

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **January 31, 2022**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from _____ to _____

Commission File Number **001-35680**

WORKDAY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-2480422
(I.R.S. Employer
Identification No.)

6110 Stoneridge Mall Road
Pleasanton, California 94588
(Address of principal executive offices, including zip code)

(925) 951-9000
(Registrant's telephone number, including area code)

| Title of each class | Securities registered pursuant to Section 12(b) of the Act: Trading Symbol(s) | Name of each exchange on which registered |
|---|--|--|
| Class A Common Stock, par value \$0.001 | WDAY | The Nasdaq Stock Market LLC (Nasdaq Global Select Market) |

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933 ("Securities Act"). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 ("Exchange Act"). Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of 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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting stock of the registrant as of July 31, 2021 (based on a closing price of \$234.40 per share) held by non-affiliates was approximately \$44.7 billion. As of February 24, 2022, there were approximately 196 million shares of the registrant's Class A common stock, net of treasury stock, and 55 million shares of the registrant's Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2022 Annual Meeting of Stockholders ("Proxy Statement"), to be filed within 120 days of the registrant's fiscal year ended January 31, 2022, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, which are subject to safe harbor protection under the Private Securities Litigation Reform Act of 1995. All statements contained in this report other than statements of historical fact, including statements regarding our future operating results and financial position, business strategy and plans, and objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “seek,” “plan,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations, beliefs, and projections about future events, conditions, and trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, assumptions, and changes in circumstances that are difficult to predict and many of which are outside of our control, including those arising from the impact of the coronavirus pandemic (“COVID-19 pandemic”), as well as those described in the “Risk Factors” section, which we encourage you to read carefully. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make.

In light of these risks, uncertainties, assumptions, and potential changes in circumstances, the future events, conditions, and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied by the forward-looking statements. Accordingly, you should not rely upon any forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activities, performance, or achievements. We are under no duty to update any of these forward-looking statements after the date of this report or to conform these statements to actual results or revised expectations, except as required by applicable law. If we do update any forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

As used in this report, the terms “Workday,” “registrant,” “we,” “us,” and “our” mean Workday, Inc. and its subsidiaries unless the context indicates otherwise.

Our fiscal year ends on January 31. References to fiscal 2022, for example, refer to the year ended January 31, 2022.

ITEM 1. BUSINESS

Overview

Workday is a leading provider of enterprise cloud applications for finance and human resources, helping customers adapt and thrive in a changing world. Workday provides more than 9,500 organizations with software-as-a-service solutions to help solve some of today’s most complex business challenges, including supporting and empowering their workforce, managing their finances and spend in an ever-changing environment, and planning for the unexpected.

Our purpose is to inspire a brighter work day for all. We strive to make the world of work and business better, and hope to empower customers to do the same through an innovative suite of solutions adopted by thousands of organizations around the world and across industries – from medium-sized businesses to more than 50% of the *Fortune* 500. Central to our purpose is a set of core values – with our employees as number one – followed by customer service, innovation, integrity, fun, and profitability. We believe that having happy employees leads to happy customers, and we are committed to helping our customers drive their digital transformations in this increasingly dynamic business environment.

As organizations adapt to changing conditions, we believe the need for an intuitive, scalable, and secure platform that ties finance, people, suppliers, and plans together in one version of truth is more important than ever. Workday provides organizations with a unified system that can help them plan, execute, analyze, and extend to other applications and environments, thereby helping them continuously adapt how they manage their business and operations. To support this, Workday delivers weekly product updates in addition to major feature releases twice a year. Through this model, Workday customers are able to stay current as one Workday community all on the same version of software that features a unified data and security model and rich user experience. We sell our solutions worldwide primarily through direct sales. We also offer professional services, both directly and through our Workday Services Partners, to help customers deploy our solutions and continually adopt new capabilities.

To grow our unified suite of Workday applications, we primarily invest in research and development, but we also selectively acquire companies that are consistent with our design principles, existing product set, corporate strategy, and company culture. For example, in fiscal 2022, we acquired Peakon ApS (“Peakon”), a continuous listening platform that captures real-time employee sentiment; Zimit, a configure, price, quote (“CPQ”) solution built for services industries; and VNDLY, a cloud-based external workforce and vendor management technology; and in fiscal 2020, we acquired Scout RFP (“Scout”), a strategic sourcing company.

Our Capabilities

Workday’s suite of enterprise cloud applications addresses the evolving needs of the chief financial officer (“CFO”), chief human resources officer (“CHRO”), and chief information officer (“CIO”) across various industries. Workday applications for Financial Management, Spend Management, Human Capital Management (“HCM”), Planning, and Analytics and Benchmarking can also be extended to other applications and environments through the Workday Cloud Platform.

Financial Management: Solutions for the Office of the CFO

In the changing world of finance, Workday helps finance leaders accelerate their journeys towards becoming a truly digital finance operation by giving them the tools they need to manage the strategic direction of their organizations while also supporting growth, profitability, and compliance and regulatory requirements. Workday’s suite of financial management applications helps enable CFOs to maintain accounting information in the general ledger; manage core financial processes such as payables and receivables; identify real-time financial, operational, and management insights; improve financial consolidation; reduce time-to-close; promote internal control and auditability; and achieve consistency across global finance operations.

Spend Management: Solutions for the Office of the CFO

As businesses adapt to changing conditions, Workday provides procurement professionals with tools to support them through the source-to-contract process, such as a user experience designed for ease and collaboration. Workday offers a set of cloud spend management solutions that help organizations streamline supplier selection and contracts, manage indirect spend, and build and execute sourcing events, such as requests for proposals.

Human Capital Management: Solutions for the Office of the CHRO

In the changing world of human resources (“HR”), Workday helps organizations identify and respond to rapidly changing conditions, whether they stem from shifting talent needs or a renewed focus on belonging and diversity. Workday’s suite of HCM applications allows organizations to manage the entire employee lifecycle – from recruitment to retirement – enabling HR teams to hire, onboard, pay, develop and reskill, and provide meaningful employee experiences that are personalized and helpful, based on listening to the diverse needs of today’s workforce.

Planning: Solutions for the Offices of the CFO and CHRO

In today’s dynamic business environment, businesses are continuously planning to model various scenarios and prepare to quickly respond to change. Workday provides an active planning process that can model across finance, workforce, sales, and operational data, helping organizations make more informed decisions and respond quickly to changing situations. When combined with Workday’s financial management and HCM solutions, organizations are able to leverage real-time transactional data to dynamically adjust and recalibrate their plans.

Analytics and Benchmarking and Workday Cloud Platform: Solutions for the Offices of the CIO, CFO, and CHRO

In the changing world of work, Workday helps leaders make sense of the vast amount of data they collect enterprise-wide. For example, information technology (“IT”) leaders are navigating the complexities of supporting employees in new environments, which requires them to deploy an adaptable, secure architecture to help ensure global continuity and productivity while remaining agile. Workday provides applications for analytics and reporting, including augmented analytics to surface insights to the line of business in simple-to-understand stories, machine learning to drive efficiency and automation, and benchmarks to compare performance against other organizations. In addition, Workday enables the development of extension applications and integration tooling that can accommodate our customers’ unique ways of doing business.

Industries: Solutions for the Offices of the CIO, CFO, and CHRO

Workday offers businesses flexible solutions to help them adapt to their industry-specific needs and respond to change. Workday's applications serve industries such as healthcare, higher education, and professional services. For example, Workday provides supply chain and inventory solutions to healthcare organizations, allowing them to purchase, stock, track, and replenish their inventory to help support patient care. In addition, higher education institutions can deploy our solution to manage the end-to-end student and faculty lifecycle. Moreover, with our solution, professional services organizations can optimize and manage their client-facing projects.

Product Development

At Workday, innovation is a core value. Our culture encourages out-of-the-box thinking and creativity, which enables us to create applications designed to change the way people work. We invest a significant percentage of our resources in product development and are committed to rapidly building and/or acquiring new applications and solutions. Our product development organization is responsible for product design, development, testing, and certification. We focus our efforts on developing new applications and core technologies, as well as further enhancing the usability, functionality, reliability, security, performance, and flexibility of existing applications.

Human Capital

Workday was founded with the idea of putting people at the center of enterprise software, which is why employees are our number one core value. Our core values continue to serve as our guide as we navigate recent events, such as the global pandemic and the social justice movement.

As of January 31, 2022, our global workforce consisted of approximately 15,200 employees in 32 countries. We consider our relations with our employees to be very good. Our Chief People Officer, in partnership with our Chief Diversity Officer, is responsible for developing and executing Workday's human capital strategy, including programs focused on total rewards; belonging and diversity; and employee development, engagement, and wellbeing. Our Chief People Officer and Co-CEOs regularly update our Board of Directors and Compensation Committee on human capital matters and seek their input on subjects such as succession planning, executive compensation, and our company-wide equity programs.

Total Rewards

Our compensation philosophy is designed to establish and maintain a fair and flexible compensation program that attracts and rewards talented individuals who possess the skills necessary to support our near-term objectives, create long-term value for our stockholders, grow our business, and assist in the achievement of our strategic goals. We believe that providing employees with competitive pay, ownership in the company, and a wide range of benefits is fundamental to employees feeling valued, motivated, and recognized for their contributions. Equity ownership is a key element of our compensation program, allowing employees to share in Workday's successes and aligning the interests of our employees with our stockholders. Starting in the fourth quarter of fiscal 2022, we have extended our key employee cash bonus program to all employees not covered under an existing sales or customer experience incentive plan. Additionally, our total rewards package includes an employee stock purchase plan, healthcare and retirement benefits, paid time off, family leave, and other wellness programs. It also offers specialized benefits such as support for fertility options and new parents, as well as reimbursement of adoption costs. In the wake of the COVID-19 pandemic, we felt that it was important for employees to have a safe, convenient way to access healthcare and have introduced a global virtual healthcare network and onsite healthcare resources, including COVID-19 vaccine and testing drive-thru clinics and flu shot clinics, in addition to expanded healthcare benefits.

Our Commitment to Pay Parity

We believe that all employees deserve to be paid fairly and equitably and be afforded an equal chance to succeed. We have a market-based pay structure that compares our roles to those of our peers in each region. This process helps ensure we pay according to the market value of the jobs we offer. We also have processes in place to make pay decisions based on internally consistent and fair criteria. Each year, we conduct a company-wide pay equity analysis to help ensure pay equity between men and women as well as a US-based analysis with respect to people of different races. If we identify differences in pay, we research those differences and, if appropriate, take action (including making adjustments to employees' pay when appropriate).

Belonging and Diversity

We strive to be a workplace where all employees are valued for their unique perspectives and where we all collectively contribute to Workday's success and innovation. Belonging and Diversity ("B&D") plays an integral part in that as we aim to provide our employees with programs and resources that strengthen our culture and empower our communities. In support of our efforts, we have created our own unique approach to diversity called VIBE, which stands for Value Inclusion, Belonging, and Equity for all.

To further support equity in our workplace and in our communities, we have established four guiding principles: hiring and developing diverse talent; cultivating a culture of belonging; strengthening our communities; and building inclusive products and technology. We have made solid progress towards our ongoing company commitments that map to these global guiding principles. To track progress and plan for the future, we use internally-developed products to bring diversity- and inclusion-related data into one centralized location and set our B&D strategy. Through these products, we can assess, measure, benchmark, and manage diversity and inclusion as well as empower our leaders to create B&D plans and measure performance and outcomes across areas such as hiring, development, and employee experience. Looking at our diversity data, we continue to make strides in our representation. As of January 31, 2022, women represented 41.2% of our global employees, and underrepresented minorities (defined as those who identify as Alaskan native, American Indian, Black, Latinx, Native Hawaiian, Other Pacific Islander, and/or two or more races) represent 13.7% of our U.S. employees.

Learning and Development

Our employees tell us they are most engaged when they are continuously being exposed to new things, empowered to build new skills, and able to make an impact. We offer a number of educational resources, development opportunities, and a support community to guide employees throughout their Workday careers, which we refer to as journeys. These begin right from the moment employees start at Workday, with Learning at Workday, journeys designed to help new employees onboard and get acquainted with our culture, business, and technology. These are complimented by Career Building at Workday, journeys designed to deepen expertise, grow capabilities, and make meaningful connections; Leading at Workday, journeys that help employees understand our leadership identity and prepare them to take on increasing leadership responsibilities; and The VIBE Way at Workday, journeys designed to equip and empower all employees with the tools and resources to incorporate VIBE into everything we do - from the language we use every day, to how we approach our work and each other, to the way we recruit and hire diverse talent at Workday.

Communication and Engagement

Our culture and how we treat people are paramount at Workday, and we believe that being transparent and facilitating information sharing are key to our success. Workday leverages multiple communication channels to engage and inform employees, including company meetings, town halls, internal websites, and social collaboration tools. We also use Workday Peakon Employee Voice to collect feedback in real time from our employees and turn that feedback into dialog and action. We receive data points from these surveys that help us identify actions to take to improve our company and our culture.

Buoyed by the opportunities offered by our own technology, our talent strategy philosophy puts employees at the center of their own career and performance journey. A fundamental tenet of this approach is the belief that we should provide employees with the tools and framework to enable their careers, putting them in the driver's seat. Our talent philosophy is centered on five factors that fuel employee success: enable contribution, grow capabilities, empower career, deepen connections, and align compensation and recognition.

Our talent and performance dashboard includes a summary of an employee's five factors and provides a snapshot view of performance-related tasks, with a visual summary of goals, feedback, and growth opportunities. Employees can take action to update their contributions, capabilities, career, and connections using the quick links provided in the dashboard.

Health, Safety, and Wellbeing

At Workday, we take a holistic approach to our employees' wellbeing and have created wellbeing programs that focus on four core pillars: happiness, health, movement, and nutrition. These programs go beyond traditional medical benefits and wellness offerings and allow employees to focus on their chosen wellness goals as well as their mental health.

Specific to the COVID-19 pandemic, we continue to take precautions to help support the health and safety of the Workday community, including our employees. As part of our support in fiscal 2022, we announced that the majority of employees will not be required to return to their Workday office before April 2022, introduced flexible work options, enhanced the healthcare resources provided to our employees, and offered new employees a \$500 equipment stipend to enable them to have a comfortable work-from-home environment. To help keep health and mental wellness top of mind, we offer a series of programs and communications focused on mental health. These included tools and resources related to sleep, healthy eating, and mindfulness, as well as enhancements to our Employee Assistance Program to, among other things, facilitate access to mental health services.

Our Global Workplace Safety team supports the traditional corporate areas of employee health and safety and physical security for Workday on a global scale. From the workplace to work-related travel, we strive to keep our employees safe with programs including safety awareness training, emergency response protocols, and our ergonomics and life safety team programs.

Giving and Doing

We believe that talent is everywhere, but opportunity is not. In support of our efforts to give back to the communities where we live and work, our employees donate time and expertise as mentors and volunteers to help close the skills gap. We also invest in leading workforce development organizations and provide direct training and employment opportunities for candidates facing barriers to employment through our Opportunity Onramps programs. On top of our strategic, company-led social impact and employee volunteerism efforts, we also believe that giving back is even more rewarding when people get to make an impact through their favorite causes. We encourage and support employee giving and volunteering through programs such as our charitable donation matching gift program, our paid time off benefit for employees to volunteer and give back to their communities, and our team volunteer experience, where employee teams of five or more can volunteer with a charity partner of their choice and receive a \$5,000 grant.

Customers

We primarily sell to medium-sized and large, global organizations that span numerous industry categories, including professional and business services, financial services, healthcare, education, government, technology, media, retail, and hospitality.

We have built a company culture centered around customer success and satisfaction. As part of their subscription, customers are provided support services and tools to enhance their experience with Workday applications. This includes 24/7 support; training; a Customer Success Management group to assist customers in production; and Workday Community, an online portal where customers can collaborate and share knowledge and best practices. Additionally, we offer extensive customer training opportunities and a professional services ecosystem of experienced Workday consultants and system integrators to help customers not only achieve a timely adoption of Workday but continue to get value out of our applications over the life of their subscription.

Sales and Marketing

We sell our subscription contracts and related services globally, primarily through our direct sales organization, which consists of field sales and field sales support personnel. The Workday Field Sales team is aligned by geography, industry, and/or prospect size. We generate customer leads, accelerate sales opportunities, and build brand awareness through our marketing programs and strategic relationships. Our marketing programs target senior business leaders, including CFOs, CHROs, and CIOs.

As a core part of our sales and marketing strategy, we have developed a global ecosystem of partners to both broaden and complement our application offerings and to provide services that are outside of our area of focus. These relationships include software and technology partners, consulting and deployment service providers, business process outsourcing partners, and software partners of Workday Ventures, our strategic investment arm, who all help enable Workday to address the challenges our customers face while focusing on executing against our strategy.

Seasonality

We have experienced seasonality in terms of when we enter into customer agreements for our services. Historically, we have signed a significantly higher percentage of agreements with new customers, as well as renewal agreements with existing customers, in the fourth quarter of each fiscal year due to large enterprise account buying patterns. Although these seasonal factors are common in the technology industry, historical patterns should not be considered a reliable indicator of our future sales activity or performance.

Competition

The overall market for enterprise application software is rapidly evolving, highly competitive, and subject to changing technology, shifting customer needs, and frequent introductions of new products. We currently compete with large, well-established, enterprise application software vendors, such as Oracle Corporation (“Oracle”) and SAP SE (“SAP”). We also face competition from other enterprise software vendors, from regional competitors that only operate in certain geographic markets, and from vendors of specific applications that address only one or a portion of our applications, some of which offer cloud-based solutions. These vendors include UKG Inc. (formerly The Ultimate Software Group, Inc.); Automatic Data Processing, Inc.; Infor, Inc.; Ceridian HCM Holding Inc.; Microsoft Corporation; Anaplan, Inc.; and Coupa Software Inc.

In addition, other cloud companies that provide services in different markets may develop applications or acquire companies that operate in our target markets, and some potential customers may elect to develop their own internal applications. However, the domain and industry expertise that is required for a successful solution in the areas of financial management, HCM, and analytics may inhibit new entrants that are unable to invest the necessary capital to accurately address global requirements and regulations. We expect continued consolidation in our industry that could lead to significantly increased competition.

We believe the principal competitive factors in our markets include:

- level of customer satisfaction and quality of customer references;
- speed to deploy and ease of use;
- breadth and depth of application functionality;
- total cost of ownership;
- brand awareness and reputation;
- adaptive technology platform;
- capability for configuration, integration, security, scalability, and reliability of applications;
- operational excellence to ensure system availability, scalability, and performance;
- ability to innovate and rapidly respond to customer needs;
- domain and industry expertise in applicable laws and regulations;
- size of customer base and level of user adoption;
- customer confidence in financial stability and future viability; and
- ability to integrate with legacy enterprise infrastructure and third-party applications.

We believe that we compete favorably based on these factors. Our ability to remain competitive will largely depend on our ongoing performance in product development and customer support.

For more information regarding the competitive risks we face, see “Risk Factors” included in Part I, Item 1A of this report.

Intellectual Property

We rely on a combination of trade secrets, patents, copyrights, and trademarks, as well as contractual protections, to establish and protect our intellectual property rights. We require our employees, contractors, consultants, suppliers, and other third parties to enter into confidentiality and proprietary rights agreements, and we control access to software, documentation, and other proprietary information. Although we rely on intellectual property rights, including trade secrets, patents, copyrights, and trademarks, as well as contractual protections and controls to establish and protect our proprietary rights, we believe that factors such as the technological and creative skills of our personnel; creation of new products, features and functionality; and frequent enhancements to our applications are more essential to establishing and maintaining our technology leadership position.

Governmental Regulation

As a public company with global operations, we are subject to various federal, state, local, and foreign laws and regulations. These laws and regulations, which may differ among jurisdictions, include, among others, those related to financial and other disclosures, accounting standards, privacy and data protection, intellectual property, corporate governance, tax, government contracting, trade, antitrust, employment, immigration and travel, import/export, and anti-corruption. There is no assurance that existing or future laws and regulations applicable to our operations, products, and services will not have a material adverse effect on our business. Presently, costs and accruals incurred to comply with these governmental regulations are not material to our financial condition or operating results.

Privacy and Data Protection Laws

Our customers can use our applications to collect, use, and store personal data regarding a variety of individuals in connection with their operations, including but not limited to their employees, contractors, students, job applicants, customers, and suppliers. National, state, and local governments and agencies in the countries in which we or our customers operate have adopted, are considering adopting, or may adopt laws and regulations regarding the collection, use, storage, transfer, processing, protection, and disclosure of personal data. Additionally, we may need to develop features, enhancements, or modifications to our products to help our customers comply with the privacy and data protection laws in their jurisdictions. The costs of compliance with and other burdens imposed by such laws, regulations, and standards, or any alleged or actual violation, may limit the use and adoption of our services, reduce overall demand for our services, lead to significant fines, penalties, or liabilities for noncompliance, slow the pace at which we close sales transactions, require us to divert development and other resources, or result in reputational harm or other adverse impacts to our business. Moreover, if we or our sub-processors fail to report a data breach or other loss of data within timeframes mandated by law, we may be liable for certain fines, penalties, and other liabilities, and it may damage our reputation and brand.

For a further discussion of the risks associated with government regulations that may materially impact us, see “Risk Factors” included in Part I, Item 1A of this report.

Corporate Information

We were incorporated in March 2005 in Nevada, and in June 2012, we reincorporated in Delaware. Our principal executive offices are located at 6110 Stoneridge Mall Road, Pleasanton, California 94588, and our telephone number is (877) WORKDAY. Our website address is www.workday.com. The information on, or that can be accessed through, our website is not part of this report. Workday, the Workday logo, VIBE, Peakon, Zimit, VNDLY, Scout, and Opportunity Onramps are trademarks of Workday, Inc., which may be registered in the United States and elsewhere. Other trademarks, service marks, or trade names appearing in this report are the property of their respective owners.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the Securities and Exchange Commission (“SEC”), and all amendments to these filings, can be obtained free of charge from our website at www.workday.com/sec-filings. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. Workday also uses its blogs.workday.com website as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD. Information contained on or accessible through any website reference herein is not part of, or incorporated by reference in, this Form 10-K, and the inclusion of such website addresses is as inactive textual references only.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this report, including the consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K, before making an investment decision. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that materially and adversely affect our business. If any of the following risks actually occurs, our business operations, financial condition, operating results, and prospects could be materially and adversely affected. The market price of our securities could decline due to the materialization of these or any other risks, and you could lose part or all of your investment.

Summary of Risk Factors

The below summary risks provide an overview of the material risks we are exposed to in the normal course of our business activities. The below summary risks do not contain all of the information that may be important to you, and you should read these together with the more detailed discussion of risks set forth following this section, as well as elsewhere in this Annual Report on Form 10-K under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional risks beyond those summarized below, or discussed elsewhere in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may apply to our activities or operations as currently conducted or as we may conduct them in the future, or to the markets in which we currently operate or may in the future operate. Consistent with the foregoing, we are exposed to a variety of risks, including those associated with the following:

- the ongoing COVID-19 pandemic, the resulting global economic volatility, and measures taken in response to the pandemic may materially and adversely affect our business, financial condition, operating results, and earnings guidance that we may issue from time to time;
- if our security measures or the security measures of our service partners are breached or unauthorized access to customer or user data is otherwise obtained, our applications may be perceived as not being secure, customers and end users may reduce the use of or stop using our applications, and we may incur significant liabilities;
- if we fail to properly manage our technical operations infrastructure, including our data centers and computing infrastructure operated by third parties, experience service outages or delays in the deployment of our applications, or our applications fail to perform properly, we may be subject to liabilities and our reputation and operating results may be adversely affected;
- privacy concerns and evolving domestic or foreign laws and regulations may reduce the adoption of our applications, result in significant costs and compliance challenges, and adversely affect our business and operating results;
- we may lose key employees or be unable to attract, train, and retain highly skilled employees, which may adversely affect our business and future growth prospects;
- the markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results could be adversely affected;
- our quarterly results may fluctuate significantly as a result of a variety of factors, many of which are outside of our control, and such fluctuations and related impacts to any earnings guidance we may issue from time to time, or any modification or withdrawal thereof, may negatively impact the value of our securities;
- our brand promotion activities may not generate the customer awareness or increased revenues we anticipate, and even if they do, any increase in revenues may not offset the significant expenses we incur in building our brand;
- if we are not able to realize a return on our current development efforts or offer new features, enhancements, and modifications to our products and services, our business and operating results could be adversely affected; additionally, if we are not able to realize a return on the investments we have made toward entering new markets and new lines of business, including as a result of unfavorable laws, regulations, interpretive positions, or standards governing new and evolving technologies we incorporate into our products and services, our business and operating results could be adversely affected;
- if we are unable to establish or maintain our strategic relationships with third parties, or fail to successfully integrate our applications with a variety of third-party technologies, our ability to compete or grow our revenues may be impaired and our operating results may suffer;
- we have acquired, and may in the future acquire, other companies, employee teams, or technologies, which could divert our management’s attention, result in additional dilution to our stockholders, and otherwise disrupt our operations and adversely affect our operating results;
- if we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and operational controls, or adequately address competitive challenges;

- if we cannot maintain our corporate culture, we may lose the innovation, teamwork, and passion that we believe contribute to our success, and our business may be harmed;
- because we encounter long sales cycles when selling to large customers and we recognize subscription services revenues over the term of the contract, downturns or upturns in new sales will not be immediately reflected in our operating results and it may be difficult to predict a negative impact on our operating and financial results; additionally, our ability to predict the rate of customer subscription renewals or adoptions is limited;
- our business could be adversely affected if our users are not satisfied with the deployment, training, and support services provided by us and our partners, and such dissatisfaction could damage our ability to expand the applications subscribed to by our current customers and negatively impact our ability to compete for new business;
- sales to customers outside the United States or with international operations expose us to risks inherent in global operations;
- we have a history of cumulative losses and we may not achieve or sustain profitability on a basis prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) in the future;
- any failure to protect our intellectual property rights domestically and internationally could impair our ability to protect our proprietary technology and our brand; additionally, we may be sued by third parties for alleged infringement of their proprietary rights or in connection with our use of open source software;
- risks related to government contracts and related procurement regulations, including risks of fines and termination of such contracts by the government at any time, may adversely impact our business and operating results;
- adverse litigation results could have a material adverse impact on our business;
- the dual class structure of our common stock has the effect of concentrating voting control with our Co-Founders, as well as with other executive officers, directors, and affiliates, which gives our Co-Founders and other members of management control over key decisions and limits or precludes the ability of non-affiliates to influence corporate matters;
- our substantial indebtedness may adversely affect our financial condition and operating results;
- our convertible note hedge and warrant transactions may adversely affect the value of our Class A common stock;
- Delaware law and provisions in our restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer, or proxy contest sought by third parties difficult, thereby depressing the market price of our Class A common stock; and
- the exclusive forum provision in our organizational documents may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits with respect to such claims.

Risks Related to Our Business and Industry

The extent to which the ongoing COVID-19 pandemic, the resulting global economic volatility, and measures taken in response to the pandemic will continue to impact our business, financial condition, and operating results will depend on future developments, which are highly uncertain and difficult to predict.

The COVID-19 pandemic has disrupted the U.S. and global economies and put unprecedented strain on governments, healthcare systems, educational institutions, businesses, and individuals around the world, the impact and duration of which is difficult to assess or predict. It is especially difficult to predict the impact on the global economic markets, which have been and will continue to be highly dependent upon the actions of governments, businesses, and other enterprises in response to the pandemic, the effectiveness of those actions, and vaccine availability, distribution, and adoption. As a result of the COVID-19 pandemic, we have experienced volatility in the trading prices for our Class A common stock, and such volatility may continue beyond the COVID-19 pandemic. Any sustained adverse impacts from the continued spread of COVID-19 could materially and adversely affect our business, financial condition, operating results, and earnings guidance that we may issue from time to time, which could have a material effect on the value of our Class A common stock.

In response to COVID-19, as many other companies have done, we temporarily closed the majority of our global offices; required most of our employees to work remotely; implemented travel restrictions; and postponed or canceled certain of our customer, industry, implementation partner, analyst, investor, and employee events, and converted other events to virtual-only experiences. As the pandemic persists, these measures could have increasingly negative effects on our employee productivity and morale, sales and marketing efforts, customer success efforts, and revenue growth rates or other financial metrics, or create operational or other challenges, any of which could adversely impact our business, financial condition, and operating results in any given period.

Starting in the second quarter of fiscal 2022, a limited number of employees returned to our offices in certain locations, taking into consideration government restrictions, employee safety, and health risks. Our approach may vary among geographies depending on appropriate health protocols, and may change at any time. Additionally, our efforts to reopen our offices safely may not be successful, could expose our employees to health risks, and could involve additional costs or liability. While vaccines have become widely available in certain countries, and businesses and economies have reopened, the status of global economic recovery remains uncertain and unpredictable, and will continue to be impacted by developments in the pandemic including any subsequent waves of outbreak or new variant strains of the COVID-19 virus which may require re-closures or other preventative measures. We may also continue to experience impacts to productivity and other operational and business impacts if our employees, executives, or their family members experience health issues, or if there are continued delays in our hiring and onboarding of new employees. The COVID-19 pandemic may also have long-term effects on the nature of the office environment and remote working, which may present risks for our real estate portfolio, as well as strategy, operational, talent recruiting and retention, and workplace culture challenges that may adversely affect our business. The COVID-19 pandemic could also impact our data center and computing infrastructure operations, including potential disruptions to, among other things, the supply chain required to maintain these systems, construction projects designed to expand our data center capacity, and primary vendors who provide critical products and services.

Our future revenues rely on continued demand by existing customers and the acquisition of new customers who may be subject to labor shortages and global supply chain disruptions due to the COVID-19 pandemic. During the COVID-19 pandemic, we experienced delays in purchasing decisions from prospective customers and a reduction in customer demand, particularly in the industries most impacted by the COVID-19 pandemic, such as travel and hospitality. Similarly, we experienced a reduction in renewal rates, particularly within our subset of small and medium-sized planning customers, as well as reduced customer spend and delayed payments. If these conditions were to return, whether as a result of a resurgence of COVID-19 or otherwise, our business, financial condition, and operating results could be negatively impacted in future periods. While our subscription services revenues are relatively predictable in the near term as a result of our subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our operating results and overall financial performance until future periods.

As a federal contractor, we are subject to the U.S. Government's Safer Federal Workforce Task Force's guidelines on vaccination requirements for our employees (the "Federal Contractor Mandate"), which is currently on a nationwide stay by trial courts. We anticipate that if the Federal Contractor Mandate goes into effect, or if similar regulations are subsequently implemented, we would be required to comply. In addition to any federal vaccine mandates, it is possible that additional, more protective vaccine mandates may be announced by state or local jurisdictions that could impact our workforce and operations. Although we cannot predict with certainty the impact that the Federal Contractor Mandate or any other similar or related measures will have on our workforce and operations, these requirements and any future requirements may result in attrition and impede our ability to recruit and retain our workforce. Additionally, our implementation of these vaccine mandates may impact our ability to maintain satisfactory arrangements with third-party vendors and service providers, to the extent they are subject to the mandates. These measures may also result in increased labor costs and further disrupt the national supply chain, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

It is not possible for us to estimate the duration or magnitude of the adverse results of the COVID-19 pandemic and its effects on our business, financial condition, or operating results at this time, as the impact will depend on future developments, which are highly uncertain and difficult to predict. To the extent the COVID-19 pandemic adversely affects our business, financial condition, and operating results, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

If we fail to properly manage our technical operations infrastructure, experience service outages, undergo delays in the deployment of our applications, or our applications fail to perform properly, we may be subject to liabilities and our reputation and operating results may be adversely affected.

We have experienced significant growth in the number of users, transactions, and data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our operations infrastructure to meet the needs of all of our customers and users, as well as our own needs, and to ensure that our services and solutions are accessible within an acceptable load time. We also seek to maintain excess capacity to facilitate the rapid provision of new customer deployments and the expansion of existing customer deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters, updates, and the evolution of our applications, and to reduce infrastructure latency associated with dispersed geographic locations. However, the provision of new hosting infrastructure requires significant lead time. If we do not accurately predict our infrastructure requirements, we may experience service outages. Furthermore, if our operations infrastructure fails to scale, we may experience delays in providing service as we seek to obtain additional capacity, and no assurance can be made that we will be able to secure such additional capacity on the same or similar terms as we currently have, which could result in a significant increase in our operating costs. Moreover, any failure to scale and secure additional capacity could result in delays in new feature rollouts, reduce the demand for our applications, result in customer and end user dissatisfaction, and adversely affect our business and operating results.

We have experienced, and may in the future experience, defects, system disruptions, outages, and other performance problems, including the failure of our applications to perform properly. These problems may be caused by a variety of factors, including infrastructure changes, vendor issues, software and system defects, human error, viruses, worms, security attacks (internal and external), fraud, spikes in customer usage, and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. Because of the large amount of data that we collect and process in our systems, even if we do not experience a customer outage as a result of these issues, it is possible that these issues could result in significant disruption, data loss or corruption, or cause the data to be incomplete or contain inaccuracies that our customers and other users regard as significant. Additionally, such issues may also result in vulnerabilities that could inadvertently result in unauthorized access to data. Furthermore, the availability or performance of our applications could also be adversely affected by our customers' and other users' inability to access the internet. For example, our customers and other users access our applications through their internet service providers. If a service provider fails to provide sufficient capacity to support our applications or otherwise experiences service outages, such failure could interrupt our customers' and other users' access to our applications, which could adversely affect their perception of our applications' reliability and our revenues. In addition, certain countries have implemented or may implement legislative and technological actions that either do or can effectively regulate access to the internet, including the ability of internet service providers to limit access to specific websites or content. Other countries have attempted or are attempting to change or limit the legal protections available to businesses that depend on the internet for the delivery of their services.

Our customer agreements typically provide for monthly service level commitments. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our applications as a result of the foregoing or otherwise, we may be contractually obligated to issue service credits or refunds to customers for prepaid and unused subscription services, our customers may make warranty or other claims against us, or we could face contract terminations, which would adversely affect our attrition rates. Any extended service outages could result in customer losses and adversely affect our reputation, business, and operating results.

Furthermore, our financial management application is essential to our and our customers' financial planning, reporting, and compliance programs. Any interruption in our service may affect the availability, accuracy, or timeliness of such programs and as a result could damage our reputation, cause our customers to terminate their use of our applications, require us to issue refunds for prepaid and unused subscription services, require us to compensate our customers for certain losses, and prevent us from gaining additional business from current or future customers. In addition, because we use Workday's financial management application, any problems that we experience with financial reporting and compliance could be negatively perceived by prospective or current customers and negatively impact demand for our applications.

Our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all, to protect against claims and other legal actions. In addition, our policy may not cover all claims made against us and defending a suit, regardless of its merit, could be costly and divert management's attention.

We depend on data centers and computing infrastructure operated by third parties, and any disruption in these operations could adversely affect our business and operating results.

We host our applications and serve our customers from data centers located in the United States, Canada, and Europe. While we control and have access to our servers and all of the components of our network that are located in these data centers, we do not control certain aspects of these facilities, including their operation and security. The owners of these data center facilities have limited or no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if any of these data center operators are acquired, cease to do business, or stop providing contracted services, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and experience possible service interruptions in connection with doing so.

In addition, we rely upon third-party hosted infrastructure partners globally, including Amazon Web Services (“AWS”), Google LLC, and Microsoft Corporation, to serve customers and operate certain aspects of our services. Any disruption of or interference at our hosted infrastructure partners would impact our operations and our business could be adversely impacted.

Problems faced by these data center operators or hosted infrastructure partners, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our customers or other users. In addition, any financial difficulties, such as bankruptcy, faced by these data center operators, our hosted infrastructure partners, or any of the other service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. These facilities may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, natural catastrophic events, as well as local administrative actions (including shelter-in-place or similar orders), changes to legal or permitting requirements, and litigation to stop, limit or delay operation.

Additionally, if these data center operators or hosted infrastructure partners are unable to keep up with our needs for capacity, this could have an adverse effect on our business. Any changes in third-party service levels at these data centers or at our hosted infrastructure partners, or any errors, defects, disruptions, or other performance problems with our applications or the infrastructure on which they run, including those related to cybersecurity threats or attacks, could adversely affect our reputation and may damage our customers’ or other users’ stored files or result in lengthy interruptions in our services. Interruptions in our services might adversely affect our reputation and operating results, cause us to issue refunds or service credits to customers for prepaid and unused subscription services, subject us to potential liabilities, result in contract terminations, or adversely affect our renewal rates.

We may lose key employees or be unable to attract, train, and retain highly skilled employees.

Our success and future growth depend largely upon the continued services of our executive officers, other members of senior management, and other key employees. We do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period, and they could terminate their employment with us at any time. From time to time, there may be changes in our executive management team and to other key employee roles resulting from organizational changes or the hiring or departure of executives or other employees, which could have a serious adverse effect on our business and operating results. Moreover, if key personnel become ill due to the ongoing COVID-19 pandemic, we may not be able to manage our business effectively and, as a result, our business and operating results could be harmed.

To execute our growth plan, we must attract, train, and retain highly qualified personnel. During this period of the “great resignation,” we have faced and may continue to face higher attrition. Our ability to compete and succeed in a highly competitive environment is directly correlated to our ability to recruit highly skilled employees, especially in the areas of product development, engineers with significant experience in designing and developing software and internet-related services, including in the areas of machine learning and artificial intelligence; for cybersecurity professionals; and for senior sales executives. The market for skilled personnel in the software industry is very competitive, and we have seen these pressures increase significantly through the COVID-19 pandemic. As we are headquartered in the San Francisco Bay Area, we face intense competition among large and small firms in the Silicon Valley market. In addition, the expansion of our sales infrastructure, both domestically and internationally, is necessary to grow our customer base and business. Identifying and recruiting qualified personnel and training them in our sales methodology, our sales systems, and the use of our software requires significant time, expense, and attention. Our business may be adversely affected if our efforts to attract and train new members of our direct sales force do not generate a corresponding increase in revenues. We have experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications, and we may not be able to fill positions in desired geographic areas or at all and may not be successful in achieving the workforce growth goals on the timeline we have publicly announced or at all.

Many of the companies with which we compete for experienced personnel have greater resources than we have and may offer more lucrative compensation packages than we offer. Our business may be adversely affected if we are unable to retain our highly skilled employees, especially our senior sales executives. Job candidates and existing employees carefully consider the value of the equity awards they receive in connection with their employment. If the perceived or actual value of our equity awards declines, or if the mix of equity and cash compensation that we offer is not sufficiently attractive, it may adversely affect our ability to recruit and retain highly skilled employees. Our recruiting efforts may also be limited by laws and regulations, such as restrictive immigration laws, and restrictions on travel or availability of visas (including during the ongoing COVID-19 pandemic). The challenges we face in recruiting and hiring qualified personnel may be compounded by a decreased willingness of candidates to leave their current employment due to various factors including economic uncertainty caused by the COVID-19 pandemic and uncertainty regarding immigration policies. As the economic uncertainty related to the COVID-19 pandemic eases, we may face additional challenges in recruiting and retaining qualified personnel as other companies increase the pace of hiring. Additionally, job candidates may be threatened with legal action under agreements with their existing employers if we attempt to hire them, which could have a chilling effect on hiring and result in a diversion of our time and resources. We must also continue to retain and motivate existing employees through our compensation practices, company culture, and career development opportunities. Further, our current and future office environments or flexible work policies may not meet the expectations of our employees or prospective employees. If we fail to attract new personnel or to retain our current personnel, our business and future growth prospects could be adversely affected.

If we cannot maintain our corporate culture, we could lose the innovation, teamwork, and passion that we believe contribute to our success, and our business may be harmed.

We believe that a critical component of our success has been our corporate culture, as reflected in our core values: employees, customer service, innovation, integrity, fun, and profitability. We also believe that our commitment to our corporate culture, as well as our commitment to building products and services that help provide our customers with information regarding their own workforce and corporate culture, is part of the reason why our customers choose us. As we continue to grow, both organically and through acquisitions of employee teams, and develop the infrastructure associated with being a more mature public company, we will need to maintain our corporate culture among a larger number of employees who are dispersed throughout various geographic regions. Additionally, we and our stakeholders increasingly expect to have a corporate culture that embraces diversity and inclusion, and any inability to attract and retain diverse and qualified personnel may harm our corporate culture and our business. Moreover, our flexible work policies require significant action to preserve culture with some of the employee base working remotely. Furthermore, we substantially grew our employee base in fiscal 2022, and we must be able to effectively integrate, develop, and motivate a large number of new employees, while maintaining the effectiveness of our business execution and the beneficial aspects of our corporate culture. Any failure to maintain or adapt our culture could negatively affect our future success, including our ability to retain and recruit personnel and to achieve our corporate objectives, including our ability to quickly develop and deliver new and innovative products.

Our business could be adversely affected if our users are not satisfied with the deployment, training, and support services provided by us and our partners.

Our business depends on our ability to satisfy our customers and end users, both with respect to our application offerings and the professional services that are performed to help them use features and functions that address their business needs. High customer satisfaction requires that our customers undergo a successful implementation and be properly trained on our applications to effectively implement and increase their level of adoption of such applications. Implementation of our applications may be technically complicated because they are designed to enable complex and varied business processes across large organizations, integrate data from a broad and complex range of workflows and systems, and may involve deployment in a variety of environments. Incorrect or improper implementation or use of our applications could result in customer and user dissatisfaction and harm our business and operating results.

In order for our customers to successfully implement our applications, they need access to highly skilled and trained service professionals. Professional services may be performed by our own staff, by a third party, or by a combination of the two. Our strategy is to work with third parties to increase the breadth of capability and depth of capacity for delivery of these services to our customers, and third parties provide a majority of deployment services for our customers. The work performed by us or these third parties that we rely on, including any work related to the on-site components of deployment services requested by a customer, might be adversely impacted directly or indirectly by the ongoing COVID-19 pandemic, including as a result of restrictions in accessing customer sites, and by increased attrition. Additionally, if our customers' personnel are unable to participate in deployment activities as a direct or indirect result of the ongoing COVID-19 pandemic, this could result in delays in customer go-live dates for our applications. If customers are not satisfied with the quality and timing of work performed by us or a third party or with the type of professional services or applications delivered, or if we or a third party have not fully delivered on certain commitments made to our customers, then we could incur additional costs to address the situation, the revenue recognition of the contract could be impacted, and the dissatisfaction with our services could damage our ability to expand the applications subscribed to by our customers. We must also align our product development and professional services operations in order to ensure that customers' evolving needs are met. Negative publicity related to our customer relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers both domestic and abroad.

Additionally, in order to maximize the value of our applications, we must continue to educate and train our customers and end users to develop the skills necessary to harness the power of our applications. If we are not able to effectively educate and train our users, they may choose not to renew their subscriptions, market perceptions of our company and our applications may be impaired, and our reputation and brand may suffer. Customers and other users also depend on our support organization to provision the environments used by our customers and to resolve technical issues relating to our applications. We may be unable to respond quickly enough to accommodate short-term increases in demand for support services. We may also be unable to modify the format of our support services to compete with changes in support services provided by our competitors. Increased demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. Failure to maintain high-quality technical support and training, or a market perception that we do not maintain high-quality support or training, could adversely affect our reputation, our ability to offer and sell our applications, our renewal rates, and our business and operating results.

Our future success depends on the rate of customer subscription renewals or adoptions, and our revenues or operating results could be adversely impacted if we do not achieve renewals and adoptions at expected rates or on anticipated terms.

As the markets for our applications mature, or as new competitors introduce new products or services that compete with ours, we may be unable to attract new customers at the same pace or based on the same pricing model as we have used historically. From time to time, we may also change our pricing structure, which could adversely impact demand for our products. Moreover, large customers, which are a primary focus of our sales efforts, have and may continue to request greater price concessions and delayed payment terms. As a result of the COVID-19 pandemic, some of our existing and potential customers deferred purchasing decisions, requested price concessions and delayed payment terms, and requested other terms and conditions. If these conditions were to return, whether as a result of a resurgence of COVID-19 or otherwise, we may be required to reduce our prices or accept onerous terms and conditions, including delayed payment terms, which could adversely affect our revenues, profitability, financial position, and cash flows in any given period. Restrictions on travel and in-person meetings have interrupted, and could continue to interrupt, our sales activity, and we cannot predict whether, for how long, or the extent to which the COVID-19 pandemic may continue to have an impact. Our sales force has historically met with our customers and potential customers face-to-face when selling our solutions, and while the majority of our deployment activities are completed remotely, many of our customers may prefer to have certain deployment activities such as project initiation and go-live activities completed on-site. Attrition of key personnel at our customers has impacted and may continue to impact our direct sales efforts. Furthermore, because our future revenue growth relies, in large part, on new customer acquisition, any inability of our sales force to establish relationships with potential customers during the current environment or prospects deferring buying decisions due to the economic uncertainty, is likely to have a negative impact on our future revenue growth and other financial measures.

In addition, our customers have no obligation to renew their subscriptions for our applications after the expiration of either the initial or renewed subscription period. If we are unable to successfully educate our customers on the benefits and features of our applications, or if our customers are aware of those benefits and features but do not use them, our customers may renew for fewer elements of our applications or on different pricing terms. Our customers' renewal rates may also decline or fluctuate as a result of a number of other factors, including their level of satisfaction with our applications and pricing, their ability to continue their operations and spending levels, and the evolution of their business. If our customers do not renew their subscriptions for our applications on similar pricing terms, our revenues may decline, and we may not be able to meet our revenue projections, which could negatively impact our business and the market price of our Class A common stock. In addition, over time the average term of our contracts could change based on renewal rates or for other reasons.

Our future success also depends, in part, on our ability to sell additional products to our current customers, and the success rate of such endeavors is difficult to predict, especially with regard to any new lines of business that we may introduce from time to time. This may require increasingly costly marketing and sales efforts that are targeted at senior management, and if these efforts are not successful, our business and operating results may suffer. Additionally, acquisitions of our customers by other companies have led, and could continue to lead, to cancellation of our contracts with those customers, thereby reducing the number of our existing and potential customers.

Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business.

Our quarterly operating results, including our revenues, subscription revenue backlog, operating margin, profitability, and cash flow, may vary significantly in the future and period-to-period comparisons of our operating results may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. As discussed above, the extent to which the ongoing COVID-19 pandemic, the resulting global economic uncertainty, and measures taken in response to the pandemic could continue to impact our operating results will depend on future developments, which are highly uncertain and difficult to predict. Fluctuations in our quarterly results and related impacts to any earnings guidance we may issue from time to time, including any modification or withdrawal thereof, may negatively impact the value of our securities. Additionally, as we typically sign a significantly higher percentage of agreements with new customers as well as renewal agreements with existing customers in the fourth quarter of each year, we may experience a greater impact on our business and quarterly results due to the prolonged uncertainty.

Additional factors that may cause fluctuations in our quarterly financial results include, without limitation, those listed below:

- our ability to attract new customers, customer renewal rates, the financial condition and creditworthiness of our customers, and the timing and rate at which we sign agreements with customers;
- the addition or loss of large customers, including through acquisitions or consolidations;
- regulatory compliance costs, including research and development costs incurred to add functionality to help our customers comply with evolving privacy and data security laws;
- the timing of recognition of revenues and operating expenses, including expenses related to acquisitions and potential future charges for impairment of goodwill;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations, and infrastructure;
- network outages or security breaches;
- general economic, market and geopolitical conditions, including the impact of the ongoing COVID-19 pandemic;
- increases or decreases in the number of elements of our services or pricing changes upon any renewals of customer agreements;
- the changes in payment terms and timing of customer payments and payment defaults by customers, including those impacted by the ongoing COVID-19 pandemic;
- changes in our pricing policies or those of our competitors and the mix of applications sold during a period;
- seasonal variations in sales of our applications, which have historically been highest in our fiscal fourth quarter;
- the timing and success of new application and service introductions by us or our competitors;
- changes in the competitive dynamics of our industry, including consolidation among competitors, customers, or strategic partners, and the impact of strategic partnerships, acquisitions, or equity investments;
- expenses related to our real estate portfolio, including our leases and data center expansion; and
- changes in laws and regulations that impact our business or reported financial results, including changes in accounting principles generally accepted in the United States.

We have experienced rapid growth, and if we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and operational controls, or adequately address competitive challenges.

We have experienced rapid growth in our customers, headcount, and operations and anticipate that we will continue to expand our customer base, headcount, and operations. This growth has placed, and future growth will place, a significant strain on our management, administrative, operational, and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively and to scale our operations appropriately. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial, and management controls as well as our reporting systems and procedures. Failure to effectively manage growth could result in difficulty or delays in deploying products and services to customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features, or other operational difficulties, and any of these difficulties could adversely impact our business performance and operating results.

If we fail to develop widespread brand awareness cost-effectively, our business may suffer.

We believe that developing and maintaining widespread positive awareness of our brand is critical to achieving widespread acceptance of our applications, retaining and attracting customers, and hiring and retaining employees. However, brand promotion activities may not generate the customer awareness or increased revenues we anticipate, and even if they do, any increase in revenues may not offset the significant expenses we incur in building our brand. Moreover, the ongoing COVID-19 pandemic has made it more difficult to develop and maintain positive awareness of our brand. For example, we held a virtual event, Conversations for a Changing World, in both fiscal 2021 and 2022, in place of our two largest annual customer conferences, Workday Rising and Workday Rising Europe. We also transitioned Workday Elevate, our global event series, from an in-person to digital event experience. Our shift to virtual customer, industry, partner, analyst, investor and employee events may not be as successful or showcase our products as well, and ultimately generate lower levels of customer interest, opportunities, and leads. In addition, we have and may continue to delay certain corporate advertising programs. These precautionary measures that have been adopted, particularly if extended for prolonged periods, could have increasingly negative effects on our ability to develop and maintain widespread positive awareness of our brand, which could harm our business, financial condition, and operating results. In addition, positions we take on environmental, social, governance (“ESG”), and ethical issues from time to time may impact our brand, reputation, or ability to attract or retain customers. Statements about our ESG initiatives and goals, and progress against those goals, may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future.

If we fail to successfully promote and maintain our brand, or we fail to expand awareness of our newer solutions or products, we may fail to attract or retain customers necessary to realize a sufficient return on our brand-building efforts, or to achieve the widespread brand awareness that is critical for broad customer adoption of our applications. Additionally, the loss of one or more of our key customers, or a failure to renew our subscription agreements with one or more of our key customers, could significantly impair our ability to market our applications which, in turn, could have a negative impact on our revenues, reputation, and our ability to obtain new customers. In addition, if our brand is negatively impacted, it may be more difficult to hire and retain employees.

We have acquired, and may in the future acquire, other companies, employee teams, or technologies, which could divert our management’s attention, result in additional dilution to our stockholders, and otherwise disrupt our operations and adversely affect our operating results.

We have acquired, and may in the future acquire, other companies, employee teams, or technologies to complement or expand our applications, enhance our technical capabilities, obtain personnel, or otherwise offer growth opportunities. For example, we acquired Scout in fiscal 2020 and Peakon, Zimit, and VNDLY in fiscal 2022. The pursuit of acquisitions may divert the attention of management, disrupt ongoing business, and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

These impacts may continue through integration activities. Moreover, we may be unable to complete proposed transactions timely or at all due to the failure to obtain regulatory or other approvals, litigation, or other disputes, which may obligate us to pay a termination fee. We also may not achieve the anticipated benefits from an acquisition due to a number of factors, including:

- inability to integrate the intellectual property, technology infrastructure, personnel, and operations of the acquired business, including difficulty in addressing security risks of the acquired business, or benefit from an acquisition in a profitable manner;
- acquisition-related costs, liabilities, or tax impacts, some of which may be unanticipated;
- difficulty in leveraging the data of the acquired business if it includes personal data;
- ineffective or inadequate controls, procedures, or policies at the acquired company and increased risk of non-compliance;
- multiple product lines or service offerings as a result of our acquisitions that are offered, priced, and supported differently, as well as the potential for such acquired product lines and service offerings to impact the profitability of existing products;
- the opportunity cost of diverting management and financial resources away from other products, services, and strategic initiatives;
- difficulties and additional expenses associated with synchronizing product offerings, customer relationships, and contract portfolio terms and conditions between Workday and the acquired business;
- unknown liabilities or risks associated with the acquired businesses, including those arising from existing contractual obligations or litigation matters;
- adverse effects on our brand or existing business relationships with business partners and customers as a result of the acquisition;
- potential write-offs of acquired assets and potential financial and credit risks associated with acquired customers;
- inability to maintain relationships with key customers, suppliers, and partners of the acquired business;

- difficulty in predicting and controlling the effect of integrating multiple acquisitions concurrently;
- lack of experience in new markets, products, or technologies;
- difficulty in integrating operations and assets of an acquired foreign entity with differences in language, culture, or country-specific regulatory risks;
- the inability to obtain (or a material delay in obtaining) regulatory approvals necessary to complete transactions or to integrate operations, or potential remedies imposed by regulatory authorities as a condition to or following the completion of a transaction, which may include divestitures, ownership or operational restrictions or other structural or behavioral remedies;
- the failure of strategic acquisitions to perform as expected or to meet financial projections; and
- use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our operating results.

Acquisitions could also result in dilutive issuances of equity securities or the issuance of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our business, operating results, and financial position may suffer.

Sales to customers outside the United States or with international operations expose us to risks inherent in global operations.

A key element of our growth strategy is to further develop our worldwide customer base. Operating globally requires significant resources and management attention and subjects us to regulatory, economic, and political risks that are different from those in the United States. Our efforts to further expand internationally may not be successful in creating additional demand for our applications outside of the United States or in effectively selling subscriptions to our applications in all of the markets we enter. Foreign regulations, including privacy and import/export regulations, are subject to change and uncertainty, including as a result of geopolitical developments, which may be amplified by the COVID-19 pandemic. In addition to navigating the challenges related to the ongoing COVID-19 pandemic in foreign jurisdictions, we face other risks in doing business on a global scale that could adversely affect our business, including:

- the need to develop, localize, and adapt our applications and customer support for specific countries, including translation into foreign languages, localization of contracts for different legal jurisdictions, and associated expenses;
- the need to successfully develop and execute on a go-to-market strategy that aligns application management efforts and the development of supporting infrastructure;
- stricter data privacy laws including requirements that customer data be stored and processed in a designated territory and obligations on us as a data processor;
- difficulties in appropriately staffing and managing foreign operations and providing appropriate compensation for local markets;
- difficulties in leveraging executive presence and company culture globally;
- different pricing environments, longer sales cycles, and longer trade receivables payment cycles, and collections issues;
- new and different sources of competition;
- potentially weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights;
- laws, customs, and business practices favoring local competitors;
- restrictive governmental actions focused on cross-border trade, such as import and export restrictions, duties, quotas, tariffs, trade disputes, and barriers or sanctions that may prevent us from offering certain portions of our products or services to a particular market, may increase our operating costs or may subject us to monetary fines or penalties in case of unintentional noncompliance due to factors beyond our control;
- compliance challenges related to the complexity of multiple, conflicting, and changing governmental laws and regulations, including employment, tax, privacy, intellectual property, and data protection laws and regulations;
- increased compliance costs related to government regulatory reviews or audits, including those related to international cybersecurity requirements;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- ensuring compliance with anti-corruption laws, including the Foreign Corrupt Practices Act and UK Bribery Act;
- the effects of currency fluctuations on our revenues and expenses and customer demand for our services;
- the cost and potential outcomes of any international claims or litigation;

- adverse tax consequences and tax rulings; and
- unstable economic and political conditions.

Any of the above factors may negatively impact our ability to sell our applications and offer services globally, reduce our competitive position in foreign markets, increase our costs of global operations, and reduce demand for our applications and services from global customers. Additionally, the majority of our international costs are denominated in local currencies and we anticipate that over time an increasing portion of our sales contracts may be outside the U.S. and will therefore be denominated in local currencies. Additionally, global events as well as geopolitical developments, fluctuating commodity prices, trade tariff developments, and inflation have caused, and may in the future cause, global economic uncertainty, and uncertainty about the interest rate environment, which could amplify the volatility of currency fluctuations. Therefore, fluctuations in the value of foreign currencies may impact our operating results when translated into U.S. dollars. Such fluctuations may also impact our ability to predict our future results accurately. Although we have a hedging program to help mitigate some of this volatility and related risks, there can be no assurance that the hedging program will be effective in offsetting the adverse financial impacts that may result from unfavorable movements in foreign currency exchange rates, including any such movements caused by the COVID-19 pandemic.

The markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results could be adversely affected.

The markets for enterprise cloud applications are highly competitive, with relatively low barriers to entry for some applications or services. Some of our competitors are larger and have greater name recognition, significantly longer operating histories, access to larger customer bases, larger marketing budgets, and significantly greater resources to devote to the development, promotion, and sale of their products and services than we do. This may allow our competitors to respond more effectively than us to new or emerging technologies and changes in market conditions.

Our primary competitors are Oracle and SAP, well-established providers of financial management and HCM applications, which have long-standing relationships with many customers. Some customers may be hesitant to switch vendors or to adopt cloud applications such as ours and may prefer to maintain their existing relationships with competitors. We also face competition from other enterprise software vendors, from regional competitors that only operate in certain geographic markets, and from vendors of specific applications that address only one or a portion of our applications, some of which offer cloud-based solutions. These vendors include, without limitation: UKG Inc. (formerly The Ultimate Software Group, Inc.), Automatic Data Processing, Inc., Infor, Inc., Ceridian HCM Holding Inc., Microsoft Corporation, Anaplan, Inc., and Coupa Software Inc. In order to take advantage of customer demand for cloud applications, legacy vendors are expanding their cloud applications through acquisitions, strategic alliances, and organic development. In addition, other cloud companies that provide services in different target markets may develop applications or acquire companies that operate in our target markets, and some potential customers may elect to develop their own internal applications. As the market matures and as existing and new market participants introduce new types of technologies and different approaches that enable organizations to address their HCM and financial needs, we expect this competition to intensify in the future.

Furthermore, our current or potential competitors may be acquired by, or merge with, third parties with greater available resources and the ability to initiate or withstand substantial price competition, such as the merger between Kronos Incorporated and The Ultimate Software Group, Inc. Our competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their offerings or resources. Many of our competitors also have major distribution agreements with consultants, system integrators, and resellers. If our competitors' products, services, or technologies become more accepted than our products, if they are successful in bringing their products or services to market earlier than ours, or if their products or services are more technologically capable than ours, then our revenues could be adversely affected. In addition, our competitors may offer their products and services at a lower price, or, particularly during the ongoing COVID-19 pandemic, may offer price concessions, delayed payment terms, financing terms, or other terms and conditions that are more enticing to potential customers. Pricing pressures and increased competition could result in reduced sales, reduced margins, losses, or a failure to maintain or improve our competitive market position, any of which could adversely affect our business and operating results.

If we are not able to realize a return on our current development efforts or offer new features, enhancements, and modifications to our services that are desired by current or potential customers, our business and operating results could be adversely affected.

Developing software applications and related enhancements, features, and modifications is expensive, and the investment in product development often involves a long return on investment cycle. Accelerated application introductions and short application life cycles require high levels of expenditures that could adversely affect our operating results if not offset by revenue increases, and we believe that we must continue to dedicate a significant amount of resources to our development efforts to maintain our competitive position. However, we may not receive significant revenues from these investments for several years, if at all. Furthermore, the COVID-19 pandemic could have a continuing impact on our plans to offer certain new features, enhancements, and modifications of our applications in a timely manner, particularly if we experience impacts to productivity due to our employees or their family members experiencing health issues, or as our employees continue to work remotely, or if there are continuing delays in our hiring and onboarding of new employees. If we are unable to provide new features, enhancements, and modifications in a timely and cost-effective manner that achieve market acceptance or that keep pace with rapid technological developments and changing regulatory landscapes, our business and operating results could be adversely affected. For example, we are focused on enhancing the features and functionality of our applications to improve their utility to larger customers with complex, dynamic, and global operations, or we may be required to develop new features, enhancements, or modifications to our products to support our customers' evolving compliance obligations. Some of our larger customers may also require features and functions unique to their business processes that we do not currently offer. In order to help ensure we meet these requirements, we may devote a significant amount of technology support and professional service resources to such customers. The success of enhancements, new features, and applications depends on several factors, including their timely completion, introduction, and market acceptance as well as access to development resources and the technologies required to build and improve our applications, such as the datasets required to train our machine learning models. If we are not successful in developing these new features, enhancements, modifications, and applications, and bringing them to market timely, it may negatively impact our customer renewal rates, limit the market for our solutions, or impair our ability to attract new customers.

Our growth depends on the success of our strategic relationships with third parties as well as our ability to successfully integrate our applications with a variety of third-party technologies.

We depend on relationships with third parties such as deployment partners, technology and content providers, and other key suppliers, and are also dependent on third parties for the license of certain software and development tools that are incorporated into or used with our applications. If the operations of these third parties are disrupted, including as a direct or indirect result of the ongoing COVID-19 pandemic, our own operations may suffer, which could adversely impact our operating results. In addition, we rely upon licensed third-party software to help improve our internal systems, processes, and controls. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. We may be at a disadvantage if our competitors are effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our services, or in negotiating better rates or terms with such third parties. In addition, acquisitions of our partners by our competitors could end our strategic relationship with the acquired partner and result in a decrease in the number of our current and potential customers, or the support services available for third-party technology may be negatively affected by mergers and consolidation in the software industry. If we are unsuccessful in establishing or maintaining our relationships with these third parties, or in monitoring the quality of their products or performance, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results may suffer.

To the extent that our applications depend upon the successful integration and operation of third-party software in conjunction with our software, any undetected errors or defects in this third-party software, as well as cybersecurity threats or attacks related to such software, such as the Log4j vulnerability (as defined below), could prevent the deployment or impair the functionality of our applications, delay new application introductions, result in a failure of our applications, result in increased costs, including warranty and other related claims from customers, and injure our reputation. Furthermore, software may not continue to be available to us on commercially reasonable terms. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. Integration of new software into our applications may require significant work and require substantial investment of our time and resources.

We also need to continuously modify and enhance our applications to keep pace with changes in third-party internet-related hardware, iOS, Android, other mobile-related technologies, and other third-party software, communication, browser, and database technologies. We must also appropriately balance the application capability demands of our current customers with the capabilities required to address the broader market. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our product development expenses. Any failure of our applications to operate effectively with future network platforms and other third-party technologies could reduce the demand for our applications, result in customer and end user dissatisfaction, and adversely affect our business and operating results. We may experience difficulties in managing improvements to our systems, processes, and controls or in connection with third-party software, which could materially impair our ability to provide solutions or professional services to our customers in a timely manner, cause us to lose customers, limit us to smaller deployments of our solutions, or increase our technical support costs.

If we are not able to realize a return on the investments we have made toward entering new markets and new lines of business, our business and operating results could be adversely affected.

We continue to seek opportunities to enter into new markets and/or new lines of business, some of which we may have very limited or no experience in. As an entrant to new markets and new lines of business, we may not be effective in convincing prospective customers that our solutions will address their needs, and we may not accurately estimate our infrastructure needs, human resource requirements, or operating expenses with regard to these new markets and new lines of business. We may also fail to accurately anticipate adoption rates of these new lines of business or their underlying technology. For example, machine learning and artificial intelligence are propelling advancements in technology, but if they are not widely adopted and accepted or fail to operate as expected, our business and reputation may be harmed. Also, we may not be able to properly price our solutions in these new markets, which could negatively affect our ability to sell to customers. Furthermore, customers in these new markets or of the new lines of business may demand more features and professional services, which may require us to devote even greater research and development, sales, support, and professional services resources to such customers. If we fail to generate adequate revenues from these new markets and lines of business, or if we fail to do so within the envisioned timeframe, it could have an adverse effect on our business, financial condition, and operating results.

Risks Related to Cybersecurity, Data Privacy, and Intellectual Property

If our security measures are breached or unauthorized access to customer or user data is otherwise obtained, our applications may be perceived as not being secure, customers and end users may reduce the use of or stop using our applications, and we may incur significant liabilities.

Our applications involve the storage and transmission of our customers' sensitive and proprietary information, including personal or identifying information regarding our customers, their employees, customers, and suppliers, as well as financial, accounting, health, and payroll data and other sensitive information. As a result, a compromise of our applications or unauthorized access, acquisition, use, tampering, or destruction of this data, or unavailability of data, could expose us to regulatory actions, litigation, investigations, remediation and indemnity obligations, damage to our reputation and brand, supplemental disclosure obligations, loss of customer, consumer, and partner confidence in the security of our applications, destruction of information, an increase in our insurance premiums, loss of authorization under the Federal Risk and Authorization Management Program ("FedRAMP") or other authorizations, impairment to our business, and related fees, expenses, loss of revenues, and other potential liabilities. We devote significant financial and personnel resources to implement and maintain security measures and we maintain an information security risk insurance policy. While we have security measures in place that are designed to protect against these risks, preserve the integrity of customer and personal information, and prevent data loss, misappropriation, and other security breaches, our security measures may be compromised as a result of intentional misconduct, including by computer hackers, employees, contractors, or vendors, as well as software bugs, human error, technical malfunctions, or other malfeasance.

Cybersecurity threats and attacks are often targeted at companies such as ours and may take a variety of forms ranging from individuals or groups of security researchers and hackers, including those who appear to offer a solution to a vulnerability, to sophisticated organizations, including state-sponsored actors. As our market presence grows, we may face increased risks of cybersecurity attack or other security threats. Key cybersecurity risks range from viruses, worms, and other malicious software programs, phishing attacks or ransomware, to exploitation of software bugs or other defects, to "mega breaches" targeted against cloud services and other hosted software, any of which can result in disclosure of confidential information and intellectual property, defective products, production downtimes, reputational harm, compromised data, and an increase in costs to the business. As the techniques used to obtain unauthorized access or sabotage systems change frequently, are becoming increasingly sophisticated and complex, and generally are not identified until they are launched against a target, we may be unable to anticipate these attacks or to implement adequate preventative measures.

There may also be attacks targeting any vulnerabilities in our applications, internally built infrastructure, enhancements, and updates to our existing offerings, or in the many different underlying networks and services that power the internet that our products depend on, most of which are not under our control or the control of our vendors, partners, or customers. Although we have developed systems and processes that are designed to protect our applications, systems, software and data, as well as customer data and other user data, and to prevent data loss and detect security breaches, there can be no assurance that such measures will be effective against all cybersecurity threats or perceived threats. In April 2021, as a result of a security breach at a software provider, a malicious third party accessed the development environment of a company we had recently acquired, Peakon, and took a copy of Peakon's source code. We took immediate action to secure Peakon's development environment and prevent any additional unauthorized access, as well as to confirm that no customer data had been accessed and that this incident had not impacted Workday's production, development, or other environments or applications. Our response included engaging an external cybersecurity firm for forensic investigation and incident response, performing an internal incident investigation and code vulnerability review, alerting law enforcement, and engaging a third party to conduct a code review. These efforts may not be completely effective or eliminate potential risks from such incidents, however, and there can be no assurance that there will be no impact from this or similar incidents in the future.

In December 2021, a critical remote code execution (RCE) vulnerability was identified in the Apache Software Foundation's Log4j software library ("Log4j"). Log4j is an open source software broadly used in Java-based applications to log security and performance information. According to public information, a bad actor can exploit the Log4j vulnerability to remotely access a vulnerable system, allowing the bad actor to then steal information, launch ransomware or conduct other malicious activity. We use Log4j in a number of our environments although to date we have found no indication that customer data or environments containing customer data have been affected. We have identified, tested, and deployed recommended mitigation techniques and currently available remediation patches against this vulnerability in our environments, and we have upgraded our firewalls and the Log4j library directly used by Workday. Despite these efforts, we expect the risk of additional vulnerabilities and potential attacks to continue for several months given the complexity of the situation and the widespread nature of the Log4j vulnerability.

Additionally, during the ongoing COVID-19 pandemic, and potentially beyond as remote work and resource access expand, there is an increased risk of cybersecurity-related events such as COVID-19 themed phishing attacks, exploitation of any cybersecurity flaws that may exist, an increase in the number of cybersecurity threats or attacks, and other security challenges as a result of most of our employees and our service providers continuing to work remotely from non-corporate managed networks.

Furthermore, we have acquired or partnered with a number of companies, products, services, and technologies over the years, and incorporated third-party products, services and technologies in connection with our products and services. Although we devote significant resources to address any known security issues with respect to such acquisitions, partnerships, incorporated technologies, and our supply chain, we may still inherit additional risks when they are integrated within or used by Workday. In addition, if a high-profile security breach occurs with respect to an industry peer, our customers and potential customers may generally lose trust in the security of financial management, spend management, human capital management, planning, or analytics applications, or in cloud applications for enterprises in general. Any or all of these issues could negatively affect our ability to attract new customers, cause existing customers to elect to terminate or not renew their subscriptions, result in reputational damage, cause us to pay remediation and indemnity costs and/or issue service credits or refunds to customers for prepaid and unused subscription services, or result in lawsuits, regulatory fines, or other action or liabilities, which could adversely affect our business and operating results.

We rely on sophisticated information systems and technology, including those provided by third parties, for the secure collection, processing, transmission, and storage of confidential, proprietary, and personal information to support our business operations. In the past several years, supply chain attacks have increased in frequency and severity. As we are both a provider and consumer of information systems and technology, we are at higher risk of being impacted either directly or indirectly by these attacks. While we have implemented what we believe is an appropriate information security program with cybersecurity procedures, policies, practices, and controls, the control systems, cybersecurity program, infrastructure, physical facilities of, and personnel associated with third parties that we rely on are beyond our control. Although we periodically conduct audits of some of our third party vendors, we cannot guarantee the security of and may be unable to prevent security events impacting the information technology systems of third parties that are part of our supply chain or that provide valuable services to us, which could result in the unauthorized access to or acquisition, destruction, alteration, release, theft or loss of confidential, proprietary, or personal data of Workday, our employees, our customers, or our third party partners, which could in turn disrupt our operations and ability to conduct business with customers, or otherwise adversely affect our business, operating results, reputation, or financial condition.

In the normal course of business, we are and have been the target of malicious cyber-attack attempts and have experienced other security events. Future cyber-attacks and other security events may have a significant or material impact on our business and operating results.

Privacy concerns, evolving regulation of cloud computing, cross-border data transfer, and other domestic or foreign laws and regulations may reduce the adoption of our applications, result in significant costs and compliance challenges, and adversely affect our business and operating results.

Legal requirements related to collecting, storing, handling, and transferring personal data are rapidly evolving at both the national and international level in ways that require our business to adapt to support customer compliance. As the regulatory focus on privacy intensifies worldwide, and jurisdictions increasingly consider and adopt privacy laws, the potential risks related to managing personal data by our business may grow. In addition, possible adverse interpretations of existing privacy-related laws and regulations by governments in countries where our customers operate, as well as the potential implementation of new legislation, could impose significant obligations in areas affecting our business or prevent us from offering certain services in jurisdictions where we operate.

Following the European Union's ("EU") passage of the General Data Protection Regulation ("GDPR"), which became effective in May 2018, the global data privacy compliance landscape outside of the EU has grown increasingly complex, fragmented, and financially relevant to business operations. As a result, our business faces current and prospective risks related to increased regulatory compliance costs, government enforcement actions and/or financial penalties for non-compliance, and reputational harm. For example, in July 2020, the Court of Justice of the EU invalidated a framework called Privacy Shield for companies to transfer data from the European Economic Area to the United States. This decision led to uncertainty about the legal requirements for transferring customer personal data to and from Europe, an integral process of our business that remains governed by, and subject to, GDPR requirements. Failure to comply with the GDPR data processing requirements by either ourselves or our subcontractors could lead to regulatory enforcement actions, which can result in monetary penalties of up to 4% of worldwide revenue, private lawsuits, reputational damage, and loss of customers. The UK government is considering amending its data protection legislation. If UK data protection changes significantly from EU norms, new data flow barriers could emerge, creating costs and complexity for companies. Other countries such as Russia, China, and India have also passed or are considering passing laws imposing varying degrees of restrictive data residency requirements. Regulatory developments in the United States present additional risks. For example, the California Consumer Privacy Act ("CCPA") took effect on January 1, 2020, and the California Privacy Rights Act ("CPRA"), which expands upon the CCPA, was passed in November 2020 and comes into effect on January 1, 2023, with a "lookback" period to January 1, 2022. The CCPA and CPRA give California consumers certain rights similar to those provided by the GDPR, and also provide for statutory damages or fines on a per violation basis that could be very large depending on the severity of the violation. Other states have enacted, or are considering, privacy laws as well. Furthermore, the U.S. Congress is considering numerous privacy bills, and the U.S. Federal Trade Commission continues to fine companies for unfair or deceptive data protection practices and may undertake its own privacy rulemaking exercise. In addition to government activity, privacy advocacy and other industry groups have established or may establish various new, additional, or different self-regulatory standards that customers may require us to adhere to and which may place additional burdens on us. Increasing sensitivity of individuals to unauthorized processing of personal data, whether real or perceived, and an increasingly uncertain trust climate may create a negative public reaction to technologies, products and services such as ours.

Taken together, the costs of compliance with and other obligations imposed by data protection laws and regulations may require modification of our services, limit use and adoption of our services, reduce overall demand for our services, lead to significant fines, penalties, or liabilities for noncompliance, or slow the pace at which we close sales transactions, any of which could harm our business. The perception of privacy concerns, whether or not valid, may inhibit the adoption, effectiveness, or use of our applications. Compliance with applicable laws and regulations regarding personal data may require changes in services, business practices, or internal systems that result in increased costs, lower revenue, reduced efficiency, or greater difficulty competing with foreign-based firms which could adversely affect our business and operating results.

Any failure to protect our intellectual property rights domestically and internationally could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend in part upon our intellectual property. We rely on patent, copyright, trade secret and trademark laws, trade secret protection, and confidentiality or license agreements with our employees, customers, suppliers, partners, and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate. While we have patent applications pending in the United States and throughout the world, we may be unable to obtain patent protection for the technology covered in our patent applications. In addition, any patents issued to us in the future may not provide us with competitive advantages or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties, including those affiliated with state-sponsored actors, to copy or reverse engineer our applications, including with the assistance of insiders, and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer, and disclosure of our technology may be unenforceable under the laws of jurisdictions outside the United States. In addition, the laws of some countries do not protect proprietary rights to the same extent as the laws of the United States.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to and distribution of our applications and proprietary information. Further, these agreements do not prevent our competitors or partners from independently developing technologies that are substantially equivalent or superior to our applications.

We may be required to spend significant resources to monitor and protect our intellectual property rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect, and enforce our intellectual property rights could have a serious adverse effect on our brand and business.

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry. From time to time, third parties may claim that our applications and underlying technology infringe or violate their intellectual property rights, even if we are unaware of the intellectual property rights that others may claim cover some or all of our technology or services, and we may be found to be infringing such rights. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, require us to change our products, technology, or business practices, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify applications, or refund fees, which could be costly. In addition, we may be sued by third parties who seek to target us for actions taken by our customers, including through the use or misuse of our products. Even if we were to prevail in an intellectual property dispute, any litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations. Furthermore, from time to time we may introduce or acquire new products, including in areas where we historically have not competed, which could increase our exposure to patent and other intellectual property claims.

Some of our applications utilize open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

Some of our applications include software covered by open source licenses, which may include, by way of example, GNU General Public License and the Apache License. The terms of various open source licenses have not been interpreted by United States courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our applications. We attempt to avoid adverse licensing conditions in our use of open source software in our products and services. However, there can be no assurance that our efforts have been or will be successful. By the terms of certain open source licenses, we could be required to release the source code of our proprietary software, and to make our proprietary software available under open source licenses, if we combine our proprietary software with open source software in a certain manner. In the event that portions of our proprietary software are determined to be impacted by an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our technologies and services. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with usage of open source software cannot be eliminated and could negatively affect our business.

Risks Related to Legal and Regulatory Matters

Unfavorable laws, regulations, interpretive positions or standards governing new and evolving technologies that we incorporate into our products and services could result in significant cost and compliance challenges and adversely affect our business and operating results.

Some of our products and services, such as Workday's People Experience and Talent Optimization product suites, currently utilize or will utilize new and evolving technologies such as machine learning, artificial intelligence, and blockchain. While existing laws and regulations may apply to these types of technologies, the overall regulatory environment governing these types of technologies is still currently undeveloped and likely to evolve as government interest in these technologies increases. Regulation of these technologies, as well as other technologies that we utilize in our products and services, also varies greatly among international, federal, state, and local jurisdictions and is subject to significant uncertainty. Governments and agencies domestic and abroad may in the future change or amend existing laws, or adopt new laws, regulations, or guidance, or take other actions which may severely impact the permitted uses of our technologies. Any failure by us to comply with applicable laws, regulations, guidance, or other rules could result in costly litigation, penalties, or fines. In addition, these regulations and any related enforcement actions could establish and further expand our obligations to customers, individuals, and other third parties with respect to our products and services, limit the countries in which such products and services may be used, restrict the way we structure and operate our business, require us to divert development and other resources, and reduce the types of customers and individuals who can use our products and services. Furthermore, our customers may operate in foreign jurisdictions, including countries in which we don't operate, and may be subject to additional laws and regulations outside the scope of our products. Increased regulation and oversight of products or services which utilize or rely on these technologies may result in costly compliance burdens or otherwise increase our operating costs, detrimentally affecting our business. These new technologies could subject us to additional litigation brought by private parties, which could be costly, time-consuming, and distracting to management and could result in substantial expenses and losses.

In addition, as with many innovations, machine learning and artificial intelligence present additional risks and challenges that could affect their adoption and therefore our business. For example, the development of machine learning and artificial intelligence present emerging ethical issues, and if we enable or offer solutions on this front that are controversial, due to their impact, or perceived impact, on human rights, privacy, employment, or in other social contexts, we may experience brand or reputational harm, competitive harm, or legal liability. Also, our positions on social and ethical issues may impact our ability to attract or retain customers and other users. In particular, our brand and reputation are associated with our public commitments to sustainability, equality, inclusivity, accessibility, and ethical use, and any perceived changes in our dedication to these commitments could impact our relationships with potential and current customers and other users.

We are subject to risks related to government contracts and related procurement regulations, which may adversely impact our business and operating results.

Our contracts with federal, state, local, and foreign government entities are subject to various procurement regulations and other requirements relating to their formation, administration, performance, and termination, which could adversely impact our business and operating results. Government certification requirements applicable to our platform may change and, in doing so, restrict our ability to sell into the governmental sector until we have attained the full or revised certification. For example, although we have recently achieved Ready status under FedRAMP, we may not achieve full FedRAMP authorization in a timely manner or at all. These laws and regulations provide public sector customers various rights, many of which are not typically found in commercial contracts. For instance, these regulations may require the certification and disclosure of cost and pricing data and other sensitive information in connection with contract negotiations under certain contract types. Any public disclosure of such information may adversely impact our competitive position and our operating results. We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for delays, interruptions, or termination by the government at any time, without cause, which activities may adversely affect our business and operating results and impact other existing or prospective government contracts.

Adverse litigation results could have a material adverse impact on our business.

We are regularly involved with claims, suits, purported class or representative actions, and may be involved in regulatory and government investigations and other proceedings, involving competition, intellectual property, data security and privacy, bankruptcy, tax and related compliance, labor and employment, commercial disputes, and other matters. Such claims, suits, actions, regulatory and government investigations, and other proceedings can impose a significant burden on management and employees, could prevent us from offering one or more of our applications, services, or features to others, could require us to change our technology or business practices, or could result in monetary damages, fines, civil or criminal penalties, reputational harm, or other adverse consequences. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact in our consolidated financial statements could occur for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable.

We may not be able to utilize a portion of our net operating loss or research tax credit carryforwards, which could adversely affect our profitability.

As of January 31, 2022, we had federal and state net operating loss carryforwards due to prior period losses. If not utilized, the pre-fiscal 2018 federal and the state net operating loss carryforwards expire in varying amounts between fiscal 2023 and 2042. The federal net operating losses generated in and after fiscal 2018 do not expire and may be carried forward indefinitely. We also have federal research tax credit carryforwards, which if not utilized will begin to expire in fiscal 2023. These net operating loss and research tax credit carryforwards could expire unused and be unavailable to reduce future income tax liabilities, which could adversely affect our profitability. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, our ability to utilize net operating loss carryforwards or other tax attributes, such as research tax credits, in any taxable year may be limited if we experience an "ownership change." A Section 382 "ownership change" generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. It is possible that an ownership change, or any future ownership change, could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our profitability.

Unanticipated tax laws or any change in the application of existing tax laws to us or our customers, especially those limiting our ability to utilize our net operating loss and research tax credit carryforwards, may increase the costs of our services and adversely impact our profitability and business.

We operate and are subject to taxes in the United States and numerous other jurisdictions throughout the world. Changes to federal, state, local, or international tax laws on income, sales, use, indirect, or other tax laws, statutes, rules, regulations, or ordinances on multinational corporations are currently being considered by the United States and other countries where we do business. These contemplated legislative initiatives include, but are not limited to, changes to transfer pricing policies and definitional changes to permanent establishment that could be applied solely or disproportionately to services provided over the internet. These contemplated tax initiatives, if finalized and adopted by countries, may ultimately impact our effective tax rate and could adversely affect our sales activity resulting in a negative impact on our operating results and cash flows.

In addition, existing tax laws, statutes, rules, regulations, or ordinances could be interpreted, changed, modified, or applied adversely to us (possibly with retroactive effect), which could require us to pay additional tax amounts, fines or penalties, and interest for past amounts. Existing tax laws, statutes, rules, regulations, or ordinances could also be interpreted, changed, modified, or applied adversely to our customers (possibly with retroactive effect), which could require our customers to pay additional tax amounts with respect to services we have provided, fines or penalties, and interest for past amounts. If we are unsuccessful in collecting such taxes from our customers, we could be held liable for such costs, thereby adversely impacting our operating results and cash flows. If our customers must pay additional fines or penalties, it could adversely affect demand for our services.

Risks Related to Financial Matters

Our historic revenue growth rates should not be viewed as indicative of our future performance.

Our revenue growth rates have declined and may decline again in the future as the size of our customer base and market penetration increases. In addition, our future rate of growth is subject to a number of uncertainties, including general economic and market conditions, including those caused by the ongoing COVID-19 pandemic, as well as risks associated with growing companies in rapidly changing industries. Other factors may also contribute to declines in our growth rates, including slowing demand for our services, increasing competition, a decrease in the growth of our overall market, our failure to continue to capitalize on growth opportunities, and the maturation of our business, some of which may be magnified by the COVID-19 pandemic. As our growth rates decline, investors' perceptions of our business and the trading price of our securities could be adversely affected.

Additionally, our ability to accurately forecast our future rate of growth is limited. It is difficult to predict customer and other user adoption rates and demand for our applications, the future growth rate and size of the cloud computing market for our services, or the entry of competitive applications. Moreover, it has been and, until the effects of the COVID-19 pandemic are contained, will continue to be, even more difficult for us to forecast our operating results. We plan our expense levels and investments on estimates of future revenues and anticipated rates of growth. If our growth does not meet estimates, we may not be able to adjust our spending quickly enough to avoid an adverse impact on our financial results as a consequence of spending that is not aligned with our actual performance.

Moreover, we have encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, including the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties (which we use to plan our business) are incorrect or change due to changes in our markets, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

Because we encounter long sales cycles when selling to large customers and we recognize subscription services revenues over the term of the contract, downturns or upturns in new sales will not be immediately reflected in our operating results and may be difficult to discern.

We generally recognize subscription services revenues over time as services are delivered to the customer, which typically occurs over a period of three years or longer. As a result, most of the subscription services revenues we report in each quarter are derived from the recognition of unearned revenue relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscription contracts in any single quarter will likely have a minor impact on our revenue results for that quarter. However, such a decline will negatively affect our revenues in future quarters. Additionally, because much of our sales efforts are targeted at large enterprise customers, our sales cycles involve greater costs, longer sales cycles, the provision of greater levels of education regarding the use and benefits of our applications, less predictability in completing some of our sales, and varying deployment timeframes based on many factors including the number, type, and configuration of applications being deployed, the complexity, scale, and geographic dispersion of the customers' business and operations, the number of integrations with other systems, and other factors, many of which are beyond our control.

Our typical sales cycles are six to twelve months but can extend for eighteen months or more, including as a result of the ongoing COVID-19 pandemic, and we expect that this lengthy sales cycle may continue or expand as customers increasingly adopt our applications beyond human capital management. Longer sales cycles could cause our operating and financial results to suffer in a given period. Accordingly, the effect of significant downturns in sales and market acceptance of our applications, as well as potential changes in our pricing policies or rate of renewals, may not be fully reflected in our operating results until future periods. Additionally, we may be unable to adjust our cost structure to reflect any such changes in revenues. In addition, a majority of our costs are expensed as incurred, while revenues are recognized over the life of the customer agreement. As a result, increased growth in the number of our customers could result in our recognition of more costs than revenues in the earlier periods of the terms of our agreements. Our subscription model also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as subscription services revenues from new customers generally are recognized over the applicable subscription term. Furthermore, our subscription-based model is largely based on the size of our customers' employee headcount. Therefore, the addition or loss of employees by our customers, including any significant reductions in force by our customers during the COVID-19 pandemic, or customer insolvencies resulting from severe economic hardship during the COVID-19 pandemic, could have an impact on our subscription services revenues in any given period. Although we have downside protection in our customer agreements in the form of base minimums, should there be any prolonged decrease in our customers' headcounts, we could experience reduced subscription services revenues upon renewal or potentially outside of the renewal period, which could materially impact our business and operating results in any given period.

We have a history of cumulative losses, and we may not achieve or sustain profitability on a GAAP basis in the future.

Until recently, we had incurred significant net losses on a GAAP basis in each period since our inception in 2005 and our quarterly operating results may fluctuate in the future. We expect our operating expenses to increase in the future due to substantial investments we make to acquire new customers and develop our applications, anticipated increases in sales and marketing expenses, employee headcount growth expenses, product development expenses, operations costs, and general and administrative costs, and therefore we expect we may incur losses on a GAAP basis in the future. Furthermore, to the extent we are successful in increasing our customer base, we also expect to incur increased net losses in the acquisition period because costs associated with acquiring customers are generally incurred up front, while subscription services revenues are generally recognized ratably over the terms of the agreements, which are typically three years or longer. You should not consider our recent GAAP-profitability and growth in revenues as indicative of our future performance. We cannot ensure that we will continue to achieve GAAP profitability in the future or that, if we continue to be GAAP-profitable, we will sustain such profitability.

We have substantial indebtedness which may adversely affect our financial condition and operating results.

In September 2017, we completed an offering of \$1.15 billion of 0.25% convertible senior notes due October 1, 2022 ("2022 Notes"). As a result of this offering, we incurred \$1.15 billion principal amount of indebtedness, which we may be required to pay at maturity in 2022, or upon the occurrence of a fundamental change (as defined in the Indenture by and between us and Wells Fargo Bank, National Association, as Trustee ("Indenture")). In addition, in April 2020, we entered into a credit agreement ("Credit Agreement") that provided for a term loan in an aggregate original principal amount of \$750 million ("Term Loan") and a revolving credit facility in an aggregate principal amount of \$750 million ("Revolving Credit Facility").

We may incur substantial additional debt in the future, some of which may be secured debt. There can be no assurance that we will be able to repay this indebtedness when due, or that we will be able to refinance this indebtedness on acceptable terms or at all. Our ability to pay cash upon conversion or repurchase of the 2022 Notes may be limited by law, regulatory authority, or agreements governing our future indebtedness and is dependent on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Any future debt may also contain limitations on our ability to pay cash upon a conversion request or repurchase upon a fundamental change.

In addition, our indebtedness could, among other things:

- make it difficult for us to pay other obligations;
- make it difficult to obtain favorable terms for any necessary future financing for working capital, capital expenditures, debt service requirements, or other purposes;
- adversely affect our liquidity and result in a material adverse effect on our financial position upon repayment of the indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to service and repay the indebtedness, reducing the amount of cash flow available for other purposes;
- limit our flexibility in planning for and reacting to changes in our business; and
- negatively impact our credit rating, which could limit our ability to obtain additional financing in the future and adversely affect our business.

Our Credit Agreement also imposes restrictions on us and requires us to maintain compliance with specified covenants, including a specific leverage ratio. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable. Any required repayment of our debt under the Credit Agreement as a result of a fundamental change or other acceleration would lower our current cash on hand such that we would not have those funds available for use in our business.

Our convertible note hedge and warrant transactions may affect the value of our Class A common stock.

In connection with the sale of our convertible notes, we entered into convertible note hedge transactions with institutions that we refer to as the option counterparties. We also entered into warrant transactions with the option counterparties pursuant to which we sold warrants for the purchase of our Class A common stock. The convertible note hedge transactions are expected to offset the potential dilution to our Class A common stock upon any conversion of the convertible notes. The warrant transactions could separately have a dilutive effect to the extent that the market price per share of our Class A common stock exceeds the exercise price of the relevant warrants.

The option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the convertible notes. This activity could suppress or inflate the market price of our Class A common stock.

We will also be subject to the risk that these option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If one or more of the option counterparties to one or more of our convertible note hedge transactions becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under those transactions. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in the market price of our Class A common stock during the related settlement period. In addition, upon a default by one of the option counterparties, we may suffer dilution with respect to our Class A common stock as well as adverse financial consequences.

We are subject to risks associated with our equity investments, including partial or complete loss of invested capital, and significant changes in the fair value of this portfolio could adversely impact our financial results.

We invest in early to late stage companies for strategic reasons and to support key business initiatives, and we may not realize a return on our equity investments. Many such companies generate net losses and the market for their products, services, or technologies may be slow to develop or never materialize. These companies are often dependent on the availability of later rounds of financing from banks or investors on favorable terms to continue their operations. The financial success of our investment in any company is typically dependent on a liquidity event, such as a public offering, acquisition, or other favorable market event reflecting appreciation to the cost of our initial investment. The capital markets for public offerings and acquisitions are dynamic and the likelihood of liquidity events for the companies we have invested in could deteriorate, which could result in a loss of all or a substantial part of our investment in these companies.

Further, valuations of non-marketable equity investments are inherently complex due to the lack of readily available market data. In addition, we may experience additional volatility to our results of operations due to changes in market prices of our marketable equity investments and the valuation and timing of observable price changes or impairments of our non-marketable equity investments, including changes in the proportionate share of earnings and losses or impairment of our equity investments accounted for under the equity method. This volatility could be material to our results in any given quarter and may cause our stock price to decline. In addition, our ability to mitigate this volatility and realize gains on investments may be impacted by our contractual obligations to hold securities for a set period of time. For example, to the extent a company we have invested in undergoes an initial public offering (“IPO”), we may be subject to a lock-up agreement that restricts our ability to sell our securities for a period of time after the public offering or otherwise impedes our ability to mitigate market volatility in such securities.

Risks Related to Ownership of Our Class A Common Stock

Our Co-Founders have control over key decision making as a result of their control of a majority of our voting stock.

As of January 31, 2022, our Co-Founder and CEO Emeritus David Duffield, together with his affiliates, held voting rights with respect to approximately 46 million shares of Class B common stock and 0.5 million shares of Class A common stock. As of January 31, 2022, our Co-Founder, Co-CEO, and Chairman Aneel Bhusri, together with his affiliates, held voting rights with respect to approximately 8 million shares of Class B common stock and 0.3 million shares of Class A common stock. In addition, Mr. Bhusri holds 0.1 million restricted stock units (“RSUs”), which will be settled in an equivalent number of shares of Class A common stock. Further, Messrs. Duffield and Bhusri have entered into a voting agreement under which each has granted a voting proxy with respect to certain Class B common stock beneficially owned by him effective upon his death or incapacity as described in our registration statement on Form S-1 filed in connection with our IPO. Messrs. Duffield and Bhusri have each initially designated the other as their respective proxies. Accordingly, upon the death or incapacity of either Mr. Duffield or Mr. Bhusri, the other would individually continue to control the voting of shares subject to the voting proxy. Collectively, the shares described above represent a substantial majority of the voting power of our outstanding capital stock. As a result, Messrs. Duffield and Bhusri have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, they have the ability to control the management and affairs of our company as a result of their positions as members of our board of directors and, in the case of Mr. Bhusri, an officer of Workday. Mr. Duffield, in his capacity as a board member, and Mr. Bhusri, in his capacity as a board member and officer, each owe a fiduciary duty to our stockholders and must act in good faith in a manner they reasonably believe to be in the best interests of our stockholders. As stockholders, even as controlling stockholders, they are entitled to vote their shares in their own interests, which may not always be in the interests of our stockholders generally.

The dual class structure of our common stock has the effect of concentrating voting control with our Co-Founders, as well as with other executive officers, directors, and affiliates, which limits or precludes the ability of non-affiliates to influence corporate matters.

Our Class B common stock has 10 votes per share and our Class A common stock, which is the stock that is publicly traded, has one vote per share. Stockholders who hold shares of Class B common stock, including our executive officers, directors, and other affiliates, together hold a substantial majority of the voting power of our outstanding capital stock as of January 31, 2022. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval until the conversion of all shares of all Class A and Class B shares to a single class of common stock on the date that is the first to occur of (i) October 17, 2032, (ii) such time as the shares of Class B common stock represent less than 9% of the outstanding Class A and Class B common stock, (iii) nine months following the death of both Mr. Duffield and Mr. Bhusri, or (iv) the date on which the holders of a majority of the shares of Class B common stock elect to convert all shares of Class A common stock and Class B common stock into a single class of common stock. This concentrated control will limit or preclude the ability of non-affiliates to influence corporate matters for the foreseeable future.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, Mr. Duffield and Mr. Bhusri retain a significant portion of their holdings of Class B common stock for an extended period of time, they could, in the future, continue to control a majority of the combined voting power of our Class A common stock and Class B common stock.

Our stock price has been volatile in the past and may be subject to volatility in the future.

The trading price of our Class A common stock has historically been volatile and could be subject to wide fluctuations in response to various factors such as those described below. These factors, as well as the volatility of our Class A common stock, could also impact the price of our convertible senior notes. Further, the trading price of our Class A common stock has fluctuated significantly and may continue to fluctuate as a result of the COVID-19 pandemic and associated economic downturn. Additional risk factors that may affect the trading price of our securities, some of which are beyond our control and further magnified by the ongoing COVID-19 pandemic, include:

- overall performance of the equity markets;
- fluctuations in the valuation of companies perceived by investors to be comparable to us, such as high-growth or cloud companies, or in valuation metrics, such as our price to revenues ratio;
- guidance, as well as our ability to give guidance, as to our operating results and other financial metrics that we provide to the public, differences between our guidance and market expectations, our failure to meet our guidance, any withdrawal of previous guidance or changes from our historical guidance;

- the research and reports that securities or industry analysts publish about us or our business, and whether analysts who cover us downgrade our Class A common stock or publish unfavorable or inaccurate research about our business;
- variations in, and limitations of, the various financial and other metrics and modeling used by analysts in their research and reports about our business;
- announcements of technological innovations, new applications or enhancements to services, acquisitions, strategic alliances, or significant agreements by us or by our competitors;
- announcements of negative corporate developments by us or by our competitors and other high-growth or cloud companies including, among other things, any announcements related to security incidents;
- disruptions in our services due to computer hardware, software, or network problems;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- the economy as a whole, political and regulatory uncertainty, and market conditions in our industry and the industries of our customers;
- trading activity by directors, executive officers, and significant stockholders, or the perception in the market that the holders of a large number of shares intend to sell their shares;
- the size of our market float and significant stock option exercises;
- any future issuances of our securities;
- environmental, social, governance, ethical, and other issues impacting our brand;
- sales and purchases of any Class A common stock issued upon conversion of our convertible senior notes or in connection with the convertible note hedge and warrant transactions related to such convertible senior notes;
- our operating performance and the performance of other similar companies; and
- the sale or availability for sale of a large number of shares of our Class A common stock in the public market.

Additionally, the stock markets have at times experienced extreme price and volume fluctuations that have affected and may in the future affect the market prices of equity securities of many companies. These fluctuations have, in some cases, been unrelated or disproportionate to the operating performance of these companies. Further, the trading prices of publicly traded shares of companies in our industry have been particularly volatile and may be very volatile in the future.

In the past, some companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could harm our business.

Delaware law and provisions in our restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the market price of our Class A common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law ("DGCL") may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of Workday more difficult, including the following:

- any transaction that would result in a change in control of our company requires the approval of a majority of our outstanding Class B common stock voting as a separate class;
- our dual class common stock structure, which provides our co-founders with the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding Class A and Class B common stock;
- our Board of Directors is classified into three classes of directors with staggered three-year terms and directors are only able to be removed from office for cause;
- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of common stock:
 - certain amendments to our restated certificate of incorporation or amended and restated bylaws will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A and Class B common stock;
 - our stockholders will only be able to take action at a meeting of stockholders and not by written consent; and
 - vacancies on our Board of Directors will be able to be filled only by our Board of Directors and not by stockholders;
- only our chairman of the board, co-chief executive officers, co-presidents, or a majority of our Board of Directors are authorized to call a special meeting of stockholders;

- certain litigation against us can only be brought in Delaware;
- we will have two classes of common stock until the date that is the first to occur of (i) October 17, 2032, (ii) such time as the shares of Class B common stock represent less than 9% of the outstanding Class A and Class B common stock, (iii) nine months following the death of both Mr. Duffield and Mr. Bhusri, or (iv) the date on which the holders of a majority of the shares of Class B common stock elect to convert all shares of Class A common stock and Class B common stock into a single class of common stock;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established, and shares of which may be issued, without the approval of the holders of Class A common stock; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

In addition, Section 203 of the DGCL imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock, which may discourage, delay, or prevent a change in control of our company.

These anti-takeover defenses could discourage, delay, or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire, any of which, under certain circumstances, could depress the market price of our securities.

The exclusive forum provision in our organizational documents may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits with respect to such claims.

Our restated certificate of incorporation, to the fullest extent permitted by law, provides that the Court of Chancery of the State of Delaware is the exclusive forum for: any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the DGCL, our restated certificate of incorporation, or our amended and restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. There is uncertainty as to whether a court would enforce this exclusive forum provision with respect to claims under the Securities Act. If a court were to find the choice of forum provisions contained in our restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, financial condition, and operating results.

In April 2020, we amended and restated our bylaws to provide that the federal district courts of the United States of America will, to the fullest extent permitted by law, be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act ("Federal Forum Provision"). Our decision to adopt a Federal Forum Provision followed a decision by the Supreme Court of the State of Delaware holding that such provisions are facially valid under Delaware law. While there can be no assurance that federal or state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should be enforced in a particular case, application of the Federal Forum Provision means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court.

In addition, neither the exclusive forum provision nor the Federal Forum Provision applies to suits brought to enforce any duty or liability created by the Exchange Act. Accordingly, actions by our stockholders to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder must be brought in federal court, and our stockholders will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder.

Any person or entity purchasing or otherwise acquiring or holding any interest in any of our securities shall be deemed to have notice of and consented to our exclusive forum provisions, including the Federal Forum Provision. These provisions may limit a stockholders' ability to bring a claim in a judicial forum of their choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees.

We do not intend to pay dividends for the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Consequently, stockholders must rely on sales of their common stock after price appreciation as the only way to realize any future gains on their investment.

General Risk Factors

Adverse economic conditions may negatively impact our business.

Our business depends on the overall demand for enterprise software and on the economic health of our current and prospective customers. Any significant weakening of the economy in the United States or abroad, limited availability of credit, reduction in business confidence and activity, decreased government spending, or economic uncertainty, all of which are being impacted by the ongoing COVID-19 pandemic, and its effects such as unemployment, may continue to affect one or more of the sectors or countries in which we sell our applications. These economic conditions can arise suddenly, as did the conditions associated with the COVID-19 pandemic, and the full impact of such conditions can be difficult to predict. In addition, geopolitical and domestic political developments, such as existing and potential trade wars and other events beyond our control, can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets, as has been the case with the COVID-19 pandemic. Alternatively, a strong dollar could reduce demand for our applications and services in countries with relatively weaker currencies.

The impact of Brexit on EU-UK political, trade, economic and diplomatic relations continues to be uncertain and such impact may not be fully realized for several years or more. Continued uncertainty and friction may result in regulatory, operational, and cost challenges to our UK and global operations.

These adverse conditions could continue to result in reductions in sales of our applications, longer sales cycles, reductions in subscription duration and value, customer bankruptcies, slower adoption of new technologies, and increased price competition. Any of these events would likely have an adverse effect on our business, operating results, and financial position.

Catastrophic or climate-related events may disrupt our business.

Our corporate headquarters are located in Pleasanton, California, and we have data centers located in the United States, Canada, and Europe. The west coast of the United States contains active earthquake zones and the southeast is subject to seasonal hurricanes or other extreme weather conditions. Additionally, we rely on internal technology systems, our website, our network, and third-party infrastructure and enterprise applications, which are located in a wide variety of regions, for our development, marketing, operational support, hosted services, and sales activities. In the event of a major earthquake, hurricane, or other natural disaster, or a catastrophic event such as fire, power loss, telecommunications failure, vandalism, civil unrest, cyber-attack, geopolitical instability, war, terrorist attack, insurrection, pandemics or other public health emergencies (including the ongoing COVID-19 pandemic), or the effects of climate change (such as drought, flooding, wildfires, increased storm severity, and sea level rise), we may be unable to continue our operations and may endure system interruptions, delays in our product development, lengthy interruptions in our services, breaches of data security, and loss of critical data, all of which could cause reputational harm or otherwise have an adverse effect on our business and operating results. In addition, the impacts of climate change on the global economy and our industry are rapidly evolving. We may be subject to increased regulations, reporting requirements, standards, or expectations regarding the environmental impacts of our business.

We may discover weaknesses in our internal controls over financial reporting, which may adversely affect investor confidence in the accuracy and completeness of our financial reports and consequently the market price of our securities.

As a public company, we are required to design and maintain proper and effective internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on the internal controls over financial reporting, which must be attested to by our independent registered public accounting firm. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated.

The process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404 is challenging and costly. In the future, we may not be able to complete our evaluation, testing, and any required remediation in a timely fashion. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our securities could be negatively affected, and we could become subject to investigations by the Financial Industry Regulatory Authority, the SEC, or other regulatory authorities, which could require additional financial and management resources. In addition, because we use Workday's financial management application, any problems that we experience with financial reporting and compliance could be negatively perceived by prospective or current customers, and negatively impact demand for our applications.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters, which includes operations and product development facilities, is located in Pleasanton, California. It consists of approximately 1.2 million square feet of owned facilities and a 6.9 acre parcel of leased land. The land lease will expire in 2108. In addition, we lease office space in various locations, including North America, Europe, and Asia Pacific, and data center capacity throughout North America and Europe.

We believe that our facilities are suitable to meet our current needs. In the future, we may expand our facilities or add new facilities as we add employees and enter new geographic markets, and we believe that suitable additional or alternative space will be available on commercially reasonable terms to accommodate any such growth.

ITEM 3. LEGAL PROCEEDINGS

We are regularly involved with claims, suits, purported class or representative actions, and may be involved in regulatory and government investigations and other proceedings, involving competition, intellectual property, data security and privacy, bankruptcy, tax and related compliance, labor and employment, commercial disputes, and other matters. Such claims, suits, actions, regulatory and government investigations, and other proceedings can impose a significant burden on management and employees, could prevent us from offering one or more of our applications, services, or features to others, could require us to change our technology or business practices, or could result in monetary damages, fines, civil or criminal penalties, reputational harm, or other adverse consequences.

These claims, suits, actions, regulatory and government investigations, and other proceedings may include speculative, substantial, or indeterminate monetary amounts. We record a liability when we believe that it is probable that a liability has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine both the likelihood of there being a liability and the estimated amount of a liability related to such matters. With respect to our outstanding matters, based on our current knowledge, we believe that the amount or range of reasonably possible liability will not, either individually or in aggregate, have a material adverse effect on our business, financial condition, operating results, or cash flows. However, the outcome of such matters is inherently unpredictable and subject to significant uncertainties.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Our Class A common stock is traded on the Nasdaq Global Select Market under the symbol "WDAY". Our Class B common stock is not listed or traded on any stock exchange.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business and do not expect to declare or pay any dividends in the foreseeable future. Any further determination to pay dividends on our capital stock will be at the discretion of our Board of Directors, subject to applicable laws, and will depend on our financial condition, operating results, capital requirements, general business conditions, and other factors that our Board of Directors considers relevant.

Stockholders

As of February 24, 2022, there were 16 stockholders of record of our Class A common stock, including The Depository Trust Company, which holds shares of our common stock on behalf of an indeterminate number of beneficial owners, as well as 71 stockholders of record of our Class B common stock.

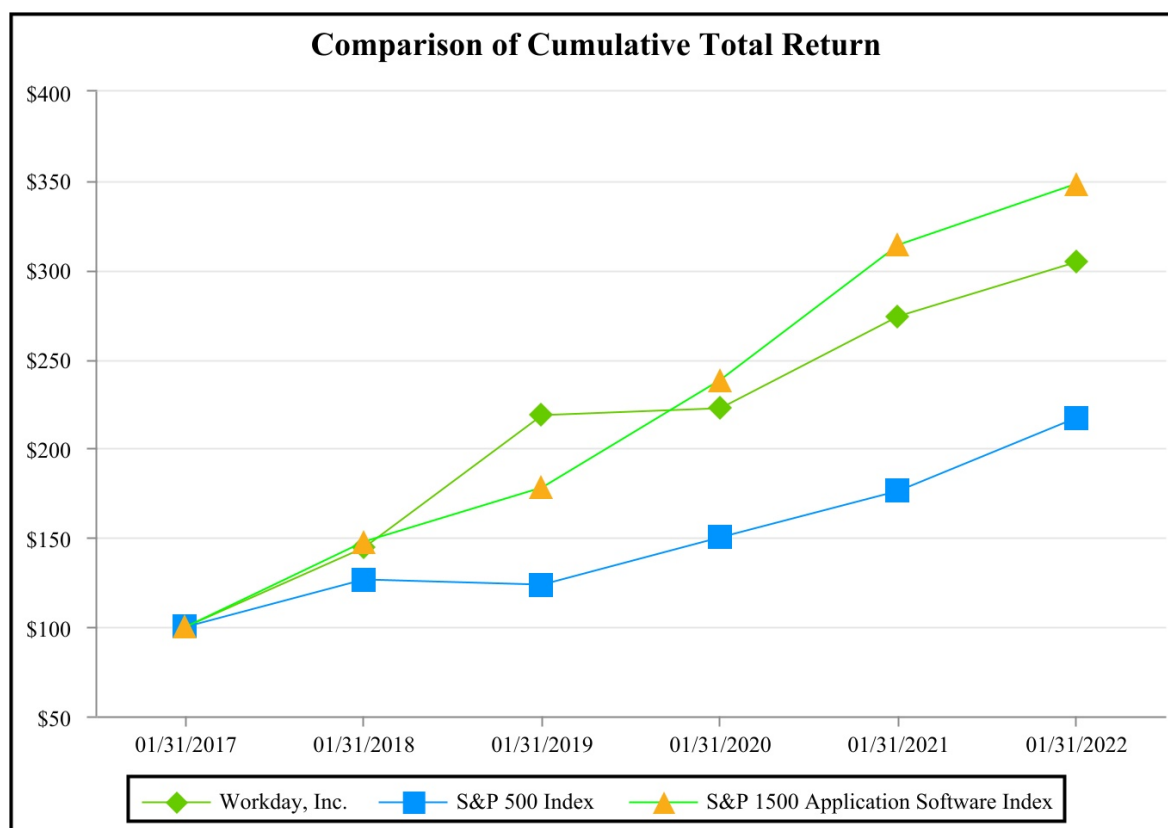
Securities Authorized for Issuance under Equity Compensation Plans

See Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for more information regarding securities authorized for issuance.

Stock Performance Graph

The following shall not be deemed "soliciting material" or deemed "filed" for purposes of Section 18 of the Exchange Act, or subject to Regulation 14A or 14C, other than as provided by this Item 5, or to the liabilities of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act, except to the extent we specifically incorporate it by reference into such filing.

This chart compares the cumulative total return on our common stock with that of the S&P 500 Index and the S&P 1500 Application Software Index. The chart assumes \$100 was invested at the close of market on January 31, 2017, in our Class A common stock, the S&P 500 Index, and the S&P 1500 Application Software Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



| Company/Index | 1/31/2017 | 1/31/2018 | 1/31/2019 | 1/31/2020 | 1/31/2021 | 1/31/2022 |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Workday, Inc. | \$ 100.00 | \$ 144.29 | \$ 218.47 | \$ 222.20 | \$ 273.84 | \$ 304.50 |
| S&P 500 Index | 100.00 | 126.40 | 123.46 | 150.22 | 176.11 | 217.09 |
| S&P 1500 Application Software Index | 100.00 | 147.68 | 178.21 | 238.09 | 314.13 | 348.38 |

Recent Sales of Unregistered Securities

During the three months ended January 31, 2022, we issued 109 shares of our unregistered Class A common stock to holders of our 2022 Notes upon settlement of conversion of an immaterial aggregate principal amount of such notes. This share amount represents the conversion value of the 2022 Notes in excess of the principal amount converted. These shares of our Class A common stock were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act. For further information, see [Note 11, Debt](#), of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Additionally, in connection with our acquisition of VNDLY during the three months ended January 31, 2022, we agreed to issue 152,384 shares of our Class A common stock to certain key VNDLY employees (“VNDLY reserved shares”), with 50% of such shares to be issued following the first anniversary of the closing date of the acquisition and the remaining 50% to be issued following the second anniversary of the closing date, subject to service conditions. These shares of our Class A common stock will be issued in reliance on one or more of the following exemptions or exclusions from the registration requirements of the Securities Act: Section 4(a)(2) of the Securities Act, Regulation D promulgated under the Securities Act, and Regulation S promulgated under the Securities Act. For further information, see [Note 7, Business Combinations](#), of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

The table below sets forth information regarding our purchases of our Class A common stock during the three months ended January 31, 2022. The shares purchased represent the exercise of the convertible note hedges relating to the partial early conversion of the 2022 Notes. For further information, see [Note 11, Debt](#), of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|---|-------------------------------------|---|---|
| November 1, 2021 - November 30, 2021 | — | \$ — | — | — |
| December 1, 2021 - December 31, 2021 | 108 | 272.49 | — | — |
| January 1, 2022 - January 31, 2022 | — | — | — | — |
| Total | 108 | | — | |

ITEM 6. Reserved

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report. The following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in “Risk Factors” included in Part I, Item 1A of this report.

The following discussion of our financial condition and results of operations covers fiscal 2022 and 2021 items and year-over-year comparisons between fiscal 2022 and 2021. Discussions of fiscal 2020 items and year-over-year comparisons between fiscal 2021 and 2020 that are not included in this Form 10-K can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2021, that was filed with the SEC on March 2, 2021.

Overview

Workday delivers applications for financial management, spend management, human capital management, planning, and analytics. With Workday, our customers have a unified system that can help them plan, execute, analyze, and extend to other applications and environments, thereby helping them continuously adapt how they manage their business and operations. Our diverse customer base includes medium-sized and large, global organizations within numerous industry categories, including professional and business services, financial services, healthcare, education, government, technology, media, retail, and hospitality.

We have achieved significant growth since our inception in 2005, with a substantial amount of our growth coming from new customers. Our current financial focus is on growing our revenues and expanding both our customer base and our footprint within our existing customers. While we have a history of GAAP operating losses, we strive to invest in a disciplined manner across all of our functional areas to sustain continued near-term revenue growth and support our long-term initiatives. We expect our product development, sales and marketing, and general and administrative expenses as a percentage of total revenues will decrease over the longer term as we grow our revenues, and we anticipate that we will gain economies of scale by increasing our customer base without direct incremental development costs.

We plan to reinvest a significant portion of our incremental revenues in future periods to grow our business. We have invested and expect to continue to invest heavily in our product development efforts to deliver additional compelling applications, enhance existing applications, and to address customers’ evolving needs. In addition, we plan to continue to expand our ability to sell our applications globally, particularly in Europe and Asia-Pacific, by investing in product development and customer support to address the business needs of local markets, increasing our sales and marketing organizations, acquiring and leasing additional office space, and expanding our ecosystem of service partners to support local deployments. We expect to make further significant investments in our data center capacity and equipment and third-party hosted infrastructure platforms as we plan for future growth. We are also investing in personnel to support our growing customer base.

We regularly evaluate acquisition and investment opportunities in complementary businesses, employee teams, services, technologies, and intellectual property rights in an effort to expand our product and service offerings. For example, we acquired Peakon, Zimit, and VNDLY in fiscal 2022, and Scout in fiscal 2020. We expect to continue making such acquisitions and investments in the future. While we remain focused on improving operating margin, these acquisitions and investments will increase our costs on an absolute basis in the near term. Many of these investments will occur in advance of experiencing any direct benefit from them and could make it difficult to determine if we are allocating our resources efficiently.

Since inception, we have also invested heavily in our professional services organization to help ensure that customers successfully deploy and adopt our applications. Additionally, we continue to expand our professional services partner ecosystem to further support our customers. We believe our investment in professional services, as well as partners building consulting practices around Workday, will drive additional customer subscriptions and continued growth in revenues. Due to our ability to leverage the expanding partner ecosystem, we expect the rate of professional services revenue growth to decline over time and continue to be lower than subscription revenue growth.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic is having unpredictable impacts on global societies, economies, financial markets, and business practices. In response to the COVID-19 pandemic, we temporarily closed the majority of our offices; required most of our employees to work remotely; implemented travel restrictions; and postponed certain of our customer, industry, implementation partner, analyst, investor, and employee events and converted others to virtual-only experiences. Most of these operational changes remain in effect and we continue to prioritize the health and safety of our employees, customers, and partners. While the majority of our employees continue to work remotely, we began to reopen our offices in fiscal 2022 and are allowing employees to return to the office on a voluntary basis with enhanced safety protocols in place.

Despite the continuing uncertainty associated with the COVID-19 pandemic, we continue to achieve solid new subscription bookings as demand for our products remains strong, and we are confident in the long-term overall health of our business, the strength of our product offerings, and our ability to continue to execute on our strategy. Our operating margin in fiscal 2022 and 2021 was favorably impacted by the moderation of operating expenses in response to the COVID-19 pandemic. We do not anticipate the extent of the favorable margin impact to continue long-term as we remain committed to investing in our business to drive top line growth and to support our customer base.

Our near-term revenues are relatively predictable as a result of our subscription-based business model. However, if the economic uncertainty increases, we may experience a negative impact on new business, customer renewals, sales and marketing efforts, revenue growth rates, customer deployments, customer solvency, product development, or other financial metrics, similar to what we experienced at the onset of the pandemic. Any of these factors could harm our business, financial condition, and operating results.

For further discussion of the potential impacts of the COVID-19 pandemic on our business, financial condition, and operating results, see “Risk Factors” included in Part I, Item 1A of this report.

Financial Results Overview

The following table provides an overview of our key metrics (in thousands, except percentages and headcount data):

| | As of and for the Years Ended January 31, | | | |
|---|---|---------------|--------------|----------|
| | 2022 | 2021 | \$ Change | % Change |
| Total revenues | \$ 5,138,798 | \$ 4,317,996 | \$ 820,802 | 19 % |
| Subscription services revenues | \$ 4,546,313 | \$ 3,788,452 | \$ 757,861 | 20 % |
| Total subscription revenue backlog | \$ 12,806,855 | \$ 10,088,634 | \$ 2,718,221 | 27 % |
| 24-month subscription revenue backlog | \$ 7,975,554 | \$ 6,526,074 | \$ 1,449,480 | 22 % |
| GAAP operating income (loss) | \$ (116,450) | \$ (248,599) | \$ 132,149 | (53)% |
| Non-GAAP operating income ⁽¹⁾ | \$ 1,149,704 | \$ 867,241 | \$ 282,463 | 33 % |
| GAAP operating margin | (2.3)% | (5.8)% | | 4 % |
| Non-GAAP operating margin ⁽¹⁾ | 22.4 % | 20.1 % | | 2 % |
| Operating cash flows | \$ 1,650,704 | \$ 1,268,441 | \$ 382,263 | 30 % |
| Cash, cash equivalents, and marketable securities | \$ 3,644,161 | \$ 3,535,653 | \$ 108,508 | 3 % |
| Headcount | 15,204 | 12,524 | 2,680 | 21 % |

(1) See “Non-GAAP Financial Measures” below for further information.

Components of Results of Operations

Revenues

We derive our revenues from subscription services and professional services. Subscription services revenues primarily consist of fees that give our customers access to our cloud applications, which include related customer support. Professional services revenues include fees for deployment services, optimization services, and training.

Subscription services revenues accounted for 88% of our total revenues during fiscal 2022, and represented 96% of our total unearned revenue as of January 31, 2022. Subscription services revenues are driven primarily by the number of customers, the number of workers at each customer, the specific applications subscribed to by each customer, and the price of our applications.

The mix of applications to which a customer subscribes can affect our financial performance due to price differentials in our applications. Pricing for our applications varies based on many factors, including the complexity and maturity of the application and its acceptance in the marketplace. New products or services offerings by competitors in the future could also impact the mix and pricing of our offerings.

Subscription services revenues are recognized over time as services are delivered and consumed concurrently over the contractual term, beginning on the date our service is made available to the customer. Our subscription contracts typically have a term of three years or longer and are generally noncancelable. We generally invoice our customers annually in advance. Amounts that have been invoiced are initially recorded as unearned revenue.

Our consulting engagements are billed on a time and materials basis or a fixed price basis. For contracts billed on a time and materials basis, revenues are recognized over time as the professional services are performed. For contracts billed on a fixed price basis, revenues are recognized over time based on the proportion of the professional services performed. In some cases, we supplement our consulting teams by subcontracting resources from our service partners and deploying them on customer engagements. As the Workday-related consulting practices of our partner firms continues to develop, we expect these partners to increasingly contract directly with our subscription customers. As a result of this trend, and the increase of our subscription services revenues, we expect our professional services revenues as a percentage of total revenues to continue to decline over time.

Subscription Revenue Backlog

Our subscription revenue backlog, which is also referred to as remaining performance obligations for subscription contracts, represents contracted subscription services revenues that have not yet been recognized and includes billed and unbilled amounts. Subscription revenue backlog may fluctuate from period to period due to a number of factors, including the timing of renewals and overall renewal rates, new business growth, average contract duration, and seasonality.

Costs and Expenses

Costs of subscription services revenues. Costs of subscription services revenues consist primarily of employee-related expenses associated with hosting our applications and providing customer support, expenses related to data centers and computing infrastructure operated by third parties, and depreciation of computer equipment and software.

Costs of professional services revenues. Costs of professional services revenues consist primarily of employee-related expenses associated with these services, subcontractor expenses, and travel expenses.

Product development. Product development expenses consist primarily of employee-related expenses. We continue to focus our product development efforts on adding new features and applications, increasing functionality, and enhancing the ease of use of our cloud applications.

Sales and marketing. Sales and marketing expenses consist primarily of employee-related expenses, sales commissions, marketing programs, and travel expenses. Marketing programs consist of advertising, events, corporate communications, brand awareness, brand ambassador campaigns, and product marketing activities. Sales commissions are considered incremental costs of obtaining a contract with a customer. Sales commissions for new revenue contracts are capitalized and amortized on a straight-line basis over a period of benefit that we have determined to be five years.

General and administrative. General and administrative expenses consist of employee-related expenses for finance and accounting, legal, human resources, information systems personnel, professional fees, and other corporate expenses.

Results of Operations**Revenues**

Our total revenues were as follows (in thousands):

| | Year Ended January 31, | | |
|-----------------------|------------------------|--------------|--------------|
| | 2022 | 2021 | 2020 |
| Subscription services | \$ 4,546,313 | \$ 3,788,452 | \$ 3,096,389 |
| Professional services | 592,485 | 529,544 | 530,817 |
| Total revenues | \$ 5,138,798 | \$ 4,317,996 | \$ 3,627,206 |

Total revenues were \$5.1 billion for fiscal 2022, compared to \$4.3 billion for fiscal 2021, an increase of \$821 million, or 19%. Subscription services revenues were \$4.5 billion for fiscal 2022, compared to \$3.8 billion for fiscal 2021, an increase of \$758 million, or 20%. The increase in subscription services revenues was primarily due to an increased number of customer contracts and strong customer renewals, with gross retention over 95%. Professional services revenues were \$592 million for fiscal 2022, compared to \$530 million for fiscal 2021, an increase of \$63 million, or 12%. The increase in professional services revenues was primarily due to Workday performing deployment and integration services for a greater number of customers.

Subscription Revenue Backlog

As of January 31, 2022, our total subscription revenue backlog was \$12.8 billion, with \$8.0 billion expected to be recognized in revenues over the next 24 months. As of January 31, 2021, our total subscription revenue backlog was \$10.1 billion, with \$6.5 billion expected to be recognized in revenues over the next 24 months. The increase in subscription revenue backlog during fiscal 2022 was primarily driven by the addition of new customers, expansion of our product offerings with existing customers, and the timing of renewals.

Operating Expenses

GAAP operating expenses were \$5.3 billion for fiscal 2022, compared to \$4.6 billion for fiscal 2021, an increase of \$689 million, or 15%, which was primarily related to an increase of \$517 million in employee-related expenses, including share-based compensation, due to higher average headcount. The increase in employee-related expenses also included \$32 million for a performance-based cash bonus program that was expanded to all employees in the fourth quarter of fiscal 2022. Additionally, there were increases of \$59 million related to marketing programs, \$51 million in professional services and subcontractor expenses, \$44 million in third-party expenses for hardware maintenance and data center capacity, and \$37 million in depreciation expense related to equipment in our data centers, offset by a decrease of \$79 million related to a one-time cash bonus that had been paid in fiscal 2021 to non-executive employees to help accommodate unforeseen costs brought on by the COVID-19 pandemic ("COVID-19 one-time employee bonus").

We use the non-GAAP financial measure of non-GAAP operating expenses to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate our financial performance. We believe that non-GAAP operating expenses reflect our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business. We also believe that non-GAAP operating expenses provide useful information to investors and others in understanding and evaluating our operating results and prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

Non-GAAP operating expenses were calculated by excluding share-based compensation expenses and certain other expenses, which consist of employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. See "Non-GAAP Financial Measures" below for further information.

Non-GAAP operating expenses were \$4.0 billion for fiscal 2022, compared to \$3.5 billion for fiscal 2021, an increase of \$538 million, or 16%, which was primarily related to an increase of \$385 million in employee-related expenses due to higher average headcount. The increase in employee-related expenses also included \$32 million for a performance-based cash bonus program that was expanded to all employees in the fourth quarter of fiscal 2022. Additionally, there were increases of \$59 million related to marketing programs, \$51 million in professional services and subcontractor expenses, \$44 million in third-party expenses for hardware maintenance and data center capacity, and \$37 million in depreciation expense related to equipment in our data centers, offset by a decrease of \$79 million related to the COVID-19 one-time employee bonus.

Reconciliations of our GAAP to non-GAAP operating expenses were as follows (in thousands):

| | Year Ended January 31, 2022 | | | |
|--------------------------------|-----------------------------|-----------------------------------|---|--|
| | GAAP Operating Expenses | Share-Based Compensation Expenses | Other Operating Expenses ⁽¹⁾ | Non-GAAP Operating Expenses ⁽²⁾ |
| Costs of subscription services | \$ 795,854 | \$ (85,713) | \$ (54,551) | \$ 655,590 |
| Costs of professional services | 632,241 | (113,443) | (11,181) | 507,617 |
| Product development | 1,879,220 | (543,135) | (32,935) | 1,303,150 |
| Sales and marketing | 1,461,921 | (215,692) | (47,457) | 1,198,772 |
| General and administrative | 486,012 | (154,422) | (7,625) | 323,965 |
| Total costs and expenses | <u>\$ 5,255,248</u> | <u>\$ (1,112,405)</u> | <u>\$ (153,749)</u> | <u>\$ 3,989,094</u> |

| | Year Ended January 31, 2021 | | | |
|--------------------------------|-----------------------------|-----------------------------------|---|--|
| | GAAP Operating Expenses | Share-Based Compensation Expenses | Other Operating Expenses ⁽¹⁾ | Non-GAAP Operating Expenses ⁽²⁾ |
| Costs of subscription services | \$ 611,912 | \$ (63,253) | \$ (34,799) | \$ 513,860 |
| Costs of professional services | 586,220 | (101,869) | (6,486) | 477,865 |
| Product development | 1,721,222 | (505,376) | (27,567) | 1,188,279 |
| Sales and marketing | 1,233,173 | (202,819) | (35,797) | 994,557 |
| General and administrative | 414,068 | (131,537) | (6,337) | 276,194 |
| Total costs and expenses | <u>\$ 4,566,595</u> | <u>\$ (1,004,854)</u> | <u>\$ (110,986)</u> | <u>\$ 3,450,755</u> |

| | Year Ended January 31, 2020 | | | |
|--------------------------------|-----------------------------|-----------------------------------|---|--|
| | GAAP Operating Expenses | Share-Based Compensation Expenses | Other Operating Expenses ⁽¹⁾ | Non-GAAP Operating Expenses ⁽²⁾ |
| Costs of subscription services | \$ 488,513 | \$ (49,919) | \$ (40,326) | \$ 398,268 |
| Costs of professional services | 576,745 | (80,401) | (6,440) | 489,904 |
| Product development | 1,549,906 | (434,188) | (30,684) | 1,085,034 |
| Sales and marketing | 1,146,548 | (176,758) | (40,774) | 929,016 |
| General and administrative | 367,724 | (118,614) | (8,592) | 240,518 |
| Total costs and expenses | <u>\$ 4,129,436</u> | <u>\$ (859,880)</u> | <u>\$ (126,816)</u> | <u>\$ 3,142,740</u> |

(1) Other operating expenses include amortization of acquisition-related intangible assets of \$78 million, \$60 million, and \$72 million for fiscal 2022, 2021, and 2020, respectively. In addition, other operating expenses include employer payroll tax-related items on employee stock transactions of \$76 million, \$51 million, and \$55 million for fiscal 2022, 2021, and 2020, respectively.

(2) See "Non-GAAP Financial Measures" below for further information.

Costs of Subscription Services

GAAP operating expenses in costs of subscription services were \$796 million for fiscal 2022, compared to \$612 million for fiscal 2021, an increase of \$184 million, or 30%. The increase in costs of subscription services included increases of \$91 million in employee-related expenses, including share-based compensation, due to higher average headcount, \$37 million in depreciation expense related to equipment in our data centers, and \$28 million in third-party expenses for hardware maintenance and data center capacity, offset by a decrease of \$5 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in costs of subscription services were \$656 million for fiscal 2022, compared to \$514 million for fiscal 2021, an increase of \$142 million, or 28%. The increase in costs of subscription services included increases of \$66 million in employee-related expenses due to higher average headcount, \$37 million in depreciation expense related to equipment in our data centers, and \$28 million in third-party expenses for hardware maintenance and data center capacity, offset by a decrease of \$5 million related to the COVID-19 one-time employee bonus.

We expect GAAP and non-GAAP operating expenses in costs of subscription services will continue to increase in absolute dollars as we improve and expand our technical operations infrastructure, including our data centers and computing infrastructure operated by third parties.

Costs of Professional Services

GAAP operating expenses in costs of professional services were \$632 million for fiscal 2022, compared to \$586 million for fiscal 2021, an increase of \$46 million, or 8%. The increase in costs of professional services was primarily due to an increase of \$54 million in employee-related expenses, including share-based compensation, due to higher average headcount, offset by a decrease of \$12 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in costs of professional services were \$508 million for fiscal 2022, compared to \$478 million for fiscal 2021, an increase of \$30 million, or 6%. The increase in costs of professional services was primarily due to an increase of \$38 million in employee-related expenses due to higher average headcount, offset by a decrease of \$12 million related to the COVID-19 one-time employee bonus.

We expect GAAP and non-GAAP costs of professional services as a percentage of total revenues to continue to decline as we continue to rely on our service partners to deploy our applications and as the number of our customers continues to grow.

Product Development

GAAP operating expenses in product development were \$1.9 billion for fiscal 2022, compared to \$1.7 billion for fiscal 2021, an increase of \$158 million, or 9%. The increase in product development expenses was primarily due to an increase of \$169 million in employee-related expenses, including share-based compensation, due to higher average headcount, offset by a decrease of \$31 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in product development were \$1.3 billion for fiscal 2022, compared to \$1.2 billion for fiscal 2021, an increase of \$115 million, or 10%. The increase in product development expenses was primarily due to an increase of \$122 million in employee-related expenses due to higher average headcount, offset by a decrease of \$31 million related to the COVID-19 one-time employee bonus.

We expect GAAP and non-GAAP product development expenses will continue to increase in absolute dollars as we improve and extend our applications and develop new technologies.

Sales and Marketing

GAAP operating expenses in sales and marketing were \$1.5 billion for fiscal 2022, compared to \$1.2 billion for fiscal 2021, an increase of \$229 million, or 19%. The increase in sales and marketing expenses included increases of \$149 million in employee-related expenses, including share-based compensation, due to higher average headcount, and \$59 million related to marketing programs, offset by decrease of \$25 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in sales and marketing were \$1.2 billion for fiscal 2022, compared to \$995 million for fiscal 2021, an increase of \$204 million, or 21%. The increase in sales and marketing expenses included increases of \$130 million in employee-related expenses due to higher average headcount and \$59 million related to marketing programs, offset by decrease of \$25 million related to the COVID-19 one-time employee bonus.

We expect GAAP and non-GAAP sales and marketing expenses to increase in absolute dollars as we continue to invest in our domestic and international selling and marketing activities to expand brand awareness and attract new customers.

General and Administrative

GAAP operating expenses in general and administrative were \$486 million for fiscal 2022, compared to \$414 million for fiscal 2021, an increase of \$72 million, or 17%. The increase in general and administrative expenses included increases of \$54 million in employee-related expenses, including share-based compensation, due to higher average headcount, and \$22 million in professional services expenses, offset by a decrease of \$6 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in general and administrative were \$324 million for fiscal 2022, compared to \$276 million for fiscal 2021, an increase of \$48 million, or 17%. The increase in general and administrative expenses included increases of \$30 million in employee-related expenses due to higher average headcount and \$22 million in professional services expenses, offset by a decrease of \$6 million related to the COVID-19 one-time employee bonus.

We expect GAAP and non-GAAP general and administrative expenses will continue to increase in absolute dollars as we further invest in our infrastructure and support our global expansion.

Operating Margin

GAAP operating margin improved from (5.8)% for fiscal 2021 to (2.3)% for fiscal 2022. Our GAAP operating margin for fiscal 2022 was favorably impacted by our revenue growth outpacing average headcount growth, moderation of operating expenses in response to the COVID-19 pandemic, and the absence of the COVID-19 one-time employee bonus paid in the prior fiscal year.

We use the non-GAAP financial measure of non-GAAP operating margin to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate our financial performance. We believe that non-GAAP operating margin reflects our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business. We also believe that non-GAAP operating margin provides useful information to investors and others in understanding and evaluating our operating results and prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

Non-GAAP operating margin was calculated using GAAP revenues and non-GAAP operating expenses. See “Non-GAAP Financial Measures” below for further information.

Non-GAAP operating margin improved from 20.1% for fiscal 2021 to 22.4% for fiscal 2022. Our non-GAAP operating margin for fiscal 2022 was favorably impacted by our revenue growth outpacing average headcount growth, moderation of operating expenses in response to the COVID-19 pandemic, and the absence of the COVID-19 one-time employee bonus paid in the prior fiscal year.

Reconciliations of our GAAP to non-GAAP operating income (loss) and operating margin were as follows (in thousands, except percentages):

| | Year Ended January 31, 2022 | | | |
|-------------------------|-----------------------------|-----------------------------------|--------------------------|-------------------------|
| | GAAP | Share-Based Compensation Expenses | Other Operating Expenses | Non-GAAP ⁽¹⁾ |
| Operating income (loss) | \$ (116,450) | \$ 1,112,405 | \$ 153,749 | \$ 1,149,704 |
| Operating margin | (2.3)% | 21.6 % | 3.1 % | 22.4 % |
| | Year Ended January 31, 2021 | | | |
| | GAAP | Share-Based Compensation Expenses | Other Operating Expenses | Non-GAAP ⁽¹⁾ |
| Operating income (loss) | \$ (248,599) | \$ 1,004,854 | \$ 110,986 | \$ 867,241 |
| Operating margin | (5.8)% | 23.3 % | 2.6 % | 20.1 % |
| | Year Ended January 31, 2020 | | | |
| | GAAP | Share-Based Compensation Expenses | Other Operating Expenses | Non-GAAP ⁽¹⁾ |
| Operating income (loss) | \$ (502,230) | \$ 859,880 | \$ 126,816 | \$ 484,466 |
| Operating margin | (13.8)% | 23.7 % | 3.5 % | 13.4 % |

(1) See “Non-GAAP Financial Measures” below for further information.

Other Income (Expense), Net

We had other income (expense), net of \$133 million, \$(27) million, and \$20 million during fiscal 2022, 2021, and 2020, respectively.

The increase in other income, net for fiscal 2022 compared to fiscal 2021 was primarily related to net gains of \$124 million recognized on our equity investments, of which \$83 million was due to an equity investment that completed its IPO during fiscal 2022. Additionally, there was a decrease in interest expense for our convertible senior notes of \$52 million from the adoption of Accounting Standard Update (“ASU”) No. 2020-06 and the conversion of our 1.50% convertible senior notes (“2020 Notes”) in fiscal 2021, offset by a decrease of \$13 million in interest income on marketable securities resulting from lower prevailing interest rates.

Non-GAAP Financial Measures

Regulation S-K Item 10(e), “Use of non-GAAP financial measures in Commission filings,” defines and prescribes the conditions for use of non-GAAP financial information. Our measures of non-GAAP operating expenses, non-GAAP operating income (loss), and non-GAAP operating margin meet the definition of a non-GAAP financial measure.

Non-GAAP Operating Expenses, Non-GAAP Operating Income (Loss), and Non-GAAP Operating Margin

Our non-GAAP operating expenses, non-GAAP operating income (loss), and non-GAAP operating margin exclude the components listed below. For the reasons set forth below, management believes that excluding the components provides useful information to investors and others in understanding and evaluating our operating results and prospects in the same manner as management, in comparing financial results across accounting periods and to those of peer companies, and to better understand the long-term performance of our core business.

- *Share-Based Compensation Expenses.* Although share-based compensation is an important aspect of the compensation of our employees and executives, management believes it is useful to exclude share-based compensation expenses to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. Share-based compensation expenses are determined using a number of factors, including our stock price, volatility, and forfeiture rates that are beyond our control and generally unrelated to operational decisions and performance in any particular period. Further, share-based compensation expenses are not reflective of the value ultimately received by the grant recipients.
- *Other Operating Expenses.* Other operating expenses includes employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. The amount of employer payroll tax-related items on employee stock transactions is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. For business combinations, we generally allocate a portion of the purchase price to intangible assets. The amount of the allocation is based on estimates and assumptions made by management and is subject to amortization. The amount of purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition and thus we do not believe it is reflective of ongoing operations. Although we exclude the amortization of acquisition-related intangible assets from these non-GAAP measures, management believes that it is important for investors to understand that such intangible assets were recorded as part of purchase accounting and contribute to revenue generation.

Limitations on the Use of Non-GAAP Financial Measures

A limitation of our non-GAAP financial measures of non-GAAP operating expenses, non-GAAP operating income (loss), and non-GAAP operating margin is that they do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Further, the non-GAAP financial measure of non-GAAP operating expenses has certain limitations because it does not reflect all items of expense that affect our operations and are reflected in the GAAP financial measure of total operating expenses. In the case of share-based compensation, if we did not pay out a portion of compensation in the form of share-based compensation and related employer payroll tax-related items, the cash salary expense included in operating expenses would be higher, which would affect our cash position.

We compensate for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure, and to view our non-GAAP financial measures in conjunction with the most comparable GAAP financial measures.

See “Results of Operations—Operating Expenses” and “Results of Operations—Operating Margin” for reconciliations from the most directly comparable GAAP financial measures, GAAP operating expenses, GAAP operating income (loss), and GAAP operating margin, to the non-GAAP financial measures, non-GAAP operating expenses, non-GAAP operating income (loss), and non-GAAP operating margin, for fiscal 2022, 2021, and 2020.

Liquidity and Capital Resources

As of January 31, 2022, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling \$3.6 billion, which were primarily held for working capital purposes. Our cash equivalents and marketable securities are composed primarily of, in order from largest to smallest, commercial paper, U.S. treasury securities, money market funds, corporate bonds, U.S. agency obligations, and marketable equity investments. We have financed our operations primarily through customer payments, issuance of debt, and sales of our common stock.

We believe our existing cash, cash equivalents, marketable securities, cash provided by operating activities, unbilled amounts related to the remaining term of contracted noncancelable subscription agreements, which are not reflected on the Consolidated Balance Sheets, and, if necessary, our borrowing capacity under our Revolving Credit Facility that provides for \$750 million of unsecured financing, are sufficient to meet our working capital, capital expenditure, and debt repayment needs over the next 12 months. As part of our strategy, we may enter into arrangements to acquire or invest in complementary businesses, services, technologies, or intellectual property rights in the future. We may also choose to seek additional debt or equity financing.

Our long-term future capital requirements depend on many factors, including the effects of the COVID-19 pandemic, customer growth rates, subscription renewal activity, headcount growth, timing and extent of development efforts, expansion of sales and marketing activities, introduction of new and enhanced services offerings, timing of construction or acquisition of additional facilities, investments, and acquisition activities.

Our cash flows were as follows (in thousands):

| | Year Ended January 31, | | |
|--|------------------------|--------------|------------|
| | 2022 | 2021 | 2020 |
| Net cash provided by (used in): | | | |
| Operating activities | \$ 1,650,704 | \$ 1,268,441 | \$ 864,598 |
| Investing activities | (1,607,426) | (1,241,624) | (896,922) |
| Financing activities | 110,251 | 625,049 | 125,124 |
| Effect of exchange rate changes | (705) | 1,334 | (282) |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | \$ 152,824 | \$ 653,200 | \$ 92,518 |

Operating Activities

Cash provided by operating activities was \$1.7 billion and \$1.3 billion for fiscal 2022 and 2021, respectively. The improvement in cash flows provided by operating activities during fiscal 2022, compared to the prior fiscal year, was primarily due to increases in sales and related cash collections and moderation of operating expenses in response to the COVID-19 pandemic.

We expect our business to continue to generate sufficient operating cash flows; however, if the COVID-19 pandemic worsens or is prolonged, our customers may request payment timing concessions, which could materially impact the timing and predictability of our operating cash flows in any given period.

Investing Activities

Cash used in investing activities for fiscal 2022 was \$1.6 billion, which was primarily related to cash consideration for the acquisitions of VNDLY, Zimit, and Peakon, net of cash acquired, of \$1.2 billion. Cash used in investing activities also included capital expenditures of \$264 million mainly for data center projects, the purchase of office space within our corporate headquarters of \$171 million, purchases of non-marketable equity and other investments of \$123 million, and the timing of purchases and maturities of marketable securities. These payments were partially offset by proceeds of \$199 million from sales of marketable securities.

Cash used in investing activities for fiscal 2021 was \$1.2 billion, which was primarily comprised of a net cash outflow related to purchases and maturities of marketable securities of \$930 million, capital expenditures for data center and office space projects of \$253 million, and purchases of non-marketable investments of \$67 million.

We expect capital expenditures will be approximately \$475 million in fiscal 2023. This includes investments in our office facilities, corporate IT infrastructure, and customer data centers to support our continued growth.

Financing Activities

For fiscal 2022, cash provided by financing activities was \$110 million, which was primarily due to proceeds of \$148 million from the issuance of common stock from employee equity plans, offset by payments of \$38 million on the Term Loan.

For fiscal 2021, cash provided by financing activities was \$625 million, which was primarily due to net proceeds of \$748 million from borrowing on the Term Loan and \$149 million from the issuance of common stock from employee equity plans, partially offset by the principal payment of \$250 million in connection with the conversion of the 2020 Notes.

Our 2022 Notes are convertible at the option of the holders during the first quarter of fiscal 2023 since the trigger for early conversion was met. Through the date of this filing, the amount of the principal balance of the 2022 Notes that has been converted or for which conversion has been requested was not material. We may receive additional conversion requests that require settlement in the first quarter of fiscal 2023. For further information, see [Note 11, Debt](#), of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Contractual Obligations

Our contractual obligations primarily consist of borrowings under our Credit Agreement, our convertible senior notes, leases for office space and co-location facilities for data center capacity, agreements for third-party hosted infrastructure platforms for business operations, and other purchase obligations entered into in the ordinary course of business. The table below includes our material contractual obligations, excluding imputed interest, as of January 31, 2022 (in thousands). For further information, see the associated Notes to Consolidated Financial Statements included in Part II, Item 8 of this report referenced in the table below.

| | Total | Payments Due by Period | | Reference |
|--|---------------------|------------------------|---------------------|-------------------------|
| | | Short-term | Long-term | |
| Term Loan ⁽¹⁾ | \$ 716,489 | \$ 83,589 | \$ 632,900 | Note 11 |
| 2022 Notes ⁽¹⁾ | 1,152,700 | 1,152,700 | — | Note 11 |
| Operating leases | 288,598 | 85,578 | 203,020 | Note 12 |
| Third-party hosted infrastructure platform obligations | 728,083 | 42,985 | 685,098 | Note 13 |
| Other purchase obligations | 457,338 | 127,216 | 330,122 | Note 13 |
| | <u>\$ 3,343,208</u> | <u>\$ 1,492,068</u> | <u>\$ 1,851,140</u> | |

(1) Consists of principal and interest payments on the Term Loan and 2022 Notes. The interest obligation on the Term Loan included in the table above assumes interest rates consistent with those in effect for our Term Loan as of January 31, 2022.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates, judgements, and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates, judgements, and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in [Note 2, Accounting Standards and Significant Accounting Policies](#), of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report, the following accounting policies and specific estimates involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and operating results.

Revenue Recognition

We derive our revenues from subscription services and professional services. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to receive in exchange for services rendered.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenues when, or as, we satisfy a performance obligation.

We believe the areas we apply the most critical judgements when determining revenue recognition relate to the identification of distinct performance obligations and the assessment of the standalone selling price (“SSP”) for each performance obligation identified.

Determination of Performance Obligations

A performance obligation is a promise in a contract with a customer to transfer products or services that are distinct. Our contracts with customers may include multiple promises to transfer services to a customer. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as a single performance obligation may require significant judgment that requires us to assess the nature of the promise and the value delivered to the customer.

Our primary performance obligations consist of subscription services and professional services. We satisfy these performance obligations over time as we transfer the promised services to our customers. Subscription services are made up of a daily requirement to deliver the service to the customer. Each day the delivery of the service provides value to the customer and each day represents a measure toward completion of the service. As such, subscription services meet the criteria to be a series of distinct services. In determining whether professional services are distinct, we consider 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 start date and the contractual dependence of the service on the customer’s satisfaction with the professional services work. To date, we have concluded that professional services included in contracts with multiple performance obligations are generally distinct as the professional services are not interrelated with subscription services nor do they result in significant customization of the subscription service. As such, we view professional services as a performance obligation to the customer.

At contract inception, we evaluate whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract includes more than one performance obligation. We combine contracts entered into at or near the same time with the same customer if we determine that the contracts are negotiated as a package with a single commercial objective; the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or the services promised in the contracts are a single performance obligation. For contracts that contain multiple performance obligations, we assess each promise separately and allocate the transaction price on a relative standalone selling price basis. We apply significant judgment in identifying and evaluating any terms and conditions in contracts which may impact revenue recognition.

Standalone Selling Price Assessment

We determine the SSP based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of our contracts, the cloud applications sold, customer demographics, geographic locations, and the number and types of users within our contracts.

We use a range of amounts to estimate SSP for both subscription and professional services sold together in a contract to determine whether there is a discount to be allocated based on the relative SSP of the performance obligations. Judgement is required to determine the SSP for each distinct performance obligation. Our SSP ranges are reassessed on a periodic basis or when facts and circumstances change. Changes in SSP for our services can evolve over time due to changes in our pricing practices that are influenced by market competition, changes in demand for our services, and other economic factors. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes to SSP and may therefore impact revenue recognized in our consolidated financial statements.

Deferred Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for new revenue contracts are capitalized and then amortized on a straight-line basis over a period of benefit that we have determined to be five years. We determined the period of benefit by taking into consideration our customer contracts, our technology, and other factors.

Periodically, we review whether events or changes in circumstances have occurred that could impact the period of benefit. Any future changes in circumstances around the terms of our initial and renewal contracts, customer attrition, underlying technology life, and certain other factors may materially change the period of benefit and therefore the amortization amounts recognized on the Consolidated Statements of Operations. There was no change to the period of benefit during the periods presented.

Business Combinations, Goodwill, and Acquisition-Related Intangible Assets

We allocate the purchase consideration of acquired companies to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date, with the excess recorded to goodwill. The purchase price allocation process requires us to make significant estimates and assumptions related to the fair value of identifiable intangible assets, deferred tax asset valuation allowances, liabilities related to uncertain tax positions, and contingencies. Critical estimates used in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customer contracts, expected life cycle and innovation timelines for acquired technologies, forecasted customer attrition rates and revenue growth, the fair value of pre-existing relationships, royalty rates for comparable market technologies, and discount rates. The amounts and estimated useful lives assigned to acquisition-related intangible assets impact the amount and timing of future amortization expense.

We test goodwill and acquisition-related intangible assets for impairment on an annual basis, or more frequently if a significant event or circumstance indicates impairment, by considering qualitative and quantitative factors. Significant qualitative inputs used in our impairment tests include, but are not limited to, consideration of general macroeconomic conditions, industry market conditions, overall Workday financial performance, and growth or declines in Workday's share price. The primary quantitative input for our impairment test is Workday's market capitalization as of the date of the analysis. We also evaluate the estimated remaining useful lives of acquisition-related intangible assets for changes in circumstances that warrant a revision to the remaining periods of amortization at least annually, or more frequently if significant events or circumstances indicate a change in expected use.

Non-Marketable Equity Investments

Non-marketable equity investments include investments in privately held companies without readily determinable fair values in which we do not own a controlling interest or exercise significant influence. We adjust the carrying values of non-marketable equity investments based on observable price changes from orderly transactions for identical or similar investments of the same issuer. Non-marketable equity investments are valued using significant unobservable inputs or data in an inactive market. Valuations of non-marketable equity investments are inherently complex due to the lack of readily available market data, and require our judgment due to the absence of market prices and an inherent lack of liquidity. In addition, the rights and preferences related to the particular non-marketable equity investments, as compared to the rights and preferences of other securities within the company's capital structure, may impact the magnitude of change in the fair value of our investment as compared to the change in total enterprise value of the company.

We assess our non-marketable equity investments quarterly for impairment. Our impairment analysis encompasses a qualitative and quantitative analysis of key factors including the investee's financial metrics, such as growth or decline in revenues and operating expenses, market acceptance of the investee's product or technology, other competitive products or technology in the market, general market conditions, and the rate at which the investee is using its cash. These factors require significant judgment. If impairment indicators are identified, we will assess the severity and duration of the impairment.

Recent Accounting Pronouncements

See [Note 2, Accounting Standards and Significant Accounting Policies](#), of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report for a full description of recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The ongoing COVID-19 pandemic has resulted in negative impacts on global economies and financial markets, which may increase our foreign currency exchange risk and interest rate risk. For further discussion of the potential impacts of the COVID-19 pandemic on our business, financial condition, and operating results, see “Risk Factors” included in Part I, Item 1A of this report.

Foreign Currency Exchange Risk

We transact business globally in multiple currencies. As a result, our operating results and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. As of January 31, 2022, our most significant currency exposures were the euro, British pound, Canadian dollar, and Australian dollar.

Due to our exposure to market risks that may result from changes in foreign currency exchange rates, we enter into foreign currency derivative hedging transactions to mitigate these risks. For further information, see [Note 10, Derivative Instruments](#), of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Interest Rate Risk on our Investments

We had cash, cash equivalents, and marketable securities totaling \$3.6 billion and \$3.5 billion as of January 31, 2022, and 2021, respectively. Cash equivalents and marketable securities were invested primarily in U.S. treasury securities, U.S. agency obligations, corporate bonds, commercial paper, money market funds, and marketable equity investments. The cash, cash equivalents, and marketable securities are held primarily for working capital purposes. Our investment portfolios are managed to preserve capital and meet liquidity needs. We do not enter into investments for trading or speculative purposes.

Our cash equivalents and our portfolio of debt securities are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fluctuate due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. Our debt securities are classified as “available-for-sale.” When the fair value of the security declines below its amortized cost basis, any portion of that decline attributable to credit losses, to the extent expected to be nonrecoverable before the sale of the impaired security, is recognized on the Consolidated Statements of Operations.

An immediate increase of 100 basis points in interest rates would have resulted in an \$11 million and \$10 million market value reduction in our investment portfolio as of January 31, 2022, and 2021, respectively. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur.

Interest Rate Risk on our Debt

In April 2020, we entered into a Credit Agreement pursuant to which the lenders extended to Workday a senior unsecured Term Loan in an aggregate principal amount of \$750 million and an unsecured Revolving Credit Facility in an aggregate principal amount of \$750 million. The Term Loan and Revolving Credit Facility bear interest, at our option, at either (i) a floating rate per annum equal to the base rate plus a margin that ranges from 0.000% to 0.625%, or (ii) a per annum rate equal to the rate at which dollar deposits are offered in the London interbank market plus a margin that ranges from 1.000% to 1.625%. The base rate is defined as the greatest of (i) Bank of America’s prime rate, (ii) the federal funds rate plus 0.50%, or (iii) a per annum rate equal to the rate at which dollar deposits are offered in the London interbank market for a period of one month (but not less than zero) plus 1.00%. Actual margins under either election will be based on our consolidated leverage ratio.

As of January 31, 2022, and 2021, the Term Loan had a carrying value of \$692 million and \$729 million, respectively, and there were no outstanding borrowings under the Revolving Credit Facility. The interest rate on the Term Loan was 1.30% and 1.38% as of January 31, 2022, and 2021, respectively.

Because the interest rates applicable to borrowings under the Credit Agreement are variable, we are exposed to market risk from changes in the underlying index rates, which affect our cost of borrowing. A hypothetical immediate increase of 100 basis points in interest rates would not have had a significant impact on our results of operations.

In September 2017, we completed an offering of \$1.15 billion of 0.25% convertible senior notes due October 1, 2022. The 2022 Notes have a fixed annual interest rate of 0.25%, and therefore we do not have economic interest rate exposure on the 2022 Notes. However, the value of the 2022 Notes is exposed to interest rate risk. Generally, the fair value of the 2022 Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the 2022 Notes is affected by our stock price. The carrying value of the 2022 Notes was \$1.1 billion as of January 31, 2022, and 2021, and the estimated fair value of the 2022 Notes was \$1.9 billion and \$1.8 billion as of January 31, 2022, and 2021, respectively. The estimated fair value was determined based on the quoted bid price of the 2022 Notes in an over-the-counter market as of the last trading day of each reporting period, which was \$167.00 and \$159.87, respectively.

For further information, see [Note 11, Debt](#), of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WORKDAY, INC.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Workday, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Workday, Inc. (the Company) as of January 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended January 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Revenue Recognition

Description of the Matter

As described in Note 2 to the consolidated financial statements, the Company recognizes revenue primarily from subscription services and professional services contracts. Some of the Company's contracts contain multiple performance obligations. For these contracts, the Company assesses the performance obligations and accounts for those obligations separately if they are distinct. In such cases, the transaction price is allocated to the distinct performance obligations on a relative standalone selling price basis.

Auditing the Company's determination of distinct performance obligations and the allocation of the transaction price to these performance obligations was challenging. For example, there were nonstandard terms and conditions that required judgment to determine the distinct performance obligations and relative standalone selling prices were accounted for appropriately.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to identify distinct performance obligations and allocate the transaction price to those performance obligations, including the underlying assumptions related to the relative standalone selling price.

Among other audit procedures, we selected a sample of contracts and evaluated whether management appropriately identified and considered the terms and conditions and the appropriate revenue recognition. As part of our procedures, we evaluated the assessment of distinct performance obligations and the accuracy and completeness of the underlying data used in management's determination of the relative standalone selling prices.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2008.

San Francisco, California
February 28, 2022

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Workday, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Workday, Inc.'s internal control over financial reporting as of January 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Workday, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended January 31, 2022, and the related notes and our report dated February 28, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Francisco, California
February 28, 2022

WORKDAY, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and par value data)

| | As of January 31, | |
|--|----------------------|---------------------|
| | 2022 | 2021 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,534,273 | \$ 1,384,181 |
| Marketable securities | 2,109,888 | 2,151,472 |
| Trade and other receivables, net of allowance for credit losses of \$10,790 and \$14,267, respectively | 1,242,545 | 1,032,484 |
| Deferred costs | 152,957 | 122,764 |
| Prepaid expenses and other current assets | 174,402 | 111,160 |
| Total current assets | 5,214,065 | 4,802,061 |
| Property and equipment, net | 1,123,075 | 972,403 |
| Operating lease right-of-use assets | 247,808 | 414,143 |
| Deferred costs, noncurrent | 341,259 | 271,796 |
| Acquisition-related intangible assets, net | 391,002 | 248,626 |
| Goodwill | 2,840,044 | 1,819,625 |
| Other assets | 341,252 | 189,757 |
| Total assets | \$ 10,498,505 | \$ 8,718,411 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 55,487 | \$ 75,596 |
| Accrued expenses and other current liabilities | 195,590 | 169,266 |
| Accrued compensation | 402,885 | 285,061 |
| Unearned revenue | 3,110,947 | 2,556,624 |
| Operating lease liabilities | 80,503 | 93,000 |
| Debt, current | 1,222,443 | 1,103,101 |
| Total current liabilities | 5,067,855 | 4,282,648 |
| Debt, noncurrent | 617,354 | 691,913 |
| Unearned revenue, noncurrent | 71,533 | 80,111 |
| Operating lease liabilities, noncurrent | 182,456 | 350,051 |
| Other liabilities | 24,225 | 35,854 |
| Total liabilities | 5,963,423 | 5,440,577 |
| Commitments and contingencies (Note 13) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; 10 million shares authorized; no shares issued or outstanding as of January 31, 2022, and 2021 | — | — |
| Class A common stock, \$0.001 par value; 750 million shares authorized; 196 million and 184 million shares issued and outstanding as of January 31, 2022, and 2021, respectively | 196 | 184 |
| Class B common stock, \$0.001 par value; 240 million shares authorized; 55 million and 59 million shares issued and outstanding as of January 31, 2022, and 2021, respectively | 55 | 58 |
| Additional paid-in capital | 7,284,174 | 6,254,936 |
| Treasury stock, at cost; 0.1 million shares as of January 31, 2022, and 2021 | (12,467) | (12,384) |
| Accumulated other comprehensive income (loss) | 7,709 | (54,970) |
| Accumulated deficit | (2,744,585) | (2,909,990) |
| Total stockholders' equity | 4,535,082 | 3,277,834 |
| Total liabilities and stockholders' equity | \$ 10,498,505 | \$ 8,718,411 |

See Notes to Consolidated Financial Statements

WORKDAY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

| | Year Ended January 31, | | |
|--|------------------------|---------------------|---------------------|
| | 2022 | 2021 | 2020 |
| Revenues: | | | |
| Subscription services | \$ 4,546,313 | \$ 3,788,452 | \$ 3,096,389 |
| Professional services | 592,485 | 529,544 | 530,817 |
| Total revenues | 5,138,798 | 4,317,996 | 3,627,206 |
| Costs and expenses ⁽¹⁾: | | | |
| Costs of subscription services | 795,854 | 611,912 | 488,513 |
| Costs of professional services | 632,241 | 586,220 | 576,745 |
| Product development | 1,879,220 | 1,721,222 | 1,549,906 |
| Sales and marketing | 1,461,921 | 1,233,173 | 1,146,548 |
| General and administrative | 486,012 | 414,068 | 367,724 |
| Total costs and expenses | 5,255,248 | 4,566,595 | 4,129,436 |
| Operating income (loss) | (116,450) | (248,599) | (502,230) |
| Other income (expense), net | 132,632 | (26,535) | 19,783 |
| Income (loss) before provision for (benefit from) income taxes | 16,182 | (275,134) | (482,447) |
| Provision for (benefit from) income taxes | (13,191) | 7,297 | (1,773) |
| Net income (loss) | \$ 29,373 | \$ (282,431) | \$ (480,674) |
| Net income (loss) per share, basic | \$ 0.12 | \$ (1.19) | \$ (2.12) |
| Net income (loss) per share, diluted | \$ 0.12 | \$ (1.19) | \$ (2.12) |
| Weighted-average shares used to compute net income (loss) per share, basic | 247,249 | 237,019 | 227,185 |
| Weighted-average shares used to compute net income (loss) per share, diluted | 254,032 | 237,019 | 227,185 |

(1) Costs and expenses include share-based compensation expenses as follows:

| | Year Ended January 31, | | |
|---|------------------------|--------------|------------|
| | 2022 | 2021 | 2020 |
| Costs of subscription services | \$ 85,713 | \$ 63,253 | \$ 49,919 |
| Costs of professional services | 113,443 | 101,869 | 80,401 |
| Product development | 543,135 | 505,376 | 434,188 |
| Sales and marketing | 215,692 | 202,819 | 176,758 |
| General and administrative | 154,422 | 131,537 | 118,614 |
| Total share-based compensation expenses | \$ 1,112,405 | \$ 1,004,854 | \$ 859,880 |

See Notes to Consolidated Financial Statements

WORKDAY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

| | Year Ended January 31, | | |
|--|------------------------|---------------------|---------------------|
| | 2022 | 2021 | 2020 |
| Net income (loss) | \$ 29,373 | \$ (282,431) | \$ (480,674) |
| Other comprehensive income (loss), net of tax: | | | |
| Net change in foreign currency translation adjustment | (3,295) | 2,926 | (575) |
| Net change in unrealized gains (losses) on available-for-sale debt securities, net of tax provision of \$0, \$0, and \$839, respectively | (6,279) | (1,437) | 2,392 |
| Net change in unrealized gains (losses) on cash flow hedges, net of tax provision of \$0, \$0, and \$3,216, respectively | 72,253 | (79,951) | 22,484 |
| Other comprehensive income (loss), net of tax | <u>62,679</u> | <u>(78,462)</u> | <u>24,301</u> |
| Comprehensive income (loss) | <u>\$ 92,052</u> | <u>\$ (360,893)</u> | <u>\$ (456,373)</u> |

See Notes to Consolidated Financial Statements

WORKDAY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

| | Year Ended January 31, | | |
|---|------------------------|---------------------|---------------------|
| | 2022 | 2021 | 2020 |
| Common stock: | | | |
| Balance, beginning of period | \$ 242 | \$ 231 | \$ 221 |
| Issuance of common stock under employee equity plans, net of shares withheld for employee taxes | 9 | 9 | 10 |
| Settlement of convertible senior notes | — | 2 | — |
| Balance, end of period | 251 | 242 | 231 |
| Additional paid-in capital: | | | |
| Balance, beginning of period | 6,254,936 | 5,090,187 | 4,105,334 |
| Issuance of common stock under employee equity plans, net of shares withheld for employee taxes | 148,319 | 148,664 | 125,663 |
| Share-based compensation | 1,100,536 | 1,003,726 | 858,809 |
| Exercise of convertible senior notes hedges | 88 | 303,238 | — |
| Settlement of convertible senior notes | (3) | (4) | — |
| Settlement of warrants | — | (290,875) | — |
| Cumulative effect of accounting changes | (219,702) | — | 381 |
| Balance, end of period | 7,284,174 | 6,254,936 | 5,090,187 |
| Treasury stock: | | | |
| Balance, beginning of period | (12,384) | — | — |
| Exercise of convertible senior notes hedges | (83) | (303,239) | — |
| Settlement of warrants | — | 290,855 | — |
| Balance, end of period | (12,467) | (12,384) | — |
| Accumulated other comprehensive income (loss): | | | |
| Balance, beginning of period | (54,970) | 23,492 | (809) |
| Other comprehensive income (loss) | 62,679 | (78,462) | 24,301 |
| Balance, end of period | 7,709 | (54,970) | 23,492 |
| Accumulated deficit: | | | |
| Balance, beginning of period | (2,909,990) | (2,627,359) | (2,146,304) |
| Net income (loss) | 29,373 | (282,431) | (480,674) |
| Cumulative effect of accounting changes | 136,032 | (200) | (381) |
| Balance, end of period | (2,744,585) | (2,909,990) | (2,627,359) |
| Total stockholders' equity | \$ 4,535,082 | \$ 3,277,834 | \$ 2,486,551 |

| | Year Ended January 31, | | |
|---|------------------------|---------|---------|
| | 2022 | 2021 | 2020 |
| Common stock (in shares): | | | |
| Balance, beginning of period | 242,667 | 231,708 | 222,052 |
| Issuance of common stock under employee equity plans, net of shares withheld for employee taxes | 8,417 | 9,373 | 9,656 |
| Purchase of treasury stock from the exercise of convertible senior notes hedges | — | (1,655) | — |
| Settlement of convertible senior notes | — | 1,654 | — |
| Settlement of warrants | — | 1,587 | — |
| Other | 125 | — | — |
| Balance, end of period | 251,209 | 242,667 | 231,708 |

See Notes to Consolidated Financial Statements

WORKDAY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Year Ended January 31, | | |
|--|------------------------|---------------------|-------------------|
| | 2022 | 2021 | 2020 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 29,373 | \$ (282,431) | \$ (480,674) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 343,723 | 293,657 | 276,278 |
| Share-based compensation expenses | 1,100,584 | 1,004,854 | 859,571 |
| Amortization of deferred costs | 138,797 | 112,647 | 90,641 |
| Amortization of debt discount and issuance costs | 3,988 | 53,693 | 54,034 |
| Non-cash lease expense | 86,235 | 84,376 | 67,325 |
| (Gains) losses on investments | (145,845) | (16,558) | (4,016) |
| Other | (14,213) | 4,247 | (31,047) |
| Changes in operating assets and liabilities, net of business combinations: | | | |
| Trade and other receivables, net | (207,933) | (159,240) | (176,141) |
| Deferred costs | (238,453) | (184,353) | (149,168) |
| Prepaid expenses and other assets | (35,153) | 52,117 | (17,736) |
| Accounts payable | 9,414 | (3,476) | 20,293 |
| Accrued expenses and other liabilities | 50,671 | (18,472) | 220 |
| Unearned revenue | 529,516 | 327,380 | 355,018 |
| Net cash provided by (used in) operating activities | 1,650,704 | 1,268,441 | 864,598 |
| Cash flows from investing activities: | | | |
| Purchases of marketable securities | (2,858,729) | (2,731,885) | (1,797,468) |
| Maturities of marketable securities | 2,804,103 | 1,802,334 | 1,686,643 |
| Sales of marketable securities | 199,016 | 10,627 | 56,508 |
| Owned real estate projects | (171,501) | (6,116) | (99,308) |
| Capital expenditures, excluding owned real estate projects | (264,267) | (253,380) | (243,694) |
| Business combinations, net of cash acquired | (1,190,199) | — | (473,603) |
| Purchase of other intangible assets | (8,007) | (2,950) | (850) |
| Purchases of non-marketable equity and other investments | (123,011) | (67,482) | (25,393) |
| Sales and maturities of non-marketable equity and other investments | 5,169 | 7,228 | 252 |
| Other | — | — | (9) |
| Net cash provided by (used in) investing activities | (1,607,426) | (1,241,624) | (896,922) |
| Cash flows from financing activities: | | | |
| Proceeds from borrowings on Term Loan, net of debt discount and issuance costs | — | 747,795 | — |
| Payments on convertible senior notes | (114) | (250,012) | (30) |
| Payments on Term Loan | (37,500) | (18,750) | — |
| Proceeds from issuance of common stock from employee equity plans, net of taxes paid for shares withheld | 148,328 | 148,673 | 125,673 |
| Other | (463) | (2,657) | (519) |
| Net cash provided by (used in) financing activities | 110,251 | 625,049 | 125,124 |
| Effect of exchange rate changes | (705) | 1,334 | (282) |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | 152,824 | 653,200 | 92,518 |
| Cash, cash equivalents, and restricted cash at the beginning of period | 1,387,921 | 734,721 | 642,203 |
| Cash, cash equivalents, and restricted cash at the end of period | \$ 1,540,745 | \$ 1,387,921 | \$ 734,721 |

See Notes to Consolidated Financial Statements

| | Year Ended January 31, | | |
|--|------------------------|---------------------|-------------------|
| | 2022 | 2021 | 2020 |
| Supplemental cash flow data | | | |
| Cash paid for interest, net of amounts capitalized | \$ 13,310 | \$ 14,373 | \$ 3,306 |
| Cash paid for income taxes | 12,563 | 9,939 | 9,010 |
| Non-cash investing and financing activities: | | | |
| Purchases of property and equipment, accrued but not paid | 47,015 | 54,792 | 46,027 |
| | | | |
| | As of January 31, | | |
| | 2022 | 2021 | 2020 |
| Reconciliation of cash, cash equivalents, and restricted cash as shown in the Consolidated Statements of Cash Flows | | | |
| Cash and cash equivalents | \$ 1,534,273 | \$ 1,384,181 | \$ 731,141 |
| Restricted cash included in Prepaid expenses and other current assets | 6,472 | 3,602 | 3,459 |
| Restricted cash included in Other assets | — | 138 | 121 |
| Total cash, cash equivalents, and restricted cash | <u>\$ 1,540,745</u> | <u>\$ 1,387,921</u> | <u>\$ 734,721</u> |

See Notes to Consolidated Financial Statements

Workday, Inc.**Notes to Consolidated Financial Statements****Note 1. Overview and Basis of Presentation*****Company and Background***

Workday delivers applications for financial management, spend management, human capital management, planning, and analytics. With Workday, our customers have a unified system that can help them plan, execute, analyze, and extend to other applications and environments, thereby helping them continuously adapt how they manage their business and operations. We were originally incorporated in March 2005 in Nevada, and in June 2012, we reincorporated in Delaware.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2022, for example, refer to the fiscal year ended January 31, 2022.

Basis of Presentation

These consolidated financial statements have been prepared in accordance with GAAP and include the results of Workday, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Certain prior period amounts reported in our consolidated financial statements and notes thereto have been reclassified to conform to current period presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make certain estimates, judgements, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. For revenue recognition, examples of significant estimates, judgements, and assumptions include the identification of distinct performance obligations and the assessment of the standalone selling price for each performance obligation identified. Other significant estimates, judgements, and assumptions include, but are not limited to, the determination of the period of benefit for deferred commissions, the fair value and useful lives of assets acquired and liabilities assumed through business combinations, and the valuation of non-marketable equity investments. Actual results could differ from those estimates, judgements, and assumptions, and such differences could be material to our consolidated financial statements.

Segment Information

We operate in one operating segment, cloud applications. Operating segments are defined as components of an enterprise where separate financial information is evaluated regularly by a chief operating decision maker ("CODM") in deciding how to allocate resources and assessing performance. For fiscal 2022, our CODM was our Co-Chief Executive Officer and Chairman, Aneel Bhusri, and our Co-Chief Executive Officer, Chano Fernandez. Our CODM allocates resources and assesses performance based upon discrete financial information at the consolidated level.

Note 2. Accounting Standards and Significant Accounting Policies***Summary of Significant Accounting Policies******Revenue Recognition***

We derive our revenues from subscription services and professional services. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to receive in exchange for services rendered.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenues when, or as, we satisfy a performance obligation.

Subscription Services Revenues

Subscription services revenues primarily consist of fees that provide customers access to one or more of our cloud applications for financial management, spend management, human capital management, planning, and analytics, with routine customer support. Revenues are generally recognized on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our subscription contracts are generally three years or longer in length, billed annually in advance, and are generally noncancelable.

Professional Services Revenues

Professional services revenues primarily consist of consulting fees for deployment and optimization services, as well as training. Our consulting contracts are billed on a time and materials basis or a fixed price basis. For contracts billed on a time and materials basis, revenues are recognized over time as the professional services are performed. For contracts billed on a fixed price basis, revenues are recognized over time based on the proportion of the professional services performed.

Contracts with Multiple Performance Obligations

Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of our contracts, the cloud applications sold, customer demographics, geographic locations, and the number and types of users within our contracts.

Fair Value Measurement

We measure our cash equivalents, marketable securities, and foreign currency derivative contracts at fair value at each reporting period using a fair value hierarchy that requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In addition, we measure our non-marketable equity investments for which there has been an observable price change from an orderly transaction for identical or similar investments of the same issuer at fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

- Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — Other inputs that are directly or indirectly observable in the marketplace.
- Level 3 — Unobservable inputs that are supported by little or no market activity.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less at the time of purchase. Our cash equivalents primarily consist of investments in U.S. treasury securities, U.S. agency obligations, corporate bonds, commercial paper, and money market funds.

Debt Securities

Debt securities primarily consist of investments in U.S. treasury securities, U.S. agency obligations, corporate bonds, and commercial paper. We classify our debt securities as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. We consider all debt securities as available for use in current operations, including those with maturity dates beyond one year, and therefore classify these securities as current assets in the accompanying Consolidated Balance Sheets. Debt securities included in Marketable securities on the Consolidated Balance Sheets consist of securities with original maturities greater than three months at the time of purchase.

When the fair value of a debt security is below its amortized cost, the amortized cost should be written down to its fair value if (i) it is more likely than not that management will be required to sell the impaired security before recovery of its amortized basis or (ii) management has the intention to sell the security. If neither of these conditions are met, we must determine whether the impairment is due to credit losses. To determine the amount of credit losses, we compare the present value of the expected cash flows of the security, derived by taking into account the issuer's credit ratings and remaining payment terms, with its amortized cost basis. The amount of impairment recognized is limited to the excess of the amortized cost over the fair value of the security. An allowance for credit losses for the excess of amortized cost over the expected cash flows is recorded in Other income (expense), net on the Consolidated Statements of Operations. Non-credit related impairment losses are recorded in Other comprehensive income (loss) ("OCI").

If quoted prices for identical instruments are available in an active market, debt securities are classified within Level 1 of the fair value hierarchy. If quoted prices for identical instruments in active markets are not available, fair values are estimated using quoted prices of similar instruments and are classified within Level 2 of the fair value hierarchy. To date, all of our debt securities can be valued using one of these two methodologies.

Equity Investments

We determine at the inception of each arrangement whether an investment or other interest is considered a variable interest entity (“VIE”). If the investment or other interest is determined to be a VIE, we must evaluate whether we are considered the primary beneficiary. The primary beneficiary of a VIE is the party that meets both of the following criteria: (1) has the power to direct the activities that most significantly impact the VIE’s economic performance; and (2) has the obligation to absorb losses or the right to receive benefits from the VIE. For investments in VIEs in which we are considered the primary beneficiary, the assets, liabilities, and results of operations of the VIE are included in our consolidated financial statements. As of January 31, 2022, there were no VIEs for which we were the primary beneficiary.

Equity Investments Accounted for Under the Equity Method

Investments in VIEs for which we are not the primary beneficiary or do not own a controlling interest but can exercise significant influence over the investee are accounted for under the equity method of accounting. These investments are measured at cost, less any impairment, plus or minus our share of earnings and losses and are included in Other assets on the Consolidated Balance Sheets. Our share of earnings and losses are recorded in Other income (expense), net on the Consolidated Statements of Operations.

Non-Marketable Equity Investments Measured Using the Measurement Alternative

Non-marketable equity investments measured using the measurement alternative include investments in privately held companies without readily determinable fair values in which we do not own a controlling interest or exercise significant influence. These investments are included in Other assets on the Consolidated Balance Sheets. We adjust the carrying values of non-marketable equity investments based on observable price changes from orderly transactions for identical or similar investments of the same issuer. Additionally, we assess our non-marketable equity investments quarterly for impairment. Adjustments and impairments are recorded in Other income (expense), net on the Consolidated Statements of Operations.

Marketable Equity Investments

We hold marketable equity investments with readily determinable fair values over which we do not own a controlling interest or exercise significant influence. Marketable equity investments are included in Marketable securities on the Consolidated Balance Sheets. They are measured using quoted prices in active markets with changes recorded in Other income (expense), net on the Consolidated Statements of Operations.

Trade and Other Receivables

Trade and other receivables are primarily comprised of trade receivables that are recorded at the invoice amount, net of an allowance for credit losses. We assess our allowance for credit losses on trade receivables by taking into consideration forecasts of future economic conditions, information about past events, such as our historical trend of write-offs, and customer-specific circumstances, such as bankruptcies and disputes. The allowance for credit losses on trade receivables is recorded in operating expenses on the Consolidated Statements of Operations. Other receivables represent unbilled receivables related to subscription and professional services contracts.

Deferred Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for new revenue contracts are capitalized and then amortized on a straight-line basis over a period of benefit that we have determined to be five years. We determined the period of benefit by taking into consideration our customer contracts, our technology, and other factors. Amortization expense is included in Sales and marketing expenses on the Consolidated Statements of Operations.

Derivative Financial Instruments and Hedging Activities

We use derivative financial instruments to manage foreign currency exchange risk. Derivative instruments are carried at fair value and recorded as either an asset or liability on the Consolidated Balance Sheets. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. For derivative instruments designated as cash flow hedges (“cash flow hedges”), which we use to hedge a portion of our forecasted foreign currency revenue and expense transactions, the gains or losses are recorded in Accumulated other comprehensive income (loss) (“AOCI”) on the Consolidated Balance Sheets and subsequently reclassified to earnings in the same period that the hedged transaction affects earnings. For derivative instruments not designated as hedging instruments (“non-designated hedges”), which we use to hedge a portion of our net outstanding monetary assets and liabilities, the gains or losses are recorded in Other income (expense), net on the Consolidated Statements of Operations in the period of change. We use nonderivative financial instruments designated as net investment hedges to hedge our net investment in certain foreign subsidiaries. The gains or losses, which are not material, are recorded in the currency translation adjustment component of AOCI and are reclassified to income in the period in which the hedged subsidiary is either sold or substantially liquidated.

Our foreign currency contracts are classified within Level 2 of the fair value hierarchy because the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, such as currency spot and forward rates.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are depreciated over the shorter of the related lease term or ten years. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Business Combinations

We allocate the purchase consideration of acquired companies to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date, with the excess recorded to goodwill. Our estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, including uncertain tax positions and tax-related valuation allowances, with the corresponding offset to goodwill. 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 Consolidated Statements of Operations.

In the event that we acquire a company in which we previously held an equity interest, the difference between the fair value of the shares as of the date of the acquisition and the carrying value of the equity investment is recorded as a non-cash gain or loss and recorded within Other income (expense), net on the Consolidated Statements of Operations.

Goodwill and Acquisition-Related Intangible Assets

Acquisition-related intangible assets with finite lives are amortized over their estimated useful lives. Goodwill amounts are not amortized. Acquisition-related intangible assets and goodwill are tested for impairment at least annually, and more frequently upon the occurrence of certain events.

Unearned Revenue

Unearned revenue primarily consists of customer billings in advance of revenues being recognized from our subscription contracts. We generally invoice our customers annually in advance for our subscription services. Our typical payment terms provide that customers pay a portion of the total arrangement fee within 30 days of the contract date. Unearned revenue that is anticipated to be recognized during the succeeding twelve-month period is recorded as current unearned revenue and the remaining portion is recorded as noncurrent.

Leases

We have entered into operating lease agreements for our office space, data centers, and other property and equipment. Operating lease right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. Right-of-use assets also include adjustments related to prepaid or deferred lease payments and lease incentives. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate to determine the present value of lease payments.

We recognize variable lease costs in the Consolidated Statements of Operations in the period incurred. Variable lease costs include common area maintenance, utilities, real estate taxes, insurance, and other operating costs that are passed on from the lessor.

Options to extend or terminate a lease are included in the lease term when it is reasonably certain that we will exercise such options.

Advertising Expenses

Advertising is expensed as incurred. Advertising expense was \$131 million, \$85 million, and \$61 million for fiscal 2022, 2021, and 2020, respectively.

Share-Based Compensation

We measure and recognize compensation expense for share-based awards issued to employees and non-employees, primarily including RSUs, performance-based restricted stock units (“PRSUs”), and purchases under the 2012 Employee Stock Purchase Plan (“ESPP”), on the Consolidated Statements of Operations.

For RSUs and PRSUs, fair value is based on the closing price of our common stock on the grant date. Compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the requisite service period. The requisite service period of the awards is generally the same as the vesting period.

For shares issued under the ESPP, fair value is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized on a straight-line basis over the offering period. We determine the assumptions for the option-pricing model as follows:

- *Risk-Free Interest Rate.* The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date closest to the grant date for zero-coupon U.S. Treasury notes with maturities approximately equal to the expected term of the ESPP purchase rights.
- *Expected Term.* The expected term represents the period that our ESPP is expected to be outstanding. The expected term for the ESPP approximates the offering period.
- *Volatility.* The volatility is based on a blend of historical volatility and implied volatility of our common stock. Implied volatility is based on market traded options of our common stock.
- *Dividend Yield.* The dividend yield is assumed to be zero as we have not paid and do not expect to pay dividends.

Income Taxes

We record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe that we have adequately reserved for our uncertain tax positions, we can provide no assurance that the final tax outcome of these matters will not be materially different. We make adjustments to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and operating results. The provision for income taxes includes the effects of any accruals that we believe are appropriate, as well as the related net interest and penalties.

Warranties and Indemnification

Our cloud applications are generally warranted to perform materially in accordance with our online documentation under normal use and circumstances. Additionally, our contracts generally include provisions for indemnifying customers against liabilities if use of our cloud applications infringe a third party’s intellectual property rights. We may also incur liabilities if we breach the security, privacy and/or confidentiality obligations in our contracts. To date, we have not incurred any material costs, and we have not accrued any liabilities in the accompanying consolidated financial statements, as a result of these obligations.

In our standard agreements with customers, we commit to defined levels of service availability and performance and, under certain circumstances, permit customers to receive credits in the event that we fail to meet those levels. In the event our failure to meet those levels triggers a termination right for a customer, we permit a terminating customer to receive a refund of prepaid amounts related to unused subscription services. To date, we have not experienced any significant failures to meet defined levels of availability and performance and, as a result, we have not accrued any liabilities related to these agreements on the consolidated financial statements.

Foreign Currency Exchange

The functional currency for certain of our foreign subsidiaries is the U.S. dollar, while others use local currencies. We translate the foreign functional currency financial statements to U.S. dollars for those entities that do not have the U.S. dollar as their functional currency using the exchange rates at the balance sheet date for assets and liabilities, the period average exchange rates for revenues and expenses, and the historical exchange rates for equity transactions. The effects of foreign currency translation adjustments are recorded in AOCI on the Consolidated Balance Sheets. Foreign currency transaction gains and losses are included in Other income (expense), net on the Consolidated Statements of Operations.

Concentrations of Risk and Significant Customers

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, debt securities, and trade and other receivables. Our deposits exceed federally insured limits.

No customer individually accounted for more than 10% of trade and other receivables, net as of January 31, 2022, or 2021. No customer individually accounted for more than 10% of total revenues during fiscal 2022, 2021, or 2020.

In order to reduce the risk of down-time of our cloud applications, we have established data centers in various geographic regions. We serve our customers and users from data center facilities operated by third parties, located in the United States, Canada, and Europe. We have internal procedures to restore services in the event of disaster at one of our data center facilities. Even with these procedures for disaster recovery in place, our cloud applications could be significantly interrupted during the implementation of the procedures to restore services.

In addition, we rely upon third-party hosted infrastructure partners globally, including AWS, Google LLC, and Microsoft Corporation, to serve customers and operate certain aspects of our services. Given this, any disruption of or interference at our hosted infrastructure partners would impact our operations and our business could be adversely impacted.

Other than the United States, no country individually accounted for more than 10% of total revenues during fiscal 2022, 2021, or 2020.

Recently Adopted Accounting Pronouncements

ASU No. 2020-06

In August 2020, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)*. Under ASU No. 2020-06, the embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, or that do not result in substantial premiums accounted for as paid-in capital. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost, as long as no other features require bifurcation and recognition as derivatives. The new guidance also requires the if-converted method to be applied for all convertible instruments when calculating diluted earnings per share.

We adopted this standard effective February 1, 2021, using a modified retrospective method, under which financial results reported in prior periods were not adjusted. We applied the provisions of this guidance to our 2022 Notes. Upon adoption, we recorded a decrease to Accumulated deficit of \$136 million, a decrease to Additional paid-in capital of \$220 million, an increase to Debt, current of \$79 million, and a decrease to Property and equipment, net of \$5 million, which represented non-cash interest previously capitalized. For further information, see [Note 11, Debt](#).

Recently Issued Accounting Pronouncements*ASU No. 2021-08*

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured in accordance with Topic 606, *Revenue from Contracts with Customers*, as if the acquirer had originated the contracts. Under current GAAP, such assets and liabilities are recognized by the acquirer at fair value on the acquisition date. The new standard is effective for our fiscal year beginning on February 1, 2023, with early adoption permitted. We are currently evaluating the accounting, transition, and disclosure requirements of this standard.

ASU No. 2020-04 and ASU No. 2021-01

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to GAAP guidance on contract modifications to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate to alternative reference rates. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848)*, which refines the scope of Topic 848 and clarifies some of its guidance. We may elect to apply the amendments prospectively through December 31, 2022. The impact on our consolidated financial statements from the adoption of this standard is expected to be immaterial.

Note 3. Investments**Debt Securities**

As of January 31, 2022, debt securities consisted of the following (in thousands):

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Aggregate Fair Value |
|---------------------------------------|---------------------|------------------|-------------------|----------------------|
| U.S. treasury securities | \$ 843,627 | \$ 5 | \$ (1,720) | \$ 841,912 |
| U.S. agency obligations | 232,093 | — | (1,168) | 230,925 |
| Corporate bonds | 490,867 | — | (1,815) | 489,052 |
| Commercial paper | 969,204 | — | — | 969,204 |
| Total debt securities | \$ 2,535,791 | \$ 5 | \$ (4,703) | \$ 2,531,093 |
| Included in Cash and cash equivalents | \$ 525,524 | \$ — | \$ (1) | \$ 525,523 |
| Included in Marketable securities | \$ 2,010,267 | \$ 5 | \$ (4,702) | \$ 2,005,570 |

As of January 31, 2021, debt securities consisted of the following (in thousands):

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Aggregate Fair Value |
|---------------------------------------|---------------------|------------------|-------------------|----------------------|
| U.S. treasury securities | \$ 1,054,146 | \$ 205 | \$ (10) | \$ 1,054,341 |
| U.S. agency obligations | 504,298 | 196 | (49) | 504,445 |
| Corporate bonds | 346,563 | 1,253 | (14) | 347,802 |
| Commercial paper | 664,262 | — | — | 664,262 |
| Total debt securities | \$ 2,569,269 | \$ 1,654 | \$ (73) | \$ 2,570,850 |
| Included in Cash and cash equivalents | \$ 440,678 | \$ — | \$ — | \$ 440,678 |
| Included in Marketable securities | \$ 2,128,591 | \$ 1,654 | \$ (73) | \$ 2,130,172 |

No debt securities held as of January 31, 2022, or 2021, were in a continuous unrealized loss position for greater than 12 months, and we did not recognize any credit losses related to our debt securities during fiscal 2022, 2021, or 2020.

We sold \$162 million, \$11 million, and \$6 million of debt securities during fiscal 2022, 2021, and 2020, respectively. The realized gains and losses from the sales were immaterial.

Equity Investments

Equity investments consisted of the following (in thousands):

| | Consolidated Balance Sheets Location | As of January 31, | |
|--|--------------------------------------|-------------------|-------------------|
| | | 2022 | 2021 |
| Money market funds | Cash and cash equivalents | \$ 607,640 | \$ 659,964 |
| Equity investments accounted for under the equity method | Other assets | — | 48,222 |
| Non-marketable equity investments measured using the measurement alternative | Other assets | 256,643 | 73,142 |
| Marketable equity investments | Marketable securities | 104,318 | 21,300 |
| Total equity investments | | \$ 968,601 | \$ 802,628 |

Total realized and unrealized gains and losses associated with our equity investments consisted of the following (in thousands):

| | Year Ended January 31, | | |
|---|------------------------|------------------|------------------|
| | 2022 | 2021 | 2020 |
| Net realized gains (losses) recognized on equity investments sold ⁽¹⁾ | \$ 22,273 | \$ 1,667 | \$ 26,837 |
| Net unrealized gains (losses) recognized on equity investments held as of the end of the period | 121,474 | 18,425 | 6,057 |
| Total net gains (losses) recognized in Other income (expense), net | \$ 143,747 | \$ 20,092 | \$ 32,894 |

(1) Reflects the difference between the sale proceeds and the carrying value of the equity investments at the beginning of the fiscal year.

Equity Investments Accounted for Under the Equity Method

During fiscal 2021, we made an equity investment of \$50 million in a limited partnership, which represented an ownership interest of approximately 6%. We determined that the limited partnership was a VIE because the at-risk equity holders, as a group, lacked the characteristics of a controlling financial interest. We did not have majority voting rights nor the power to direct the activities of this entity, and therefore, we were not the primary beneficiary. The investment was accounted for under the equity method of accounting as it was considered to be more than minor and we had the ability to exercise significant influence over the entity. Under the equity method, our share of earnings and losses of the investee was not material and there was no impairment loss recorded for the periods presented.

In June 2021, the limited partnership was liquidated and shares of common stock in a corporation were distributed to the partners. Immediately thereafter, the corporation completed its IPO. We no longer exercise significant influence over the entity and therefore we accounted for our interest in the common stock received as a marketable equity investment measured at fair value. Since the IPO, we have sold a portion of our investment for proceeds of \$25 million, resulting in a realized gain of \$16 million. Our remaining investment had a carrying value of \$104 million as of January 31, 2022. We recorded an unrealized gain of \$67 million related to this investment during fiscal 2022.

Non-Marketable Equity Investments Measured Using the Measurement Alternative

The carrying values for our non-marketable equity investments are summarized below (in thousands):

| | As of January 31, | |
|--|-------------------|------------------|
| | 2022 | 2021 |
| Total initial cost | \$ 192,694 | \$ 65,377 |
| Cumulative net unrealized gains (losses) | 63,949 | 7,765 |
| Carrying value | \$ 256,643 | \$ 73,142 |

We recorded upward adjustments to the carrying value of non-marketable equity investments of \$58 million, \$9 million, and \$6 million during fiscal 2022, 2021, and 2020, respectively. No material impairment losses or downward adjustments were recorded during the periods presented. Additionally, as discussed in [Note 7, Business Combinations](#), we recognized non-cash gains of \$12 million and \$20 million related to our acquisitions of Zimit and Scout during fiscal 2022 and 2020, respectively.

Marketable Equity Investments

The carrying values for our marketable equity investments are summarized below (in thousands):

| | As of January 31, | |
|--|-------------------|------------------|
| | 2022 | 2021 |
| Total initial cost | \$ 40,739 | \$ 5,000 |
| Cumulative net unrealized gains (losses) | 63,579 | 16,300 |
| Carrying value | <u>\$ 104,318</u> | <u>\$ 21,300</u> |

During fiscal 2022, we sold marketable equity investments of \$37 million with corresponding net gains recognized of \$7 million. This includes the \$25 million sale of the investment previously accounted for under the equity method described above. There were no sales of marketable equity investments during fiscal 2021. During fiscal 2020, we sold marketable equity investments of \$51 million with a corresponding gain recognized of \$7 million.

During fiscal 2022 and 2021, we recorded unrealized gains on marketable equity investments of \$67 million and \$14 million, respectively. There were no unrealized gains or losses recorded during fiscal 2020.

Note 4. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis and their assigned levels within the valuation hierarchy as of January 31, 2022 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------------------|---------------------|-------------|---------------------|
| U.S. treasury securities | \$ 841,912 | \$ — | \$ — | \$ 841,912 |
| U.S. agency obligations | — | 230,925 | — | 230,925 |
| Corporate bonds | — | 489,052 | — | 489,052 |
| Commercial paper | — | 969,204 | — | 969,204 |
| Money market funds | 607,640 | — | — | 607,640 |
| Marketable equity investments | 104,318 | — | — | 104,318 |
| Foreign currency derivative assets | — | 39,031 | — | 39,031 |
| Total assets | <u>\$ 1,553,870</u> | <u>\$ 1,728,212</u> | <u>\$ —</u> | <u>\$ 3,282,082</u> |
| Foreign currency derivative liabilities | \$ — | \$ 13,039 | \$ — | \$ 13,039 |
| Total liabilities | <u>\$ —</u> | <u>\$ 13,039</u> | <u>\$ —</u> | <u>\$ 13,039</u> |

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis and their assigned levels within the valuation hierarchy as of January 31, 2021 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------------------|---------------------|-------------|---------------------|
| U.S. treasury securities | \$ 1,054,341 | \$ — | \$ — | \$ 1,054,341 |
| U.S. agency obligations | — | 504,445 | — | 504,445 |
| Corporate bonds | — | 347,802 | — | 347,802 |
| Commercial paper | — | 664,262 | — | 664,262 |
| Money market funds | 659,964 | — | — | 659,964 |
| Marketable equity investments | 21,300 | — | — | 21,300 |
| Foreign currency derivative assets | — | 3,221 | — | 3,221 |
| Total assets | <u>\$ 1,735,605</u> | <u>\$ 1,519,730</u> | <u>\$ —</u> | <u>\$ 3,255,335</u> |
| Foreign currency derivative liabilities | \$ — | \$ 49,456 | \$ — | \$ 49,456 |
| Total liabilities | <u>\$ —</u> | <u>\$ 49,456</u> | <u>\$ —</u> | <u>\$ 49,456</u> |

Non-Marketable Equity Investments Measured at Fair Value on a Non-Recurring Basis

Non-marketable equity investments that have been remeasured during the period due to an observable event or impairment are classified within Level 3 in the fair value hierarchy because we estimate the value based on valuation methods which may include a combination of the observable transaction price at the transaction date and other unobservable inputs including volatility, rights, and obligations of the investments we hold. For further information, see [Note 3, Investments](#).

Fair Value Measurements of Other Financial Instruments

In April 2020, we entered into a Credit Agreement pursuant to which the lenders extended to Workday a senior unsecured Term Loan facility in an aggregate principal amount of \$750 million and an unsecured Revolving Credit Facility in an aggregate principal amount of \$750 million. The carrying value of the Term Loan was \$692 million and \$729 million as of January 31, 2022, and 2021, respectively. The estimated fair value of the Term Loan, which we have classified as a Level 2 financial instrument, approximates its carrying value because it is a floating rate facility. There were no outstanding borrowings under the Revolving Credit Facility during the periods presented. For further information, see [Note 11, Debt](#).

In September 2017, we completed an offering of \$1.15 billion of 0.25% convertible senior notes due October 1, 2022. The carrying value of the 2022 Notes was \$1.1 billion as of January 31, 2022, and 2021, and the estimated fair value of the 2022 Notes was \$1.9 billion and \$1.8 billion as of January 31, 2022, and 2021, respectively. The estimated fair value of the 2022 Notes, which we have classified as a Level 2 financial instrument, was determined based on the quoted bid price in an over-the-counter market on the last trading day of each reporting period. For further information, see [Note 11, Debt](#).

Note 5. Deferred Costs

Deferred costs, which consist of deferred sales commissions, were \$494 million and \$395 million as of January 31, 2022, and 2021, respectively. Amortization expense for the deferred costs was \$139 million, \$113 million, and \$91 million for fiscal 2022, 2021, and 2020, respectively. There was no impairment loss in relation to the costs capitalized for the periods presented.

Note 6. Property and Equipment, Net

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

| | As of January 31, | |
|---|---------------------|-------------------|
| | 2022 | 2021 |
| Computers, equipment, and software | \$ 1,071,141 | \$ 931,456 |
| Buildings | 691,896 | 494,599 |
| Leasehold improvements | 158,037 | 204,273 |
| Land and land improvements | 80,553 | 37,065 |
| Furniture, fixtures, and transportation equipment | 79,723 | 54,193 |
| Property and equipment, gross | 2,081,350 | 1,721,586 |
| Less accumulated depreciation and amortization | (958,275) | (749,183) |
| Property and equipment, net | <u>\$ 1,123,075</u> | <u>\$ 972,403</u> |

Depreciation expense totaled \$263 million, \$231 million, and \$201 million for fiscal 2022, 2021, and 2020, respectively.

Related-Party Transactions*Aircraft Purchase*

During fiscal 2022, we purchased an aircraft from an affiliate of our Co-Founder and CEO Emeritus, David Duffield, for approximately \$24 million in cash. The aircraft was purchased primarily for the purpose of business travel by our Co-CEO and Chairman, Mr. Bhusri, and other Workday executives. In approving the related-party transaction, the Audit Committee of our Board of Directors considered the benefits to Workday of purchasing the aircraft, independent appraisals, the terms of the related purchase agreement, and the extent and nature of Mr. Duffield's interest in the transaction. The aircraft is included in the Furniture, fixtures, and transportation equipment category in the table above.

Leased Property Purchase

During fiscal 2021, we entered into an agreement with an affiliate of Mr. Duffield for an option to purchase certain leased office space (“Property”) within our corporate headquarters at a price based on third-party appraisals and negotiation between Workday and the affiliated party (“Leased Property Purchase Option”). In deciding to enter into and subsequently exercise the Leased Property Purchase Option, our Board of Directors considered the benefits to Workday of purchasing the Property, including the importance of obtaining control of the Property, which is part of Workday’s headquarters campus, and the long-term cost savings from ownership as compared to continuing to lease the Property. Our Board also considered independent appraisals, comparable transaction data, and the extent and nature of Mr. Duffield’s interest in the transaction.

In the first quarter of fiscal 2022, we exercised the Leased Property Purchase Option at a purchase price of \$173 million in cash, reduced by a \$2 million fee paid for the Leased Property Purchase Option in the prior fiscal year. The carrying value of the Property upon purchase was \$158 million, calculated as the purchase price less approximately \$15 million which represents the difference between the carrying values of the right-of-use asset and lease liability of the Property immediately prior to the purchase. For further information, see [Note 12, Leases](#).

Note 7. Business Combinations*Fiscal 2022**VNDLY Acquisition*

On December 21, 2021, we acquired all outstanding stock of VNDLY, a cloud-based external workforce and vendor management technology. With VNDLY, Workday will provide organizations with a unified workforce optimization solution that will help organizations manage all types of workers—salaried, hourly, contingent, and outsourced—and support a holistic talent strategy, including insight into costs, workforce planning needs, and compliance. We have included the financial results of VNDLY in our consolidated financial statements from the date of acquisition.

The acquisition-date fair value of the purchase consideration consisted of the following (in thousands):

| | | |
|--|-----------|----------------|
| Cash paid to stockholders and option holders | \$ | 473,029 |
| Transaction costs paid by Workday on behalf of VNDLY | | 135 |
| Total | \$ | 473,164 |

Additionally, in connection with the acquisition, we agreed to issue approximately 152 thousand shares of our Class A common stock to certain key VNDLY employees, with 50% of such shares to be issued following the first anniversary of the closing date of the acquisition and the remaining 50% to be issued following the second anniversary of the closing date, subject to service conditions. The aggregate fair value of the equity is accounted for as post-acquisition share-based compensation expense.

The purchase consideration was preliminarily allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with the excess recorded to goodwill. The fair values of assets acquired and liabilities assumed may change over the measurement period as additional information is received. The primary areas that are subject to change include income taxes payable and deferred taxes. The measurement period will end no later than one year from the acquisition date. The preliminary purchase consideration allocation was as follows (in thousands):

| | | |
|---------------------------------------|-----------|----------------|
| Cash | \$ | 22,830 |
| Acquisition-related intangible assets | | 40,000 |
| Goodwill | | 412,151 |
| Other assets | | 2,595 |
| Deferred tax liability | | (2,372) |
| Other liabilities | | (2,040) |
| Total | \$ | 473,164 |

The fair values and weighted-average useful lives of the acquired intangible assets by category are as follows (in thousands, except years):

| | Estimated Fair Values | Weighted-Average Useful Lives (in Years) |
|---|-----------------------|---|
| Developed technology | \$ 27,000 | 4 |
| Customer relationships | 13,000 | 13 |
| Total acquisition-related intangible assets | <u>\$ 40,000</u> | <u>7</u> |

The goodwill recognized was primarily attributable to the assembled workforce and the expected synergies from integrating VNDLY’s technology into our product portfolio. The goodwill is not deductible for income tax purposes.

Separate operating results and pro forma results of operations for VNDLY have not been presented as the effect of this acquisition was not material to our financial results.

Zimit Acquisition

On September 28, 2021, we acquired all outstanding stock of Zimit, a CPQ solution built for services industries. We believe the acquisition of Zimit will accelerate our ability to deliver a comprehensive quote-to-cash process automation offering that will provide services organizations increased visibility across the entire revenue cycle. We have included the financial results of Zimit in our consolidated financial statements from the date of acquisition.

The acquisition-date fair value of the purchase consideration was \$76 million, with \$62 million attributable to cash consideration and \$14 million attributable to the fair value of a previously held equity interest. We recorded developed technology intangible assets of \$7 million (to be amortized over an estimated useful life of 4 years), customer relationships intangible assets of \$3 million (to be amortized over an estimated useful life of 13 years), and goodwill of \$67 million. Goodwill was primarily attributable to the expected synergies from integrating Zimit’s technology into our product portfolio. The goodwill is not deductible for income tax purposes. The fair values of assets acquired and liabilities assumed may change over the measurement period as additional information is received. The measurement period will end no later than one year from the acquisition date.

We invested \$2 million in Zimit prior to the acquisition, which was accounted for as a non-marketable equity investment. We recognized a non-cash gain of approximately \$12 million as a result of remeasuring our prior equity interest in Zimit held before the business combination. The gain is included in Other income (expense), net on the Consolidated Statements of Operations.

Separate operating results and pro forma results of operations for Zimit have not been presented as the effect of this acquisition was not material to our financial results.

Peakon Acquisition

On March 9, 2021, we acquired all outstanding stock of Peakon, an employee success platform that converts feedback into actionable insights, for \$702 million. With Peakon, Workday will provide organizations with a continuous listening platform, including real-time visibility into employee experience, sentiment, and productivity, to help drive employee engagement and improve organizational performance. We have included the financial results of Peakon in our consolidated financial statements from the date of acquisition.

The acquisition-date fair value of the purchase consideration consisted of the following (in thousands):

| | |
|---|-------------------|
| Cash paid to stockholders, warrant holders, and vested option holders | \$ 683,788 |
| Transaction costs paid by Workday on behalf of Peakon | 17,960 |
| Total | <u>\$ 701,748</u> |

Additionally, we granted certain Peakon employees restricted stock awards (“RSAs”) with service conditions, which totaled 81,695 shares of our Class A common stock. The aggregate grant date fair value of the RSAs is accounted for as post-acquisition share-based compensation expense.

The purchase consideration was preliminarily allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with the excess recorded to goodwill. The fair values of assets acquired and liabilities assumed may change over the measurement period as additional information is received. The primary areas that are subject to change include income taxes payable and deferred taxes. The measurement period will end no later than one year from the acquisition date. The updated preliminary purchase consideration allocation inclusive of measurement period adjustments was as follows (in thousands):

| | | |
|---------------------------------------|----|----------------|
| Acquisition-related intangible assets | \$ | 170,500 |
| Goodwill | | 541,611 |
| Other assets | | 34,639 |
| Deferred tax liability | | (20,021) |
| Other liabilities | | (24,981) |
| Total | \$ | <u>701,748</u> |

The fair values and weighted-average useful lives of the acquired intangible assets by category are as follows (in thousands, except years):

| | Estimated Fair Values | Weighted-Average Useful Lives (in Years) |
|---|-----------------------|---|
| Developed technology | \$ 94,000 | 5 |
| Customer relationships | 72,000 | 13 |
| Backlog | 4,000 | 3 |
| Trade name | 500 | 1 |
| Total acquisition-related intangible assets | <u>\$ 170,500</u> | <u>8</u> |

The goodwill recognized was primarily attributable to the assembled workforce and the expected synergies from integrating Peakon's technology into our product portfolio. The goodwill is not deductible for income tax purposes.

Separate operating results and pro forma results of operations for Peakon have not been presented as the effect of this acquisition was not material to our financial results.

Fiscal 2020

Scout Acquisition

On December 9, 2019, we acquired all outstanding stock of Scout, a cloud-based platform for strategic sourcing and supplier engagement, for total purchase consideration of \$513 million, attributable to cash consideration of \$485 million and the fair value of a previously held equity interest of \$28 million. The acquisition of Scout helps accelerate our ability to deliver a comprehensive source-to-pay solution to our customers.

The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with the excess recorded to goodwill as shown below. The purchase consideration allocation, which includes measurement period adjustments, was as follows (in thousands):

| | | |
|--|----|----------------|
| Acquisition-related intangible assets | \$ | 63,400 |
| Other assets acquired | | 37,087 |
| Liabilities assumed | | (17,270) |
| Total purchase consideration, inclusive of previously held equity interest | | <u>513,492</u> |
| Goodwill | \$ | <u>430,275</u> |

The fair values and estimated useful lives of the acquired intangible assets by category were as follows (in thousands, except years):

| | Estimated Fair Values | Weighted-Average Useful Lives (in Years) |
|---|-----------------------|---|
| Trade name | \$ 400 | 1 |
| Developed technology | 28,000 | 5 |
| Customer relationships | 35,000 | 10 |
| Total acquisition-related intangible assets | <u>\$ 63,400</u> | 8 |

The goodwill recognized was primarily attributable to the assembled workforce and the expected synergies from integrating Scout's technology into our product portfolio. The goodwill is not deductible for U.S. federal income tax purposes.

We have included the financial results of Scout in our consolidated financial statements from the date of acquisition. Separate operating results and pro forma results of operations for Scout have not been presented as the effect of this acquisition was not material to our financial results.

Other Acquisitions

In the second quarter of fiscal 2020, acquisition activity resulted in an increase of \$4 million and \$9 million in acquired developed technology and goodwill, respectively.

Note 8. Acquisition-Related Intangible Assets, Net

Acquisition-related intangible assets, net consisted of the following (in thousands):

| | As of January 31, | |
|--|-------------------|-------------------|
| | 2022 | 2021 |
| Developed technology | \$ 346,300 | \$ 218,400 |
| Customer relationships | 311,100 | 223,000 |
| Trade name | 12,500 | 12,000 |
| Backlog | 15,000 | 11,000 |
| Acquisition-related intangible assets, gross | 684,900 | 464,400 |
| Less accumulated amortization | (293,898) | (215,774) |
| Acquisition-related intangible assets, net | <u>\$ 391,002</u> | <u>\$ 248,626</u> |

Amortization expense related to acquisition-related intangible assets was \$78 million, \$60 million, and \$72 million for fiscal 2022, 2021, and 2020, respectively.

As of January 31, 2022, our future estimated amortization expense related to acquisition-related intangible assets was as follows (in thousands):

| Fiscal Period: | |
|----------------|-------------------|
| 2023 | \$ 85,536 |
| 2024 | 74,319 |
| 2025 | 61,663 |
| 2026 | 55,748 |
| 2027 | 31,177 |
| Thereafter | 82,559 |
| Total | <u>\$ 391,002</u> |

Note 9. Other Assets

Other noncurrent assets consisted of the following (in thousands):

| | As of January 31, | |
|--|-------------------|-------------------|
| | 2022 | 2021 |
| Non-marketable equity and other investments ⁽¹⁾ | \$ 256,759 | \$ 85,868 |
| Prepayments for goods and services | 25,927 | 19,824 |
| Technology patents and other intangible assets, net | 22,792 | 17,766 |
| Derivative assets | 16,618 | 173 |
| Net deferred tax assets | 11,642 | 9,985 |
| Deposits | 6,701 | 6,218 |
| Equity investments accounted for under the equity method | — | 48,222 |
| Other | 813 | 1,701 |
| Total other assets | \$ 341,252 | \$ 189,757 |

(1) Included in the Non-marketable equity and other investments category are investments in loan receivables of privately held companies, which are carried at amortized cost. The carrying values of these loan receivables were not material as of January 31, 2022, and \$13 million as of January 31, 2021. The allowance for credit losses on loan receivables was immaterial for the periods presented.

Technology patents and other intangible assets with estimable useful lives are amortized on a straight-line basis. As of January 31, 2022, the future estimated amortization expense was as follows (in thousands):

| Fiscal Period: | | |
|----------------|-----------|---------------|
| 2023 | \$ | 3,409 |
| 2024 | | 3,102 |
| 2025 | | 2,622 |
| 2026 | | 2,357 |
| 2027 | | 2,077 |
| Thereafter | | 9,225 |
| Total | \$ | 22,792 |

Note 10. Derivative Instruments

We conduct business on a global basis in multiple foreign currencies, subjecting Workday to foreign currency risk. To mitigate this risk, we utilize derivative hedging contracts as described below. We do not enter into any derivatives for trading or speculative purposes.

Cash Flow Hedges

We enter into foreign currency forward contracts to hedge a portion of our forecasted revenue and expense transactions. We designate these forward contracts as cash flow hedging instruments since the accounting criteria for such designation have been met.

Cash flow hedges are recorded on the Consolidated Balance Sheets at fair value. Cash flows from such forward contracts are classified as operating activities. Gains or losses resulting from changes in the fair value of these hedges are recorded in AOCI on the Consolidated Balance Sheets and are subsequently reclassified to the same line item as the hedged transaction on the Consolidated Statements of Operations in the same period that the hedged transaction affects earnings. As of January 31, 2022, we estimate that \$4 million of net gains recorded in AOCI related to our cash flow hedges will be reclassified into income within the next 12 months.

As of January 31, 2022, and 2021, the notional values of the forward contracts designated as cash flow hedges that we held to buy U.S. dollars in exchange for other currencies were \$1.4 billion and \$1.3 billion, respectively. The notional values of the forward contracts designated as cash flow hedges that we held to sell U.S. dollars in exchange for other currencies were \$355 million as of January 31, 2022. We did not hold forward contracts designated as cash flow hedges to sell U.S. dollars as of January 31, 2021. All contracts had maturities of less than 48 months.

Non-Designated Hedges

We also enter into foreign currency forward contracts to hedge a portion of our net outstanding monetary assets and liabilities. These forward contracts are intended to offset the foreign currency gains or losses associated with the underlying monetary assets and liabilities and are recorded on the Consolidated Balance Sheets at fair value. These forward contracts are not designated as hedging instruments under applicable accounting guidance, and therefore all changes in the fair value of these forward contracts are recorded in Other income (expense), net on the Consolidated Statements of Operations. Cash flows from such forward contracts are classified as operating activities.

As of January 31, 2022, and 2021, the notional values of the forward contracts not designated as hedges that we held to buy U.S. dollars in exchange for other currencies were \$217 million and \$160 million, respectively, and the notional values of the forward contracts not designated as hedges that we held to sell U.S. dollars in exchange for other currencies were \$8 million and \$15 million, respectively.

The fair values of outstanding derivative instruments were as follows (in thousands):

| | Consolidated Balance Sheets Location | As of January 31, | |
|--------------------------------|--|-------------------|-----------|
| | | 2022 | 2021 |
| Derivative assets: | | | |
| Cash flow hedges | Prepaid expenses and other current assets | \$ 21,337 | \$ 2,073 |
| Cash flow hedges | Other assets | 16,618 | 173 |
| Non-designated hedges | Prepaid expenses and other current assets | 1,076 | 975 |
| Non-designated hedges | Other assets | — | — |
| Total derivative assets | | \$ 39,031 | \$ 3,221 |
| Derivative liabilities: | | | |
| Cash flow hedges | Accrued expenses and other current liabilities | \$ 7,512 | \$ 23,647 |
| Cash flow hedges | Other liabilities | 5,175 | 24,586 |
| Non-designated hedges | Accrued expenses and other current liabilities | 336 | 1,162 |
| Non-designated hedges | Other liabilities | 16 | 61 |
| Total derivative liabilities | | \$ 13,039 | \$ 49,456 |

The effect of cash flow hedges on the Consolidated Statements of Operations was as follows (in thousands):

| | Consolidated Statements of Operations Location | Year Ended January 31, | | |
|--|--|------------------------|--------------|--------------|
| | | 2022 | 2021 | 2020 |
| Total revenues | Revenues | \$ 5,138,798 | \$ 4,317,996 | \$ 3,627,206 |
| Amount of gains (losses) related to cash flow hedges | Revenues | (8,759) | 18,780 | 6,142 |

Pre-tax gains (losses) associated with cash flow hedges were as follows (in thousands):

| | Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) Locations | Year Ended January 31, | | |
|---|---|------------------------|-------------|-----------|
| | | 2022 | 2021 | 2020 |
| Gains (losses) recognized in OCI | Net change in unrealized gains (losses) on cash flow hedges | \$ 63,494 | \$ (61,171) | \$ 31,842 |
| Gains (losses) reclassified from AOCI into income (effective portion) | Revenues | (8,759) | 18,780 | 6,142 |

Gains (losses) associated with non-designated hedges were as follows (in thousands):

| | Consolidated Statements of Operations Location | Year Ended January 31, | | |
|---|---|------------------------|------------|----------|
| | | 2022 | 2021 | 2020 |
| Amount of gains (losses) related to non-designated hedges | Other income (expense), net | \$ 6,664 | \$ (4,095) | \$ 3,671 |

We are subject to netting agreements with all of the counterparties of the foreign exchange contracts, under which we are permitted to net settle transactions of the same currency with a single net amount payable by one party to the other. It is our policy to present the derivatives gross on the Consolidated Balance Sheets. Our foreign currency forward contracts are not subject to any credit contingent features or collateral requirements. We manage our exposure to counterparty risk by entering into contracts with a diversified group of major financial institutions and by actively monitoring outstanding positions.

As of January 31, 2022, information related to these offsetting arrangements was as follows (in thousands):

| | Gross Amounts of Recognized Assets | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Assets Presented on the Consolidated Balance Sheets | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
|---------------------------|---------------------------------------|---|---|--|-----------------------------|--------------------|
| | | | | Financial Instruments | Cash Collateral Received | Net Assets Exposed |
| Derivative assets: | | | | | | |
| Counterparty A | \$ 4,414 | \$ — | \$ 4,414 | \$ (2,701) | \$ — | \$ 1,713 |
| Counterparty B | 10,936 | — | 10,936 | (5,401) | — | 5,535 |
| Counterparty C | 8,082 | — | 8,082 | (4,553) | — | 3,529 |
| Counterparty D | 12,756 | — | 12,756 | (331) | — | 12,425 |
| Counterparty E | 2,843 | — | 2,843 | (53) | — | 2,790 |
| Total | \$ 39,031 | \$ — | \$ 39,031 | \$ (13,039) | \$ — | \$ 25,992 |

| | Gross Amounts of Recognized Liabilities | Gross Amounts Offset on the Consolidated Balance Sheets | Net Amounts of Liabilities Presented on the Consolidated Balance Sheets | Gross Amounts Not Offset on the Consolidated Balance Sheets | | |
|--------------------------------|--|---|--|--|----------------------------|-------------------------|
| | | | | Financial Instruments | Cash Collateral Pledged | Net Liabilities Exposed |
| Derivative liabilities: | | | | | | |
| Counterparty A | \$ 2,701 | \$ — | \$ 2,701 | \$ (2,701) | \$ — | \$ — |
| Counterparty B | 5,401 | — | 5,401 | (5,401) | — | — |
| Counterparty C | 4,553 | — | 4,553 | (4,553) | — | — |
| Counterparty D | 331 | — | 331 | (331) | — | — |
| Counterparty E | 53 | — | 53 | (53) | — | — |
| Total | \$ 13,039 | \$ — | \$ 13,039 | \$ (13,039) | \$ — | \$ — |

Note 11. Debt

Outstanding debt consisted of the following (in thousands):

| | As of January 31, | |
|---|-------------------|-------------------|
| | 2022 | 2021 |
| Term Loan, net of unamortized debt discounts of \$1,279 and \$1,682, respectively, and unamortized debt issuance costs of \$117 and \$155, respectively | \$ 692,354 | \$ 729,413 |
| 2022 Notes, net of unamortized debt discounts of \$0 and \$79,562, respectively, and unamortized debt issuance costs of \$2,374 and \$4,771, respectively | 1,147,443 | 1,065,601 |
| Total debt | 1,839,797 | 1,795,014 |
| Less: current debt | (1,222,443) | (1,103,101) |
| Total debt, noncurrent | \$ 617,354 | \$ 691,913 |

As of January 31, 2022, contractual repayments and maturities of our outstanding debt were as follows (in thousands):

| Fiscal Period: | |
|----------------|---------------------|
| 2023 | \$ 1,224,817 |
| 2024 | 75,000 |
| 2025 | 75,000 |
| 2026 | 468,750 |
| 2027 | — |
| Total | <u>\$ 1,843,567</u> |

Credit Agreement

In April 2020, we entered into a Credit Agreement pursuant to which the lenders extended to Workday a senior unsecured Term Loan in an aggregate principal amount of \$750 million and an unsecured Revolving Credit Facility in an aggregate principal amount of \$750 million.

The Term Loan and Revolving Credit Facility bear interest, at our option, at either (i) a floating rate per annum equal to the base rate plus a margin that ranges from 0% to 0.625%, or (ii) a per annum rate equal to the rate at which dollar deposits are offered in the London interbank market plus a margin that ranges from 1.000% to 1.625%. The base rate is defined as the greatest of (i) Bank of America's prime rate, (ii) the federal funds rate plus 0.50%, or (iii) a per annum rate equal to the rate at which dollar deposits are offered in the London interbank market for a period of one month (but not less than zero) plus 1.00%. Actual margins under either election will be based on our consolidated leverage ratio, which is measured by dividing (a) our consolidated funded indebtedness as of the end of the fiscal quarter by (b) our consolidated EBITDA as defined in the Credit Agreement for the most recently completed four consecutive fiscal quarters.

The Credit Agreement contains customary representations, warranties, and affirmative and negative covenants, including a financial covenant, events of default, and indemnification provisions in favor of the lenders. The financial covenant, based on a quarterly financial test, requires Workday not to exceed a maximum leverage ratio of 3.50:1.00, subject to a step-up to 4.50:1.00 at the election of Workday for a certain period following an Acquisition (as defined in the Credit Agreement). As of January 31, 2022, and 2021, we were in compliance with all covenants.

Term Loan

The Term Loan was funded in two individual tranches. On April 2, 2020, \$500 million of the Term Loan was funded, and the remaining \$250 million was funded on July 13, 2020. The Term Loan matures on April 2, 2025, and provides for quarterly repayment in installments of the principal amount at a rate of 1.25% of the principal amount per quarter through January 2022, and 2.50% of the principal amount per quarter thereafter. The Term Loan may be prepaid or permanently reduced by Workday without penalty or premium. As of January 31, 2022, the Term Loan had a carrying value of \$692 million, of which \$75 million was classified as current and \$617 million was classified as noncurrent on the Consolidated Balance Sheets. As of January 31, 2021, the Term Loan had a carrying value of \$729 million, of which \$38 million was classified as current and \$692 million was classified as noncurrent on the Consolidated Balance Sheets. As of January 31, 2022, and 2021, the interest rate on the Term Loan was 1.30% and 1.38%, respectively, and the effective interest rate was 1.38% and 1.46%, respectively.

Revolving Credit Facility

The Revolving Credit Facility may be borrowed, repaid, and reborrowed until April 2, 2025, at which time all amounts borrowed must be repaid. We may request, no more than two times during the term of the Credit Agreement, that each revolving lender extend the maturity date for the revolving loans for one year. Additionally, we may request an increase in aggregate revolving commitments of up to \$250 million at any time prior to April 2, 2025. The Revolving Credit Facility may be prepaid or permanently reduced by Workday without penalty or premium. As of January 31, 2022, and 2021, there were no outstanding borrowings under the Revolving Credit Facility.

Convertible Senior Notes

2022 Notes

In September 2017, we issued 0.25% convertible senior notes due October 1, 2022, with a principal amount of \$1.15 billion. The 2022 Notes are unsecured, unsubordinated obligations, and interest is payable in cash in arrears at a fixed rate of 0.25% on April 1 and October 1 of each year. The 2022 Notes mature on October 1, 2022, unless repurchased or converted in accordance with their terms prior to such date. We cannot redeem the 2022 Notes prior to maturity.

The terms of the 2022 Notes are governed by an Indenture by and between us and Wells Fargo Bank, National Association, as Trustee. Upon conversion, holders of the 2022 Notes will receive cash, shares of Class A common stock, or a combination of cash and shares of Class A common stock, at our election.

The initial conversion rate for the 2022 Notes is 6.7982 shares of Class A common stock per \$1,000 principal amount, which is equal to an initial conversion price of approximately \$147.10 per share of Class A common stock, subject to adjustment. Prior to the close of business on May 31, 2022, conversion of the 2022 Notes is subject to the satisfaction of certain conditions, as described below.

Holders of the 2022 Notes who convert their 2022 Notes in connection with certain corporate events that constitute a make-whole fundamental change (as defined in the Indenture) are, under certain circumstances, entitled to an increase in the conversion rate. Additionally, in the event of a corporate event that constitutes a fundamental change (as defined in the Indenture), holders of the 2022 Notes may require us to repurchase all or a portion of their 2022 Notes at a price equal to 100% of the principal amount of the 2022 Notes, plus any accrued and unpaid interest.

Holders of the 2022 Notes may convert all or a portion of their 2022 Notes prior to the close of business on May 31, 2022, in multiples of \$1,000 principal amount, only under the following circumstances:

- if the last reported sale price of our Class A common stock for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the 2022 Notes on each applicable trading day;
- during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 2022 Notes for each day of that five day consecutive trading day period was less than 98% of the product of the last reported sale price of Class A common stock and the conversion rate of the 2022 Notes on such trading day; or
- upon the occurrence of specified corporate events, as noted in the Indenture.

On or after June 1, 2022, holders of the 2022 Notes may convert their 2022 Notes at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2022 Notes.

The 2022 Notes were convertible at the option of the holders during fiscal 2022 and continue to be convertible through the first quarter of fiscal 2023 since the trigger for early conversion was met. Specifically, the last reported sale price of our Class A common stock exceeded 130% of the conversion price of the 2022 Notes for more than 20 trading days during the 30 consecutive trading days ended January 31, 2022. Through the date of this filing, the amount of the principal balance of the 2022 Notes that has been converted or for which conversion has been requested was not material.

The 2022 Notes are classified as current on the Consolidated Balance Sheets as of January 31, 2022.

As described in [Note 2, Accounting Standards and Significant Accounting Policies](#), we adopted ASU No. 2020-06 effective February 1, 2021, using a modified retrospective method, under which financial results reported in prior periods were not adjusted. Prior to the adoption of the standard, in accounting for the issuance of the 2022 Notes, we separated them into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of similar liabilities that do not have associated convertible features. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2022 Notes. This difference represented a debt discount that was amortized to interest expense over the term of the 2022 Notes using the effective interest rate method. The gross carrying amount of the equity component for the 2022 Notes was \$223 million and was included in Additional paid-in capital on the Consolidated Balance Sheets upon issuance. The effective interest rate of the liability component of the 2022 Notes was 4.60%. Additionally, we separated the total issuance costs incurred into liability and equity components in proportion to the allocation of the initial proceeds, resulting in liability issuance costs of \$14 million and equity issuance costs of \$4 million. Issuance costs attributable to the liability component were amortized on a straight-line basis, which approximated the effective interest rate method, to interest expense over the term of the 2022 Notes. The issuance costs attributable to the equity component were netted against the equity component in Additional paid-in capital.

Upon adoption of ASU No. 2020-06 on February 1, 2021, we recombined the liability and equity components of the 2022 Notes assuming that the instrument was accounted for as a single liability from inception to the date of adoption. We similarly recombined the liability and equity components of the issuance costs. The issuance costs are presented as a deduction from the outstanding principal balance of the 2022 Notes, and are amortized on a straight-line basis, which approximates the effective interest rate method, to interest expense over the term of the 2022 Notes. As of January 31, 2022, the effective interest rate on the 2022 Notes was 0.55%.

2020 Notes

In June 2013, we issued 1.50% convertible senior notes due July 15, 2020, with a principal amount of \$250 million. The 2020 Notes were unsecured, unsubordinated obligations, and interest was payable in cash in arrears at a fixed rate of 1.50% on January 15 and July 15 of each year. During fiscal 2021, the 2020 Notes were converted by note holders and we repaid the \$250 million principal balance in cash. We also distributed approximately 1.7 million shares of our Class A common stock to note holders during fiscal 2021, which represents the conversion value in excess of the principal amount.

The adoption of ASU No. 2020-06 did not impact the accounting for the 2020 Notes since they were converted and repaid prior to the date of adoption.

Notes Hedges

In connection with the issuance of the 2022 Notes and 2020 Notes, we entered into convertible note hedge transactions with respect to our Class A common stock ("Purchased Options"). The Purchased Options are intended to offset potential economic dilution to our Class A common stock upon any conversion of the 2022 Notes and 2020 Notes. The Purchased Options are separate transactions and are not part of the terms of the 2022 Notes or 2020 Notes. The amounts paid for the Purchased Options are included in Additional paid-in capital on the Consolidated Balance Sheets.

The Purchased Options relating to the 2022 Notes give us the option to purchase, subject to anti-dilution adjustments substantially identical to those in the 2022 Notes, approximately 7.8 million shares of our Class A common stock for \$147.10 per share, exercisable upon conversion of the 2022 Notes. The Purchased Options relating to the 2022 Notes will expire on October 1, 2022, if not exercised earlier.

The Purchased Options relating to the 2020 Notes gave us the option to purchase, subject to anti-dilution adjustments substantially identical to those in the 2020 Notes, approximately 3.1 million shares of our Class A common stock for \$81.74 per share, exercisable upon conversion of the 2020 Notes. During the second quarter of fiscal 2021, we received approximately 1.7 million shares of our Class A common stock from the exercise of the Purchased Options relating to the 2020 Notes. These shares were recorded as treasury stock.

Warrants

In connection with the issuance of the 2022 Notes and 2020 Notes, we also entered into warrant transactions to sell warrants ("Warrants") to acquire, subject to anti-dilution adjustments, up to approximately 7.8 million shares over 60 scheduled trading days beginning in January 2023 and 3.1 million shares over 60 scheduled trading days beginning in October 2020 of our Class A common stock at an exercise price of \$213.96 and \$107.96 per share, respectively. If the Warrants are not exercised on their exercise dates, they will expire. The Warrants will be net share settled, and the resulting number of shares of our common stock we will issue depends on the daily volume-weighted average stock prices over the 60 scheduled trading day period beginning on the first expiration date of the Warrants. If the market value per share of our Class A common stock exceeds the applicable exercise price of the Warrants, the Warrants will have a dilutive effect on our earnings per share, assuming that we are profitable. The Warrants are separate transactions and are not part of the terms of the 2022 Notes, 2020 Notes, or the Purchased Options. The proceeds from the sale of the Warrants were recorded in Additional paid-in capital on the Consolidated Balance Sheets.

During the third and fourth quarters of fiscal 2021, Warrants related to the 2020 Notes were exercised, and we distributed approximately 1.6 million shares of our Class A common stock to warrant holders primarily utilizing treasury stock. As of January 31, 2021, there were no Warrants outstanding related to the 2020 Notes.

Interest Expense on Debt

The following table sets forth total interest expense recognized related to our debt, net of amounts capitalized (in thousands):

| | Year Ended January 31, | | |
|--|------------------------|-----------|-----------|
| | 2022 | 2021 | 2020 |
| Contractual interest expense | \$ 12,525 | \$ 15,012 | \$ 6,624 |
| Interest cost related to amortization of debt issuance costs | 3,584 | 3,196 | 3,531 |
| Interest cost related to amortization of debt discount | 404 | 50,497 | 54,007 |
| Total interest expense | \$ 16,513 | \$ 68,705 | \$ 64,162 |

Note 12. Leases

We have entered into operating lease agreements for our office space, data centers, and other property and equipment. As of January 31, 2022, and 2021, operating lease right-of-use assets were \$248 million and \$414 million, respectively, and operating lease liabilities were \$263 million and \$443 million, respectively. We have also entered into finance lease agreements for other property and equipment. As of January 31, 2022, and 2021, finance leases were not material.

The components of operating lease expense were as follows (in thousands):

| | Year Ended January 31, | | |
|----------------------------|------------------------|------------|------------|
| | 2022 | 2021 | 2020 |
| Operating lease cost | \$ 93,045 | \$ 94,183 | \$ 85,154 |
| Short-term lease cost | 6,638 | 14,544 | 16,260 |
| Variable lease cost | 25,743 | 17,708 | 17,845 |
| Total operating lease cost | \$ 125,426 | \$ 126,435 | \$ 119,259 |

Supplemental cash flow information related to our operating leases was as follows (in thousands):

| | Year Ended January 31, | | |
|--|------------------------|-----------|-----------|
| | 2022 | 2021 | 2020 |
| Cash paid for operating lease liabilities | \$ 91,402 | \$ 87,450 | \$ 75,029 |
| Operating lease right-of-use assets obtained in exchange for new operating lease liabilities | 54,846 | 205,103 | 365,305 |

Other information related to our operating leases was as follows:

| | As of January 31, | |
|--|-------------------|--------|
| | 2022 | 2021 |
| Weighted average remaining lease term (in years) | 5 | 6 |
| Weighted average discount rate | 2.35 % | 1.73 % |

As of January 31, 2022, maturities of operating lease liabilities were as follows (in thousands):

| | |
|-----------------------------------|------------|
| Fiscal Period: | |
| 2023 | \$ 85,578 |
| 2024 | 72,807 |
| 2025 | 56,920 |
| 2026 | 30,665 |
| 2027 | 10,464 |
| Thereafter | 32,164 |
| Total lease payments | 288,598 |
| Less imputed interest | (25,639) |
| Total operating lease liabilities | \$ 262,959 |

As of January 31, 2022, we have additional operating leases, primarily for office space and data centers, that have not yet commenced with total undiscounted lease payments of \$9 million. These operating leases will commence in fiscal 2023, with lease terms ranging from two to seven years.

Related-Party Transactions

As discussed in [Note 6, Property and Equipment, Net](#), during fiscal 2021, we entered into an agreement with an affiliated party which gave us the option to purchase certain leased properties within our corporate headquarters. We exercised the Leased Property Purchase Option in the first quarter of fiscal 2022 at a purchase price of \$173 million in cash, reduced by a \$2 million fee paid for the Leased Property Purchase Option in the prior fiscal year.

Subsequent to the exercise of the Leased Property Purchase Option, the Property was included in Property and equipment, net on the Consolidated Balance Sheets. As of January 31, 2021, operating lease right-of-use assets and operating lease liabilities related to these agreements were \$134 million and \$146 million, respectively. The total rent expense under these agreements was \$2 million, \$16 million, and \$13 million for fiscal 2022, 2021, and 2020, respectively.

Note 13. Commitments and Contingencies

Purchase Obligations

Our purchase obligations are primarily related to agreements for third-party hosted infrastructure platforms, data center equipment and software, business technology software and support, and sales and marketing activities. These obligations consist of agreements to purchase goods and services that are enforceable and legally binding, and specify all significant terms and the approximate timing of the payments. For purchase obligations with cancellation provisions, the amounts included in the following table were limited to the non-cancelable portion of the agreement terms or the minimum cancellation fees.

Future payments under purchase obligations with a remaining term in excess of one year as of January 31, 2022, were as follows (in thousands):

| Fiscal Period: | Third-party hosted infrastructure platform obligations | Other purchase obligations |
|----------------|--|-------------------------------|
| 2023 | \$ 42,985 | \$ 127,216 |
| 2024 | 48,519 | 81,550 |
| 2025 | 93,916 | 68,224 |
| 2026 | 272,663 | 70,207 |
| 2027 | 120,000 | 35,512 |
| Thereafter | 150,000 | 74,629 |
| Total | <u>\$ 728,083</u> | <u>\$ 457,338</u> |

Legal Matters

We are a party to various legal proceedings and claims that arise in the ordinary course of business. We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular matter. In our opinion, as of January 31, 2022, there was not at least a reasonable possibility that we had incurred a material loss, or a material loss in excess of a recorded accrual, with respect to such loss contingencies.

Note 14. Stockholders' Equity**Common Stock**

As of January 31, 2022, there were 196 million shares of Class A common stock, net of treasury stock, and 55 million shares of Class B common stock outstanding. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to 10 votes per share. Each share of Class B common stock can be converted into a share of Class A common stock at any time at the option of the holder. All of our Class A and Class B shares will convert to a single class of common stock upon the date that is the first to occur of (i) October 17, 2032, (ii) such time as the shares of Class B common stock represent less than 9% of the outstanding Class A common stock and Class B common stock, (iii) nine months following the death of both Mr. Duffield and Mr. Bhusri, and (iv) the date on which the holders of a majority of the shares of Class B common stock elect to convert all shares of Class A common stock and Class B common stock into a single class of common stock.

Employee Equity Plans

Our 2012 Equity Incentive Plan ("EIP") serves as the successor to our 2005 Stock Plan (together with the EIP, the "Stock Plans"). As of January 31, 2022, we had 58 million shares of Class A common stock available for future grants.

We also have a 2012 Employee Stock Purchase Plan. Under the ESPP, eligible employees are granted options to purchase shares at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. Options to purchase shares are granted twice yearly on or about June 1 and December 1, and are exercisable on or about the succeeding November 30 and May 31, respectively. As of January 31, 2022, 4 million shares of Class A common stock were available for issuance under the ESPP.

Restricted Stock Units

The Stock Plans provide for the issuance of RSUs to employees and non-employees. RSUs generally vest over four years. A summary of information related to RSU activity during fiscal 2022 is as follows (in thousands, except per share data):

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|--------------------------------|------------------|---|
| Balance as of January 31, 2021 | 13,168 | \$ 154.90 |
| RSUs granted | 6,205 | 259.61 |
| RSUs vested | (6,204) | 149.83 |
| RSUs forfeited | (1,361) | 184.94 |
| Balance as of January 31, 2022 | <u>11,808</u> | <u>209.12</u> |

The weighted-average grant date fair value of RSUs granted during fiscal 2022, 2021, and 2020 was \$259.61, \$152.70, and \$187.89, respectively. The total fair value of RSUs vested as of the vesting dates during fiscal 2022, 2021, and 2020 was \$1.6 billion, \$1.1 billion, and \$1.2 billion, respectively.

As of January 31, 2022, there was a total of \$1.9 billion in unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs, which is expected to be recognized over a weighted-average period of approximately three years.

Performance-Based Restricted Stock Units

During fiscal 2022, 0.4 million shares of PRSUs were granted to employees below the level of vice president that included both service conditions and performance conditions related to company-wide goals. These performance conditions were met and the PRSUs will vest if the individual employee continues to provide service through the vesting date of March 15, 2022. During fiscal 2022, we recognized \$65 million in compensation cost related to these PRSUs, and as of January 31, 2022, there was a total of \$16 million in unrecognized compensation cost which is expected to be recognized over a weighted-average period of approximately two months.

During fiscal 2021, 0.6 million shares of PRSUs were granted to all employees other than executive management that included both service conditions and performance conditions related to company-wide goals. These performance conditions were met and the PRSUs vested on March 15, 2021. We recognized \$17 million and \$91 million in compensation cost related to these PRSUs during fiscal 2022 and 2021, respectively.

Stock Options

The Stock Plans provide for the issuance of incentive and nonstatutory stock options to employees and non-employees. Stock options issued under the Stock Plans generally are exercisable for periods not to exceed ten years and generally vest over five years. A summary of information related to stock option activity during fiscal 2022 is as follows (in millions, except number of shares which are reflected in thousands and per share data):

| | Outstanding Stock Options | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
|--|---------------------------|---------------------------------|---------------------------|
| Balance as of January 31, 2021 | 1,260 | \$ 13.55 | \$ 270 |
| Stock options granted | — | — | — |
| Stock options exercised | (860) | 10.27 | — |
| Stock options canceled | (13) | 35.61 | — |
| Balance as of January 31, 2022 | 387 | 20.09 | 90 |
| Vested and expected to vest as of January 31, 2022 | 386 | 20.11 | 90 |
| Exercisable as of January 31, 2022 | 366 | 19.21 | 86 |

The total grant date fair value of stock options vested during fiscal 2022, 2021, and 2020 was \$8 million, \$23 million, and \$37 million, respectively. The total intrinsic value of stock options exercised during fiscal 2022, 2021, and 2020 was \$209 million, \$396 million, and \$407 million, respectively. The intrinsic value is the difference between the current fair value of the stock and the exercise price of the stock option. The weighted-average remaining contractual life of vested and expected to vest stock options as of January 31, 2022, is approximately two years.

As of January 31, 2022, there was a total of \$1 million in unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options, which is expected to be recognized over a weighted-average period of approximately nine months.

The stock options that are exercisable as of January 31, 2022, have a weighted-average remaining contractual life of approximately two years. The weighted-average remaining contractual life of outstanding stock options as of January 31, 2022, is approximately two years.

Employee Stock Purchase Plan

For fiscal 2022, approximately 1 million shares of Class A common shares were purchased under the ESPP at a weighted-average price of \$192.13 per share, resulting in cash proceeds of \$144 million.

The fair value of stock purchase rights granted under the ESPP was estimated using the following assumptions:

| | Year Ended January 31, | | |
|---------------------------------|------------------------|---------------------|---------------------|
| | 2022 | 2021 | 2020 |
| Expected volatility | 30.4% - 41.5% | 36.9% - 51.0% | 36.9% - 41.7% |
| Expected term (in years) | 0.5 | 0.5 | 0.5 |
| Risk-free interest rate | 0.04% - 0.10% | 0.10% - 1.62% | 1.62% - 2.50% |
| Dividend yield | —% | —% | —% |
| Grant date fair value per share | \$225.70 - \$260.86 | \$146.14 - \$191.85 | \$167.80 - \$191.88 |

Note 15. Unearned Revenue and Performance Obligations

Subscription services revenues of \$2.5 billion, \$2.2 billion, and \$1.8 billion was recognized during fiscal 2022, 2021, and 2020, respectively, that was included in the unearned revenue balances at the beginning of the respective periods. Professional services revenues recognized in the same periods from unearned revenue balances at the beginning of the respective periods were not material.

Transaction Price Allocated to the Remaining Performance Obligations

As of January 31, 2022, approximately \$12.8 billion of revenues are expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize revenues on approximately \$8.0 billion of these remaining performance obligations over the next 24 months, with the balance recognized thereafter. Revenues from remaining performance obligations for professional services contracts as of January 31, 2022, were not material.

Note 16. Other Income (Expense), Net

Other income (expense), net consisted of the following (in thousands):

| | Year Ended January 31, | | |
|-----------------------------------|------------------------|--------------------|------------------|
| | 2022 | 2021 | 2020 |
| Interest income | \$ 5,575 | \$ 18,788 | \$ 41,268 |
| Interest expense ⁽¹⁾ | (16,602) | (68,806) | (58,685) |
| Other ⁽²⁾ | 143,659 | 23,483 | 37,200 |
| Total other income (expense), net | <u>\$ 132,632</u> | <u>\$ (26,535)</u> | <u>\$ 19,783</u> |

(1) Interest expense includes the contractual interest expense of the Term Loan and Notes, and the related non-cash interest expense attributable to amortization of the debt discounts and debt issuance costs. For further information, see [Note 11, Debt](#).

(2) Other primarily includes the net gains (losses) from our equity investments. For further information, see [Note 3, Investments](#).

Note 17. Income Taxes

The components of income (loss) before provision for (benefit from) income taxes were as follows (in thousands):

| | Year Ended January 31, | | |
|--|------------------------|---------------------|---------------------|
| | 2022 | 2021 | 2020 |
| Domestic | \$ 309,061 | \$ (140,352) | \$ (256,772) |
| Foreign | (292,879) | (134,782) | (225,675) |
| Income (loss) before provision for (benefit from) income taxes | <u>\$ 16,182</u> | <u>\$ (275,134)</u> | <u>\$ (482,447)</u> |

The provision for (benefit from) income taxes consisted of the following (in thousands):

| | Year Ended January 31, | | |
|---|------------------------|-----------------|-------------------|
| | 2022 | 2021 | 2020 |
| Current: | | | |
| State | \$ 763 | \$ 1,524 | \$ 438 |
| Foreign | 7,300 | 9,248 | 7,707 |
| Total | 8,063 | 10,772 | 8,145 |
| Deferred: | | | |
| Federal | (1,953) | (81) | (1,258) |
| State | (721) | (177) | (2,014) |
| Foreign | (18,580) | (3,217) | (6,646) |
| Total | (21,254) | (3,475) | (9,918) |
| Provision for (benefit from) income taxes | <u>\$ (13,191)</u> | <u>\$ 7,297</u> | <u>\$ (1,773)</u> |

The items accounting for the difference between income taxes computed at the federal statutory income tax rate and the provision for (benefit from) income taxes consisted of the following:

| | Year Ended January 31, | | |
|---|------------------------|---------------|--------------|
| | 2022 | 2021 | 2020 |
| Federal statutory rate | 21.0 % | 21.0 % | 21.0 % |
| Effect of: | | | |
| Foreign income at other than U.S. rates | 321.0 % | (13.1)% | (11.2)% |
| Intercompany transactions | (158.2)% | 1.0 % | 4.6 % |
| Research tax credits | (447.7)% | 26.6 % | 13.1 % |
| State taxes, net of federal benefit | (0.7)% | (0.5)% | (0.1)% |
| Changes in valuation allowance | 558.5 % | (56.3)% | (48.3)% |
| Share-based compensation | (365.4)% | 19.0 % | 21.6 % |
| Permanent difference | 4.6 % | (0.3)% | (0.7)% |
| Nontaxable gain on investment | (15.7)% | 0.0 % | 0.9 % |
| Other | 1.0 % | (0.1)% | (0.5)% |
| Total | <u>(81.6)%</u> | <u>(2.7)%</u> | <u>0.4 %</u> |

As a result of our history of net operating losses, the current provision for income taxes primarily relates to state income taxes and the current foreign provision from our profitable foreign entities. The domestic income tax benefit primarily relates to the release of our valuation allowance resulting from business combinations. The foreign deferred income tax benefit primarily relates to the excess of tax benefit from share-based compensation and net operating loss in certain foreign jurisdictions.

Significant components of our deferred tax assets and liabilities were as follows (in thousands):

| | As of January 31, | |
|---|-------------------|-----------------|
| | 2022 | 2021 |
| Deferred tax assets: | | |
| Unearned revenue | \$ 16,877 | \$ 17,502 |
| Other reserves and accruals | 28,629 | 23,021 |
| Tax attributes carryforward | 1,790,396 | 1,536,758 |
| Property and equipment | 23,977 | 13,093 |
| Share-based compensation | 71,191 | 77,815 |
| Intangibles | 422,985 | 483,752 |
| Operating lease liabilities | 60,714 | 105,564 |
| Other | 39,373 | 40,603 |
| Total deferred tax assets | 2,454,142 | 2,298,108 |
| Valuation allowance | (2,242,901) | (2,083,683) |
| Deferred tax assets, net of valuation allowance | 211,241 | 214,425 |
| Deferred tax liabilities: | | |
| Deferred commissions | (102,682) | (81,125) |
| Operating lease right-of-use assets | (57,001) | (100,917) |
| Other | (43,990) | (22,992) |
| Total deferred tax liabilities | (203,673) | (205,034) |
| Net deferred tax assets | <u>\$ 7,568</u> | <u>\$ 9,391</u> |

We regularly assess the need for a valuation allowance against our deferred tax assets by considering both positive and negative evidence related to whether it is more likely than not that our deferred tax assets will be realized. In evaluating the need for a valuation allowance, we consider the cumulative losses in recent years as a significant piece of negative evidence that is generally difficult to overcome. As of January 31, 2022, we continue to maintain a full valuation allowance against our U.S. federal, state, and certain foreign jurisdiction deferred tax assets.

As of January 31, 2022, we recorded a valuation allowance of \$2.2 billion for the portion of the deferred tax assets that we do not expect to be realized. The valuation allowance on our net deferred tax assets increased by \$159 million and \$180 million during fiscal 2022 and 2021, respectively. The increase in the valuation allowance during fiscal 2022 is mainly due to an increase in deferred tax assets on our net operating losses and research and development credits during the fiscal year.

As of January 31, 2022, we had approximately \$4.1 billion of federal, \$3.1 billion of state, and \$2.6 billion of foreign net operating loss and other tax attributes carryforwards available to offset future taxable income. If not utilized, the pre-fiscal 2018 federal and the state net operating loss carryforwards expire in varying amounts between fiscal 2023 and 2042. The federal net operating losses generated in and after fiscal 2018 and the foreign net operating losses and other tax attributes do not expire and may be carried forward indefinitely.

We also had approximately \$265 million of federal and \$252 million of California research and development tax credit carryforwards as of January 31, 2022. The federal credits expire in varying amounts between fiscal 2023 and 2042. The California research credits do not expire and may be carried forward indefinitely.

Our ability to utilize the net operating loss and tax credit carryforwards in the future may be subject to substantial restrictions in the event of past or future ownership changes as defined in Section 382 of the Internal Revenue Code of 1986, as amended, and similar state tax law.

We intend to permanently reinvest any future earnings in our foreign operations unless such earnings are subject to U.S. federal income taxes. As of January 31, 2022, we estimate any such hypothetical foreign withholding tax expense to be immaterial to our financial statements.

A reconciliation of the gross unrecognized tax benefit is as follows (in thousands):

| | Year Ended January 31, | | |
|--|------------------------|------------|------------|
| | 2022 | 2021 | 2020 |
| Unrecognized tax benefits at the beginning of the period | \$ 159,862 | \$ 143,621 | \$ 130,771 |
| Additions for tax positions taken in prior years | 572 | 4,640 | 309 |
| Reductions for tax positions taken in prior years | (1,030) | (2,347) | — |
| Additions for tax positions related to the current year | 14,918 | 15,158 | 13,109 |
| Reductions related to a lapse of applicable statute of limitations | — | (807) | (568) |
| Reductions related to settlements | (393) | (403) | — |
| Unrecognized tax benefits at the end of the period | \$ 173,929 | \$ 159,862 | \$ 143,621 |

Our policy is to include interest and penalties related to unrecognized tax benefits within our provision for income taxes. We did not accrue any material interest expense or penalties during fiscal 2022, 2021, or 2020.

Of the total amount of unrecognized tax benefits of \$174 million, \$0.5 million, if recognized, would impact the effective tax rate as of January 31, 2022.

We file federal, state, and foreign income tax returns in jurisdictions with varying statutes of limitations. Due to our net operating loss carryforwards, our income tax returns generally remain subject to examination by federal and most state and foreign tax authorities.

Note 18. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period, net of treasury stock. Diluted net income (loss) per share is computed by giving effect to all potentially dilutive shares of common stock, including our convertible senior notes, outstanding warrants related to the issuance of the convertible senior notes, and outstanding share-based awards consisting primarily of unvested RSUs and PRSUs, and ESPP obligations.

The net income (loss) per share is allocated based on the contractual participation rights of the Class A common shares and Class B common shares as if the income (loss) for the period had been distributed. As the liquidation and dividend rights are identical, the net income (loss) is allocated on a proportionate basis. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of our Class B common stock to Class A common stock, while the diluted net income (loss) per share of Class B common stock does not assume the conversion of those shares.

Basic and diluted net loss per share was the same for fiscal 2021 and 2020 as the inclusion of all potential common shares outstanding would have been anti-dilutive.

The following table presents the calculation of basic and diluted net income (loss) per share (in thousands, except per share data):

| | Year Ended January 31, | | | | | |
|---|------------------------|----------|--------------|-------------|--------------|--------------|
| | 2022 | | 2021 | | 2020 | |
| | Class A | Class B | Class A | Class B | Class A | Class B |
| Net income (loss) per share, basic: | | | | | | |
| Numerator: | | | | | | |
| Net income (loss) | \$ 22,556 | \$ 6,817 | \$ (210,637) | \$ (71,794) | \$ (345,958) | \$ (134,716) |
| Denominator: | | | | | | |
| Weighted-average shares outstanding, basic | 189,864 | 57,385 | 176,758 | 60,261 | 163,513 | 63,672 |
| Net income (loss) per share, basic | \$ 0.12 | \$ 0.12 | \$ (1.19) | \$ (1.19) | \$ (2.12) | \$ (2.12) |
| Net income (loss) per share, diluted: | | | | | | |
| Numerator: | | | | | | |
| Net income (loss) | \$ 22,556 | \$ 6,817 | \$ (210,637) | \$ (71,794) | \$ (345,958) | \$ (134,716) |
| Reallocation of net income as a result of conversion of Class B to Class A common stock | 6,817 | — | — | — | — | — |
| Reallocation of net income to Class B common stock | — | (182) | — | — | — | — |
| Net income (loss) for diluted calculation | 29,373 | 6,635 | (210,637) | (71,794) | (345,958) | (134,716) |
| Denominator: | | | | | | |
| Weighted-average shares outstanding, basic | 189,864 | 57,385 | 176,758 | 60,261 | 163,513 | 63,672 |
| Conversion of Class B to Class A common stock | 57,385 | — | — | — | — | — |
| Dilutive effect of share-based awards | 5,549 | — | — | — | — | — |
| Dilutive effect of warrants related to the issuance of convertible senior notes | 1,234 | — | — | — | — | — |
| Weighted-average shares outstanding, diluted | 254,032 | 57,385 | 176,758 | 60,261 | 163,513 | 63,672 |
| Net income (loss) per share, diluted | \$ 0.12 | \$ 0.12 | \$ (1.19) | \$ (1.19) | \$ (2.12) | \$ (2.12) |

The computation of diluted net income (loss) per share does not include the effect of the following potentially outstanding weighted-average shares of common stock. The effects of these potentially outstanding shares were not included in the calculation of diluted net income (loss) per share because the effect would have been anti-dilutive (in thousands):

| | Year Ended January 31, | | |
|--|------------------------|--------|--------|
| | 2022 | 2021 | 2020 |
| Shares related to outstanding share-based awards | 1,436 | 15,366 | 18,083 |
| Shares related to the convertible senior notes | 7,817 | 9,205 | 10,876 |
| Shares subject to warrants related to the issuance of convertible senior notes | — | 10,392 | 10,876 |
| Total | 9,253 | 34,963 | 39,835 |

Note 19. Geographic Information

Revenues

We sell our subscription contracts and related services in two primary geographical markets: to customers located in the United States and to customers located outside of the United States. Revenues by geography is generally based on the address of the customer as specified in our customer subscription agreement. The following table sets forth revenues by geographic area (in thousands):

| | Year Ended January 31, | | |
|-----------------|------------------------|--------------|--------------|
| | 2022 | 2021 | 2020 |
| United States | \$ 3,845,412 | \$ 3,249,127 | \$ 2,741,427 |
| Other countries | 1,293,386 | 1,068,869 | 885,779 |
| Total revenues | \$ 5,138,798 | \$ 4,317,996 | \$ 3,627,206 |

Long-Lived Assets

Our long-lived assets, which primarily consist of property and equipment and operating lease right-of-use assets, are attributed to a country based on the physical location of the assets. Aggregate Property and equipment, net and Operating lease right-of-use assets by geographic area was as follows (in thousands):

| | As of January 31, | |
|-------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| United States | \$ 1,174,371 | \$ 1,169,820 |
| Ireland | 117,049 | 143,887 |
| Other countries | 79,463 | 72,839 |
| Total long-lived assets | <u>\$ 1,370,883</u> | <u>\$ 1,386,546</u> |

Note 20. 401(k) Plan

We have a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code covering eligible employees. We match a certain portion of employee contributions up to a fixed maximum per employee. Our contributions to the plan were \$46 million, \$42 million, and \$36 million during fiscal 2022, 2021, and 2020, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officers and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management's evaluation, our principal executive officers and principal financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officers and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, management has concluded that its internal control over financial reporting was effective as of January 31, 2022, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report with respect to our internal control over financial reporting, which appears in Part II, Item 8, and is incorporated herein by reference.

(c) Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our principal executive officers and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officers and principal financial officer concluded that there has not been any material change in our internal control over financial reporting during the fourth quarter of fiscal 2022 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, despite the fact that the majority of our employees are continuing to work remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the potential impact of the COVID-19 pandemic on the design and operating effectiveness of our internal controls.

(d) Limitations on Effectiveness of Controls and Procedures and Internal Control over Financial Reporting

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

See Management's Report on Internal Control over Financial Reporting above and the Report of Independent Registered Public Accounting Firm on our internal control over financial reporting in Item 8, which are incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information concerning our directors, our Audit Committee, and any changes to the process by which stockholders may recommend nominees to the Board required by this Item are incorporated herein by reference to information contained in the Proxy Statement, including “Proposal No. 1: Election of Directors” and “Directors and Corporate Governance.”

The information concerning our executive officers required by this Item is incorporated herein by reference to information contained in the Proxy Statement including “Executive Officers and Other Executive Management.”

With regard to the information required by this Item regarding compliance with Section 16(a) of the Exchange Act, we will provide disclosure of delinquent Section 16(a) reports, if any, in our Proxy Statement, and such disclosure, if any, is incorporated herein by reference.

We have adopted a code of ethics, our Code of Conduct, which applies to all employees, including our principal executive officers, our principal financial officer, and all other executive officers. The Code of Conduct is available on our website at www.workday.com/codeofconduct. A copy may also be obtained without charge by contacting Investor Relations, Workday, Inc., 6110 Stoneridge Mall Road, Pleasanton, California 94588 or by calling (925) 951-9000.

We plan to post on our website at the address described above any future amendments or waivers of our Code of Conduct.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement, including “Directors and Corporate Governance” and “Executive Compensation.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement, including “Equity Compensation Plan Information” and “Security Ownership of Certain Beneficial Owners and Management.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement, including “Directors and Corporate Governance,” “Related Party Transactions,” and “Employment Arrangements and Indemnification Agreements.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement, including “Proposal No. 2: Ratification of Appointment of Independent Registered Public Accounting Firm.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Consolidated Financial Statements

See Index to Consolidated Financial Statements at Item 8 herein.

2. Financial Statement Schedules

All schedules have been omitted because they are not required, not applicable, or not present in amounts sufficient to require submission of the schedule.

3. Exhibits

| Exhibit No. | Exhibit | Incorporated by Reference | | | Exhibit No. | Filed Herewith |
|-------------|---|---------------------------|------------|--------------------|-------------|----------------|
| | | Form | File No. | Filing Date | | |
| 3.1 | Restated Certificate of Incorporation of the Registrant | 10-Q | 001-35680 | December 7, 2012 | 3.1 | |
| 3.2 | Amended and Restated Bylaws of the Registrant | 8-K | 001-35680 | February 28, 2022 | 3.1 | |
| 4.1 | Form of Registrant's Class A common stock certificate | S-1/A | 333-183640 | October 1, 2012 | 4.1 | |
| 4.2 | Form of Registrant's Class B common stock certificate | S-8 | 333-184395 | October 12, 2012 | 4.9 | |
| 4.3 | Description of Securities | 10-K | 001-35680 | March 3, 2020 | 4.3 | |
| 4.5 | 2022 Indenture dated September 15, 2017 between Workday, Inc. and Wells Fargo Bank, National Association | 8-K | 001-35680 | September 15, 2017 | 4.1 | |
| 4.6 | Supplemental Indenture to the 2022 Indenture dated January 2, 2018 between Workday, Inc. and Wells Fargo Bank, National Association | 8-K | 001-35680 | January 2, 2018 | 4.4 | |
| 10.1 | Form of Indemnification Agreement | S-1 | 333-183640 | August 30, 2012 | 10.1 | |
| 10.2† | 2005 Stock Plan, as amended | 10-Q | 001-35680 | June 5, 2013 | 10.12 | |
| 10.3† | 2012 Equity Incentive Plan, as amended | DEF 14A | 001-35680 | April 27, 2018 | Annex A | |
| 10.4† | 2012 Equity Incentive Plan Forms of Award Agreements, as amended | 10-K | 001-35680 | March 3, 2020 | 10.4 | |
| 10.5† | 2012 Employee Stock Purchase Plan, as amended | 10-Q | 001-35680 | December 3, 2018 | 10.1 | |
| 10.6† | Adaptive Insights, Inc. 2013 Equity Incentive Plan | S-8 | 333-226907 | August 17, 2018 | 99.1 | |
| 10.7† | Adaptive Insights, Inc. 2013 Equity Incentive Plan Forms of Award Agreements | S-8 | 333-226907 | August 17, 2018 | 99.2 | |
| 10.8† | Workday, Inc. Change in Control Policy | 10-Q | 001-35680 | May 26, 2021 | 10.1 | |
| 10.9† | Offer Letter between James J. Bozzini and the Registrant dated December 4, 2006 | 10-K | 001-35680 | March 31, 2014 | 10.9 | |
| 10.10† | Offer Letter between Robynne Sisco and the Registrant dated August 23, 2012 | 10-Q | 001-35680 | June 1, 2016 | 10.11 | |
| 10.11† | Offer Letter between Richard Sauer and the Registrant dated April 6, 2019 | 10-K | 001-35680 | March 3, 2020 | 10.11 | |

| | | | | | | |
|--------|---|-------|------------|--------------------|-------|---|
| 10.12† | Offer Letter between Luciano G. Fernandez and the Registrant dated August 26, 2020 | 10-Q | 001-35680 | August 28, 2020 | 10.1 | |
| 10.13† | Offer Letter between Barbara Larson and the Registrant dated June 30, 2014 | | | | | X |
| 10.14† | Offer Letter between Doug Robinson and the Registrant dated June 3, 2010 | | | | | X |
| 10.15 | Restated and Amended Pleasanton Ground Lease by and between San Francisco Bay Area Rapid Transit District and CREA/Windstar Pleasanton, LLC and related assignment agreement dated January 30, 2014 | 10-K | 001-35680 | March 31, 2014 | 10.11 | |
| 10.16 | Stock Restriction Agreement, by and among the Registrant, David A. Duffield and Aneel Bhusri | S-1/A | 333-183640 | October 1, 2012 | 10.11 | |
| 10.17 | Form of Convertible Bond Hedge Confirmation (2022) | 8-K | 001-35680 | September 15, 2017 | 99.1 | |
| 10.18 | Form of Warrant Confirmation (2022) | 8-K | 001-35680 | September 15, 2017 | 99.2 | |
| 10.19 | Form of Additional Convertible Bond Hedge Confirmation (2022) | 8-K | 001-35680 | September 15, 2017 | 99.3 | |
| 10.20 | Form of Additional Warrant Confirmation (2022) | 8-K | 001-35680 | September 15, 2017 | 99.4 | |
| 10.21 | Credit Agreement, dated as of April 2, 2020, among Workday, certain subsidiaries of Workday, Bank of America, N.A., Wells Fargo Bank, National Association, Truist Bank, U.S. Bank National Association and the other L/C Issuers and Lenders party thereto | 8-K | 001-35680 | April 6, 2020 | 10.1 | |
| 21.1 | List of Subsidiaries of the Registrant | | | | | X |
| 23.1 | Consent of Independent Registered Public Accounting Firm | | | | | X |
| 24.1 | Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K) | | | | | X |
| 31.1 | Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 31.2 | Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 31.3 | Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 32.1* | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 32.2* | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | X |

| | | |
|---------|---|---|
| 32.3* | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X |
| 101.INS | XBRL Instance Document - Instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document | X |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | X |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | X |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | X |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | X |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | X |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) | X |

† Indicates a management contract or compensatory plan.

* These exhibits are furnished with this Annual Report on Form 10-K and are not deemed filed with the SEC and are not incorporated by reference in any filing of Workday, Inc. under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pleasanton, State of California, on this 28th day of February, 2022.

WORKDAY, INC.

/s/ Barbara Larson

Barbara Larson
Chief Financial Officer (Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Barbara Larson or Richard H. Sauer, or any of them, his or her attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|--|-------------------|
| <hr/> <i>/s/ Aneel Bhusri</i> Aneel Bhusri | Co-Chief Executive Officer <i>(Principal Executive Officer)</i> | February 28, 2022 |
| <hr/> <i>/s/ Luciano Fernandez Gomez</i> Luciano Fernandez Gomez | Co-Chief Executive Officer <i>(Principal Executive Officer)</i> | February 28, 2022 |
| <hr/> <i>/s/ Barbara Larson</i> Barbara Larson | Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i> | February 28, 2022 |
| <hr/> <i>/s/ Thomas F. Bogan</i> Thomas F. Bogan | Director | February 28, 2022 |
| <hr/> <i>/s/ Ann-Marie Campbell</i> Ann-Marie Campbell | Director | February 28, 2022 |
| <hr/> <i>/s/ Christa Davies</i> Christa Davies | Director | February 28, 2022 |
| <hr/> <i>/s/ Lynne M. Doughtie</i> Lynne M. Doughtie | Director | February 28, 2022 |
| <hr/> <i>/s/ Carl M. Eschenbach</i> Carl M. Eschenbach | Director | February 28, 2022 |
| <hr/> <i>/s/ Michael M. McNamara</i> Michael M. McNamara | Director | February 28, 2022 |
| <hr/> <i>/s/ George J. Still, Jr.</i> George J. Still, Jr. | Director | February 28, 2022 |
| <hr/> <i>/s/ Lee J. Styslinger III</i> Lee J. Styslinger III | Director | February 28, 2022 |
| <hr/> <i>/s/ Jerry Yang</i> Jerry Yang | Director | February 28, 2022 |

[WORKDAY LOGO]

June 30, 2014

Barbara Larson
[address]

Dear Barbara,

Workday, Inc. ("Workday") is happy to offer you a position as Senior Director, Corporate FP&A reporting to Gabe Cortes. Your planned start date is Monday, July 14, 2014 with an initial starting salary of \$190,000 per year, which is payable according to Workday's payroll cycle, and subject to applicable federal and state taxes. In addition, you will be eligible to participate in a variable ("incentive") compensation plan, targeted at 25% annually. This plan, including terms and conditions, shall be confirmed shortly after you commence employment.

Workday will offer you a one-time Hiring Bonus of \$75,000. This will be paid out within your first 30 days in accordance with the Company's standard payroll procedures. To receive the hiring bonus, you must be employed by Workday and in good standing on the day of the payment. All amounts discussed herein are subject to applicable withholding taxes and may be subject to repayment if you choose to leave the Company within one year of your original commencement date.

Subject to the approval of the Company's Board of Directors or its Compensation Committee, you will be granted restricted stock units (RSUs) of the Company's Class A Common Stock with an approximate value of \$750,000 USD. The number of shares will be determined by dividing the USD value above by the trailing simple moving average stock price of Workday Class A common stock for the 20 day period immediately preceding the Date of Grant. You will vest in these shares at the rate of 1/4 of the RSU shares after 12 months of continuous service from your vesting start date, then in equal quarterly installments of 1/16th of the total RSU shares, fully vesting in 4 years from your vesting start date. Your vesting start date will be the 15th of the month your RSU grant is approved. Your RSU grant will be subject to the terms and conditions applicable to stock granted under the Company's 2012 Equity Incentive Plan (the "Plan"), as described in the Plan and the applicable Restricted Stock Unit Agreement.

Your employment with Workday is "at-will", meaning either you or Workday may terminate your employment at any time, for any reason or no reason, with or without notice. There is no promise by Workday that your employment will continue for a set period of time or that your employment will be terminated only under particular circumstances. Any exception to this at-will employment policy can only be made in writing by the President of Workday. In particular, this at-will employment policy cannot be modified by any statements, express or implied, contained in any employment handbook, application, memoranda, policy, procedure, or other materials or statements provided to you in connection with your employment. This offer and your start date are contingent upon successfully completing and passing all applicable background checks.

Workday has its own way of doing business and its own unique, independently developed proprietary technology. We have neither the need nor desire to make any unauthorized use of any intellectual property or confidential information belonging to or developed by others. Workday understands the importance of protecting its own intellectual property and confidential information, and respects the intellectual property and confidential information developed by other companies. We fully expect that each person who accepts a position with us will hold themselves to these same standards. No employee should reference, use or bring into the workplace any material that contains intellectual property or confidential information belonging to a previous employer or any other third party.

This job offer is contingent upon your acceptance of Workday's Proprietary Information and Inventions Agreement and must be returned with this signed letter by Tuesday, July 1, 2014. Like all Workday employees, you are also required, as a condition of your continued employment, to comply with Workday's Employee Handbook as it may be updated and/or revised periodically.

Sincerely,
/s/ Grant D. Bassett
Grant Bassett
VP, Talent

The foregoing is accepted and correctly states our arrangement.

By: /s/ Barbara Larson
Dated: 6/30/2014

[WORKDAY LOGO]

June 3, 2010

Doug Robinson
[address]

Dear Doug,

Workday, Inc. (the "Company") is pleased to offer you employment as Regional Sales Director, West.

Your employment with the Company shall commence on June 28, 2010 with an initial starting salary at a rate of \$160,000 per year, which shall be payable in accordance with the Company's standard payroll procedures. In addition, your variable ("incentive") compensation shall target \$170,000 per year "at plan." The sales plan, including terms and conditions, shall be confirmed shortly after commencing employment. Subject to the approval of the Company's Board of Directors or its Compensation Committee, you will be granted an option to purchase 25,000 shares of the Company's Common Stock Option. The exercise price per share will be equal to the fair market value per share on the date the Option is granted or on your first day of employment, whichever is later. You will vest in 20% of the Option shares after 12 months of continuous service, and the balance will vest in equal quarterly installments over the next 16 quarters of continuous service. The Option will be subject to the terms and conditions applicable to options granted under the Company's 2005 Stock Plan (the "Plan"), as described in the Plan and the applicable Stock Option Agreement. As a regular employee of the Company, you will also be eligible to participate in a number of Company-sponsored benefits and programs, as may be established by the Company and in effect from time to time.

Please be advised that your employment with the Company will be "at-will", which means that either you or the Company may terminate your employment at any time, for any reason or no reason, with or without notice. There is no promise by the Company that your employment will continue for a set period of time or that your employment will be terminated only under particular circumstances. Any exception to this policy of employment at-will shall only be made in writing by the President of the Company. In particular, this policy of at-will employment shall not be modified by any statements, express or implied, contained in any employment handbook, application, memoranda, policy, procedure, or other materials or statements provided to you in connection with your employment. This offer is contingent upon satisfactory completion of all applicable background checks.

The Company has its own way of doing business, and its own unique, independently developed proprietary technology. We have neither the need nor desire to make any unauthorized use of any intellectual property or confidential information belonging to or developed by others. The Company also understands the importance of protecting its own intellectual property and confidential information, and respects the intellectual property and confidential information developed by other companies. We fully expect that each person who accepts employment with us will hold themselves to these same standards. No employee should use or bring into the workplace any material that contains intellectual property or confidential information belonging to a previous employer or any other third party.

This offer of employment is contingent upon your execution of the Company's standard Proprietary Information and Inventions Agreement, a copy of which is attached hereto as **Exhibit A**. Like all Company employees, you will also be required, as a condition of your continued employment with the Company to comply with the terms of the Company's Employee Handbook as it may be updated and/or revised from time to time.

I look forward to an enjoyable business relationship. Welcome aboard!

Sincerely,

/s/ Michael A. Stankey

Michael Stankey, President & COO

The foregoing is accepted and correctly states our arrangement.

By:

/s/ Doug Robinson

Dated:

6/11/2010

SUBSIDIARIES AS OF JANUARY 31, 2022

| Name | Jurisdiction |
|--|-----------------------|
| Adaptive Insights Co., Ltd. | Japan |
| Adaptive Insights Limited | United Kingdom |
| Adaptive Insights LLC | Delaware |
| Adaptive Insights Pty Ltd. | Australia |
| Adaptive Insights, Ltd. | Canada |
| Adaptive Planning, Inc. (dormant and winding down) | India |
| Canada Workday ULC | Canada |
| Peakon ApS | Denmark |
| Peakon GmbH | Germany |
| Peakon Ltd | United Kingdom |
| Peakon NZ Limited | New Zealand |
| PT Workday Indonesia Services | Indonesia |
| Scout RFP LLC | Delaware |
| Tri-Valley Resellers, LLC | Delaware |
| Trusted Key Solutions Inc. | Delaware |
| Vineyard Sound, LLC | Delaware |
| VNDLY Canada Technology Inc. | Canada |
| VNDLY LLC | Delaware |
| VNDLY UK Limited | United Kingdom |
| Workday (Beijing) Co., Ltd. | China |
| Workday (NZ) Unlimited | New Zealand |
| Workday (Thailand) Co., Ltd. | Thailand |
| Workday (UK) Limited | United Kingdom |
| Workday Asia Pacific Limited | Hong Kong |
| Workday Australia Pty Ltd | Australia |
| Workday Austria GmbH | Austria |
| Workday B.V. | The Netherlands |
| Workday Belgium BVBA | Belgium |
| Workday CZ s.r.o | Czech Republic |
| Workday Denmark ApS | Denmark |
| Workday España SL | Spain |
| Workday Finland Oy | Finland |
| Workday France | France |
| Workday Global, Inc. | Delaware |
| Workday GmbH | Germany |
| Workday India Private Limited | India |
| Workday Italy S.r.l. | Italy |
| Workday K.K. | Japan |
| Workday Korea Limited | South Korea |
| Workday Latvia SIA | Latvia |
| Workday Limited | Ireland |
| Workday Limited - Liechtenstein Branch Office | Ireland/Liechtenstein |
| Workday Limited - South Korea Branch | Ireland/South Korea |
| Workday Malaysia Sdn. Bhd. | Malaysia |
| Workday Mexico, S. de R.L. de C.V. | Mexico |
| Workday Norway AS | Norway |
| Workday Polska sp. z.o.o | Poland |
| Workday Singapore Pte. Ltd. | Singapore |
| Workday South Africa (Pty) Ltd | South Africa |
| Workday Sweden Aktiebolag | Sweden |
| Workday Switzerland GmbH | Switzerland |
| Zimit LLC | Delaware |

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- Registration Statement (Form S-3 ASR No. 333-239056) of Workday, Inc.,
- Registration Statements (Form S-8 Nos. 333-184395, 333-187665, 333-194934, 333-203004, 333-210330, 333-216834, 333-223656, and 333-230371) pertaining to employee benefit plans of Workday, Inc., and
- Registration Statement (Form S-8 No. 333-226907) pertaining to the Adaptive Insights, Inc. 2013 Equity Incentive Plan;

of our reports dated February 28, 2022, with respect to the consolidated financial statements of Workday, Inc. and the effectiveness of internal control over financial reporting of Workday, Inc. included in this Annual Report (Form 10-K) of Workday, Inc. for the year ended January 31, 2022.

/s/ Ernst & Young LLP

San Francisco, California
February 28, 2022

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aneel Bhusri, certify that:

1. I have reviewed this Annual Report on Form 10-K of Workday, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2022

By: /s/ Aneel Bhusri
Aneel Bhusri
Co-Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Luciano G. Fernandez, certify that:

1. I have reviewed this Annual Report on Form 10-K of Workday, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2022

By: /s/ Luciano G. Fernandez
Luciano G. Fernandez
Co-Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barbara Larson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Workday, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2022

By: /s/ Barbara Larson
Barbara Larson
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aneel Bhusri, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Workday, Inc. on Form 10-K for the fiscal year ended January 31, 2022, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Workday, Inc.

Date: February 28, 2022

By: /s/ Aneel Bhusri
Aneel Bhusri
Co-Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Luciano G. Fernandez, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Workday, Inc. on Form 10-K for the fiscal year ended January 31, 2022, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Workday, Inc.

Date: February 28, 2022

By: /s/ Luciano G. Fernandez
Luciano G. Fernandez
Co-Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barbara Larson, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Workday, Inc. on Form 10-K for the fiscal year ended January 31, 2022, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Workday, Inc.

Date: February 28, 2022

By: /s/ Barbara Larson
Barbara Larson
Chief Financial Officer
(Principal Financial Officer)