable Arrangements

The Company enters into arrangements with multiple deliverables that generally include multiple subscriptions, premium support and professional services. If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately. Subscription services have standalone value as such services are often sold separately. In determining whether professional services have standalone value, the Company considers the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer's satisfaction with the professional services work. To date, the Company has concluded that all of the professional services included in multiple deliverable arrangements executed have standalone value.

Multiple deliverables included in an arrangement are separated into different units of accounting and the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The Company determines the relative selling price for a deliverable based on its vendor-specific objective evidence of selling price ("VSOE"), if available, or its best estimate of selling price ("BESP"), if VSOE is not available. The Company has determined that third-party evidence of selling price ("TPE") is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant third-party pricing information. The amount of revenue allocated to delivered items is limited by contingent revenue, if any.

For certain professional services, the Company has established VSOE as a consistent number of standalone sales of these deliverables have been priced within a reasonably narrow range. The Company has not established VSOE for its subscription services due to lack of pricing consistency, the introduction of new services and other factors.

Accordingly, the Company uses its BESP to determine the relative selling price for its subscription services.

The Company determines BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company's discounting practices, the size and volume of the Company's transactions, the customer demographic, the geographic area where services are sold, price lists, its go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by the Company's management, taking into consideration the go-to-market strategy. As the Company's go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in relative selling prices, including both VSOE and BESP.

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Deferred Revenue

The deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services described above and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in annual installments. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing, dollar size and new business linearity within the quarter.

Deferred revenue that will be recognized during the succeeding twelve month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

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 36 months. The commission payments are paid in full the month after the customer's service commences and are a direct and incremental cost of the revenue arrangements. 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at fair value.

Marketable Securities

Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. Securities are classified as available for sale and are carried at fair value, with the change in unrealized gains and losses, net of tax, reported as a separate component on the consolidated statements of comprehensive income (loss). Fair value is determined based on quoted market rates when observable or utilizing data points that are observable, such as quoted prices, interest rates and yield curves. Declines in fair value judged to be other-than-temporary on securities available for sale are included as a component of investment income. In order to determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value and its intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of securities sold is based on the specific-identification method. Interest on securities classified as available for sale is also included as a component of investment income.

Fair Value Measurement

The Company measures its cash equivalents, marketable securities and foreign currency derivative contracts at fair value. The additional disclosures regarding the Company's fair value measurements are included in Note 2 "Investments."

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Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of those assets as follows:

Computers, equipment and software	3 to 9 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of the estimated lease term or 10 years
Building and structural components	Average weighted useful life of 32 years
Building- leased facility	27 years
Building improvements	10 years

When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from their respective accounts and any loss on such retirement is reflected in operating expenses.

Capitalized Internal-Use Software Costs

The Company capitalizes costs related to its enterprise cloud computing services and certain projects for internal use incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, which is generally three to five years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Goodwill and Intangible Assets Impairment Assessments

The Company evaluates and tests the recoverability of its goodwill for impairment at least annually during the fourth quarter or more often if and when circumstances indicate that goodwill may not be recoverable.

Intangible assets are amortized over their useful lives. Each period the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable.

Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of these assets, then the carrying amount of such assets is reduced to fair value.

Long-Lived Assets and Impairment Assessment

The Company evaluates long-lived assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. This includes but is not limited to significant adverse changes in business climate, market conditions, or other events that indicate an asset's carrying amount may not be recoverable. If such review indicates that the carrying amount of long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value. There was no impairment of long-lived assets during the three and nine months ended October 31, 2016 and 2015, respectively.

Business Combinations

The Company uses its best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Company's estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. The Company continues to collect information and reevaluates these estimates and assumptions quarterly and records any adjustments to the Company's preliminary estimates to goodwill provided that the Company is within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

In the event that the Company enters into a business combination with an entity in which the Company previously held a strategic investment, significant gains or losses will be disclosed separately within the statements of operations.

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Leases and Asset Retirement Obligations

The Company categorizes leases at their inception as either operating or capital leases. In certain lease agreements, the Company may receive rent holidays and other incentives. The Company recognizes lease costs on a straight-line basis once control of the space is achieved, without regard to deferred payment terms such as rent holidays that defer the commencement date of required payments. Additionally, incentives received are treated as a reduction of costs over the term of the agreement.

The Company establishes assets and liabilities for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Such assets are depreciated over the lease period to operating expense.

In the event the Company is the deemed owner for accounting purposes during construction, the Company records assets and liabilities for the estimated construction costs incurred under build-to-suit lease arrangements to the extent it is involved in the construction of structural improvements or takes construction risk prior to commencement of a lease.

The Company additionally has entered into subleases for unoccupied leased office space. To the extent there are losses associated with the sublease, they are recognized in the period the sublease is executed. Gains are recognized over the sublease life. Any sublease payments received in excess of the straight-line rent payments for the sublease are recorded in other income (expense).

Accounting for Stock-Based Expense

The Company recognizes stock-based expenses related to stock options and restricted stock awards on a straight-line basis over the requisite service period of the awards, which is generally the vesting term of four years. The aggregate stock compensation remaining to be amortized to costs and expenses will be recognized over a weighted average period of 2.7 years. The Company recognizes stock-based expenses related to shares issued pursuant to its Amended and Restated 2004 Employee Stock Purchase Plan (“ESPP” or “2004 Employee Stock Purchase Plan”) on a straight-line basis over the offering period, which is 12 months. Stock-based expenses are recognized net of estimated forfeiture activity. The estimated forfeiture rate applied is based on historical forfeiture rates. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option pricing model.

The fair value of each stock option grant and ESPP share was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions and fair value per share:

	Three Months Ended October 31, 2016		Nine Months Ended October 31, 2016	
Stock Options	2016	2015	2016	2015
Volatility	32.3 %	35 %	32.1-32% 32	35-37 %
Estimated life	3.5 years	3.6 years	3.5 years	3.6 years
Risk-free interest rate	0.91-1.07 07	1.21-1.27 %	0.89-1.07 07	1.13-1.42 42
Weighted-average fair value per share of grants	\$18.75	\$19.72	\$18.75	\$19.79

The Company estimated its future stock price volatility considering both its observed option-implied volatilities and its historical volatility calculations. Management believes this is the best estimate of the expected volatility over the expected life of its stock options and stock purchase rights. The estimated life for the stock options was based on an analysis of historical exercise activity.

ESPP assumptions and the related fair value per share table will only be disclosed in the three month period in which there is ESPP activity, such as an ESPP purchase. The Company's ESPP Plan allows for two purchases during the year, one during the second quarter and one during the fourth quarter. The estimated life of the ESPP will be based on the two purchase periods within each offering period.

The risk-free interest rate is based on the rate for a U.S. government security with the same estimated life at the time of the option grant and the stock purchase rights.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax basis of assets and

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liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the consolidated statement of operations in the period that includes the enactment date.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the applicable tax law. The Company regularly reviews the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. The Company's judgments regarding future profitability may change due to many factors, including future market conditions and the ability to successfully execute its business plans and/or tax planning strategies. Should there be a change in the ability to recover deferred tax assets, the tax provision would increase or decrease in the period in which the assessment is changed.

The Company's tax positions are subject to income tax audits by multiple tax jurisdictions throughout the world. The Company recognizes the tax benefit of an uncertain tax position only if it is more likely than not that the position is sustainable upon examination by the taxing authority, solely based on its technical merits. The tax benefit recognized is measured as the largest amount of benefit which is greater than 50 percent likely to be realized upon settlement with the taxing authority. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in the income tax provision.

Foreign Currency Translation

The functional currency of the Company's major foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as a separate component on the consolidated statements of comprehensive income (loss). Foreign currency transaction gains and losses are included in net income (loss) for the period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

Warranties and Indemnification

The Company's enterprise cloud computing services are typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and materially in accordance with the Company's online help documentation under normal use and circumstances.

The Company's arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third party's intellectual property rights. To date, the Company has not incurred any material costs as a result of such obligations and has not accrued any material liabilities related to such obligations in the accompanying consolidated financial statements.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as the Company's director or officer or that person's services provided to any other company or enterprise at the Company's request. The Company maintains director and officer insurance coverage that would generally enable the Company to recover a portion of any future amounts paid. The Company may also be subject to indemnification obligations by law with respect to the actions of its employees under certain circumstances and in certain jurisdictions.

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New Accounting Pronouncements Adopted in Fiscal 2017

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability rather than an asset that is amortized. However, ASU 2015-03 does not address deferred issuance costs for line-of-credit arrangements; therefore, in August 2015, the FASB issued Accounting Standards Update No. 2015-15, “Interest-Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements” (“ASU 2015-15”). ASU 2015-15 allows an entity to defer debt issuance costs associated with line-of-credit arrangements, including arrangements with no outstanding borrowings, and classify them as an asset, and amortize them over the term of the arrangements. The recognition and measurement guidance for debt issuance costs is not affected by the standards. The Company adopted the standards in the three months ended April 30, 2016. Upon adoption, the unamortized debt issuance costs previously reported in Other assets, net, with a carrying amount of approximately \$7.9 million at January 31, 2016, were reclassified and presented as a deduction of the corresponding liabilities, Convertible 0.25% senior notes, net, Term Loan, and Loan assumed on 50 Fremont.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)” (“ASU 2015-16”), which eliminates the requirement to restate prior period financial statements for measurement period adjustments in business combinations. ASU 2015-16 requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The Company adopted this standard during the three months ended April 30, 2016 and there was no material impact of this on the Company's financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting” (“ASU 2016-09”), which simplifies and improves several aspects of the accounting for employee share-based payment transactions for public entities. The new guidance requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the statement of cash flows. The Company adopted the standard in the three months ended April 30, 2016. Upon adoption, the Company recognized the previously unrecognized excess tax benefits using the modified retrospective transition method, which resulted in a cumulative-effect adjustment of \$8.7 million to accumulated deficit. This adjustment reduced the April 30, 2016 accumulated deficit balance. The previously unrecognized excess tax effects were recorded as a deferred tax asset, which was fully offset by a valuation allowance. Without the valuation allowance, the Company’s deferred tax asset would have increased by \$614.5 million. The Company also elected to apply the change in presentation to the statements of cash flows retrospectively and no longer classified the excess tax benefits from employee stock plans as a reduction from operating cash flows for all periods presented.

Pending Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) which amended the existing FASB Accounting Standards Codification. This standard establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The standard also provides guidance on the recognition of costs related to obtaining customer contracts. The FASB deferred the effective date for the new revenue reporting standard for entities reporting under U.S. GAAP for one year. In accordance with the deferral, ASU 2014-09 will be effective for fiscal 2019, including interim periods within that reporting period. The Company is currently in the process of assessing the adoption methodology, which allows the amendment to be applied retrospectively to each prior period presented, or with the cumulative effect recognized as of the date of initial application. The Company is also evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements and has not determined whether the effect will be material to either its revenue

results or its accounting for deferred commissions balances.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, “Financial Instrument-Overall (Subtopic 825-10)” (“ASU 2016-01”), which requires entities to measure equity investments at fair value and recognize any changes in fair value in net income. However, for equity investments that do not have readily determinable fair values and do not qualify for the existing practical expedient, the investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The new standard is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-01 on its consolidated financial statements.

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In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which requires lessees to record most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”)”, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The new standard is effective for annual periods beginning after December 15, 2017, with early adoption permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of ASU 2016-16 on its consolidated financial statements.

2. Investments

Marketable Securities

At October 31, 2016, marketable securities consisted of the following (in thousands):

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	\$ 308,381	\$ 2,262	\$ (482)	\$ 310,161
U.S. treasury securities	52,692	132	(43)	52,781
Mortgage backed obligations	77,723	138	(198)	77,663
Asset backed securities	111,806	310	(23)	112,093
Municipal securities	45,388	235	(33)	45,590
Foreign government obligations	7,090	19	(3)	7,106
Total marketable securities	\$ 603,080	\$ 3,096	\$ (782)	\$ 605,394

At January 31, 2016, marketable securities consisted of the following (in thousands):

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	\$ 949,266	\$ 1,398	\$ (2,983)	\$ 947,681
U.S. treasury securities	157,625	375	(56)	157,944
Mortgage backed obligations	104,242	106	(323)	104,025
Asset backed securities	271,292	186	(226)	271,252
Municipal securities	44,934	209	(6)	45,137
Foreign government obligations	18,014	42	(5)	18,051
U.S. agency obligations	16,076	16	(6)	16,086
Covered bonds	6,690	148	0	6,838
Total marketable securities	\$ 1,568,139	\$ 2,480	\$ (3,605)	\$ 1,567,014

The duration of the investments classified as marketable securities is as follows (in thousands):

	As of October 31, 2016	As of January 31, 2016
Recorded as follows:		
Short-term (due in one year or less)	\$ 55,071	\$ 183,018
Long-term (due after one year)	550,323	1,383,996
	\$ 605,394	\$ 1,567,014

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As of October 31, 2016, the following marketable securities were in an unrealized loss position (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate notes and obligations	\$59,612	\$ (473)	\$4,594	\$ (9)	\$64,206	\$ (482)
U.S. treasury securities	20,294	(43)	0	0	20,294	(43)
Mortgage backed obligations	40,964	(195)	224	(3)	41,188	(198)
Asset backed securities	24,713	(17)	1,862	(6)	26,575	(23)
Municipal securities	6,689	(33)	0	0	6,689	(33)
Foreign government obligations	4,092	(3)	0	0	4,092	(3)
	\$156,364	\$ (764)	\$6,680	\$ (18)	\$163,044	\$ (782)

The unrealized losses for each of the fixed rate marketable securities were less than \$143,000. The Company does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of October 31, 2016. The Company expects to receive the full principal and interest on all of these marketable securities.

Fair Value Measurement

All of the Company's cash equivalents, marketable securities and foreign currency derivative contracts are classified within Level 1 or Level 2 because the Company's cash equivalents, marketable securities and foreign currency derivative contracts are valued using quoted market prices or alternative pricing sources and models utilizing observable market inputs.

The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2. Other inputs that are directly or indirectly observable in the marketplace.

Level 3. Unobservable inputs which are supported by little or no market activity.

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The following table presents information about the Company's assets and liabilities that are measured at fair value as of October 31, 2016 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of October 31, 2016
Cash equivalents (1):				
Time deposits	\$ 0	\$ 110,796	\$ 0	\$ 110,796
Money market mutual funds	206,156	0	0	206,156
Marketable securities:				
Corporate notes and obligations	0	310,161	0	310,161
U.S. treasury securities	0	52,781	0	52,781
Mortgage backed obligations	0	77,663	0	77,663
Asset backed securities	0	112,093	0	112,093
Municipal securities	0	45,590	0	45,590
Foreign government obligations	0	7,106	0	7,106
Foreign currency derivative contracts (2)	0	1,372	0	1,372
Total assets	\$ 206,156	\$ 717,562	\$ 0	\$ 923,718
Liabilities				
Foreign currency derivative contracts (3)	\$ 0	\$ 4,838	\$ 0	\$ 4,838
Total liabilities	\$ 0	\$ 4,838	\$ 0	\$ 4,838

(1)Included in "cash and cash equivalents" in the accompanying consolidated balance sheet as of October 31, 2016, in addition to \$828.8 million of cash.

(2)Included in "prepaid expenses and other current assets" in the accompanying consolidated balance sheet as of October 31, 2016.

(3)Included in "accounts payable, accrued expenses and other liabilities" in the consolidated balance sheet as of October 31, 2016.

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The following table presents information about the Company's assets and liabilities that are measured at fair value as of January 31, 2016 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of January 31, 2016
Cash equivalents (1):				
Time deposits	\$ 0	\$ 236,798	\$ 0	\$ 236,798
Money market mutual funds	216,107	0	0	216,107
Commercial paper	0	159,230	0	159,230
Agency and sovereign paper	0	13,599	0	13,599
Marketable securities:				
Corporate notes and obligations	0	947,681	0	947,681
U.S. treasury securities	0	157,944	0	157,944
Mortgage backed obligations	0	104,025	0	104,025
Asset backed securities	0	271,252	0	271,252
Municipal securities	0	45,137	0	45,137
Foreign government obligations	0	18,051	0	18,051
U.S. agency obligations	0	16,086	0	16,086
Covered bonds	0	6,838	0	6,838
Foreign currency derivative contracts (2)	0	4,731	0	4,731
Total Assets	\$ 216,107	\$ 1,981,372	\$ 0	\$ 2,197,479
Liabilities				
Foreign currency derivative contracts (3)	\$ 0	\$ 14,025	\$ 0	\$ 14,025
Total Liabilities	\$ 0	\$ 14,025	\$ 0	\$ 14,025

(1)Included in "cash and cash equivalents" in the accompanying consolidated balance sheet as of January 31, 2016, in addition to \$532.6 million of cash.

(2)Included in "prepaid expenses and other current assets" in the accompanying consolidated balance sheet as of January 31, 2016.

(3)Included in "accounts payable, accrued expenses and other liabilities" in the accompanying consolidated balance sheet as of January 31, 2016.

Derivative Financial Instruments

The Company enters into foreign currency derivative contracts with financial institutions to reduce foreign exchange risk. The Company uses forward currency derivative contracts to minimize the Company's exposure to balances primarily denominated in British Pound Sterling, the Euro and Japanese Yen. The Company's foreign currency derivative contracts, which are not designated as hedging instruments, are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. The Company's derivative financial instruments program is not designated for trading or speculative purposes. As of October 31, 2016 and January 31, 2016, the foreign currency derivative contracts that were not settled were recorded at fair value on the consolidated balance sheets.

Foreign currency derivative contracts are marked-to-market at the end of each reporting period with gains and losses recognized as other expense to offset the gains or losses resulting from the settlement or remeasurement of the underlying foreign currency denominated receivables and payables. While the contract or notional amount is often used to express the volume of foreign currency derivative contracts, the amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations under the agreements exceed the obligations of the Company to the counterparties.

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Details on outstanding foreign currency derivative contracts related primarily to intercompany receivables and payables are presented below (in thousands):

	As of	
	October 31, 2016	January 31, 2016
Notional amount of foreign currency derivative contracts	\$1,217,458	\$1,274,515
Fair value of foreign currency derivative contracts	\$(3,466)	\$(9,294)

The fair value of the Company's outstanding derivative instruments are summarized below (in thousands):

		Fair Value of Derivative Instruments	
		As of	
	Balance Sheet Location	October 31, 2016	January 31, 2016
Derivative Assets			
Derivatives not designated as hedging instruments:			
Foreign currency derivative contracts	Prepaid expenses and other current assets	\$ 1,372	\$ 4,731
Derivative Liabilities			
Derivatives not designated as hedging instruments:			
Foreign currency derivative contracts	Accounts payable, accrued expenses and other liabilities	\$ 4,838	\$ 14,025

The effect of the derivative instruments not designated as hedging instruments on the consolidated statements of operations during the three and nine months ended October 31, 2016 and 2015, respectively, are summarized below (in thousands):

Derivatives Not Designated as Hedging Instruments		Losses on Derivative Instruments	
		Recognized in Other income (expense)	
		Three Months Ended	
		October 31,	
	Location	2016	2015
Foreign currency derivative contracts	Other income (expense)	\$(39,624)	\$(2,888)
Derivatives Not Designated as Hedging Instruments		Income (loss) on Derivative Instruments	
		Recognized in Other income (expense)	
		Nine Months Ended	
		October 31,	
	Location	2016	2015
Foreign currency derivative contracts	Other income (expense)	\$(86,528)	\$9,773

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Investment Income

Investment income consists of interest income, realized gains and realized losses on the Company's cash, cash equivalents and marketable securities. The components of investment income are presented below (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Interest income	\$3,642	\$3,700	\$17,961	\$9,919
Realized gains	210	257	7,771	3,197
Realized losses	(143)	(450)	(1,985)	(1,765)
Total investment income	\$3,709	\$3,507	\$23,747	\$11,351

Reclassification adjustments out of accumulated other comprehensive income (loss) into net income were immaterial for the three and nine months ended October 31, 2016 and 2015, respectively.

Strategic Investments

The Company's strategic investments are comprised of marketable equity securities and non-marketable debt and equity securities. Marketable equity securities are measured using quoted prices in their respective active markets and the non-marketable equity and debt securities are recorded at cost. These investments are presented on the consolidated balance sheets within strategic investments.

As of October 31, 2016, the Company had five investments in marketable equity securities with a fair value of \$42.4 million, which includes an unrealized gain of \$26.5 million. As of January 31, 2016, the Company had six investments in marketable equity securities with a fair value of \$16.2 million, which included an unrealized gain of \$8.5 million. The change in the fair value of the investments in publicly held companies is recorded in the consolidated balance sheets within strategic investments and accumulated other comprehensive loss.

The Company's interest in non-marketable debt and equity securities consists of noncontrolling debt and equity investments in privately held companies. The Company's investments in these privately held companies are reported at cost or marked down to fair value when an event or circumstance indicates an other-than-temporary decline in value has occurred. These investments are valued using significant unobservable inputs or data in an inactive market and the valuation requires the Company's judgment due to the absence of market prices and inherent lack of liquidity.

As of October 31, 2016 and January 31, 2016, the carrying value of the Company's non-marketable debt and equity securities was \$513.5 million and \$504.5 million, respectively. The estimated fair value of the non-marketable debt and equity securities was approximately \$752.1 million and \$714.1 million as of October 31, 2016 and January 31, 2016, respectively. These investments are measured using the cost method of accounting; therefore, the unrealized gains of \$238.6 million and \$209.6 million as of October 31, 2016 and January 31, 2016, respectively, are not recorded in the consolidated financial statements.

The carrying value of the Company's strategic investments is impacted by various events such as entering into new investments, disposition-related reductions of a cost-basis investment if a privately-held company within the portfolio is acquired by another company, fair market value adjustments or initial public offerings. The cash inflows from exits and cash outflows from new investments are disclosed as Strategic investments, net, within the investing activities section of the Statement of Cash Flows and any gains or losses or fair market value adjustments are recorded within the operating activities of the Statement of Cash Flows for each of the respective fiscal quarter periods.

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3. Property and Equipment

Property and Equipment

Property and equipment, net consisted of the following (in thousands):

	As of	
	October 31, 2016	January 31, 2016
Land	\$183,888	\$183,888
Buildings and building improvements	619,419	614,081
Computers, equipment and software	1,390,751	1,281,766
Furniture and fixtures	101,558	82,242
Leasehold improvements	586,040	473,688
	2,881,656	2,635,665
Less accumulated depreciation and amortization	(1,124,983)	(919,837)
	\$1,756,673	\$1,715,828