

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

Form 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended October 31, 2023

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

As of November 22, 2023, there were approximately 209 million shares of the registrant's Class A common stock, net of treasury stock, and 54 million shares of the registrant's Class B common stock outstanding

Workday, Inc.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Workday, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	October 31, 2023	January 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,563,939	\$ 1,886,311
Marketable securities	5,316,045	4,235,083
Trade and other receivables, net	1,224,818	1,570,086
Deferred costs	207,566	191,054
Prepaid expenses and other current assets	261,795	225,690
Total current assets	8,574,163	8,108,224
Property and equipment, net	1,206,564	1,201,254
Operating lease right-of-use assets	265,963	249,278
Deferred costs, noncurrent	432,275	420,988
Acquisition-related intangible assets, net	249,242	305,465
Goodwill	2,846,464	2,840,044
Other assets	351,262	360,985
Total assets	\$ 13,925,933	\$ 13,486,238
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 79,333	\$ 153,751
Accrued expenses and other current liabilities	234,906	260,131
Accrued compensation	420,178	563,548
Unearned revenue	3,196,648	3,559,393
Operating lease liabilities	98,325	91,343
Total current liabilities	4,029,390	4,628,166
Debt, noncurrent	2,978,800	2,975,934
Unearned revenue, noncurrent	62,148	74,540
Operating lease liabilities, noncurrent	198,843	181,799
Other liabilities	31,835	40,231
Total liabilities	7,301,016	7,900,670
Stockholders' equity:		
Common stock	264	259
Additional paid-in capital	9,981,756	8,828,639
Treasury stock	(471,481)	(185,047)
Accumulated other comprehensive income (loss)	33,207	53,051
Accumulated deficit	(2,918,829)	(3,111,334)
Total stockholders' equity	6,624,917	5,585,568
Total liabilities and stockholders' equity	\$ 13,925,933	\$ 13,486,238

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Revenues:				
Subscription services	\$ 1,691,116	\$ 1,432,393	\$ 4,842,964	\$ 4,071,804
Professional services	174,559	166,710	493,789	497,754
Total revenues	1,865,675	1,599,103	5,336,753	4,569,558
Costs and expenses (1):				
Costs of subscription services	263,840	259,397	758,551	737,301
Costs of professional services	181,400	176,396	552,233	524,398
Product development	618,736	565,727	1,828,870	1,655,071
Sales and marketing	537,816	470,196	1,580,639	1,358,198
General and administrative	176,028	153,708	512,148	427,832
Total costs and expenses	1,777,820	1,625,424	5,232,441	4,702,800
Operating income (loss)	87,855	(26,321)	104,312	(133,242)
Other income (expense), net	41,388	4,163	113,652	(48,789)
Income (loss) before provision for (benefit from) income taxes	129,243	(22,158)	217,964	(182,031)
Provision for (benefit from) income taxes	15,534	52,563	25,459	59,021
Net income (loss)	\$ 113,709	\$ (74,721)	\$ 192,505	\$ (241,052)
Net income (loss) per share, basic	\$ 0.43	\$ (0.29)	\$ 0.74	\$ (0.95)
Net income (loss) per share, diluted	\$ 0.43	\$ (0.29)	\$ 0.73	\$ (0.95)
Weighted-average shares used to compute net income (loss) per share, basic	262,153	255,753	260,747	253,975
Weighted-average shares used to compute net income (loss) per share, diluted	266,377	255,753	264,087	253,975

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Costs of subscription services	\$ 30,543	\$ 25,598	\$ 89,793	\$ 76,918
Costs of professional services	28,738	26,577	87,532	79,999
Product development	162,025	149,279	493,934	449,764
Sales and marketing	64,805	61,186	211,560	180,233
General and administrative	63,146	51,556	187,810	146,795
Total share-based compensation expenses	\$ 349,257	\$ 314,196	\$ 1,070,629	\$ 933,709

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Net income (loss)	\$ 113,709	\$ (74,721)	\$ 192,505	\$ (241,052)
Other comprehensive income (loss):				
Net change in foreign currency translation adjustment	(3,851)	(3,098)	(3,317)	(6,005)
Net change in unrealized gains (losses) on available-for-sale debt securities	(4,634)	(13,232)	(16,204)	(23,513)
Net change in unrealized gains (losses) on cash flow hedges, net of tax provision of \$2,388, \$0, \$3,942, and \$0, respectively	48,472	57,483	(323)	125,923
Other comprehensive income (loss)	39,987	41,153	(19,844)	96,405
Comprehensive income (loss)	\$ 153,696	\$ (33,568)	\$ 172,661	\$ (144,647)

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Stockholders' Equity
(in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Common stock:				
Balance, beginning of period	\$ 263	\$ 255	\$ 259	\$ 251
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	1	1	5	5
Settlement of convertible senior notes	—	1	—	1
Balance, end of period	264	257	264	257
Additional paid-in capital:				
Balance, beginning of period	9,637,303	7,988,096	8,828,639	7,284,174
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	(4,804)	709	82,488	84,997
Share-based compensation	349,257	314,196	1,070,629	933,709
Exercise of convertible senior notes hedges	—	97,794	—	97,916
Settlement of convertible senior notes	—	(39)	—	(40)
Balance, end of period	9,981,756	8,400,756	9,981,756	8,400,756
Treasury stock:				
Balance, beginning of period	(323,695)	(12,588)	(185,047)	(12,467)
Exercise of convertible senior notes hedges	—	(97,794)	—	(97,915)
Common stock repurchases under share repurchase program	(147,786)	—	(286,434)	—
Balance, end of period	(471,481)	(110,382)	(471,481)	(110,382)
Accumulated other comprehensive income (loss):				
Balance, beginning of period	(6,780)	62,961	53,051	7,709
Other comprehensive income (loss)	39,987	41,153	(19,844)	96,405
Balance, end of period	33,207	104,114	33,207	104,114
Accumulated deficit:				
Balance, beginning of period	(3,032,538)	(2,910,916)	(3,111,334)	(2,744,585)
Net income (loss)	113,709	(74,721)	192,505	(241,052)
Balance, end of period	(2,918,829)	(2,985,637)	(2,918,829)	(2,985,637)
Total stockholders' equity	\$ 6,624,917	\$ 5,409,108	\$ 6,624,917	\$ 5,409,108

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Common stock (in shares):				
Balance, beginning of period	261,858	255,485	257,991	251,209
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	1,363	1,198	5,865	5,474
Settlement of convertible senior notes	—	634	—	635
Purchase of treasury stock from the exercise of convertible senior notes hedges	—	(634)	—	(635)
Common stock repurchased	(677)	—	(1,312)	—
Balance, end of period	262,544	256,683	262,544	256,683

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Cash flows from operating activities:				
Net income (loss)	\$ 113,709	\$ (74,721)	\$ 192,505	\$ (241,052)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	68,614	91,854	210,470	274,395
Share-based compensation expenses	349,257	314,196	1,070,629	933,709
Amortization of deferred costs	54,450	44,830	155,432	126,515
Non-cash lease expense	24,454	23,359	72,611	68,318
(Gains) losses on investments	9,488	(3,833)	16,764	20,746
Accretion of discounts on marketable debt securities, net	(39,379)	(13,121)	(111,180)	(15,797)
Other	(10,037)	16,372	(19,696)	31,170
Changes in operating assets and liabilities, net of business combinations:				
Trade and other receivables, net	37,719	61,885	327,647	200,008
Deferred costs	(79,927)	(56,552)	(183,231)	(163,023)
Prepaid expenses and other assets	71,644	2,435	78,279	(31,447)
Accounts payable	(6,525)	18,116	(62,352)	20,884
Accrued expenses and other liabilities	(32,159)	47,061	(219,470)	41,253
Unearned revenue	(110,533)	(63,213)	(375,053)	(302,936)
Net cash provided by (used in) operating activities	450,775	408,668	1,153,355	962,743
Cash flows from investing activities:				
Purchases of marketable securities	(1,272,864)	(2,310,915)	(4,746,086)	(5,651,005)
Maturities of marketable securities	1,124,276	2,181,147	3,595,718	3,767,509
Sales of marketable securities	45,690	19,988	93,368	53,355
Owned real estate projects	(1,424)	(181)	(3,112)	(446)
Capital expenditures, excluding owned real estate projects	(58,524)	(58,665)	(181,053)	(286,013)
Business combinations, net of cash acquired	(8,517)	—	(8,517)	—
Purchase of other intangible assets	(700)	(700)	(10,200)	(700)
Purchases of non-marketable equity and other investments	—	(3,250)	(10,500)	(20,173)
Sales and maturities of non-marketable equity and other investments	54	4,513	54	11,674
Net cash provided by (used in) investing activities	(172,009)	(168,063)	(1,270,328)	(2,125,799)
Cash flows from financing activities:				
Proceeds from issuance of debt, net of debt discount	—	—	—	2,978,077
Repayments and extinguishment of debt	—	(1,149,622)	—	(1,843,605)
Payments for debt issuance costs	—	—	—	(7,220)
Repurchases of common stock	(144,686)	—	(283,333)	—
Proceeds from issuance of common stock from employee equity plans, net of taxes paid for shares withheld	(4,803)	710	82,493	85,002
Other	(69)	(161)	(474)	(538)
Net cash provided by (used in) financing activities	(149,558)	(1,149,073)	(201,314)	1,211,716
Effect of exchange rate changes	(787)	(920)	(698)	(1,750)
Net increase (decrease) in cash, cash equivalents, and restricted cash	128,421	(909,388)	(318,985)	46,910
Cash, cash equivalents, and restricted cash at the beginning of period	1,447,834	2,497,043	1,895,240	1,540,745
Cash, cash equivalents, and restricted cash at the end of period	\$ 1,576,255	\$ 1,587,655	\$ 1,576,255	\$ 1,587,655

See Notes to Condensed Consolidated Financial Statements

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Supplemental cash flow data:				
Cash paid for interest	\$ 55,125	\$ 56,567	\$ 110,254	\$ 59,508
Cash paid for income taxes, net of refunds	3,214	2,093	35,007	9,863
Non-cash investing and financing activities:				
Purchases of property and equipment, accrued but not paid	18,094	68,028	18,094	68,028

	As of October 31,	
	2023	2022
Reconciliation of cash, cash equivalents, and restricted cash as shown in the Condensed Consolidated Statements of Cash Flows:		
Cash and cash equivalents	\$ 1,563,939	\$ 1,575,955
Restricted cash included in Prepaid expenses and other current assets	12,316	11,700
Total cash, cash equivalents, and restricted cash	<u>\$ 1,576,255</u>	<u>\$ 1,587,655</u>

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.**Notes to Condensed Consolidated Financial 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.

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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The condensed consolidated financial statements include the results of Workday, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of our management, the information contained herein reflects all adjustments necessary for a fair presentation of Workday’s financial position, results of operations, stockholders’ equity, and cash flows. All such adjustments are of a normal, recurring nature. The results of operations for the three and nine months ended October 31, 2023, shown in this report are not necessarily indicative of the results to be expected for the full fiscal year ending January 31, 2024. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 31, 2023, filed with the SEC on February 27, 2023.

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

Use of Estimates

The preparation of condensed 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 condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates, judgements, and assumptions include, but are not limited to, the identification of distinct performance obligations for revenue recognition, 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 condensed consolidated financial statements.

In February 2023, we completed an assessment of the useful lives of our data center equipment, including servers, network equipment, and integrated complete server and network racks. Due to advances in technology, as well as investments in software that increased efficiencies in how we operate our data center equipment, we determined we should increase the estimated useful lives of data center equipment from 3 years to 5 years. This change in accounting estimate was effective beginning fiscal 2024. Based on the carrying amount of data center equipment that was in-service as of January 31, 2023, this change decreased depreciation expense by \$22 million and \$77 million for the three and nine months ended October 31, 2023, respectively.

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 the nine months ended October 31, 2023, our co-chief executive officers together served as CODM for purposes of segment reporting. Our CODM allocates resources and assesses performance based upon discrete financial information at the consolidated level.

Note 2. Significant Accounting Policies and Accounting Standards

Significant Accounting Policies

There have been no material changes in our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended January 31, 2023.

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 October 31, 2023, or January 31, 2023. No customer individually accounted for more than 10% of total revenues during the three and nine months ended October 31, 2023, or 2022.

Other than the United States, no country individually accounted for more than 10% of total revenues during the three and nine months ended October 31, 2023, or 2022.

In order to reduce the risk of disruption 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 Amazon Web Services ("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 may impact our operations and our business could be adversely impacted.

We are also exposed to concentration of risk in our equity investments portfolio, which consists of marketable equity investments and non-marketable equity investments measured using the measurement alternative. As of both October 31, 2023, and January 31, 2023, we held one marketable equity investment with a carrying value that was individually greater than 10% of our total equity investments portfolio.

Recently Issued Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires disclosure of incremental segment information on an annual and interim basis. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and requires retrospective application to all prior periods presented in the financial statements. We are currently evaluating the impacts of the new standard.

Note 3. Investments

Debt Securities

As of October 31, 2023, debt securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
U.S. treasury securities	\$ 2,307,535	\$ 51	\$ (9,121)	\$ 2,298,465
U.S. agency obligations	787,767	254	(2,376)	785,645
Corporate bonds	1,771,472	355	(21,031)	1,750,796
Commercial paper	1,111,886	—	(1)	1,111,885
Total debt securities	\$ 5,978,660	\$ 660	\$ (32,529)	\$ 5,946,791
Included in Cash and cash equivalents	\$ 659,919	\$ —	\$ —	\$ 659,919
Included in Marketable securities	\$ 5,318,741	\$ 660	\$ (32,529)	\$ 5,286,872

As of January 31, 2023, debt securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
U.S. treasury securities	\$ 2,455,739	\$ 77	\$ (6,765)	\$ 2,449,051
U.S. agency obligations	325,664	—	(3,874)	321,790
Corporate bonds	966,801	1,617	(6,715)	961,703
Commercial paper	1,016,641	—	(5)	1,016,636
Total debt securities	\$ 4,764,845	\$ 1,694	\$ (17,359)	\$ 4,749,180
Included in Cash and cash equivalents	\$ 594,864	\$ —	\$ (1)	\$ 594,863
Included in Marketable securities	\$ 4,169,980	\$ 1,694	\$ (17,357)	\$ 4,154,317

The contractual maturities of debt securities were as follows (in thousands):

	October 31, 2023
Due within 1 year	\$ 3,885,682
Due in 1 year through 5 years	2,061,109
Total debt securities	\$ 5,946,791

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 funds available for use in current operations, including those with maturity dates beyond one year, and therefore classify these securities as current assets on the Condensed Consolidated Balance Sheets. Debt securities included in Marketable securities on the Condensed Consolidated Balance Sheets consist of securities with original maturities at the time of purchase greater than three months, and the remaining securities are included in Cash and cash equivalents.

As of October 31, 2023, and January 31, 2023, the fair values of debt securities in an unrealized loss position were \$4.3 billion and \$3.1 billion, respectively, the majority of which had been in a continuous unrealized loss position for less than 12 months. We did not recognize any credit or non-credit related losses related to our debt securities during the periods presented.

We sold \$24 million and \$20 million of debt securities during the three months ended October 31, 2023, and 2022, respectively. We sold \$42 million and \$48 million of debt securities during the nine months ended October 31, 2023, and 2022, respectively. The realized gains and losses from the sales were immaterial.

Equity Investments

Equity investments consisted of the following (in thousands):

	Condensed Consolidated Balance Sheets Location	October 31, 2023	January 31, 2023
Money market funds	Cash and cash equivalents	\$ 675,910	\$ 902,226
Non-marketable equity investments measured using the measurement alternative	Other assets	250,311	261,922
Marketable equity investments	Marketable securities	29,173	80,766
Total equity investments		\$ 955,394	\$ 1,244,914

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Net realized gains (losses) recognized on equity investments sold ⁽¹⁾	\$ (807)	\$ 4,514	\$ 1,984	\$ (365)
Net unrealized gains (losses) recognized on equity investments held as of the end of the period	(13,562)	(155)	(23,529)	(19,121)
Total net gains (losses) recognized in Other income (expense), net	<u>\$ (14,369)</u>	<u>\$ 4,359</u>	<u>\$ (21,545)</u>	<u>\$ (19,486)</u>

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

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 recorded at cost and are adjusted for observable transactions for same or similar securities of the same issuer or impairment events. The carrying values for our non-marketable equity investments are summarized below (in thousands):

	October 31, 2023	January 31, 2023
Total initial cost	\$ 207,485	\$ 206,833
Cumulative net unrealized gains (losses)	42,826	55,089
Carrying value	<u>\$ 250,311</u>	<u>\$ 261,922</u>

During the three months ended October 31, 2023, we recorded impairment losses of \$9 million to the carrying value of non-marketable equity investments. During the three months ended October 31, 2022, we recorded upward adjustments to the carrying value of non-marketable equity investments of \$2 million, impairment losses of \$2 million, and a gain of \$4 million upon exiting a non-marketable equity investment.

During the nine months ended October 31, 2023, we recorded impairment losses of \$22 million to the carrying value of non-marketable equity investments. During the nine months ended October 31, 2022, we recorded upward adjustments to the carrying value of non-marketable equity investments of \$8 million, impairment losses of \$10 million, and a net loss of \$2 million upon exiting a non-marketable equity investment.

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

	October 31, 2023	January 31, 2023
Total initial cost	\$ 14,817	\$ 38,449
Cumulative net unrealized gains (losses)	14,356	42,317
Carrying value	<u>\$ 29,173</u>	<u>\$ 80,766</u>

During the three months ended October 31, 2023, we sold marketable equity investments for proceeds of \$22 million. We did not sell any marketable equity investments during the three months ended October 31, 2022. During the nine months ended October 31, 2023, and 2022, we sold marketable equity investments for proceeds of \$52 million and \$5 million, respectively. The realized gains and losses from the sales were immaterial.

For the marketable equity investments held as of the end of each period, we recorded unrealized net losses of \$4 million during the three months ended October 31, 2023, no material unrealized net gains or losses during the three months ended October 31, 2022, and unrealized net losses of \$2 million and \$17 million during the nine months ended October 31, 2023, and 2022, respectively.

Note 4. Fair Value Measurements

We use 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. 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.

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 October 31, 2023 (in thousands):

	Level 1	Level 2	Level 3	Total
U.S. treasury securities	\$ 2,298,465	\$ —	\$ —	\$ 2,298,465
U.S. agency obligations	—	785,645	—	785,645
Corporate bonds	—	1,750,796	—	1,750,796
Commercial paper	—	1,111,885	—	1,111,885
Money market funds	675,910	—	—	675,910
Marketable equity investments	29,173	—	—	29,173
Foreign currency derivative assets	—	90,536	—	90,536
Total assets	\$ 3,003,548	\$ 3,738,862	\$ —	\$ 6,742,410
Foreign currency derivative liabilities	\$ —	\$ 20,268	\$ —	\$ 20,268
Total liabilities	\$ —	\$ 20,268	\$ —	\$ 20,268

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, 2023 (in thousands):

	Level 1	Level 2	Level 3	Total
U.S. treasury securities	\$ 2,449,051	\$ —	\$ —	\$ 2,449,051
U.S. agency obligations	—	321,790	—	321,790
Corporate bonds	—	961,703	—	961,703
Commercial paper	—	1,016,636	—	1,016,636
Money market funds	902,226	—	—	902,226
Marketable equity investments	80,766	—	—	80,766
Foreign currency derivative assets	—	64,824	—	64,824
Total assets	\$ 3,432,043	\$ 2,364,953	\$ —	\$ 5,796,996
Foreign currency derivative liabilities	\$ —	\$ 33,972	\$ —	\$ 33,972
Total liabilities	\$ —	\$ 33,972	\$ —	\$ 33,972

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

Non-marketable equity investments that have been remeasured 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

We carry our debt at face value less unamortized debt discount and issuance costs on our Condensed Consolidated Balance Sheets and present the fair value for disclosure purposes only. All of our debt obligations are categorized as Level 2 financial instruments. For further information on the fair values of our debt and the inputs used in the calculations, see [Note 10, Debt](#).

Note 5. Deferred Costs

Deferred costs, which consist of deferred sales commissions, were \$640 million and \$612 million as of October 31, 2023, and January 31, 2023, respectively. Amortization expense for the deferred costs was \$54 million and \$45 million for the three months ended October 31, 2023, and 2022, respectively, and \$155 million and \$127 million for the nine months ended October 31, 2023, and 2022, 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):

	October 31, 2023	January 31, 2023
Computers, equipment, and software	\$ 1,348,381	\$ 1,286,540
Buildings	723,164	719,966
Leasehold improvements	216,138	202,101
Furniture, fixtures, and transportation equipment	92,938	90,816
Land and land improvements	81,067	81,083
Property and equipment, gross	2,461,688	2,380,506
Less accumulated depreciation and amortization	(1,255,124)	(1,179,252)
Property and equipment, net	\$ 1,206,564	\$ 1,201,254

Depreciation expense totaled \$52 million and \$69 million for the three months ended October 31, 2023, and 2022, respectively, and \$149 million and \$207 million for the nine months ended October 31, 2023, and 2022, respectively.

Note 7. Acquisition-Related Intangible Assets, Net

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

	October 31, 2023	January 31, 2023
Developed technology	\$ 326,800	\$ 342,700
Customer relationships	311,100	311,100
Backlog	15,000	15,000
Trade name	12,500	12,500
Acquisition-related intangible assets, gross	665,400	681,300
Less accumulated amortization	(416,158)	(375,835)
Acquisition-related intangible assets, net	\$ 249,242	\$ 305,465

Amortization expense related to acquisition-related intangible assets was \$16 million and \$21 million for the three months ended October 31, 2023, and 2022, respectively, and \$58 million and \$64 million for the nine months ended October 31, 2023, and 2022, respectively.

As of October 31, 2023, our future estimated amortization expense related to acquisition-related intangible assets was as follows (in thousands):

Fiscal Period:	
Remainder of 2024	\$ 16,088
2025	62,198
2026	56,283
2027	31,712
2028	27,346
Thereafter	55,615
Total	\$ 249,242

Note 8. Other Noncurrent Assets

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

	October 31, 2023	January 31, 2023
Non-marketable equity and other investments	\$ 250,311	\$ 263,485
Derivative assets	37,725	21,757
Technology patents and other intangible assets, net	27,175	20,534
Prepayments for goods and services	16,463	23,466
Net deferred tax assets	7,105	12,650
Deposits	6,038	5,819
Other	6,445	13,274
Total other assets	<u>\$ 351,262</u>	<u>\$ 360,985</u>

Technology patents and other intangible assets with estimable useful lives are amortized on a straight-line basis. As of October 31, 2023, the future estimated amortization expense was as follows (in thousands):

Fiscal Period:	
Remainder of 2024	\$ 1,059
2025	3,715
2026	3,366
2027	3,018
2028	2,774
Thereafter	13,243
Total	<u>\$ 27,175</u>

Note 9. Derivative Instruments

We conduct business on a global basis in multiple foreign currencies, subjecting Workday to foreign currency exchange 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.

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.

Cash Flow Hedges

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

Cash flow hedges are recorded on the Condensed Consolidated Balance Sheets at fair value. Cash flows from the settlement of these forward contracts are classified as operating activities on the Condensed Consolidated Statements of Cash Flows. Gains or losses resulting from changes in the fair value of these hedges are recorded in Accumulated other comprehensive income (loss) (“AOCI”) on the Condensed Consolidated Balance Sheets and are subsequently reclassified to the same line item as the hedged transaction on the Condensed Consolidated Statements of Operations in the same period that the hedged transaction affects earnings. As of October 31, 2023, we estimate that \$33 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 October 31, 2023, and January 31, 2023, the notional values of the cash flow hedges that we held to buy U.S. dollars in exchange for other currencies were \$2.2 billion and \$1.7 billion, respectively. The notional values of the cash flow hedges that we held to sell U.S. dollars in exchange for other currencies were \$369 million and \$324 million as of October 31, 2023, and January 31, 2023, respectively. 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 (“non-designated hedges”). These forward contracts are intended to offset foreign currency gains or losses associated with the underlying monetary assets and liabilities and are recorded on the Condensed 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 Condensed Consolidated Statements of Operations. Cash flows from the settlement of these forward contracts are classified as operating activities on the Condensed Consolidated Statements of Cash Flows.

As of October 31, 2023, and January 31, 2023, the notional values of the non-designated hedges that we held to buy U.S. dollars in exchange for other currencies were \$125 million and \$235 million, respectively, and the notional values of the non-designated hedges that we held to sell U.S. dollars in exchange for other currencies were \$1 million and \$2 million, respectively.

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

	Condensed Consolidated Balance Sheets Location	October 31, 2023	January 31, 2023
Derivative assets:			
Cash flow hedges	Prepaid expenses and other current assets	\$ 52,123	\$ 42,968
Cash flow hedges	Other assets	37,725	21,757
Non-designated hedges	Prepaid expenses and other current assets	688	99
Total derivative assets		<u>\$ 90,536</u>	<u>\$ 64,824</u>
Derivative liabilities:			
Cash flow hedges	Accrued expenses and other current liabilities	\$ 16,644	\$ 13,231
Cash flow hedges	Other liabilities	3,425	15,496
Non-designated hedges	Accrued expenses and other current liabilities	199	5,244
Non-designated hedges	Other liabilities	—	1
Total derivative liabilities		<u>\$ 20,268</u>	<u>\$ 33,972</u>

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

Condensed Consolidated Statements of Operations Location	Three Months Ended October 31,			
	2023		2022	
	Total	Gains (losses) related to cash flow hedges	Total	Gains (losses) related to cash flow hedges
Revenues	\$ 1,865,675	\$ 15,625	\$ 1,599,103	\$ 5,647
Costs and expenses	1,777,820	839	1,625,424	(11,852)
Provision for (benefit from) income taxes	15,534	—	52,563	(3,220)

Condensed Consolidated Statements of Operations Location	Nine Months Ended October 31,			
	2023		2022	
	Total	Gains (losses) related to cash flow hedges	Total	Gains (losses) related to cash flow hedges
Revenues	\$ 5,336,753	\$ 49,217	\$ 4,569,558	\$ 5,985
Costs and expenses	5,232,441	1,781	4,702,800	(18,636)
Provision for (benefit from) income taxes	25,459	—	59,021	(3,220)

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

	Condensed Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) Locations	Three Months Ended October 31,		Nine Months Ended October 31,	
		2023	2022	2023	2022
Gains (losses) recognized in OCI	Net change in unrealized gains (losses) on cash flow hedges	\$ 67,324	\$ 48,058	\$ 54,617	\$ 110,052
Gains (losses) reclassified from AOCI into income (effective portion)	Revenues	15,625	5,647	49,217	5,985
Gains (losses) reclassified from AOCI into income (effective portion)	Costs and expenses	839	(11,852)	1,781	(18,636)
Gains (losses) reclassified from AOCI into income (effective portion)	Provision for (benefit from) income taxes	—	(3,220)	—	(3,220)

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

	Condensed Consolidated Statements of Operations Location	Three Months Ended October 31,		Nine Months Ended October 31,	
		2023	2022	2023	2022
Gains (losses) related to non-designated hedges	Other income (expense), net	\$ 6,425	\$ 7,187	\$ 7,857	\$ 13,288

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 Condensed 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 October 31, 2023, information related to these offsetting arrangements was as follows (in thousands):

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented on the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset on the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Assets Exposed
Derivative assets:						
Counterparty A	\$ 25,461	\$ —	\$ 25,461	\$ (1,856)	\$ —	\$ 23,605
Counterparty B	20,486	—	20,486	(9,009)	—	11,477
Counterparty C	2,015	—	2,015	(228)	—	1,787
Counterparty D	37,367	—	37,367	(8,323)	—	29,044
Counterparty E	5,207	—	5,207	(852)	—	4,355
Total	<u>\$ 90,536</u>	<u>\$ —</u>	<u>\$ 90,536</u>	<u>\$ (20,268)</u>	<u>\$ —</u>	<u>\$ 70,268</u>

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented on the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset on the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Liabilities Exposed
Derivative liabilities:						
Counterparty A	\$ 1,856	\$ —	\$ 1,856	\$ (1,856)	\$ —	\$ —
Counterparty B	9,009	—	9,009	(9,009)	—	—
Counterparty C	228	—	228	(228)	—	—
Counterparty D	8,323	—	8,323	(8,323)	—	—
Counterparty E	852	—	852	(852)	—	—
Total	<u>\$ 20,268</u>	<u>\$ —</u>	<u>\$ 20,268</u>	<u>\$ (20,268)</u>	<u>\$ —</u>	<u>\$ —</u>

Note 10. Debt

Outstanding debt consisted of the following (in thousands):

	October 31, 2023	January 31, 2023
2027 Notes	\$ 1,000,000	\$ 1,000,000
2029 Notes	750,000	750,000
2032 Notes	1,250,000	1,250,000
Total principal amount	3,000,000	3,000,000
Less: unamortized debt discount and issuance costs	(21,200)	(24,066)
Net carrying amount	2,978,800	2,975,934
Debt, noncurrent	<u>\$ 2,978,800</u>	<u>\$ 2,975,934</u>

As of October 31, 2023, the future principal payments for the outstanding debt were as follows (in thousands):

Fiscal Period:	
Remainder of 2024	\$ —
2025	—
2026	—
2027	—
2028	1,000,000
Thereafter	2,000,000
Total principal amount	<u>\$ 3,000,000</u>

Senior Notes

In April 2022, we issued \$3.0 billion aggregate principal amount of senior notes, consisting of \$1.0 billion aggregate principal amount of 3.500% notes due April 1, 2027 (“2027 Notes”), \$750 million aggregate principal amount of 3.700% notes due April 1, 2029 (“2029 Notes”), and \$1.25 billion aggregate principal amount of 3.800% notes due April 1, 2032 (“2032 Notes,” and together with the 2027 Notes and the 2029 Notes, “Senior Notes”). Interest is payable semi-annually in arrears on April 1 and October 1 of each year, which commenced in October 2022.

The Senior Notes are unsecured obligations and rank equally with all existing and future unsecured and unsubordinated indebtedness of Workday. We may redeem the Senior Notes in whole or in part at any time or from time to time, at specified redemption dates and prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The indenture governing the Senior Notes also includes covenants (including certain limited covenants restricting our ability to incur certain liens and enter into certain sale and leaseback transactions), events of default, and other customary provisions. As of October 31, 2023, we were in compliance with all covenants associated with the Senior Notes.

We incurred debt discount and issuance costs of approximately \$27 million in connection with the Senior Notes offering, which were allocated on a pro rata basis to the 2027 Notes, 2029 Notes, and 2032 Notes. The debt discount and issuance costs are amortized on a straight-line basis, which approximates the effective interest rate method, to interest expense over the contractual term of each arrangement. The effective interest rates on the 2027 Notes, 2029 Notes, and 2032 Notes, which are calculated as the contractual interest rates adjusted for the debt discount and issuance costs, are 3.67%, 3.82%, and 3.90%, respectively.

As of October 31, 2023, the total estimated fair value of the Senior Notes was \$2.6 billion. The estimated fair values of the Senior Notes, which we have classified as Level 2 financial instruments, were determined based on quoted bid prices in an over-the-counter market on the last trading day of the reporting period.

Credit Agreement

In April 2022, we entered into a credit agreement ("2022 Credit Agreement") which provides for a revolving credit facility in an aggregate principal amount of \$1.0 billion. The 2022 Credit Agreement replaced our prior credit agreement entered into in April 2020 ("2020 Credit Agreement"), which provided for a term loan facility in an aggregate original principal amount of \$750 million and a revolving credit facility in an aggregate principal amount of \$750 million. Concurrently with entering into the 2022 Credit Agreement, we paid off the remaining principal balance of \$694 million on the term loan under the 2020 Credit Agreement and terminated the revolving credit facility under the 2020 Credit Agreement, which had no outstanding balance. The modification to our revolving credit facility and extinguishment of the term loan under the 2020 Credit Agreement did not have a material impact to our Condensed Consolidated Statements of Operations for fiscal 2023.

As of October 31, 2023, we had no outstanding revolving loans under the 2022 Credit Agreement. The revolving loans under the 2022 Credit Agreement may be borrowed, repaid, and reborrowed until April 6, 2027, at which time all amounts borrowed must be repaid. The revolving loans under the 2022 Credit Agreement will bear interest, at our option, at a base rate plus a margin of 0.000% to 0.500% or a secured overnight financing rate ("SOFR") plus 10 basis points, plus a margin of 0.750% to 1.500%, with such margin being determined based on our consolidated leverage ratio or debt rating. We are also obligated to pay an ongoing commitment fee on undrawn amounts.

The 2022 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 negative covenants include restrictions on the incurrence of liens and indebtedness, certain merger transactions, and other matters, all subject to certain exceptions. The financial covenant, based on a quarterly financial test, requires that we do not exceed a maximum leverage ratio of 3.50:1.00, subject to a step-up to 4.50:1.00 at our election for a certain period following an acquisition. As of October 31, 2023, we were in compliance with all covenants included in the 2022 Credit Agreement.

Convertible Senior Notes

In September 2017, we issued 0.25% convertible senior notes due October 1, 2022, with a principal amount of \$1.15 billion ("2022 Notes"). The 2022 Notes were unsecured, unsubordinated obligations, and interest was payable in cash in arrears at a fixed rate of 0.25% on April 1 and October 1 of each year. During the third quarter of fiscal 2023, the 2022 Notes were converted by note holders, and we repaid the \$1.15 billion principal balance in cash. We also distributed approximately 0.6 million shares of our Class A common stock to note holders during fiscal 2023, which represented the conversion value in excess of the principal amount.

Notes Hedges

In connection with the issuance of the 2022 Notes, we entered into convertible note hedge transactions ("Purchased Options") which gave 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. During the third quarter of fiscal 2023, we received approximately 0.6 million shares of our Class A common stock from the exercise of the Purchased Options, which offset the economic dilution to our Class A common stock upon conversion of the 2022 Notes. These shares were recorded as Treasury stock on the Condensed Consolidated Balance Sheets. The Purchased Options were separate transactions and were not part of the terms of the 2022 Notes, and expired on October 1, 2022.

Warrants

In connection with the issuance of the 2022 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 of our Class A common stock over 60 scheduled trading days beginning in January 2023 at an exercise price of \$213.96 per share. During the first quarter of fiscal 2024, the Warrants fully expired without exercise.

Interest Expense on Debt

The following table sets forth total interest expense recognized related to our debt (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Contractual interest expense	\$ 27,562	\$ 28,036	\$ 82,688	\$ 67,702
Interest cost related to amortization and write-off of debt discount and issuance costs	955	1,557	2,866	6,000
Total interest expense	<u>\$ 28,517</u>	<u>\$ 29,593</u>	<u>\$ 85,554</u>	<u>\$ 73,702</u>

Note 11. 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 were \$266 million and \$249 million as of October 31, 2023, and January 31, 2023, respectively, and operating lease liabilities were \$297 million and \$273 million as of October 31, 2023, and January 31, 2023, respectively. We have also entered into finance lease agreements for other property and equipment. As of October 31, 2023, and January 31, 2023, finance leases were not material.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Operating lease cost	\$ 26,925	\$ 25,404	\$ 82,005	\$ 73,821
Short-term lease cost	737	854	2,379	3,001
Variable lease cost	11,871	12,787	33,869	32,970
Total operating lease cost	<u>\$ 39,533</u>	<u>\$ 39,045</u>	<u>\$ 118,253</u>	<u>\$ 109,792</u>

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Cash paid for operating lease liabilities	\$ 25,197	\$ 23,190	\$ 79,006	\$ 68,386
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	30,073	6,611	93,828	93,091

Other information related to our operating leases was as follows:

	October 31, 2023	January 31, 2023
Weighted average remaining lease term (in years)	5	5
Weighted average discount rate	3.55 %	2.79 %

As of October 31, 2023, maturities of operating lease liabilities were as follows (in thousands):

Fiscal Period:	
Remainder of 2024	\$ 28,398
2025	100,927
2026	69,886
2027	50,292
2028	36,115
Thereafter	46,296
Total lease payments	331,914
Less imputed interest	(34,746)
Total operating lease liabilities	<u>\$ 297,168</u>

As of October 31, 2023, we have additional operating leases for data centers and office space that had not yet commenced with total undiscounted lease payments of \$71 million. These operating leases will commence between fiscal 2024 and fiscal 2026, with lease terms ranging from approximately three to six years.

Note 12. 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. During the nine months ended October 31, 2023, there were no material changes outside the ordinary course of business to our non-cancelable purchase obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2023.

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 October 31, 2023, 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 13. Stockholders' Equity***Common Stock***

As of October 31, 2023, there were 209 million shares of Class A common stock, net of treasury stock, and 54 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.

Share Repurchase Program

In November 2022, our Board of Directors authorized the repurchase of up to \$500 million of our outstanding shares of Class A common stock (the "Share Repurchase Program"). We may repurchase shares of Class A common stock from time to time through open market purchases, in privately negotiated transactions, or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act, in accordance with applicable securities laws and other restrictions. The timing and total amount of stock repurchases will depend upon business, economic, and market conditions, corporate and regulatory requirements, prevailing stock prices, and other considerations. The Share Repurchase Program has a term of 18 months, may be suspended or discontinued at any time, and does not obligate us to acquire any amount of Class A common stock.

During the three and nine months ended October 31, 2023, we repurchased approximately 0.7 million and 1 million shares of Class A common stock for approximately \$148 million and \$286 million, at an average price per share of \$218.35 and \$218.34, respectively. All repurchases were made in open market transactions. As of October 31, 2023, we were authorized to purchase a remaining \$139 million of our outstanding shares of Class A common stock under the Share Repurchase Program.

Employee Equity Plans

In June 2022, our stockholders approved the 2022 Equity Incentive Plan ("2022 Plan"), with a reserve of 30 million shares for issuance. The 2022 Plan serves as the successor to our 2012 Equity Incentive Plan ("2012 Plan" and, together with the 2022 Plan, "Stock Plans"). Awards that are granted on or after the effective date of the 2022 Plan will be granted pursuant to and subject to the terms and provisions of the 2022 Plan. Prior awards granted under the 2012 Plan continue to be subject to the terms and provisions of the 2012 Plan. As of October 31, 2023, we had 21 million shares of Class A common stock available for future grants.

In June 2022, our stockholders approved the Amended and Restated 2012 Employee Stock Purchase Plan ("ESPP"). 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 October 31, 2023, 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 restricted stock units (“RSUs”) to employees and non-employees. RSUs generally vest over four years. RSU activity during the nine months ended October 31, 2023, was as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value
Balance as of January 31, 2023	14,099	\$ 206.38
RSUs granted	8,472	193.86
RSUs vested	(5,179)	202.76
RSUs forfeited	(1,269)	203.10
Balance as of October 31, 2023	16,123	201.22

As of October 31, 2023, there was a total of \$2.5 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.

Market-Based Restricted Stock Units

In December 2022, 0.3 million shares of market-based RSUs were granted to our newly appointed Co-CEO that vest based on appreciation of the price of our Class A common stock over a multi-year period and upon continued service (“PVU Award”). We estimated the fair value of the PVU Award on the grant date using the Monte Carlo simulation model with the following assumptions: (i) expected volatility of 40%, (ii) risk-free interest rate of 4%, and (iii) total performance period of six years. The weighted-average grant date fair value of the PVU Award was \$ 124.80 per share. We recognize expense for the PVU Award over the requisite service period of five years using the accelerated attribution method. Provided that the requisite service is rendered, the total fair value of the PVU Award at the date of grant is recognized as compensation expense even if the market condition is not achieved. However, the number of shares that ultimately vest can vary significantly with the achievement of the specified market criteria.

As of October 31, 2023, there was a total of \$23 million in unrecognized compensation cost related to the PVU Award, which is expected to be recognized over approximately four years.

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. Stock option activity during the nine months ended October 31, 2023, was as follows (in thousands, except aggregate intrinsic value, which is reflected in millions, and per share data):

	Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance as of January 31, 2023	115	\$ 30.36	\$ 17
Stock options exercised	(17)	35.03	
Stock options canceled	—	—	
Balance as of October 31, 2023	98	29.58	18
Vested and expected to vest as of October 31, 2023	98	29.58	18
Exercisable as of October 31, 2023	98	29.58	18

As of October 31, 2023, all stock options were fully vested with no remaining unrecognized compensation cost.

Note 14. Unearned Revenue and Performance Obligations

Unearned Revenue

Unearned revenue primarily consists of amounts we have the right to invoice in advance of performance under a customer contract. Total unearned revenue was \$3.3 billion and \$3.6 billion as of October 31, 2023, and January 31, 2023, respectively. Included in this balance are amounts related to professional services that are subject to cancellation and pro-rated refund rights of \$70 million and \$68 million as of October 31, 2023, and January 31, 2023, respectively.

Subscription services revenues of \$1.4 billion and \$1.2 billion were recognized during the three months ended October 31, 2023, and 2022, respectively, that were included in the unearned revenue balances as of July 31, 2023, and 2022, respectively. Subscription services revenues of \$3.0 billion and \$2.7 billion were recognized during the nine months ended October 31, 2023, and 2022, respectively, that were included in the unearned revenue balances as of January 31, 2023, and 2022, respectively. 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 October 31, 2023, approximately \$18.4 billion of revenues are expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize revenues on approximately \$6.0 billion and \$10.6 billion of these remaining performance obligations over the next 12 and 24 months, respectively, with the balance recognized thereafter. Revenues from remaining performance obligations for professional services contracts as of October 31, 2023, were not material.

Note 15. Other Income (Expense), Net

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Interest income	\$ 80,004	\$ 31,252	\$ 214,268	\$ 50,473
Interest expense ⁽¹⁾	(28,535)	(29,626)	(85,617)	(73,804)
Other ⁽²⁾	(10,081)	2,537	(14,999)	(25,458)
Total other income (expense), net	\$ 41,388	\$ 4,163	\$ 113,652	\$ (48,789)

(1) Interest expense primarily includes the contractual interest expense of our debt obligations, and the related non-cash interest expense attributable to amortization of the debt discount and issuance costs. For further information, see [Note 10, Debt](#).

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

Note 16. Income Taxes

We reported an income tax provision of \$25 million and \$59 million for the nine months ended October 31, 2023, and 2022, respectively. The income tax provision for the nine months ended October 31, 2023, was primarily attributable to income tax expenses in profitable foreign jurisdictions and an increase in U.S. taxes due to capitalized research and development expenditures. The income tax provision for the nine months ended October 31, 2022, was primarily attributable to a taxable gain recognized from integrating intellectual property, income tax expenses in profitable foreign jurisdictions, and an increase in state taxes due to capitalized research and development expenditures.

We are subject to income tax audits in the U.S. and foreign jurisdictions. We record liabilities related to uncertain tax positions and believe that we have provided adequate reserves for income tax uncertainties in all open tax years. Due to our history of tax losses, all years remain open to tax audit.

We periodically evaluate the realizability of our deferred tax assets based on all available evidence, both positive and negative. The realization of the net deferred tax assets is dependent on our ability to generate sufficient future taxable income during the periods prior to the expiration of tax attributes to fully utilize these assets. Given our current and anticipated future earnings, we may release a significant portion of our valuation allowance if there is sufficient positive evidence that outweighs the negative evidence. The release of the valuation allowance would result in the recognition of certain deferred tax assets and a corresponding decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance to be released is uncertain. As of October 31, 2023, we continue to maintain a full valuation allowance on our deferred tax assets in certain jurisdictions.

Note 17. 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 ESPP obligations. We determine the dilutive effect of outstanding share-based awards and warrants using the treasury stock method, and the dilutive effect of shares underlying our convertible senior notes using the if-converted method.

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.

Basic and diluted net loss per share was the same for the three and nine months ended October 31, 2022, as the inclusion of potentially outstanding weighted-average shares of common stock would have been anti-dilutive due to the incurrence of net loss during these periods.

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

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2023		2022		2023		2022	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Net income (loss) per share, basic:								
Numerator:								
Net income (loss)	\$ 90,101	\$ 23,608	\$ (58,648)	\$ (16,073)	\$ 152,222	\$ 40,283	\$ (188,757)	\$ (52,295)
Denominator:								
Weighted-average shares outstanding, basic	207,726	54,427	200,740	55,013	206,184	54,563	198,876	55,099
Net income (loss) per share, basic	<u>\$ 0.43</u>	<u>\$ 0.43</u>	<u>\$ (0.29)</u>	<u>\$ (0.29)</u>	<u>\$ 0.74</u>	<u>\$ 0.74</u>	<u>\$ (0.95)</u>	<u>\$ (0.95)</u>
Net income (loss) per share, diluted:								
Numerator:								
Net income (loss)	\$ 90,101	\$ 23,608	\$ (58,648)	\$ (16,073)	\$ 152,222	\$ 40,283	\$ (188,757)	\$ (52,295)
Reallocation of net income as a result of conversion of Class B to Class A common stock	23,608	—	—	—	40,283	—	—	—
Reallocation of net income to Class B common stock	—	(374)	—	—	—	(509)	—	—
Net income (loss) for diluted calculation	<u>113,709</u>	<u>23,234</u>	<u>(58,648)</u>	<u>(16,073)</u>	<u>192,505</u>	<u>39,774</u>	<u>(188,757)</u>	<u>(52,295)</u>
Denominator:								
Weighted-average shares outstanding, basic	207,726	54,427	200,740	55,013	206,184	54,563	198,876	55,099
Conversion of Class B to Class A common stock	54,427	—	—	—	54,563	—	—	—
Dilutive effect of share-based awards	4,224	—	—	—	3,340	—	—	—
Weighted-average shares outstanding, diluted	<u>266,377</u>	<u>54,427</u>	<u>200,740</u>	<u>55,013</u>	<u>264,087</u>	<u>54,563</u>	<u>198,876</u>	<u>55,099</u>
Net income (loss) per share, diluted	<u>\$ 0.43</u>	<u>\$ 0.43</u>	<u>\$ (0.29)</u>	<u>\$ (0.29)</u>	<u>\$ 0.73</u>	<u>\$ 0.73</u>	<u>\$ (0.95)</u>	<u>\$ (0.95)</u>

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):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Shares related to outstanding share-based awards	1,882	16,105	2,774	15,453
Shares related to the convertible senior notes	—	5,182	—	6,928
Shares subject to warrants related to the issuance of convertible senior notes	—	7,818	—	7,818
Total	1,882	29,105	2,774	30,199

Note 18. 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 are 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):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
United States	\$ 1,404,124	\$ 1,204,842	\$ 4,012,660	\$ 3,432,249
Other countries	461,551	394,261	1,324,093	1,137,309
Total revenues	\$ 1,865,675	\$ 1,599,103	\$ 5,336,753	\$ 4,569,558

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):

	October 31, 2023	January 31, 2023
United States	\$ 1,175,275	\$ 1,206,486
Ireland	205,470	159,337
Other countries	91,782	84,709
Total long-lived assets	\$ 1,472,527	\$ 1,450,532

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 financial condition and operating results, 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, such as those arising from the impact of recent macroeconomic events, including inflation, increased interest rates, instability in the global banking system, and the remaining effects of the coronavirus (“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.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this report.

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. 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 the Asia-Pacific region, by investing in product development and customer support to address the business needs of targeted local markets, increasing our sales organization and marketing programs, 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, and expect to continue making 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 and helping to deliver additional innovation and solutions, will drive additional customer subscriptions and continued growth in revenues. Due to our ability to leverage our 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 Current Economic Conditions

Recent macroeconomic events including higher inflation, the U.S. Federal Reserve raising interest rates, instability in the global banking system, as well as geopolitical factors and the remaining effects of the COVID-19 pandemic, have negatively impacted the global economy, disrupted global supply chains, and created continued uncertainty, volatility, and disruption of financial markets. Despite this, 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 and help our customers on their human resources and finance digital transformation journeys. Demand for our products remains strong and we continue to achieve solid new subscription bookings.

Our near-term revenues are relatively predictable as a result of our subscription-based business model. We have experienced, and may continue to experience, the lengthening of certain sales cycles and moderation of revenue growth rates, particularly within net new opportunities, and have provided certain customers with more flexible payment terms. If the economic uncertainty continues, we may also experience a negative impact on customer renewals, customer collections, sales and marketing efforts, customer deployments, product development, or other financial metrics. Any of these factors could harm our business, financial condition, and operating results. For further discussion of the potential impacts of recent macroeconomic events on our business, financial condition, and operating results, see “Risk Factors” included in Part II, Item 1A of this report.

Financial Results Overview

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

	Three Months Ended October 31,			Nine Months Ended October 31,		
	2023	2022	Change	2023	2022	Change
Total revenues	\$ 1,865,675	\$ 1,599,103	17 %	\$ 5,336,753	\$ 4,569,558	17 %
Subscription services revenues	\$ 1,691,116	\$ 1,432,393	18 %	\$ 4,842,964	\$ 4,071,804	19 %
GAAP operating income (loss)	\$ 87,855	\$ (26,321)	434 %	\$ 104,312	\$ (133,242)	178 %
Non-GAAP operating income ⁽¹⁾	\$ 462,098	\$ 314,234	47 %	\$ 1,279,474	\$ 904,344	41 %
GAAP operating margin	4.7 %	(1.6)%	630 bps	2.0 %	(2.9)%	490 bps
Non-GAAP operating margin ⁽¹⁾	24.8 %	19.7 %	510 bps	24.0 %	19.8 %	420 bps
Operating cash flows	\$ 450,775	\$ 408,668	10 %	\$ 1,153,355	\$ 962,743	20 %
Free cash flows ⁽¹⁾	\$ 390,827	\$ 349,822	12 %	\$ 969,190	\$ 676,284	43 %
	As of October 31,					
	2023	2022	% Change			
Total subscription revenue backlog	\$ 18,445,597	\$ 14,095,906	31 %			
12-month subscription revenue backlog	\$ 6,047,482	\$ 4,962,071	22 %			
24-month subscription revenue backlog	\$ 10,576,013	\$ 8,622,191	23 %			
Cash, cash equivalents, and marketable securities	\$ 6,879,984	\$ 5,492,085	25 %			
Headcount	18,369	17,522	5 %			

(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 approximately 91% of our total revenues for the three and nine months ended October 31, 2023, and represented 96% of our total unearned revenue as of October 31, 2023. 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 each 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, and may provide certain customers flexible payment terms. Amounts that have been invoiced are initially recorded as unearned revenue.

Our professional services 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 continue to develop, we expect these partners to increasingly contract directly with our subscription customers.

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 expenses. Product development expenses consist primarily of employee-related expenses associated with our efforts to add new features and applications, increase functionality, and enhance the ease of use of our cloud applications.

Sales and marketing expenses. 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 expenses. 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 for the three and nine months ended October 31, 2023, and 2022, were as follows (in thousands, except percentages):

	Three Months Ended October 31,			% Change	Nine Months Ended October 31,			% Change
	2023	2022			2023	2022		
Subscription services	\$ 1,691,116	\$ 1,432,393		18 %	\$ 4,842,964	\$ 4,071,804		19 %
Professional services	174,559	166,710		5 %	493,789	497,754		(1) %
Total revenues	<u>\$ 1,865,675</u>	<u>\$ 1,599,103</u>		17 %	<u>\$ 5,336,753</u>	<u>\$ 4,569,558</u>		17 %

Total revenues were \$1.9 billion for the three months ended October 31, 2023, compared to \$1.6 billion for the prior year period, an increase of \$267 million, or 17%. Subscription services revenues were \$1.7 billion for the three months ended October 31, 2023, compared to \$1.4 billion for the prior year period, an increase of \$259 million, or 18%. The increase in subscription services revenues was primarily due to an increased number of new customers, expansion of our product offerings provided to existing customers, and strong customer renewals, with gross and net retention rates over 95% and over 100%, respectively. Professional services revenues were \$175 million for the three months ended October 31, 2023, compared to \$167 million for the prior year period, an increase of \$8 million, or 5%. The increase in professional services revenues was primarily due to variations in project size and mix of deployment and integration services provided.

Total revenues were \$5.3 billion for the nine months ended October 31, 2023, compared to \$4.6 billion for the prior year period, an increase of \$767 million, or 17%. Subscription services revenues were \$4.8 billion for the nine months ended October 31, 2023, compared to \$4.1 billion for the prior year period, an increase of \$771 million, or 19%. The increase in subscription services revenues was primarily due to an increased number of new customers, expansion of our product offerings provided to existing customers, and strong customer renewals, with gross and net retention rates over 95% and over 100%, respectively. Professional services revenues were \$494 million for the nine months ended October 31, 2023, compared to \$498 million for the prior year period, a decrease of \$4 million, or 1%. The decrease in professional services revenues was primarily due to variations in project size and mix of deployment and integration services provided and continuing to expand and leverage our service partners.

Subscription Revenue Backlog

As of October 31, 2023, our total subscription revenue backlog was \$18.4 billion, with \$6.0 billion and \$10.6 billion expected to be recognized in revenues over the next 12 and 24 months, respectively. As of October 31, 2022, our total subscription revenue backlog was \$14.1 billion, with \$5.0 billion and \$8.6 billion expected to be recognized in revenues over the next 12 and 24 months, respectively. The increase in subscription revenue backlog was primarily driven by an increased number of new customers, duration of customer contracts, expansion of our product offerings provided to existing customers, and strong customer renewals.

Operating Expenses

GAAP operating expenses were \$1.8 billion for the three months ended October 31, 2023, compared to \$1.6 billion for the prior year period, an increase of \$152 million, or 9%. The increase in GAAP operating expenses included increases of \$133 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount, \$22 million related to marketing programs, and \$18 million in third-party expenses for hardware maintenance and data center capacity, offset by a decrease of \$21 million in depreciation expense related to equipment in our data centers primarily due to an increase in the estimated useful lives of our data center equipment from 3 years to 5 years, effective beginning fiscal 2024 (“change in useful lives of data center equipment”).

GAAP operating expenses were \$5.2 billion for the nine months ended October 31, 2023, compared to \$4.7 billion for the prior year period, an increase of \$530 million, or 11%. The increase in GAAP operating expenses included increases of \$453 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount, \$58 million in third-party expenses for hardware maintenance and data center capacity, and \$37 million related to marketing programs, offset by a decrease of \$68 million in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

Non-GAAP operating expenses were \$1.4 billion for the three months ended October 31, 2023, compared to \$1.3 billion for the prior year period, an increase of \$119 million, or 9%. The increase in non-GAAP operating expenses included increases of \$94 million in employee-related expenses primarily due to higher average headcount, \$22 million related to marketing programs, and \$18 million in third-party expenses for hardware maintenance and data center capacity, offset by a decrease of \$21 million in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

Non-GAAP operating expenses were \$4.1 billion for the nine months ended October 31, 2023, compared to \$3.7 billion for the prior year period, an increase of \$392 million, or 11%. The increase in non-GAAP operating expenses included increases of \$309 million in employee-related expenses primarily due to higher average headcount, \$58 million in third-party expenses for hardware maintenance and data center capacity, and \$37 million related to marketing programs, offset by a decrease of \$68 million in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

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

Three Months Ended October 31, 2023				
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Non-GAAP Operating Expenses
Costs of subscription services	\$ 263,840	\$ (30,543)	\$ (9,140)	\$ 224,157
Costs of professional services	181,400	(28,738)	(1,097)	151,565
Product development	618,736	(162,025)	(3,006)	453,705
Sales and marketing	537,816	(64,805)	(10,438)	462,573
General and administrative	176,028	(63,146)	(1,305)	111,577
Total costs and expenses	<u>\$ 1,777,820</u>	<u>\$ (349,257)</u>	<u>\$ (24,986)</u>	<u>\$ 1,403,577</u>
Three Months Ended October 31, 2022				
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Non-GAAP Operating Expenses
Costs of subscription services	\$ 259,397	\$ (25,598)	\$ (14,100)	\$ 219,699
Costs of professional services	176,396	(26,577)	(623)	149,196
Product development	565,727	(149,279)	(1,899)	414,549
Sales and marketing	470,196	(61,186)	(9,206)	399,804
General and administrative	153,708	(51,556)	(531)	101,621
Total costs and expenses	<u>\$ 1,625,424</u>	<u>\$ (314,196)</u>	<u>\$ (26,359)</u>	<u>\$ 1,284,869</u>
Nine Months Ended October 31, 2023				
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Non-GAAP Operating Expenses
Costs of subscription services	\$ 758,551	\$ (89,793)	\$ (39,500)	\$ 629,258
Costs of professional services	552,233	(87,532)	(5,537)	459,164
Product development	1,828,870	(493,934)	(18,806)	1,316,130
Sales and marketing	1,580,639	(211,560)	(35,222)	1,333,857
General and administrative	512,148	(187,810)	(5,468)	318,870
Total costs and expenses	<u>\$ 5,232,441</u>	<u>\$ (1,070,629)</u>	<u>\$ (104,533)</u>	<u>\$ 4,057,279</u>
Nine Months Ended October 31, 2022				
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Non-GAAP Operating Expenses
Costs of subscription services	\$ 737,301	\$ (76,918)	\$ (45,022)	\$ 615,361
Costs of professional services	524,398	(79,999)	(5,297)	439,102
Product development	1,655,071	(449,764)	(17,146)	1,188,161
Sales and marketing	1,358,198	(180,233)	(32,640)	1,145,325
General and administrative	427,832	(146,795)	(3,772)	277,265
Total costs and expenses	<u>\$ 4,702,800</u>	<u>\$ (933,709)</u>	<u>\$ (103,877)</u>	<u>\$ 3,665,214</u>

(1) Other operating expenses include amortization of acquisition-related intangible assets of \$16 million and \$21 million for the three months ended October 31, 2023, and 2022, respectively, and \$58 million and \$64 million for the nine months ended October 31, 2023, and 2022, respectively. In addition, other operating expenses include employer payroll tax-related items on employee stock transactions of \$9 million and \$5 million for the three months ended October 31, 2023, and 2022, respectively, and \$46 million and \$40 million for the nine months ended October 31, 2023, and 2022, respectively.

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

Costs of Subscription Services

GAAP operating expenses in costs of subscription services were \$264 million for the three months ended October 31, 2023, compared to \$259 million for the prior year period, an increase of \$4 million, or 2%. The increase in costs of subscription services included increases of \$15 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount, and \$13 million in third-party expenses for hardware maintenance and data center capacity, offset by a decrease of \$21 million in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

GAAP operating expenses in costs of subscription services were \$759 million for the nine months ended October 31, 2023, compared to \$737 million for the prior year period, an increase of \$21 million, or 3%. The increase in costs of subscription services included increases of \$40 million in third-party expenses for hardware maintenance and data center capacity, \$37 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount, and \$11 million in facilities and IT-related expenses, offset by a decrease of \$66 million in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

Non-GAAP operating expenses in costs of subscription services were \$224 million for the three months ended October 31, 2023, compared to \$220 million for the prior year period, an increase of \$4 million, or 2%. The increase in costs of subscription services included increases of \$13 million in third-party expenses for hardware maintenance and data center capacity and \$10 million in employee-related expenses primarily due to higher average headcount, offset by a decrease of \$21 million in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

Non-GAAP operating expenses in costs of subscription services were \$629 million for the nine months ended October 31, 2023, compared to \$615 million for the prior year period, an increase of \$14 million, or 2%. The increase in costs of subscription services included increases of \$40 million in third-party expenses for hardware maintenance and data center capacity, \$24 million in employee-related expenses primarily due to higher average headcount, and \$11 million in facilities and IT-related expenses, offset by a decrease of \$66 million in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

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 \$181 million for the three months ended October 31, 2023, compared to \$176 million for the prior year period, an increase of \$5 million, or 3%. The increase in costs of professional services included an increase of \$9 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount.

GAAP operating expenses in costs of professional services were \$552 million for the nine months ended October 31, 2023, compared to \$524 million for the prior year period, an increase of \$28 million, or 5%. The increase in costs of professional services included an increase of \$38 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount, offset by a decrease of \$7 million in professional services and subcontractor expenses.

Non-GAAP operating expenses in costs of professional services were \$152 million for the three months ended October 31, 2023, compared to \$149 million for the prior year period, an increase of \$2 million, or 2%. The increase in costs of professional services included an increase of \$6 million in employee-related expenses primarily due to higher average headcount.

Non-GAAP operating expenses in costs of professional services were \$459 million for the nine months ended October 31, 2023, compared to \$439 million for the prior year period, an increase of \$20 million, or 5%. The increase in costs of professional services included an increase of \$30 million in employee-related expenses primarily due to higher average headcount, offset by a decrease of \$7 million in professional services and subcontractor expenses.

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 subscription customers continues to grow.

Product Development

GAAP operating expenses in product development were \$619 million for the three months ended October 31, 2023, compared to \$566 million for the prior year period, an increase of \$53 million, or 9%. The increase in product development expenses included an increase of \$46 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount.

GAAP operating expenses in product development were \$1.8 billion for the nine months ended October 31, 2023, compared to \$1.7 billion for the prior year period, an increase of \$174 million, or 11%. The increase in product development expenses included an increase of \$142 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount.

Non-GAAP operating expenses in product development were \$454 million for the three months ended October 31, 2023, compared to \$415 million for the prior year period, an increase of \$39 million, or 9%. The increase in product development expenses included an increase of \$32 million in employee-related expenses primarily due to higher average headcount.

Non-GAAP operating expenses in product development were \$1.3 billion for the nine months ended October 31, 2023, compared to \$1.2 billion for the prior year period, an increase of \$128 million, or 11%. The increase in product development expenses included an increase of \$96 million in employee-related expenses primarily due to higher average headcount.

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 \$538 million for the three months ended October 31, 2023, compared to \$470 million for the prior year period, an increase of \$68 million, or 14%. The increase in sales and marketing expenses included increases of \$40 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount, \$19 million related to marketing programs, and \$9 million in travel expenses.

GAAP operating expenses in sales and marketing were \$1.6 billion for the nine months ended October 31, 2023, compared to \$1.4 billion for the prior year period, an increase of \$222 million, or 16%. The increase in sales and marketing expenses included increases of \$161 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount, \$34 million related to marketing programs, and \$17 million in travel expenses.

Non-GAAP operating expenses in sales and marketing were \$463 million for the three months ended October 31, 2023, compared to \$400 million for the prior year period, an increase of \$63 million, or 16%. The increase in sales and marketing expenses included increases of \$35 million in employee-related expenses primarily due to higher average headcount, \$19 million related to marketing programs, and \$9 million in travel expenses.

Non-GAAP operating expenses in sales and marketing were \$1.3 billion for the nine months ended October 31, 2023, compared to \$1.1 billion for the prior year period, an increase of \$189 million, or 16%. The increase in sales and marketing expenses included increases of \$127 million in employee-related expenses primarily due to higher average headcount, \$34 million related to marketing programs, and \$17 million in travel expenses.

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 awareness of our brand and product offerings to attract new and existing customers.

General and Administrative

GAAP operating expenses in general and administrative were \$176 million for the three months ended October 31, 2023, compared to \$154 million for the prior year period, an increase of \$22 million, or 15%. The increase in general and administrative expenses included an increase of \$24 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount.

GAAP operating expenses in general and administrative were \$512 million for the nine months ended October 31, 2023, compared to \$428 million for the prior year period, an increase of \$84 million, or 20%. The increase in general and administrative expenses included an increase of \$75 million in employee-related expenses, including share-based compensation, primarily due to higher average headcount.

Non-GAAP operating expenses in general and administrative were \$112 million for the three months ended October 31, 2023, compared to \$102 million for the prior year period, an increase of \$10 million, or 10%. The increase in general and administrative expenses included an increase of \$12 million in employee-related expenses primarily due to higher average headcount.

Non-GAAP operating expenses in general and administrative were \$319 million for the nine months ended October 31, 2023, compared to \$277 million for the prior year period, an increase of \$42 million, or 15%. The increase in general and administrative expenses included an increase of \$32 million in employee-related expenses primarily due to higher average headcount.

We expect GAAP and non-GAAP general and administrative expenses will continue to increase in absolute dollars as we invest in our general and administrative organizations to support business growth.

Operating Margin

GAAP operating margin improved from (1.6)% for the three months ended October 31, 2022, to 4.7% for the three months ended October 31, 2023, primarily due to an increase in revenues, the moderation of operating expenses, and a decrease in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

GAAP operating margin improved from (2.9)% for the nine months ended October 31, 2022, to 2.0% for the nine months ended October 31, 2023, primarily due to an increase in revenues, the moderation of operating expenses, and a decrease in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

Non-GAAP operating margin improved from 19.7% for the three months ended October 31, 2022, to 24.8% for the three months ended October 31, 2023, primarily due to an increase in revenues, offset by the moderation of operating expenses and a decrease in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

Non-GAAP operating margin improved from 19.8% for the nine months ended October 31, 2022, to 24.0% for the nine months ended October 31, 2023, primarily due to an increase in revenues, offset by the moderation of operating expenses and a decrease in depreciation expense related to equipment in our data centers primarily due to the change in useful lives of data center equipment.

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

Three Months Ended October 31, 2023				
	GAAP	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP ⁽¹⁾
Operating income (loss)	\$ 87,855	\$ 349,257	\$ 24,986	\$ 462,098
Operating margin	4.7 %	18.7 %	1.4 %	24.8 %
Three Months Ended October 31, 2022				
	GAAP	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP ⁽¹⁾
Operating income (loss)	\$ (26,321)	\$ 314,196	\$ 26,359	\$ 314,234
Operating margin	(1.6)%	19.6 %	1.7 %	19.7 %
Nine Months Ended October 31, 2023				
	GAAP	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP ⁽¹⁾
Operating income (loss)	\$ 104,312	\$ 1,070,629	\$ 104,533	\$ 1,279,474
Operating margin	2.0 %	20.1 %	1.9 %	24.0 %
Nine Months Ended October 31, 2022				
	GAAP	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP ⁽¹⁾
Operating income (loss)	\$ (133,242)	\$ 933,709	\$ 103,877	\$ 904,344
Operating margin	(2.9)%	20.4 %	2.3 %	19.8 %

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

Other Income (Expense), Net

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Total other income (expense), net	\$ 41,388	\$ 4,163	\$ 113,652	\$ (48,789)

Other income, net for the three months ended October 31, 2023, primarily consisted of interest income of \$79 million on our marketable debt securities from higher investment balances and rising interest rates, offset by interest expense of \$28 million related to the Senior Notes and net losses of \$14 million on our equity investments.

Other income, net for the three months ended October 31, 2022, primarily consisted of interest income of \$31 million on our marketable debt securities from higher investment balances and rising interest rates, offset by interest expense of \$30 million primarily related to the Senior Notes.

Other income, net for the nine months ended October 31, 2023, primarily consisted of interest income of \$211 million on our marketable debt securities from higher investment balances and rising interest rates, offset by interest expense of \$83 million related to the Senior Notes and net losses of \$22 million on our equity investments.

Other expense, net for the nine months ended October 31, 2022, primarily consisted of interest expense of \$74 million primarily related to the Senior Notes and net losses of \$19 million on our equity investments, offset by interest income of \$50 million on our marketable securities from higher investment balances and rising interest rates.

Liquidity and Capital Resources

As of October 31, 2023, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling \$6.9 billion, which were primarily held for working capital purposes. Our cash equivalents and marketable securities are composed of, in order from largest to smallest, U.S. treasury securities, corporate bonds, commercial paper, U.S. agency obligations, money market funds, 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 Condensed Consolidated Balance Sheets, and, if necessary, our borrowing capacity under our 2022 Credit Agreement that provides for \$1.0 billion of unsecured financing, are sufficient to meet our working capital, capital expenditure, and debt repayment needs over the next 12 months.

Our long-term future capital requirements depend on many factors, including the effects of macroeconomic trends, customer growth rates, subscription renewal activity, headcount growth, the timing and extent of development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced services offerings, the timing and costs associated with the construction or acquisition of additional facilities, and our investment and acquisition activities. As part of our strategy, we may choose to seek additional debt or equity financing.

Our cash flows for the three and nine months ended October 31, 2023, and 2022, were as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Net cash provided by (used in):				
Operating activities	\$ 450,775	\$ 408,668	\$ 1,153,355	\$ 962,743
Investing activities	(172,009)	(168,063)	(1,270,328)	(2,125,799)
Financing activities	(149,558)	(1,149,073)	(201,314)	1,211,716
Effect of exchange rate changes	(787)	(920)	(698)	(1,750)
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ 128,421	\$ (909,388)	\$ (318,985)	\$ 46,910

Operating Activities

Cash provided by operating activities was \$451 million and \$409 million for the three months ended October 31, 2023, and 2022, respectively. The improvement in cash flow provided by operating activities was primarily due to increases in sales and the related cash collections and interest received from marketable debt securities, some of which is included in the Prepaid expenses and other assets caption on the Condensed Consolidated Statement of Cash Flows. Increases were partially offset by higher cash operating expenses, including the mid-year payout of our fiscal 2024 performance-based cash bonus program which did not occur in the prior fiscal year.

Cash provided by operating activities was \$1.2 billion and \$963 million for the nine months ended October 31, 2023, and 2022, respectively. The improvement in cash flow provided by operating activities was primarily due to increases in sales and the related cash collections and interest received from marketable debt securities. The improvement was offset by higher cash operating expenses, including payouts under our new performance-based cash bonus program, an interest payment on our Senior Notes that did not occur in the prior fiscal year due to the timing of our debt offering, and payments related to the workforce realignment announced in the fourth quarter of fiscal 2023.

Investing Activities

Cash used in investing activities for the three months ended October 31, 2023, was \$172 million, which primarily resulted from a cash outflow from the timing of purchases and maturities of marketable securities of \$149 million and capital expenditures for data center and office space projects of \$59 million, offset by proceeds of \$46 million from sales of marketable securities.

Cash used in investing activities for the three months ended October 31, 2022, was \$168 million, which primarily resulted from a cash outflow from the timing of purchases and maturities of marketable securities of \$130 million and capital expenditures for data center and office space projects of \$59 million, offset by proceeds of \$20 million from sales of marketable securities.

Cash used in investing activities for the nine months ended October 31, 2023, was \$1.3 billion, which primarily resulted from a cash outflow from the timing of purchases and maturities of marketable securities of \$1.2 billion and capital expenditures for data center and office space projects of \$181 million, offset by proceeds of \$93 million from sales of marketable securities.

Cash used in investing activities for the nine months ended October 31, 2022, was \$2.1 billion, which primarily resulted from purchases of marketable securities, net of maturities, of \$1.9 billion using the proceeds from the Senior Notes offering, capital expenditures for data center and office space projects of \$286 million, and purchases of non-marketable equity and other investments of \$20 million. These payments were partially offset by proceeds of \$53 million from sales of marketable securities and \$12 million from sales and maturities of non-marketable securities.

We expect capital expenditures will be approximately \$250 million in fiscal 2024. This includes investments in our office facilities, corporate IT infrastructure, and customer data centers to support our continued growth.

Financing Activities

Cash used in financing activities was \$150 million for the three months ended October 31, 2023, which was primarily due to repurchases of common stock under the Share Repurchase Program of \$145 million.

Cash used in financing activities was \$1.1 billion for the three months ended October 31, 2022, which was primarily due to the principal payment of \$1.1 billion in connection with the conversion of our 2022 Notes.

Cash used in financing activities was \$201 million for the nine months ended October 31, 2023, which was primarily due to repurchases of common stock under the Share Repurchase Program of \$283 million, offset by \$82 million in proceeds from the issuance of common stock from employee equity plans.

Cash provided by financing activities was \$1.2 billion for the nine months ended October 31, 2022, which was primarily due to proceeds of \$3.0 billion from borrowings on the Senior Notes, net of debt discount of \$22 million, and \$85 million from the issuance of common stock from employee equity plans, offset by the principal payment of \$1.1 billion in connection with the conversion of our 2022 Notes, repayment of the term loan under the 2020 Credit Agreement of \$694 million, and payments for debt issuance costs associated with our Senior Notes of \$7 million.

Free Cash Flows

In evaluating our performance internally, we focus on long-term, sustainable growth in free cash flows. We define free cash flows, a non-GAAP financial measure, as net cash provided by (used in) operating activities minus total capital expenditures. See “Non-GAAP Financial Measures” below for further information.

Free cash flows improved to \$391 million for the three months ended October 31, 2023, compared to \$350 million for the prior year period. The improvement was primarily due to increases in sales and the related cash collections and interest received from marketable debt securities, partially offset by higher cash operating expenses, including the mid-year payout of our fiscal 2024 performance-based cash bonus program which did not occur in the prior fiscal year.

Free cash flows improved to \$969 million for the nine months ended October 31, 2023, compared to \$676 million for the prior year period. The improvement was primarily due to increases in sales and the related cash collections, interest received from marketable debt securities, and a reduction in capital expenditures for data center and office space projects. The improvement was offset by higher cash operating expenses, including payouts under our new performance-based cash bonus program, an interest payment on our Senior Notes that did not occur in the prior fiscal year due to the timing of our debt offering, and payments related to the workforce realignment announced in the fourth quarter of fiscal 2023.

Reconciliation of our GAAP net cash provided by (used in) operating activities to non-GAAP free cash flow is as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Net cash provided by (used in) operating activities	\$ 450,775	\$ 408,668	\$ 1,153,355	\$ 962,743
Less: Total capital expenditures ⁽¹⁾	(59,948)	(58,846)	(184,165)	(286,459)
Free cash flows	\$ 390,827	\$ 349,822	\$ 969,190	\$ 676,284

(1) Total capital expenditures consists of Capital expenditures, excluding owned real estate projects of \$59 million, \$59 million, \$181 million, and \$286 million for the three and nine months ended October 31, 2023, and 2022, respectively, and Owned real estate projects of \$1 million, \$0.2 million, \$3 million, and \$0.4 million for the three and nine months ended October 31, 2023, and 2022, respectively.

Share Repurchase Program

In November 2022, our Board of Directors authorized the repurchase of up to \$500 million of our outstanding shares of Class A common stock. The Share Repurchase Program has a term of 18 months, may be suspended or discontinued at any time, and does not obligate us to acquire any amount of Class A common stock. For further information, see [Note 13. Stockholders' Equity](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Contractual Obligations

Our contractual obligations primarily consist of borrowings under our 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. There have been no material changes outside the ordinary course of business to our contractual obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2023.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed 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 the following critical accounting policies involve a high degree of judgement and complexity, and are the most critical to aid in fully understanding and evaluating our financial condition and operating results:

- Revenue recognition
- Deferred commissions
- Business combinations, goodwill, and acquisition-related intangible assets
- Non-marketable equity investments

For a further discussion of our critical accounting policies, refer to our Annual Report on Form 10-K for the fiscal year ended January 31, 2023. During the three and nine months ended October 31, 2023, there were no significant changes to our critical accounting policies and estimates, other than the change in useful lives of our data center equipment as described in [Note 1. Overview and Basis of Presentation](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

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), non-GAAP operating margin, and free cash flows meet the definition of non-GAAP financial measures.

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

We use the non-GAAP financial measures of non-GAAP operating expenses, non-GAAP operating income (loss), and 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 these non-GAAP measures reflect our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business.

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, we believe that excluding these 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, we believe 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, we believe that it is important for investors to understand that such intangible assets were recorded as part of purchase accounting and contribute to revenue generation.

Free Cash Flows

We define free cash flows as net cash provided by (used in) operating activities minus total capital expenditures. We use free cash flows as a measure of financial progress in our business, as it balances operating results, cash management, and capital efficiency. We believe information regarding free cash flows provides investors and others with an enhanced view of cash flow generation from the ongoing operations of our business.

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), non-GAAP operating margin, and free cash flows 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 of GAAP operating expenses, GAAP operating income (loss), and GAAP operating margin, to the non-GAAP financial measures of non-GAAP operating expenses, non-GAAP operating income (loss), and non-GAAP operating margin, for the three and nine months ended October 31, 2023, and 2022.

See “Liquidity and Capital Resources—Free Cash Flows” for a reconciliation from the most comparable GAAP financial measure, Net cash provided by (used in) operating activities, to the non-GAAP financial measure, free cash flow, for the three and nine months ended October 31, 2023, and 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Recent macroeconomic events have 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 these events on our business, financial condition, and operating results, see “Risk Factors” included in Part II, 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 October 31, 2023, 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 9, Derivative Instruments](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Interest Rate Risk on our Investments

We had cash, cash equivalents, and marketable securities totaling \$6.9 billion and \$6.1 billion as of October 31, 2023, and January 31, 2023, 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 sell securities that decline in market value due to changes in interest rates. Further, since our debt securities are classified as “available-for-sale,” if the fair value of the security declines below its amortized cost basis, then 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 Condensed Consolidated Statements of Operations.

An immediate increase or decrease of 100 basis points in interest rates would have resulted in a \$47 million market value reduction or increase in our investment portfolio as of October 31, 2023. An immediate increase or decrease of 100 basis points in interest rates would have resulted in a \$29 million market value reduction or increase in our investment portfolio as of January 31, 2023. 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

The Senior Notes have fixed annual interest rates, and therefore we do not have economic interest rate exposure on these debt obligations. However, the fair values of the Senior Notes are exposed to interest rate risk. Generally, the fair values of the Senior Notes will increase as interest rates fall and decrease as interest rates rise.

Borrowings under our 2022 Credit Agreement will bear interest, at our option, at a base rate plus a margin of 0.000% to 0.500% or a SOFR plus 10 basis points, plus a margin of 0.750% to 1.500%, with such margin being determined based on our consolidated leverage ratio or debt rating. Because the interest rates applicable to borrowings under the 2022 Credit Agreement are variable, we are exposed to market risk from changes in the underlying index rates, which affect our cost of borrowing.

For further information, see [Note 10, Debt](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

ITEM 4. 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 judgement 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) 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 quarter covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. 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 judgement 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 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 condensed consolidated financial statements and the related notes included elsewhere in this report, 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 report 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:

- any compromise of our information technology systems or security measures (including of our critical suppliers and service partners), or the unauthorized access of customer or user data;
- our ability to properly manage our technical operations infrastructure, including our data centers and computing infrastructure operated by third parties, or the impact of service outages or delays in the deployment of our applications, or the failure of our applications to perform properly;
- privacy concerns and evolving domestic or foreign laws and regulations;
- the impact of continuing global economic and geopolitical volatility, inflation, rising interest rates, instability in the global banking system, and the measures we may take in response to such events;
- any loss of key employees or the inability to attract, train, and retain highly skilled employees;
- our ability to compete effectively in the intensely competitive markets in which we participate;
- exposure to risks inherent to sales to customers outside the United States or with international operations;
- any dissatisfaction of our users with the deployment, training, and support services provided by us and our partners;
- our reliance on our network of partners to drive additional growth of our revenues;
- the fluctuation of our quarterly results;
- our ability to realize a return on our current development efforts or offer new features, enhancements, and modifications to our products and services, and our ability to realize a return on the investments we have made toward entering new markets and new lines of business;
- delays in the reflection of downturns or upturns in new sales in our operating results associated with long sales cycles;
- our ability to predict the rate of customer subscription renewals or adoptions;
- our ability to successfully integrate our applications with third-party technologies;
- a failure to manage our growth effectively;
- our ability to realize the expected business or financial benefits of company, employee, or technology acquisitions;
- our history of cumulative losses;
- any failure to protect our intellectual property rights domestically and internationally;
- lawsuits against us 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;
- any adverse litigation results;
- the limited ability of non-affiliates to influence corporate matters due to the dual class structure of our common stock;
- our substantial indebtedness;

- the limited ability of third parties to seek a merger, tender offer, or proxy contest due to Delaware law and provisions in our organizational documents; and
- the limited ability of a stockholder 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 due to the exclusive forum provision in our organizational documents.

Risks Related to Our Business and Industry

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. 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 and software or code 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. For example, in November 2023, we discovered that an issue in our product affecting certain customers resulted in document notifications being sent to unintended recipients within the same organization. We took prompt action to stop the unintended notifications from continuing to be generated and are notifying impacted customers. 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, 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 have, and may in the future, 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, our customers may make warranty or other claims against us, we may choose to offer incentives to address customer satisfaction issues, 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 and users from data centers operated by third parties located in the United States, Canada, and Europe. We also 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. While we control our applications and data, we do not control the facilities, operations, and the physical security of these locations. Disruption of or interference at our data centers or hosted infrastructure partners has and could in the future impact our operations and our business could be adversely impacted. For example, we have experienced disruptions at certain of our data centers in the U.S. due to high temperatures and power outages that resulted in a brief temporary outage of our services for a subset of our customers. Our data center and hosted infrastructure partner facilities may also be subject to capacity constraints, financial difficulties, break-ins, sabotage, intentional acts of vandalism and similar misconduct, natural catastrophic events, as well as local administrative actions, changes to legal or permitting requirements, and litigation to stop, limit or delay operation.

If these data center operators or hosted infrastructure partners that we rely on are unable to keep up with our needs for capacity or do not continue to provide commercially reasonable terms, 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, subject us to potential liabilities, result in contract terminations, or adversely affect our renewal rates.

The extent to which the continuing global economic and geopolitical volatility, the impact of inflation on our costs and on customer spending, and measures taken in response to such events will continue to impact our business, financial condition, and operating results will depend on future developments, which are highly uncertain and difficult to predict.

We operate on a global scale, and as a result, our business and revenues are impacted by global economic and geopolitical conditions. Global economic developments, downturns or recessions, instability in the global banking system, and global health crises may negatively affect us or our ability to accurately forecast and plan our future business activity. For example, inflation rates have recently increased, and inflationary pressure may result in decreased demand for our products and services, increases in our operating costs (including our labor costs), reduced liquidity, and limits on our ability to access credit or otherwise raise capital. In response to the concerns over inflation risk, the U.S. Federal Reserve raised interest rates multiple times in 2022 and 2023 and may continue to do so in the future. The COVID-19 pandemic negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption of financial markets. In addition, the Russian invasion of Ukraine in early 2022 has led to further economic disruption. While we do not operate in Russia and while our extended workforce in Ukraine is not a material part of our workforce, the conflict has increased inflationary cost pressures and supply chain constraints which have negatively impacted the global economy and may negatively impact the supply chain required to sustain our data centers and computing infrastructure operations.

It is especially difficult to predict the impact of such events 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 such events, and the effectiveness of those actions. As a result of these and other recent macroeconomic events, we have experienced volatility in the trading prices for our Class A common stock, and such volatility may continue in the long term. Any sustained adverse impacts from these and other recent macroeconomic events 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.

Our future revenues rely on continued demand by existing customers and the acquisition of new customers who may be subject to economic hardship, labor shortages, and global supply chain disruptions due to recent macroeconomic events and may delay or reduce their enterprise software spending to preserve capital and liquidity. In connection with recent macroeconomic events, we have experienced and may continue to experience delays in purchasing decisions from existing and prospective customers and a reduction in customer demand. Our business, financial condition, and operating results may be negatively impacted in future periods due to the prolonged impacts of recent macroeconomic events, including economic downturns or recessions. While our subscription services revenues are relatively predictable in the near term as a result of our subscription-based business model, the effect of recent macroeconomic events may not be fully reflected in our operating results and overall financial performance until future periods.

It is not possible for us to estimate the duration or magnitude of the adverse results of recent macroeconomic events and their effect 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 recent macroeconomic events adversely affect 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.

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. In December 2022, we announced the resignation of Chano Fernandez from his role as Co-CEO and the appointment of Carl Eschenbach as our Co-CEO, alongside Aneel Bhusri. In June 2023, Barbara Larson stepped down from her role of CFO and Zane Rowe was appointed as our CFO. We expect there will be additional changes from time to time 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. These changes have the potential to disrupt our business, impact our ability to preserve our culture, negatively affect our ability to attract and retain talent, or otherwise have a serious adverse effect on our business and operating results.

To execute our growth plan, we must attract, enable, and retain highly qualified talent. Our ability to compete and succeed in a highly competitive environment is directly correlated to our ability to recruit and retain highly skilled employees, especially in the areas of product development, cybersecurity, senior sales executives, and engineers with significant experience in designing and developing software and internet-related services, including in the areas of artificial intelligence (“AI”). The market for skilled personnel in the software industry is very competitive, and as we are headquartered in the San Francisco Bay Area, we face intense competition among large and small organizations in the Silicon Valley market. The increased availability of hybrid or remote working arrangements has expanded the pool of companies that can compete for our employees and employment candidates. In addition, the expansion of our sales infrastructure, both domestically and internationally, is necessary to grow our customer base and business. Recruiting qualified talent and developing them on 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 enable 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, significant competition in hiring and retaining employees with appropriate qualifications.

Many of the companies with which we compete for experienced talent 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. Additionally, job candidates may be threatened with legal action under agreements with their existing employers if we attempt to hire them, which could have an adverse 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 our current hybrid work policies may not meet the expectations of our employees or prospective employees, and may amplify challenges in recruiting. If we fail to attract new personnel or to retain our current personnel, our business and future growth prospects could be adversely affected.

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 Corporation and SAP SE, 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., 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. 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. With the introduction of new technologies, such as generative AI, we expect competition to intensify in the future. 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 may offer price concessions, delayed payment terms, financing terms, or other terms and conditions that are more enticing to potential customers in light of the challenging business environment created by economic downturn, or other recent macroeconomic conditions. 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.

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, data localization, and import/export regulations, are subject to change and uncertainty, including as a result of geopolitical developments, which may be amplified by macroeconomic conditions, including recession, rising interest rates, or events such as the Russia-Ukraine conflict and the remaining effects of the COVID-19 pandemic. 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, including due to the Russia-Ukraine conflict, 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 United Kingdom (“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 such as the Russia-Ukraine conflict, fluctuating commodity prices, trade tariff developments, economic downturn, 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.

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 partner, 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. 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 delivered on 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. 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.

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 also make changes to our pricing structure, which could adversely impact demand for our offerings. Moreover, our customers have and may continue to request price concessions and delayed payment terms. Economic uncertainty and the risk or occurrence of global or domestic recessions can prompt existing and prospective customers to demand price concessions and delayed payment terms with increasing frequency and significance, and our competitors may become more likely to provide such concessions, which could adversely affect our revenues, profitability, financial position, and cash flows in any given period. Attrition of senior management or other purchasing decision-makers 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 or our partners 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, renew on different pricing terms, or fail to renew, and market perceptions of our company and our applications may be impaired, and our reputation and brand may suffer. Our customers' renewal rates may also decline or fluctuate as a result of a number of other factors, the risk of which may be heightened by current macroeconomic conditions and may further increase if these conditions persist, including their level of satisfaction with our applications and pricing, their ability to continue their operations and spending levels, reductions in their headcount, 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.

We rely on our network of partners to drive additional growth of our revenues, and if these partners fail to perform, our ability to sell and distribute our products may be impacted, and our operating results and growth rate may be harmed.

Our strategy for additional growth depends, in part, on sales generated through our network of partners and professional services provided by our partners. If the operations of these partners are disrupted, including as a direct or indirect result of recent macroeconomic conditions, our own operations may suffer, which could adversely impact our operating results. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources, and we cannot ensure that these partnerships will result in increased customer usage of our applications or increased revenue. We may be at a disadvantage if our competitors are effective in providing incentives to our current or potential partners to favor their products or services or to prevent or reduce subscriptions to our services, or in negotiating better rates or terms with such partners, particularly in international markets where our potential partners may have existing relationships with our competitors. In addition, acquisitions of our partners by our competitors could end our strategic relationship with such acquired partner and result in a decrease in the number of our current and potential customers.

While we provide our partners with training and programs, these programs may not be effective or utilized consistently by partners. In addition, new partners may require extensive training and/or may require significant time and resources to achieve productivity. Changes to our direct go-to-market models may cause friction with our partners and may increase the risk in our partner ecosystem. The actions of our partners may subject us to lawsuits, potential liability, and reputational harm if, for example, any of our partners misrepresent the functionality of our products to customers, fail to perform services to our customers' expectations, or violate laws or our corporate policies. In addition, our partners may utilize our platform to develop products and services that could potentially compete with products and services that we offer currently or in the future. Concerns over competitive matters or intellectual property ownership could constrain these partnerships. If we fail to effectively manage and grow our network of partners, maintain good relationships with our partners, or properly monitor the quality and efficacy of their service delivery, or if our partners do not effectively market and sell our subscription services, use greater efforts to market and sell their own products or services or those of our competitors, or fail to meet the needs of our customers, our ability to sell our products and efficiently provide our services may be impacted, and our operating results and growth rate may be harmed.

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 global economic uncertainty, inflation, the remaining effects of the COVID-19 pandemic, and other recent macroeconomic events 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, the financial condition and creditworthiness of our customers, and the timing and rate at which we sign agreements with new and existing 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;
- our use of estimates, judgments and assumptions under current accounting standards;
- the amount and timing of operating expenses related to organizational changes, employee matters, and 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 recent economic downturn, instability in the global banking system, the Russia-Ukraine conflict, inflation, and rising interest rates;
- 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 recent macroeconomic conditions;
- 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.

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, macroeconomic conditions, including the economic downturn, could have a continuing impact on our plans to offer certain new features, enhancements, and modifications of our applications in a timely manner. If we are unable to provide new features, enhancements to user experience, and modifications in a timely and cost-effective manner that achieve market acceptance, align with customer expectations, and that keep pace with rapid technological developments and changing regulatory landscapes, our business and operating results could be adversely affected. For example, AI is propelling advancements in technology, but if we fail to innovate and keep up with advancements in AI technology or if Workday AI solutions fail to operate as expected, our business and reputation may be harmed. 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 AI 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.

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, utilize our resources efficiently, 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 or efficiently utilize our resources 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. Concerns about global economic and geopolitical volatility, including a possible or emergent recession, particularly if extended for prolonged periods, could impede our brand-building activities and could have 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.

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.

If we cannot maintain or adapt 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 and 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 hybrid work policies require significant action to preserve our culture. As we continue to grow, 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 and values. 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.

If we are unable to successfully integrate our applications with a variety of third-party technologies, our business and operating results could be adversely affected.

We depend on relationships with third-party 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 recent macroeconomic conditions, 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. Acquisitions of our third-party technology providers and other suppliers could end our strategic relationship with such acquired provider(s) or supplier(s), or may result in the support services they provide being negatively affected. If we are unsuccessful in establishing or maintaining our relationships with these third parties, or if the quality of their products or performance is inadequate, 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 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.

As Workday Mobile becomes increasingly important to Workday's customer experience, 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, as well as with customer expectations. 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.

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. 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 or difficulty integrating the intellectual property, technology infrastructure, personnel, and operations of the acquired business, including difficulty in addressing security risks of the acquired business;
- inability to retain key personnel from the acquired company;
- 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, including integrating acquired technologies;
- 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 currency and 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; and
- the failure of strategic acquisitions to perform as expected or to meet financial projections, which may be heightened due to recent macroeconomic events and market volatility.

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 use of substantial portions of our available cash and 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, financial condition, and operating results may suffer.

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. 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.

The use of new and evolving technologies at Workday, such as AI, in our offerings may result in reputational harm and liability.

We are increasingly building AI into Workday's core and many of our specific offerings. As with many cutting-edge innovations, these technologies present new risks and challenges. A quickly evolving legal and regulatory environment may cause us to incur increased research and development costs, or divert resources from other development efforts, to address social, ethical, and other issues related to AI. Furthermore, existing laws and regulations may apply to us in new ways, the nature and extent of which are difficult to predict. The risks and challenges presented by these technologies could undermine public confidence in AI, which could slow its adoption and affect our business. Many of our products are powered by AI, some of which include the use of large language models and generative AI, for use cases that could potentially impact human, civil, privacy, or employment rights and dignities. Our developers are also experimenting with the use of third-party provided large language models for domain specific use cases, and at this stage the line between developers and deployers of these technologies, and their respective responsibilities and liabilities, are unclear. Our failure to accurately identify and address our responsibilities and liabilities in this uncertain environment, and adequately address relevant ethical and social issues that may arise with such technologies and use cases, as well as failure by others in our industry, or actions taken by our customers, employees, or end users (including misuse of these technologies), could negatively affect the adoption of our solutions and subject us to reputational harm, regulatory action, or legal liability, which may harm our financial condition and operating results. We have been subject to a lawsuit alleging that our products and services enable discrimination, and although we believe that such claims lack merit, legal proceedings can be lengthy, expensive and disruptive to our operations. The outcome of any claims or litigation, regardless of the merits, is inherently uncertain. We may be subject to other litigation and regulatory actions that may cause financial, competitive, and developmental impacts. Regardless of outcome, these types of claims could cause reputational harm to our brand or result in liability. Our employees, customers, or customers' employees who are dissatisfied with our public statements, policies, practices, or solutions related to the development and use of AI may express opinions that could introduce reputational or business harm, or legal liability or cease their relationship with us.

Our aspirations and disclosures related to environmental, social, and governance ("ESG") matters expose us to risks that could adversely affect our reputation and performance.

The positions we take on ESG matters, human capital management initiatives, and ethical issues from time to time may impact our brand, reputation, or ability to attract or retain customers. In particular, our brand and reputation are associated with our public commitments to environmental sustainability (including our science-based targets), strong corporate governance practices, equality, inclusivity, and ethical use, and any perceived changes in our dedication to these commitments could impact our relationships with potential and current customers, employees, stockholders, and other stakeholders. These commitments reflect our current plans and aspirations and are not guarantees that we will be able to achieve them. Our failure to accomplish or accurately track and report on these goals on a timely basis, or at all, could adversely affect our reputation, financial performance, and growth, and expose us to increased scrutiny from the investment community as well as enforcement authorities.

Our ability to achieve any ESG objective is subject to numerous risks, many of which are outside of our control. Examples of such risks include:

- the availability and cost of low- or non-carbon-based energy sources;
- the evolving regulatory requirements affecting ESG standards or disclosures;
- the availability of suppliers that can meet our sustainability, diversity and other ESG standards;
- our ability to recruit, develop and retain diverse talent in our labor markets;
- the availability and cost of high-quality verified emissions reductions and renewable energy credits;
- the ability to renew existing or execute on new virtual power purchase agreements; and
- the success of our organic growth and acquisitions or dispositions of businesses or operations.

Standards for tracking and reporting ESG matters continue to evolve. In addition, our processes and controls may not always comply with evolving standards for identifying, measuring, and reporting ESG metrics, including ESG-related disclosures that may be required of public companies by the SEC or other regulatory bodies, and such standards may change over time, which could result in significant revisions to our current goals, reported progress in achieving such goals, or ability to achieve such goals in the future. It is likely that increasing regulatory requirements and regulatory scrutiny related to ESG matters will continue to expand globally and result in higher associated compliance costs. Further, we may rely on data and calculations provided by third parties to measure and report our ESG metrics and if the data input or calculations are incorrect or incomplete, our brand, reputation, and financial performance may be adversely affected.

If our ESG practices do not align with or meet evolving investor or other stakeholder expectations and standards, then our reputation, our ability to attract or retain employees, and our attractiveness as an investment, business partner, acquirer, or service provider could be negatively impacted. Further, our failure or perceived failure to pursue or fulfill our goals and objectives or to satisfy various reporting standards on a timely basis, or at all, could have similar negative impacts or expose us to government enforcement actions and private litigation.

Risks Related to Cybersecurity, Data Privacy, and Intellectual Property

If our information technology systems are compromised or unauthorized access to customer or user data is otherwise obtained, our applications may be perceived as not being secure, our operations may be disrupted, our applications may become unavailable, 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' and other users' sensitive and proprietary information, including personal or identifying information regarding our customers, their employees, job candidates, customers, prospectus, and suppliers, as well as financial, accounting, health, and payroll data. Additionally, our operations and the availability of the services we provide also depend on our information technology systems. As a result, a compromise of our applications or systems, or unauthorized access to, acquisition, use, tampering, release, alteration, theft, loss, or destruction of sensitive data, or unavailability of data or our applications, has and could disrupt our operations or impact the availability or performance of our applications; expose us and our customers to regulatory obligations and actions, litigation, investigations, remediation and indemnity obligations, or supplemental disclosure obligations; damage our reputation and brand; or result in loss of customer, consumer, and partner confidence in the security of our applications, 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 other potential liabilities or related fees, expenses, or loss of revenues.

The financial and personnel resources we employ to implement and maintain security measures, including our information security risk insurance policy, may not be sufficient to address our security needs. The security measures we have in place may not be sufficient to protect against security risks, preserve our operations and services and the integrity of customer and personal information, and prevent data loss, misappropriation, and other security breaches. Our logging may also not be sufficient to fully investigate the scope of an incident. Our information systems may be compromised 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, including those who appear to offer a solution to a vulnerability in exchange for some compensation, to sophisticated hacker organizations, including state-sponsored actors who may launch coordinated attacks, such as retaliatory cyber attacks stemming from the Russia-Ukraine conflict. In the normal course of business, we are and have been the target of malicious cyber-attack attempts and have experienced other security events. As our market presence grows, we may face increased risks of cybersecurity attack or other security threats. Key cybersecurity risks range from viruses, worms, ransomware, and other malicious software programs, to phishing attacks, to exploitation of software bugs or other defects, to targeted attacks against cloud services and other hosted software, any of which can result in a compromise of our applications or systems and the data we store or process, disclosure of Workday confidential information and intellectual property, production downtimes, reputational harm, 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 often are not identified until they are launched against a target, and because evidence of unauthorized activity may not have been captured or retained, or may be proactively destroyed by unauthorized actors, we may be unable to anticipate these attacks, assess the true impact they may have on our business and operations, or to implement adequate preventative measures. Future cyber-attacks and other security events may have a significant or material impact on our business and operating results.

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. Systems and processes 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, may not be effective against all cybersecurity threats or perceived threats. We have been subject to such incidents, including through third-party service providers and in connection with acquisitions we have made. In addition, our software development practices have not and may not identify all potential privacy or security issues, and inadvertent disclosures of data have occurred and may occur. For example, in August 2022, we applied a fix in Workday Recruiting to address an issue that temporarily made certain information discoverable to unintended parties. We took immediate action to fix the issue, notify affected customers, and confirm this issue had not impacted Workday's other environments or applications. We have no indication that the data was accessed maliciously. We also performed an internal investigation and engaged a third party to penetration test the systems at issue, which caused, and may continue to cause, expense and business disruption. These efforts may not be completely effective or eliminate potential risks from this and similar incidents.

Additionally, remote work and resource access, including our hybrid work model, has and may continue to result in an increased risk of cybersecurity-related events such as 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 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 into our own products and services. Addressing security issues associated with acquisitions, partnerships, incorporated technologies, and our supply chain requires significant resources, and we have inherited and may in the future inherit additional risks upon integration with or use 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, any of 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, storage of confidential, proprietary, and personal information, and to support our business operations and the availability of our applications. 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. The control systems, cybersecurity program, infrastructure, physical facilities of, and personnel associated with third parties that we rely on are beyond our control. The audits we periodically conduct of some of our third-party vendors do not 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 have resulted and could result in the unauthorized access to data of Workday, our employees, our customers, our third-party partners, or other end users; acquisition, destruction, alteration, use, tampering, release, unavailability, theft or loss of confidential, proprietary, or personal data of Workday, our employees, our customers, our third party partners, or other end users; or the disruption of our operations and our ability to conduct our business or the availability of our applications; or could otherwise adversely affect our business, financial condition, operating results, or reputation.

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 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, a new EU-U.S. Data Privacy Framework ("DPF") is in place under which EU data can legally be transferred to the United States. However, it is expected to face legal challenges. Until challenges to the DPF make their way through the court system, uncertainty may continue 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. Other countries such as Russia, China, and India have also passed 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, came into effect on January 1, 2023. The CCPA and CPRA give California consumers, including employees, 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. Numerous states have enacted, or are considering, privacy laws as well, creating a patchwork of state laws that may create compliance challenges. 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 has and may continue to create a negative public reaction to technologies, products and services such as ours or otherwise expose us to liability.

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, or otherwise cause us to modify our operations, 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 or otherwise impact our business. 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. We have patent applications pending in the United States and throughout the world, but 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, the open source license terms for future versions of open source software that we use might change, requiring us to pay for a commercial license or re-engineer all or a portion of our technologies. 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, Talent Optimization, and Financial product suites, currently utilize or will utilize new and evolving technologies such as AI. While existing laws and regulations may apply to these types of technologies, the overall regulatory environment governing these types of technologies is 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.

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, including FedRAMP, may change and, in doing so, restrict our ability to sell into the governmental sector until we have attained the full or revised certification. These laws and regulations provide public sector customers various rights, many of which are not typically found in commercial contracts. For instance, the process of evaluating potential conflicts of interest and developing necessary provisions and contract clauses, where needed, may delay or prevent Workday from being awarded certain U.S. federal government contracts.

Additionally, we have obtained authorization under FedRAMP, which allows us to enter into the U.S. federal government market. Such certification is subject to rigorous compliance and if we lose our certification, it could inhibit or preclude our ability to contract with certain U.S. federal government customers. In addition, some customers may rely on our authorization under FedRAMP to help satisfy their own legal and regulatory compliance requirements and our failure to maintain FedRAMP authorization would result in a breach under public sector contracts obtained on the basis of such authorization. This could subject us to liability, result in reputational harm, and adversely impact our financial condition or 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 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 condensed 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 October 31, 2023, 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 2024 and fiscal 2044. 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 expire between fiscal 2024 and fiscal 2044. 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 and unanticipated changes in our effective tax rate may adversely impact our profitability and financial results.

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.

Significant judgment is often required in the determination of our worldwide provision for income taxes. Our effective tax rate could be impacted by changes in the valuation of deferred tax assets and liabilities and our ability to utilize them. We are also subject to tax examinations and while we regularly evaluate new information that may change our judgment resulting in recognition, derecognition or changes in measurement of a tax position taken, there can be no assurance that the final determination of any examinations will not have an adverse effect on our operating results or financial position.

Risks Related to Financial Matters

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, and we expect that this lengthy sales cycle may continue or expand as customers increasingly adopt our applications beyond human capital management. Due to the uncertainty of the recent macroeconomic environment, we have started to see instances of increased scrutiny from existing and prospective customers and the lengthening of certain sales cycles, and expect this trend may continue. 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, or customer insolvencies resulting from severe economic hardship, 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.

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 recent economic downturn, 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 macroeconomic conditions. 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 due to recent macroeconomic events, rising rates of inflation and related interest rate increases, and concerns about a possible recession, we expect it 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.

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 have made and continue to 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 any prior period GAAP-profitability and growth in revenues as indicative of our future performance. We cannot ensure that we will achieve GAAP profitability in the future or that, if we become GAAP-profitable in a certain period, we will sustain such profitability.

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

In April 2022, we issued \$3.0 billion aggregate principal amount of senior notes, consisting of \$1.0 billion aggregate principal amount of 3.500% notes due April 1, 2027, \$750 million aggregate principal amount of 3.700% notes due April 1, 2029, and \$1.25 billion aggregate principal amount of 3.800% notes due April 1, 2032. Additionally, in April 2022, we entered into the 2022 Credit Agreement which provides for a revolving credit facility in an aggregate principal amount of \$1.0 billion. As of October 31, 2023, we had no outstanding revolving loans under the 2022 Credit Agreement.

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.

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 condition 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;
- increase our vulnerability to the impact of adverse economic conditions, including rising interest rates (which can make refinancing existing indebtedness more difficult or costly); and
- negatively impact our credit rating, which could limit our ability to obtain additional financing in the future and adversely affect our business.

Our Senior Notes and 2022 Credit Agreement also impose restrictions on us and require us to maintain compliance with specified covenants. For example, our 2022 Credit Agreement includes a financial covenant that requires us to maintain 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 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.

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 has and could further deteriorate, which could result in a loss of all or a substantial part of our investment in these companies. Additionally, instability in the global banking system has created bank-specific and broader financial institution liquidity risks and concerns, which may have an adverse impact on the companies we have invested or may invest in.

Further, valuations of non-marketable equity investments are inherently complex due to the lack of readily available market data and the anticipated valuation at the time of our investment may not meet our expectations. 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. Volatility in the global market conditions, including recent economic disruptions, inflation, and ongoing volatility in the public equity markets, may impact our equity investments. 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 October 31, 2023, our Co-Founder and CEO Emeritus David Duffield, together with his affiliates, held voting rights with respect to approximately 45 million shares of Class B common stock and 0.8 million shares of Class A common stock. As of October 31, 2023, our Co-Founder, Co-CEO, and Chairperson 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 0.2 million 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. 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.

In addition, Mr. Bhusri has the ability to control the management and affairs of our company as a result of his position as a member of our Board of Directors and an officer of Workday. Mr. Bhusri, in his capacity as a board member and officer, however, owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders.

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 October 31, 2023. 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, many of which are beyond our control. The factors that have and may in the future affect the trading price of our securities include, but are not limited to:

- 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;
- the inability to execute on our publicly announced Share Repurchase Program as planned, including failure to meet internal or external expectations around the timing or price of share repurchases, and any reductions or discontinuances of repurchases thereunder;
- the impact of current macroeconomic conditions, including instability in the global banking system, geopolitical conflicts, inflationary pressures, and recession;
- environmental, social, governance, ethical, and other issues impacting our brand;
- 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.

We may not realize the anticipated long-term stockholder value of our Share Repurchase Program.

In November 2022, our Board of Directors authorized the Share Repurchase Program under which we may repurchase up to \$500 million of shares of our Class A common stock. The Share Repurchase Program has a term of 18 months, but the program may be modified, suspended, or terminated at any time. Such repurchases may be made through open market transactions, through privately negotiated transactions, or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1, in accordance with applicable securities laws and other restrictions.

Any failure to repurchase stock after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively impact our stock price.

The existence of the Share Repurchase Program could cause our stock price to trade higher than it otherwise would and could potentially reduce the market liquidity for our stock. Although the Share Repurchase Program is intended to enhance long-term stockholder value, there is no assurance it will do so because the market price of our common stock may decline below the levels at which we repurchased shares and short-term stock price fluctuations could reduce the effectiveness of this program.

Repurchasing our common stock will reduce the amount of cash we have available to fund working capital, repayment of debt, capital expenditures, strategic acquisitions or business opportunities, and other general corporate purposes, and we may fail to realize the anticipated long-term stockholder value of the Share Repurchase Program. Furthermore, the timing and amount of any repurchases, if any, will be subject to liquidity, market and economic conditions, compliance with applicable legal requirements such as Delaware surplus and solvency tests, and other relevant factors.

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 chairperson 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.

Furthermore, the change in control repurchase event provisions of our Senior Notes may delay or prevent a change in control of our company, because those provisions allow note holders to require us to repurchase such notes upon the occurrence of a fundamental change or change in control repurchase event.

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 and our bylaws, to the fullest extent permitted by law, provide 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.

Our bylaws include a provision providing 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 in our restated certificate of incorporation 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 concerns of a domestic or global recession, the Russia-Ukraine conflict, inflation, increasing interest rates, instability in the global banking system, and other macroeconomic factors, may continue to affect one or more of the sectors or countries in which we sell our applications. These economic conditions have arisen and can arise suddenly, 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. Alternatively, a strong dollar could reduce demand for our applications and services in countries with relatively weaker currencies.

These adverse conditions have resulted and 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, financial condition, and operating results.

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, or the effects of climate change (such as drought, flooding, heat waves, wildfires, increased storm severity, and sea level rise), we may be unable to continue our operations and have, and may in the future, endure system interruptions, and may experience 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 stakeholder expectations regarding climate change that may impact our business, financial condition, and operating results.

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer

The table below sets forth information regarding our purchases of our Class A common stock during the three months ended October 31, 2023 (in thousands, except per share data):

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽¹⁾
August 1, 2023 - August 31, 2023	133	\$ 229.87	133	\$ 256,290
September 1, 2023 - September 30, 2023	60	227.13	60	242,561
October 1, 2023 - October 31, 2023	484	214.11	484	138,929
Total	677		677	

- (1) In November 2022, our Board of Directors authorized the repurchase of up to \$500 million of our outstanding shares of Class A common stock. We may repurchase shares of Class A common stock from time to time through open market purchases, in privately negotiated transactions, or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act, in accordance with applicable securities laws and other restrictions. The timing and total amount of shares repurchased will depend upon business, economic, and market conditions, corporate and regulatory requirements, prevailing stock prices, and other considerations. The Share Repurchase Program has a term of 18 months, may be suspended or discontinued at any time, and does not obligate us to acquire any amount of Class A common stock. As of October 31, 2023, we were authorized to purchase a remaining \$139 million of our outstanding shares of Class A common stock under the Share Repurchase Program. For further information, see [Note 13, Stockholders' Equity](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Insider Trading Arrangements

During the three months ended October 31, 2023, the following directors and/or officers of Workday adopted or terminated a "Rule 10b5-1 trading arrangement," as defined in item 408(a) of Regulation S-K intending to satisfy the affirmative defense of Rule 10b5-1(c):

Name and Title	Action	Total Shares of Class A Common Stock to be Sold	Adoption Date	Expiration Date
Doug Robinson, Co-President	Adopt	12,484	October 2, 2023	November 29, 2024
Sayan Chakraborty, Co-President	Adopt	53,580 ⁽¹⁾	October 4, 2023	December 31, 2024
George Still, Jr., Director	Adopt	37,500	October 5, 2023	June 30, 2025

- (1) Includes shares to be withheld or sold by Workday in mandatory transactions to cover withholding taxes in connection with the settlement of equity awards.

ITEM 6. EXHIBITS

The Exhibits listed below are filed as part of this Form 10-Q.

Exhibit No.	Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Filing Date	Exhibit No.	
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	Inline XBRL Instance Document (the 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 Schema Linkbase Document					X
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document					X
101.PRE	Inline XBRL Taxonomy 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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 28, 2023

Workday, Inc.

/s/ Zane Rowe

Zane Rowe
Chief Financial Officer (Principal Financial and Accounting Officer)