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 July 31, 2021

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	**20-2480422**
(State or other jurisdiction of incorporation or organization)	(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 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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 August 24, 2021, there were approximately 191 million shares of the registrant's Class A common stock, net of treasury stock, and 57 million shares of the registrant's Class B common stock outstanding.

Workday, Inc.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Workday, Inc.

Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	July 31, 2021	January 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 1,087,070	$ 1,384,181
Marketable securities	2,220,888	2,151,472
Trade and other receivables, net	872,764	1,032,484
Deferred costs	130,105	122,764
Prepaid expenses and other current assets	150,287	111,160
Total current assets	4,461,114	4,802,061
Property and equipment, net	1,135,593	972,403
Operating lease right-of-use assets	275,747	414,143
Deferred costs, noncurrent	278,197	271,796
Acquisition-related intangible assets, net	381,392	248,626
Goodwill	2,362,166	1,819,625
Other assets	219,636	189,757
Total assets	$ 9,113,845	$ 8,718,411
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 53,082	$ 75,596
Accrued expenses and other current liabilities	178,857	169,266
Accrued compensation	303,738	285,061
Unearned revenue	2,454,379	2,556,624
Operating lease liabilities	82,075	93,000
Debt, current	1,201,964	1,103,101
Total current liabilities	4,274,095	4,282,648
Debt, noncurrent	654,633	691,913
Unearned revenue, noncurrent	64,210	80,111
Operating lease liabilities, noncurrent	209,193	350,051
Other liabilities	43,724	35,854
Total liabilities	5,245,855	5,440,577
Stockholders' equity:		
Common stock	248	242
Additional paid-in capital	6,639,067	6,254,936
Treasury stock	(12,431)	(12,384)
Accumulated other comprehensive income (loss)	(44,150)	(54,970)
Accumulated deficit	(2,714,744)	(2,909,990)
Total stockholders' equity	3,867,990	3,277,834
Total liabilities and stockholders' equity	$ 9,113,845	$ 8,718,411

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Revenues:				
Subscription services	$ 1,113,454	$ 931,698	$ 2,145,623	$ 1,813,654
Professional services	146,907	130,269	289,771	266,698
Total revenues	1,260,361	1,061,967	2,435,394	2,080,352
Costs and expenses (1):				
Costs of subscription services	192,738	145,007	374,946	290,270
Costs of professional services	152,783	139,270	303,628	299,637
Product development	444,251	418,681	885,867	862,165
Sales and marketing	358,157	276,497	684,651	595,054
General and administrative	113,552	99,266	225,735	194,437
Total costs and expenses	1,261,481	1,078,721	2,474,827	2,241,563
Operating income (loss)	(1,120)	(16,754)	(39,433)	(161,211)
Other income (expense), net	102,985	(11,453)	93,934	(22,426)
Income (loss) before provision for (benefit from) income taxes	101,865	(28,207)	54,501	(183,637)
Provision for (benefit from) income taxes	(3,871)	(191)	(4,713)	2,747
Net income (loss)	$ 105,736	$ (28,016)	$ 59,214	$ (186,384)
Net income (loss) per share, basic	$ 0.43	$ (0.12)	$ 0.24	$ (0.79)
Net income (loss) per share, diluted	$ 0.41	$ (0.12)	$ 0.23	$ (0.79)
Weighted-average shares used to compute net income (loss) per share, basic	246,943	236,002	245,308	234,483
Weighted-average shares used to compute net income (loss) per share, diluted	260,016	236,002	252,900	234,483

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Costs of subscription services	$ 20,421	$ 14,825	$ 41,138	$ 28,717
Costs of professional services	26,534	24,552	54,226	47,118
Product development	129,892	128,505	259,754	250,527
Sales and marketing	52,168	49,854	102,476	96,804
General and administrative	35,704	33,500	71,760	64,742

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)
(in thousands)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Net income (loss)	$ 105,736	$ (28,016)	$ 59,214	$ (186,384)
Other comprehensive income (loss):				
Net change in foreign currency translation adjustment	(1,219)	1,684	(1,001)	437
Net change in unrealized gains (losses) on available-for-sale debt securities	(208)	(728)	(1,106)	2,246
Net change in market value of effective foreign currency forward exchange contracts	17,698	(57,836)	12,927	(25,529)
Other comprehensive income (loss)	16,271	(56,880)	10,820	(22,846)
Comprehensive income (loss)	$ 122,007	$ (84,896)	$ 70,034	$ (209,230)

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Common stock:				
Balance, beginning of period	$ 246	$ 235	$ 242	$ 231
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	2	1	6	5
Settlement of convertible senior notes	—	2	—	2
Balance, end of period	248	238	248	238
Additional paid-in capital:				
Balance, beginning of period	6,298,516	5,330,170	6,254,936	5,090,187
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	75,842	70,939	74,481	74,512
Share-based compensation	264,699	250,431	529,304	486,841
Exercise of convertible senior notes hedges	11	303,202	50	303,202
Settlement of convertible senior notes	(1)	(4)	(2)	(4)
Cumulative effect of accounting changes	—	—	(219,702)	—
Balance, end of period	6,639,067	5,954,738	6,639,067	5,954,738
Treasury stock:				
Balance, beginning of period	(12,420)	—	(12,384)	—
Exercise of convertible senior notes hedges	(11)	(303,201)	(47)	(303,201)
Balance, end of period	(12,431)	(303,201)	(12,431)	(303,201)
Accumulated other comprehensive income (loss):				
Balance, beginning of period	(60,421)	57,526	(54,970)	23,492
Other comprehensive income (loss)	16,271	(56,880)	10,820	(22,846)
Balance, end of period	(44,150)	646	(44,150)	646
Accumulated deficit:				
Balance, beginning of period	(2,820,480)	(2,785,927)	(2,909,990)	(2,627,359)
Net income (loss)	105,736	(28,016)	59,214	(186,384)
Cumulative effect of accounting changes	—	—	136,032	(200)
Balance, end of period	(2,714,744)	(2,813,943)	(2,714,744)	(2,813,943)
Total stockholders' equity	$ 3,867,990	$ 2,838,478	$ 3,867,990	$ 2,838,478

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Common stock (in shares):				
Balance, beginning of period	246,311	235,170	242,667	231,708
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	1,776	1,992	5,338	5,454
Settlement of convertible senior notes	—	1,654	—	1,654
Purchase of treasury stock from the exercise of convertible senior notes hedges	—	(1,655)	—	(1,655)
Issuance of restricted stock awards	—	—	82	—
Balance, end of period	248,087	237,161	248,087	237,161

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020
Cash flows from operating activities:				
Net income (loss)	$ 105,736	$ (28,016)	$ 59,214	$ (186,384)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	85,383	73,178	167,846	144,692
Share-based compensation expenses	264,719	251,236	529,354	487,908
Amortization of deferred costs	33,748	27,349	65,362	53,409
Amortization of debt discount and issuance costs	997	14,528	1,994	29,368
Non-cash lease expense	21,069	19,879	43,299	38,248
(Gains) losses on investments	(106,275)	(1,962)	(100,257)	499
Other	(8,006)	14,392	(10,627)	16,301
Changes in operating assets and liabilities, net of business combinations:				
Trade and other receivables, net	(227,511)	(109,316)	164,608	181,586
Deferred costs	(52,834)	(41,841)	(79,104)	(59,901)
Prepaid expenses and other assets	(3,531)	(9,137)	(39,097)	10,840
Accounts payable	8,060	9,307	7,890	(13,075)
Accrued expenses and other liabilities	(15,687)	(39,837)	(26,607)	(41,341)
Unearned revenue	92,605	(22,550)	(132,974)	(241,257)
Net cash provided by (used in) operating activities	198,473	157,210	650,901	420,893
Cash flows from investing activities:				
Purchases of marketable securities	(829,370)	(602,546)	(1,594,765)	(1,156,531)
Maturities of marketable securities	771,824	473,016	1,629,232	854,414
Sales of marketable securities	14,829	—	27,286	5,279
Owned real estate projects	(71)	(1,764)	(171,494)	(4,251)
Capital expenditures, excluding owned real estate projects	(87,781)	(66,555)	(157,577)	(126,495)
Business combinations, net of cash acquired	—	—	(679,220)	—
Purchases of non-marketable equity and other investments	(12,039)	(6,350)	(57,806)	(58,600)
Sales and maturities of non-marketable equity and other investments	3,270	1,561	3,295	6,199
Other	6	—	1	—
Net cash provided by (used in) investing activities	(139,332)	(202,638)	(1,001,048)	(479,985)
Cash flows from financing activities:				
Proceeds from borrowings on Term Loan, net of debt discount and issuance costs	—	250,000	—	747,795
Payments on convertible senior notes	(20)	(249,945)	(71)	(249,946)
Payments on Term Loan	(9,375)	—	(18,750)	—
Proceeds from issuance of common stock from employee equity plans, net of taxes paid for shares withheld	75,844	70,940	74,487	74,517
Other	(151)	(215)	(376)	(2,255)
Net cash provided by (used in) financing activities	66,298	70,780	55,290	570,111
Effect of exchange rate changes	(321)	771	(135)	506
Net increase (decrease) in cash, cash equivalents, and restricted cash	125,118	26,123	(294,992)	511,525
Cash, cash equivalents, and restricted cash at the beginning of period	967,811	1,220,123	1,387,921	734,721
Cash, cash equivalents, and restricted cash at the end of period	$ 1,092,929	$ 1,246,246	$ 1,092,929	$ 1,246,246

See Notes to Condensed Consolidated Financial Statements

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Supplemental cash flow data:				
Cash paid for interest	$ 2,429	$ 4,939	$ 7,067	$ 6,377
Cash paid for income taxes, net of refunds	1,941	1,696	6,434	4,641
Non-cash investing and financing activities:				
Purchases of property and equipment, accrued but not paid	36,823	49,987	36,823	49,987

	As of July 31,	
	2021	2020
Reconciliation of cash, cash equivalents, and restricted cash as shown in the statements of cash flows:		
Cash and cash equivalents	$ 1,087,070	$ 1,239,696
Restricted cash included in Prepaid expenses and other current assets	5,859	6,421
Restricted cash included in Other assets	—	129
Total cash, cash equivalents, and restricted cash	$ 1,092,929	$ 1,246,246

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Notes to Condensed Consolidated Financial Statements

Note 1. Overview and Basis of Presentation

Company and Background

Workday delivers financial management, spend management, human capital management, planning, and analytics applications designed for the world's largest companies, educational institutions, and government agencies. We offer innovative and adaptable technology focused on the consumer internet experience and cloud delivery model. Our applications are designed for global enterprises to manage complex and dynamic operating environments. We provide our customers highly adaptable, accessible, and reliable applications to manage critical business functions that help enable them to optimize their financial and human resources. We were originally incorporated in March 2005 in Nevada, and in June 2012, we reincorporated in Delaware. As used in this report, the terms "Workday," "registrant," "we," "us," and "our" mean Workday, Inc. and its subsidiaries unless the context indicates otherwise.

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 six months ended July 31, 2021, shown in this report are not necessarily indicative of the results to be expected for the full fiscal year ending January 31, 2022. 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, 2021, filed with the SEC on March 2, 2021.

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, 2021, other than the adoption of an accounting pronouncement as described in Note 2, Accounting Standards.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make certain estimates, judgments, 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, judgments, and assumptions include, but are not limited to, the determination of the fair value and useful lives of assets acquired and liabilities assumed through business combinations, the period of benefit for deferred commissions, the fair value of certain equity awards, and the valuation of non-marketable equity investments. Actual results could differ from those estimates and such differences could be material to our condensed consolidated financial statements.

Segment Information

We operate in one operating segment, cloud applications. Operating segments are defined as components of an enterprise where separate financial information is evaluated regularly by chief operating decision makers ("CODMs") in deciding how to allocate resources and assessing performance. For the six months ended July 31, 2021, our CODMs were our Co-Chief Executive Officer and Chairman, Aneel Bhusri, and our Co-Chief Executive Officer, Chano Fernandez. Our CODMs allocate resources and assess performance based upon discrete financial information at the consolidated level.

Note 2. Accounting Standards

Recently Adopted Accounting Pronouncements

ASU No. 2020-06

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

We adopted this standard effective February 1, 2021, using a modified retrospective method, under which financial results reported in prior periods were not adjusted. We applied the provisions of this guidance to our 0.25% convertible senior notes due October 1, 2022 ("2022 Notes"). Upon adoption, we recorded a decrease to Accumulated deficit of $136 million, a decrease to Additional paid-in capital of $220 million, an increase to Debt, current of $79 million, and a decrease to Property and equipment, net of $5 million, which represented non-cash interest previously capitalized. For further information, see Note 11, Debt.

Recently Issued Accounting Pronouncements

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

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

Note 3. Investments

Debt Securities

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
U.S. treasury securities	$ 1,096,642	$ 207	$ (37)	$ 1,096,812
U.S. agency obligations	189,188	66	—	189,254
Corporate bonds	372,240	275	(36)	372,479
Commercial paper	780,888	—	—	780,888
	$ 2,438,958	$ 548	$ (73)	$ 2,439,433
Included in Cash and cash equivalents	$ 359,551	$ —	$ —	$ 359,551
Included in Marketable securities	$ 2,079,407	$ 548	$ (73)	$ 2,079,882

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

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

We classify our debt securities as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. We consider all debt securities as available for use in current operations, including those with maturity dates beyond one year, and therefore classify these securities as current assets 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 remainder of the securities is included in Cash and cash equivalents.

The unrealized losses associated with our debt securities were immaterial as of July 31, 2021, and January 31, 2021, and we did not recognize any credit losses related to our debt securities during the three and six months ended July 31, 2021, or 2020.

We did not have any material sales of debt securities during the three months ended July 31, 2021, or July 31, 2020. We sold $10 million and $5 million of debt securities during the six months ended July 31, 2021, and 2020, 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	July 31, 2021	January 31, 2021
Money market funds	Cash and cash equivalents	$ 414,663	$ 659,964
Equity investments accounted for under the equity method	Other assets	—	48,222
Non-marketable equity investments measured using the measurement alternative	Other assets	125,075	73,142
Marketable equity investments	Marketable securities	141,006	21,300
		$ 680,744	$ 802,628

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Net realized gains (losses) recognized on equity investments sold [(1)]	$ 2,767	$ —	$ (6,379)	$ 1,591
Net unrealized gains (losses) recognized on equity investments held as of the end of the period	103,478	1,909	106,575	(2,187)
Total net gains (losses) recognized in Other income (expense), net	$ 106,245	$ 1,909	$ 100,196	$ (596)

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

Equity Investments Accounted for Under the Equity Method

We determine at the inception of each arrangement whether an investment or other interest is considered a variable interest entity ("VIE"). Investments in VIEs for which we are not the primary beneficiary or do not own a controlling interest but can exercise significant influence over the investee are accounted for under the equity method of accounting. During fiscal 2021, we made an equity investment of $50 million in a limited partnership, which represented an ownership interest of approximately 6%. We determined that the limited partnership was a VIE because the at-risk equity holders, as a group, lacked the characteristics of a controlling financial interest. We did not have majority voting rights nor the power to direct the activities of this entity, and therefore, we were not the primary beneficiary. The investment was accounted for under the equity method of accounting as it was considered to be more than minor and we had the ability to exercise significant influence over the entity. Under the equity method, our share of gains on this investment was $0.2 million and losses was $1 million for the three months ended July 31, 2021, and 2020, respectively, and our share of losses was $2 million for each of the six-month periods ended July 31, 2021, and 2020. There was no impairment loss recorded on this investment during the periods presented.

In June 2021, the limited partnership was liquidated and shares of common stock in a corporation were distributed to the partners. Immediately thereafter, the corporation completed its initial public offering ("IPO"). We no longer exercise significant influence over the entity and therefore we accounted for our interest in the common stock received as a marketable equity investment measured at fair value. Concurrent with the IPO, we sold a portion of our investment for proceeds of $5 million, resulting in a realized gain of $3 million. Our remaining investment, which had a carrying value of $141 million as of July 31, 2021, is subject to a lock-up agreement which restricts our ability to sell the securities until December 2021.

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

	July 31, 2021	January 31, 2021
Total initial cost	$ 105,819	$ 65,377
Cumulative net unrealized gains (losses)	19,256	7,765
Carrying value	$ 125,075	$ 73,142

We recorded upward adjustments to the carrying value of non-marketable equity investments of $6 million and no material impairment losses for the three months ended July 31, 2021. No material adjustments or impairment losses were recorded for the three months ended July 31, 2020. We recorded upward adjustments of $14 million and impairment losses of $2 million for the six months ended July 31, 2021. We recorded no material adjustments and $3 million of impairment losses for the six months ended July 31, 2020.

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):

	July 31, 2021	January 31, 2021
Total initial cost	$ 47,513	$ 5,000
Cumulative net unrealized gains (losses)	93,493	16,300
Carrying value (1)	$ 141,006	$ 21,300

(1) As of July 31, 2021, investments with a carrying value of $141 million are subject to a lock-up agreement through December 2021.

During the three months ended July 31, 2021, we sold marketable equity investments for proceeds of $15 million which had an initial cost of $6 million. This includes the $5 million sale of the investment previously accounted for under the equity method described above. During the six months ended July 31, 2021, we sold marketable equity investments for proceeds of $17 million which had an initial cost of $7 million. There were no sales of marketable equity investments during the comparative prior year periods.

Note 4. Fair Value Measurements

We measure our cash equivalents, marketable securities, and foreign currency derivative contracts at fair value at each reporting period using a fair value hierarchy which requires us to 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 July 31, 2021 (in thousands):

	Level 1	Level 2	Level 3	Total
U.S. treasury securities	$ 1,096,812	$ —	$ —	$ 1,096,812
U.S. agency obligations	—	189,254	—	189,254
Corporate bonds	—	372,479	—	372,479
Commercial paper	—	780,888	—	780,888
Money market funds	414,663	—	—	414,663
Marketable equity investments	141,006	—	—	141,006
Foreign currency derivative assets	—	10,973	—	10,973
Total assets	$ 1,652,481	$ 1,353,594	$ —	$ 3,006,075
Foreign currency derivative liabilities	$ —	$ 34,877	$ —	$ 34,877
Total liabilities	$ —	$ 34,877	$ —	$ 34,877

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

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

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

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

Fair Value Measurements of Other Financial Instruments

In April 2020, we entered into a credit agreement ("Credit Agreement") pursuant to which the lenders extended to Workday a senior unsecured term loan facility in an aggregate principal amount of $750 million ("Term Loan") and an unsecured revolving credit facility in an aggregate principal amount of $750 million ("Revolving Credit Facility"). The carrying value of the Term Loan was $711 million and $729 million as of July 31, 2021, and January 31, 2021, respectively. The estimated fair value of the Term Loan, which we have classified as a Level 2 financial instrument, approximates its carrying value because it is a floating rate facility. There were no outstanding borrowings under the Revolving Credit Facility during the periods presented. For further information, see Note 11, Debt.

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

Note 5. Deferred Costs

Deferred costs, which consist of deferred sales commissions, were $408 million and $395 million as of July 31, 2021, and January 31, 2021, respectively. Amortization expense for the deferred costs was $33 million and $27 million for the three months ended July 31, 2021, and 2020, respectively, and $65 million and $53 million for the six months ended July 31, 2021, and 2020, respectively. There was no impairment loss in relation to the costs capitalized for the periods presented.

Note 6. Property and Equipment, Net

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

	July 31, 2021	January 31, 2021
Land and land improvements	$ 80,553	$ 37,065
Buildings	676,724	494,599
Computers, equipment, and software	1,025,628	931,456
Furniture and fixtures	55,048	54,193
Leasehold improvements	147,633	204,273
Property and equipment, gross	1,985,586	1,721,586
Less accumulated depreciation and amortization	(849,993)	(749,183)
Property and equipment, net	$ 1,135,593	$ 972,403

Depreciation expense totaled $65 million and $57 million for the three months ended July 31, 2021, and 2020, respectively, and $128 million and $112 million for the six months ended July 31, 2021, and 2020, respectively.

Related-Party Transactions

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

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

Note 7. Business Combinations

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

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

Cash paid to stockholders, warrant holders, and vested option holders	$	683,788
Transaction costs paid by Workday on behalf of Peakon		17,960
Total	$	701,748

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

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

Acquisition-related intangible assets	$	170,500
Goodwill		542,541
Other assets		34,639
Deferred tax liability		(20,857)
Other liabilities		(25,075)
Total	$	701,748

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

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

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

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

Note 8. Acquisition-Related Intangible Assets, Net

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

	July 31, 2021	January 31, 2021
Developed technology	$ 312,400	$ 218,400
Customer relationships	295,000	223,000
Trade name	12,500	12,000
Backlog	15,000	11,000
Acquisition-related intangible assets, gross	634,900	464,400
Less accumulated amortization	(253,508)	(215,774)
Acquisition-related intangible assets, net	$ 381,392	$ 248,626

Amortization expense related to acquisition-related intangible assets was $20 million and $16 million for the three months ended July 31, 2021, and 2020, respectively, and $38 million and $32 million for the six months ended July 31, 2021, and 2020, respectively.

As of July 31, 2021, our future estimated amortization expense related to acquisition-related intangible assets was as follows (in thousands):

Fiscal Period:	
Remainder of 2022	$ 39,090
2023	75,823
2024	64,605
2025	51,950
2026	47,172
Thereafter	102,752
Total	$ 381,392

Note 9. Other Assets

Other assets consisted of the following (in thousands):

	July 31, 2021	January 31, 2021
Non-marketable equity and other investments (1)	$ 151,929	$ 85,868
Prepayments for goods and services	29,304	19,824
Technology patents and other intangible assets, net	16,260	17,766
Net deferred tax assets	9,539	9,985
Deposits	6,213	6,218
Derivative assets	5,389	173
Equity investments accounted for under the equity method	—	48,222
Other	1,002	1,701
Total	$ 219,636	$ 189,757

(1) Included in non-marketable equity and other investments are investments in loan receivables of privately held companies, which are carried at amortized cost. The carrying values of these loan receivables were $27 million and $13 million as of July 31, 2021, and January 31, 2021, respectively. The allowance for credit losses on loan receivables was immaterial for the periods presented.

Technology patents and other intangible assets with estimable useful lives are amortized on a straight-line basis. As of July 31, 2021, the future estimated amortization expense was as follows (in thousands):

Fiscal Period:		
Remainder of 2022	$	1,454
2023		2,688
2024		2,380
2025		1,900
2026		1,636
Thereafter		6,202
Total	$	16,260

Note 10. Derivative Instruments

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

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.

Foreign Currency Forward Contracts Designated as Cash Flow Hedges

We are exposed to foreign currency fluctuations resulting from customer contracts denominated in foreign currencies. We have a hedging program in which we enter into foreign currency forward contracts related to certain customer contracts. We designate these forward contracts as cash flow hedging instruments since the accounting criteria for such designation have been met.

Foreign currency forward contracts designated as cash flow hedges are recorded on the condensed consolidated balance sheets at fair value. Cash flows from such forward contracts are classified as operating activities. Gains or losses resulting from changes in the fair value of these hedges are recorded in Accumulated other comprehensive income (loss) ("AOCI") on the condensed consolidated balance sheets and will be subsequently reclassified to the related revenue line item on the condensed consolidated statements of operations in the same period that the underlying revenues are earned. As of July 31, 2021, we estimate that $15 million of net losses recorded in AOCI related to our foreign currency forward contracts designated as cash flow hedges will be reclassified into income within the next 12 months.

As of July 31, 2021, and January 31, 2021, we had outstanding foreign currency forward contracts designated as cash flow hedges with total notional values of $1.4 billion and $1.3 billion, respectively. The notional value represents the amount that will be bought or sold upon maturity of the forward contract. All contracts have maturities of less than 49 months.

Foreign Currency Forward Contracts Not Designated as Hedges

We also enter into foreign currency forward contracts to hedge a portion of our net outstanding monetary assets and liabilities. These forward contracts are intended to offset the foreign currency gains or losses associated with the underlying monetary assets and liabilities and are recorded on the 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 such forward contracts are classified as operating activities.

As of July 31, 2021, and January 31, 2021, we had outstanding forward contracts not designated as hedges with total notional values of $97 million and $175 million, respectively.

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

	Condensed Consolidated Balance Sheets Location	July 31, 2021	January 31, 2021
Derivative assets:			
Foreign currency forward contracts designated as cash flow hedges	Prepaid expenses and other current assets	$ 5,194	$ 2,073
Foreign currency forward contracts designated as cash flow hedges	Other assets	5,378	173
Foreign currency forward contracts not designated as hedges	Prepaid expenses and other current assets	390	975
Foreign currency forward contracts not designated as hedges	Other assets	11	—
Total derivative assets		$ 10,973	$ 3,221
Derivative liabilities:			
Foreign currency forward contracts designated as cash flow hedges	Accrued expenses and other current liabilities	$ 18,156	$ 23,647
Foreign currency forward contracts designated as cash flow hedges	Other liabilities	15,501	24,586
Foreign currency forward contracts not designated as hedges	Accrued expenses and other current liabilities	1,178	1,162
Foreign currency forward contracts not designated as hedges	Other liabilities	42	61
Total derivative liabilities		$ 34,877	$ 49,456

The effect of foreign currency forward contracts designated as cash flow hedges on the condensed consolidated statements of operations was as follows (in thousands):

	Condensed Consolidated Statements of Operations Location	Three Months Ended July 31,		Six Months Ended July 31,	
		2021	2020	2021	2020
Total revenues	Revenues	$ 1,260,361	$ 1,061,967	$ 2,435,394	$ 2,080,352
Amount of gains (losses) related to foreign currency forward contracts designated as cash flow hedges	Revenues	(1,667)	5,278	(1,149)	9,764

Pre-tax gains (losses) associated with foreign currency forward contracts designated as cash flow hedges were as follows (in thousands):

	Condensed Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) Locations	Three Months Ended July 31,		Six Months Ended July 31,	
		2021	2020	2021	2020
Gains (losses) recognized in OCI	Net change in market value of effective foreign currency forward exchange contracts	$ 16,031	$ (52,558)	$ 11,778	$ (15,765)
Gains (losses) reclassified from AOCI into income (effective portion)	Revenues	(1,667)	5,278	(1,149)	9,764

Gains (losses) associated with foreign currency forward contracts not designated as hedges were as follows (in thousands):

	Condensed Consolidated Statements of Operations Location	Three Months Ended July 31,		Six Months Ended July 31,	
		2021	2020	2021	2020
Foreign currency forward contracts not designated as hedges	Other income (expense), net	$ 2,011	$ (4,040)	$ 1,819	$ 1,373

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 July 31, 2021, 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		Net Assets Exposed
				Financial Instruments	Cash Collateral Received	
Derivative assets:						
Counterparty A	$ 724	$ —	$ 724	$ (724)	$ —	$ —
Counterparty B	3,887	—	3,887	(3,887)	—	—
Counterparty C	2,029	—	2,029	(2,029)	—	—
Counterparty D	3,771	—	3,771	(3,771)	—	—
Counterparty E	562	—	562	(562)	—	—
Total	$ 10,973	$ —	$ 10,973	$ (10,973)	$ —	$ —

	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		Net Liabilities Exposed
				Financial Instruments	Cash Collateral Pledged	
Derivative liabilities:						
Counterparty A	$ 6,445	$ —	$ 6,445	$ (724)	$ —	$ 5,721
Counterparty B	15,043	—	15,043	(3,887)	—	11,156
Counterparty C	12,211	—	12,211	(2,029)	—	10,182
Counterparty D	1,114	—	1,114	(3,771)	—	(2,657)
Counterparty E	64	—	64	(562)	—	(498)
Total	$ 34,877	$ —	$ 34,877	$ (10,973)	$ —	$ 23,904

Note 11. Debt

Outstanding debt consisted of the following (in thousands):

	July 31, 2021	January 31, 2021
Term Loan, net of unamortized debt discounts of $1,480 and $1,682, respectively, and unamortized debt issuance costs of $137 and $155, respectively	$ 710,883	$ 729,413
2022 Notes, net of unamortized debt discounts of $0 and $79,562, respectively, and unamortized debt issuance costs of $4,147 and $4,771, respectively	1,145,714	1,065,601
Total debt	1,856,597	1,795,014
Less: current debt	(1,201,964)	(1,103,101)
Total debt, noncurrent	$ 654,633	$ 691,913

As of July 31, 2021, contractual repayments and maturities of our outstanding debt were as follows (in thousands):

Fiscal Period:		
Remainder of 2022	$	18,750
2023		1,224,861
2024		75,000
2025		75,000
2026		468,750
Total	$	1,862,361

Credit Agreement

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

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

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

Term Loan

The Term Loan matures on April 2, 2025, and provides for quarterly repayment in installments of the principal amount at a rate of 1.25% of the principal amount per quarter through January 2022, and 2.50% of the principal amount per quarter thereafter. The Term Loan may be prepaid or permanently reduced by Workday without penalty or premium. As of July 31, 2021, the Term Loan had a carrying value of $711 million, of which $56 million is classified as current and $655 million is classified as noncurrent on the condensed consolidated balance sheet. As of January 31, 2021, the Term Loan had a carrying value of $729 million, of which $38 million was classified as current and $692 million was classified as noncurrent on the condensed consolidated balance sheet. As of July 31, 2021, and January 31, 2021, the interest rate on the Term Loan was 1.33% and 1.38%, respectively, and the effective interest rate was 1.41% and 1.46%, respectively.

Revolving Credit Facility

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

Convertible Senior Notes

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

In September 2017, we issued 0.25% convertible senior notes due October 1, 2022, with a principal amount of $1.15 billion (together with the 2020 Notes, the "Notes"). The 2022 Notes are unsecured, unsubordinated obligations, and interest is payable in cash in arrears at a fixed rate of 0.25% on April 1 and October 1 of each year. The 2022 Notes mature on October 1, 2022, unless repurchased or converted in accordance with their terms prior to such date. We cannot redeem the 2022 Notes prior to maturity.

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

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

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

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

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

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

The 2022 Notes were convertible at the option of the holders in the first half of fiscal 2022 and continue to be convertible through the third quarter of fiscal 2022 since the trigger for early conversion was met. Specifically, the last reported sale price of our Class A common stock exceeded 130% of the conversion price of the 2022 Notes for more than 20 trading days during the 30 consecutive trading days ended July 31, 2021. Accordingly, the 2022 Notes are classified as current on the condensed consolidated balance sheets for the periods presented. Through the date of this filing, the amount of the principal balance of the 2022 Notes that has been converted or for which conversion has been requested was not material.

As described in Note 2, Accounting Standards, we adopted ASU 2020-06 effective February 1, 2021, using a modified retrospective method, under which financial results reported in prior periods were not adjusted. Prior to the adoption of the standard, in accounting for the issuance of the 2022 Notes, we separated them into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of similar liabilities that do not have associated convertible features. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2022 Notes. This difference represented a debt discount that was amortized to interest expense over the term of the 2022 Notes using the effective interest rate method. The gross carrying amount of the equity component for the 2022 Notes was $223 million and was included in Additional paid-in capital on the condensed consolidated balance sheets upon issuance. The effective interest rate of the liability component of the 2022 Notes was 4.60%. Additionally, we separated the total issuance costs incurred into liability and equity components in proportion to the allocation of the initial proceeds, resulting in liability issuance costs of $14 million and equity issuance costs of $4 million. Issuance costs attributable to the liability component were amortized on a straight-line basis, which approximated the effective interest rate method, to interest expense over the term of the 2022 Notes. The issuance costs attributable to the equity component were netted against the equity component in Additional paid-in capital.

Upon adoption of ASU No. 2020-06 on February 1, 2021, we recombined the liability and equity components of the 2022 Notes assuming that the instrument was accounted for as a single liability from inception to the date of adoption. We similarly recombined the liability and equity components of the issuance costs. The issuance costs are presented as a deduction from the outstanding principal balance of the 2022 Notes, and are amortized on a straight-line basis, which approximates the effective interest rate method, to interest expense over the term of the 2022 Notes. As of July 31, 2021, the effective interest rate on the 2022 Notes was 0.55%. The standard did not impact the accounting for the 2020 Notes since they were converted and repaid prior to the date of adoption.

Notes Hedges

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

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

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

Warrants

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

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

Interest Expense on Debt

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Contractual interest expense	$ 3,174	$ 4,799	$ 6,322	$ 7,430
Interest cost related to amortization of debt discount	101	13,665	202	27,620
Interest cost related to amortization of debt issuance costs	896	863	1,792	1,750
Total interest expense	$ 4,171	$ 19,327	$ 8,316	$ 36,800

Note 12. Leases

We have entered into operating lease agreements for our office space, data centers, and other property and equipment. As of July 31, 2021, and January 31, 2021, operating lease right-of-use assets were $276 million and $414 million, respectively, and operating lease liabilities were $291 million and $443 million, respectively. We have also entered into finance lease agreements for other property and equipment. As of July 31, 2021, and January 31, 2021, finance leases were not material.

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

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020
Operating lease cost	$ 22,743	$ 22,336	$ 47,016	$ 43,235
Short-term lease cost	2,037	4,080	4,215	8,432
Variable lease cost	4,642	4,886	9,763	9,336
Total operating lease cost	$ 29,422	$ 31,302	$ 60,994	$ 61,003

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

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020
Cash paid for operating lease liabilities	$ 19,951	$ 21,153	$ 46,573	$ 42,165
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	17,188	32,216	38,689	70,503

Other information related to our operating leases was as follows:

	July 31, 2021	January 31, 2021
Weighted average remaining lease term (in years)	5	6
Weighted average discount rate	2.36%	1.73%

As of July 31, 2021, maturities of operating lease liabilities were as follows (in thousands):

Fiscal Period:	
Remainder of 2022	$ 43,521
2023	83,047
2024	70,778
2025	54,591
2026	28,577
Thereafter	37,916
Total lease payments	318,430
Less imputed interest	(27,162)
Total	$ 291,268

As of July 31, 2021, we have additional operating leases for office space that have not yet commenced with total undiscounted lease payments of $17 million. These operating leases will commence in fiscal 2022 and 2023, with lease terms ranging from two to eight years.

Related-Party Transactions

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

Subsequent to the exercise of the Leased Property Purchase Option, the Property is included in Property and equipment, net on the condensed consolidated balance sheet. As of January 31, 2021, the operating lease right-of-use assets and operating lease liabilities related to these agreements were $134 million and $146 million, respectively. We incurred no rent expense under these agreements for the three months ended July 31, 2021, as compared to $4 million for the three months ended July 31, 2020. Rent expense was $2 million and $7 million for the six months ended July 31, 2021, and 2020, respectively.

Note 13. Commitments and Contingencies

Third-Party Hosted Infrastructure Platform-Related Commitments

We have entered into noncancelable agreements with third-party hosted infrastructure platform vendors with various expiration dates. During the second quarter of fiscal 2022, we entered into a six-year, $420 million agreement for the use of cloud services. As of July 31, 2021, future noncancelable minimum payments under these agreements were approximately $790 million.

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 July 31, 2021, there was not at least a reasonable possibility that we had incurred a material loss, or a material loss in excess of a recorded accrual, with respect to such loss contingencies.

Note 14. Stockholders' Equity

Common Stock

As of July 31, 2021, there were 191 million shares of Class A common stock, net of treasury stock, and 57 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.

Employee Equity Plans

Our 2012 Equity Incentive Plan ("EIP") serves as the successor to our 2005 Stock Plan (together with the EIP, the "Stock Plans"). As of July 31, 2021, we had 58 million shares of Class A common stock available for future grants.

We also have a 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 July 31, 2021, 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. A summary of information related to RSU activity during the six months ended July 31, 2021, is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value
Balance as of January 31, 2021	13,168	$ 154.90
RSUs granted	4,952	257.51
RSUs vested	(3,924)	145.53
RSUs forfeited	(779)	177.04
Balance as of July 31, 2021	13,417	194.22

As of July 31, 2021, there was a total of $2.1 billion in unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs, which is expected to be recognized over a weighted-average period of approximately three years.

Performance-Based Restricted Stock Units

During the second quarter of fiscal 2022, 0.3 million shares of PRSUs were granted to employees below the level of vice president that included both service conditions and performance conditions related to company-wide goals. We expect to grant additional shares related to this program for employees hired in fiscal 2022. These PRSU awards will vest if the performance conditions are achieved for the fiscal year ending January 31, 2022, and if the individual employee continues to provide service through the vesting date of March 15, 2022. During each of the three and six-month periods ended July 31, 2021, we recognized $11 million in compensation cost related to these PRSUs. A total of $56 million in unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately seven months.

During fiscal 2021, 0.6 million shares of performance-based restricted stock units ("PRSUs") were granted to all employees other than executive management that included both service conditions and performance conditions related to company-wide goals. These performance conditions were met and the PRSUs vested on March 15, 2021. During the six months ended July 31, 2021, we recognized $17 million in compensation cost related to these PRSUs.

Stock Options

The Stock Plans provide for the issuance of incentive and nonstatutory stock options to employees and non-employees. Stock options issued under the Stock Plans generally are exercisable for periods not to exceed ten years and generally vest over five years. A summary of information related to stock option activity during the six months ended July 31, 2021, is as follows (in millions, except number of shares which are reflected in thousands and per share data):

	Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance as of January 31, 2021	1,260	$ 13.55	$ 270
Stock options exercised	(435)	9.23	
Stock options canceled	(13)	35.44	
Balance as of July 31, 2021	812	15.54	178
Vested and expected to vest as of July 31, 2021	809	15.45	177
Exercisable as of July 31, 2021	768	14.25	169

As of July 31, 2021, there was a total of $3 million in unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options, which is expected to be recognized over a weighted-average period of approximately one year.

Note 15. Unearned Revenue and Performance Obligations

Subscription services revenues of $970 million and $824 million were recognized during the three months ended July 31, 2021, and 2020, respectively, that were included in the unearned revenue balances as of April 30, 2021, and 2020, respectively. Subscription services revenues of $1.68 billion and $1.46 billion were recognized during the six months ended July 31, 2021, and 2020, respectively, that were included in the unearned revenue balances as of January 31, 2021, and 2020, 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 July 31, 2021, approximately $10.58 billion of revenues are expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize revenues on approximately $6.88 billion of these remaining performance obligations over the next 24 months, with the balance recognized thereafter. Revenues from remaining performance obligations for professional services contracts as of July 31, 2021, were not material.

Note 16. Other Income (Expense), Net

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Interest income	$ 1,333	$ 4,978	$ 3,336	$ 12,845
Interest expense (1)	(4,190)	(19,302)	(8,367)	(36,841)
Other (2)	105,842	2,871	98,965	1,570
Other income (expense), net	$ 102,985	$ (11,453)	$ 93,934	$ (22,426)

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

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

Note 17. Income Taxes

We compute the year-to-date income tax provision by applying the estimated annual effective tax rate to the year-to-date pre-tax income or loss and adjust for discrete tax items in the period. We reported an income tax benefit of $5 million and an income tax expense of $3 million for the six months ended July 31, 2021, and 2020, respectively. The income tax benefit for the six months ended July 31, 2021, was primarily attributable to excess tax benefit from stock option deductions in foreign jurisdictions and reversal of previously accrued tax liabilities upon favorable tax audit results. The income tax expense for the six months ended July 31, 2020, was primarily attributable to state taxes and income tax expenses in profitable foreign jurisdictions.

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 net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is dependent on our ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. As of July 31, 2021, we continue to maintain a full valuation allowance on our deferred tax assets except in certain jurisdictions.

Note 18. Net Income (Loss) Per Share

Basic net income (loss) per share attributable to common stockholders is computed by dividing the net income (loss) attributable to common stockholders 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 outstanding stock options, unvested RSUs, PRSUs, and RSAs, convertible senior notes, outstanding warrants, and ESPP obligations.

The net income (loss) per share attributable to common stockholders 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) attributable to common stockholders is allocated on a proportionate basis. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of our Class B common stock to Class A common stock, while the diluted net income (loss) per share of Class B common stock does not assume the conversion of those shares.

Basic and diluted net loss per share was the same for the three and six months ended July 31, 2020, as the inclusion of all potential common shares outstanding would have been anti-dilutive.

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

	Three Months Ended July 31,				Six Months Ended July 31,			
	2021		2020		2021		2020	
	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)	$ 80,955	$ 24,781	$ (20,732)	$ (7,284)	$ 45,188	$ 14,026	$ (137,980)	$ (48,404)
Denominator:								
Weighted-average shares outstanding, basic	189,069	57,874	175,441	60,561	187,204	58,104	173,590	60,893
Net income (loss) per share, basic	$ 0.43	$ 0.43	$ (0.12)	$ (0.12)	$ 0.24	$ 0.24	$ (0.79)	$ (0.79)
Net income (loss) per share, diluted:								
Numerator:								
Net income (loss)	80,955	24,781	(20,732)	(7,284)	45,188	14,026	(137,980)	(48,404)
Interest expense on convertible senior notes, net of tax	1,229	376	—	—	—	—	—	—
Reallocation of net income and interest expense as a result of conversion of Class B to Class A common stock	25,157	—	—	—	14,026	—	—	—
Reallocation of net income and interest expense to Class B common stock	—	(1,265)	—	—	—	(421)	—	—
Net income (loss) for diluted calculation	107,341	23,892	(20,732)	(7,284)	59,214	13,605	(137,980)	(48,404)
Denominator:								
Weighted-average shares outstanding, basic	189,069	57,874	175,441	60,561	187,204	58,104	173,590	60,893
Conversion of Class B to Class A common stock	57,874	—	—	—	58,104	—	—	—
Shares related to outstanding options, unvested RSUs, PRSUs, RSAs, and ESPP obligations	4,606	—	—	—	6,611	—	—	—
Shares related to the convertible senior notes	7,817	—	—	—	—	—	—	—
Shares subject to warrants related to the issuance of convertible senior notes	650	—	—	—	981	—	—	—
Weighted-average shares outstanding, diluted	260,016	57,874	175,441	60,561	252,900	58,104	173,590	60,893
Net income (loss) per share, diluted	$ 0.41	$ 0.41	$ (0.12)	$ (0.12)	$ 0.23	$ 0.23	$ (0.79)	$ (0.79)

The weighted-average number of shares outstanding used in the computation of diluted net income (loss) per share does not include the effect of the following potentially outstanding 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 July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Shares related to outstanding options, unvested RSUs, PRSUs, RSAs, and ESPP obligations	4,415	16,004	2,552	14,029
Shares related to the convertible senior notes	—	9,160	7,818	9,228
Shares subject to warrants related to the issuance of convertible senior notes	—	10,876	—	10,876
Total	4,415	36,040	10,370	34,133

Note 19. Disaggregation of Revenues and Geographic Information

Disaggregation of 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 master subscription agreement. The following table sets forth revenues by geographic area (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
United States	$ 942,561	$ 805,056	$ 1,826,002	$ 1,567,396
Other countries	317,800	256,911	609,392	512,956
Total	$ 1,260,361	$ 1,061,967	$ 2,435,394	$ 2,080,352

No single customer or country other than the United States represented greater than 10% of our total revenues for the three and six months ended July 31, 2021, or 2020.

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):

	July 31, 2021	January 31, 2021
United States	$ 1,202,394	$ 1,169,820
Ireland	128,529	143,887
Other countries	80,417	72,839
Total	$ 1,411,340	$ 1,386,546

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, which are subject to safe harbor protection under the Private Securities Litigation Reform Act of 1995. All statements contained in this report other than statements of historical fact, including statements regarding our future operating results and financial position, business strategy and plans, and objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "seek," "plan," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations, beliefs, and projections about future events, conditions, and trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, assumptions, and changes in circumstances that are difficult to predict and many of which are outside of our control, including those arising from the impact of the coronavirus pandemic, 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 Quarterly Report on Form 10-Q.

Overview

Workday delivers financial management, spend management, human capital management, planning, and analytics and benchmarking applications designed for the world's largest companies, educational institutions, and government agencies. 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 businesses and operations. Our diverse customer base includes medium-sized and large, global companies within numerous industry categories, including technology, financial services, business and professional services, healthcare and life sciences, manufacturing, retail, and hospitality, as well as educational institutions, government agencies, and nonprofit organizations.

We have achieved significant growth in a relatively short period of time, with a substantial amount of our growth coming from new customers. Our current financial focus is on growing our revenues and expanding our customer base. While we have incurred operating losses on a GAAP basis in each period since our inception in 2005, 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 and to address customers' evolving needs. In addition, we plan to continue to expand our ability to sell our applications globally, particularly in Europe and Asia, by investing in product development and customer support to address the business needs of local markets, increasing our sales and marketing organizations, acquiring and leasing additional office space, and expanding our ecosystem of service partners to support local deployments. We expect to make further significant investments in our data center capacity and equipment as we plan for future growth. We are also investing in personnel to support our growing customer base.

We regularly evaluate acquisition and investment opportunities in complementary businesses, employee teams, services, technologies, and intellectual property rights in an effort to expand our product and service offerings. For example, we acquired Adaptive Insights in fiscal 2019, Scout in fiscal 2020, and Peakon in fiscal 2022. We expect to continue making such acquisitions and investments in the future. While we remain focused on improving operating margins, 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 service partner ecosystem to further support our customers. We believe our investment in professional services, as well as partners building consulting practices around Workday, will drive additional customer subscriptions and continued growth in revenues. Due to our ability to leverage the expanding partner ecosystem, we expect the rate of professional services revenue growth to decline over time and continue to be lower than subscription revenue growth.

Impact of the COVID-19 Pandemic

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

The COVID-19 pandemic has created uncertainty in most industries and impacted our ability to generate new business. Despite this, we continue to achieve solid new subscription bookings as demand for our products remains strong. Our operating margins for the six months ended July 31, 2021, have been favorably impacted by our revenue growth outpacing headcount growth as well as the moderation of operating expenses in response to the COVID-19 pandemic. We do not anticipate the extent of the favorable margin impact experienced in the three and six months ended July 31, 2021, to continue long-term as we remain committed to investing in our business to drive top line growth and to support our customer base.

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

For further discussion of the potential impacts of the COVID-19 pandemic on our business, financial condition, and operating results, see "Risk Factors" included in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Components of Results of Operations

Revenues

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

Subscription services revenues accounted for 88% of our total revenues for each of the three and six-month periods ended July 31, 2021, and represented 96% of our total unearned revenue as of July 31, 2021. Subscription services revenues are driven primarily by the number of customers, the number of workers at each customer, the specific applications subscribed to by each customer, and the price of our applications.

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

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

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

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, data center expenses, and depreciation of computer equipment and software.

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

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

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

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

Results of Operations

Revenues

Our total revenues for the three and six months ended July 31, 2021, and 2020, were as follows (in thousands, except percentages):

	Three Months Ended July 31,		% Change	Six Months Ended July 31,		% Change
	2021	2020		2021	2020	
Subscription services	$ 1,113,454	$ 931,698	20%	$ 2,145,623	$ 1,813,654	18%
Professional services	146,907	130,269	13%	289,771	266,698	9%
Total revenues	$ 1,260,361	$ 1,061,967	19%	$ 2,435,394	$ 2,080,352	17%

Total revenues were $1.3 billion for the three months ended July 31, 2021, compared to $1.1 billion during the prior year period, an increase of $198 million, or 19%. Subscription services revenues were $1.1 billion for the three months ended July 31, 2021, compared to $932 million for the prior year period, an increase of $182 million, or 20%. The increase in subscription services revenues was primarily due to an increased number of customer contracts as compared to the prior year period. Professional services revenues were $147 million for the three months ended July 31, 2021, compared to $130 million for the prior year period, an increase of $17 million, or 13%. The increase in professional services revenues was primarily due to Workday performing deployment and integration services for a greater number of customers than in the prior year period.

Total revenues were $2.4 billion for the six months ended July 31, 2021, compared to $2.1 billion during the prior year period, an increase of $355 million, or 17%. Subscription services revenues were $2.1 billion for the six months ended July 31, 2021, compared to $1.8 billion for the prior year period, an increase of $332 million, or 18%. The increase in subscription services revenues was primarily due to an increased number of customer contracts as compared to the prior year period. Professional services revenues were $290 million for the six months ended July 31, 2021, compared to $267 million for the prior year period, an increase of $23 million, or 9%. The increase in professional services revenues was primarily due to Workday performing deployment and integration services for a greater number of customers than in the prior year period.

Operating Expenses

GAAP operating expenses were $1.3 billion for the three months ended July 31, 2021, compared to $1.1 billion for the prior year period, an increase of $183 million, or 17%. The increase in GAAP operating expenses included increases of $109 million in employee-related expenses including share-based compensation, $31 million related to marketing programs, $14 million in professional services expenses, $11 million in third-party expenses for hardware maintenance and data center capacity, and $9 million in depreciation expense related to equipment in our data centers.

GAAP operating expenses were $2.5 billion for the six months ended July 31, 2021, compared to $2.2 billion for the prior year period, an increase of $233 million, or 10%. The increase in GAAP operating expenses included increases of $212 million in employee-related expenses including share-based compensation, $38 million related to marketing programs, $25 million in professional services expenses, $19 million in third-party expenses for hardware maintenance and data center capacity, and $19 million in depreciation expense primarily related to equipment in our data centers, offset by a decrease of $79 million related to a cash bonus paid to non-executive employees in the first quarter of fiscal 2021 to help accommodate unforeseen costs brought on by the COVID-19 pandemic ("COVID-19 one-time employee bonus") that was not paid in fiscal 2022.

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

Non-GAAP operating expenses are calculated by excluding share-based compensation expenses and certain other expenses, which consist of employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

Non-GAAP operating expenses were $969 million for the three months ended July 31, 2021, compared to $804 million for the prior year period, an increase of $164 million, or 20%. The increase in non-GAAP operating expenses included increases of $95 million in employee-related expenses, $31 million related to marketing programs, $14 million in professional services expenses, $11 million in third-party expenses for hardware maintenance and data center capacity, and $9 million in depreciation expense related to equipment in our data centers.

Non-GAAP operating expenses were $1.9 billion for the six months ended July 31, 2021, compared to $1.7 billion for the prior year period, an increase of $163 million, or 10%. The increase in non-GAAP operating expenses included increases of $148 million in employee-related expenses, $38 million related to marketing programs, $25 million in professional services expenses, $19 million in third-party expenses for hardware maintenance and data center capacity, and $19 million in depreciation expense primarily related to equipment in our data centers, offset by a decrease of $79 million related to related to the COVID-19 one-time employee bonus.

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

	Three Months Ended July 31, 2021			
	GAAP Operating Expenses	Share-Based Compensation Expenses [(1)]	Other Operating Expenses [(2)]	Non-GAAP Operating Expenses [(3)]
Costs of subscription services	$ 192,738	$ (20,421)	$ (13,132)	$ 159,185
Costs of professional services	152,783	(26,534)	(1,215)	125,034
Product development	444,251	(129,892)	(3,161)	311,198
Sales and marketing	358,157	(52,168)	(9,764)	296,225
General and administrative	113,552	(35,704)	(933)	76,915
Total costs and expenses	$ 1,261,481	$ (264,719)	$ (28,205)	$ 968,557

	Three Months Ended July 31, 2020			
	GAAP Operating Expenses	Share-Based Compensation Expenses [(1)]	Other Operating Expenses [(2)]	Non-GAAP Operating Expenses [(3)]
Costs of subscription services	$ 145,007	$ (14,825)	$ (8,844)	$ 121,338
Costs of professional services	139,270	(24,552)	(918)	113,800
Product development	418,681	(128,505)	(4,554)	285,622
Sales and marketing	276,497	(49,854)	(7,913)	218,730
General and administrative	99,266	(33,500)	(975)	64,791
Total costs and expenses	$ 1,078,721	$ (251,236)	$ (23,204)	$ 804,281

	Six Months Ended July 31, 2021			
	GAAP Operating Expenses	Share-Based Compensation Expenses [(1)]	Other Operating Expenses [(2)]	Non-GAAP Operating Expenses [(3)]
Costs of subscription services	$ 374,946	$ (41,138)	$ (27,336)	$ 306,472
Costs of professional services	303,628	(54,226)	(8,168)	241,234
Product development	885,867	(259,754)	(22,703)	603,410
Sales and marketing	684,651	(102,476)	(26,870)	555,305
General and administrative	225,735	(71,760)	(5,319)	148,656
Total costs and expenses	$ 2,474,827	$ (529,354)	$ (90,396)	$ 1,855,077

	Six Months Ended July 31, 2020			
	GAAP Operating Expenses	Share-Based Compensation Expenses [(1)]	Other Operating Expenses [(2)]	Non-GAAP Operating Expenses [(3)]
Costs of subscription services	$ 290,270	$ (28,717)	$ (18,487)	$ 243,066
Costs of professional services	299,637	(47,118)	(4,019)	248,500
Product development	862,165	(250,527)	(16,704)	594,934
Sales and marketing	595,054	(96,804)	(18,489)	479,761
General and administrative	194,437	(64,742)	(3,756)	125,939
Total costs and expenses	$ 2,241,563	$ (487,908)	$ (61,455)	$ 1,692,200

(1) Share-based compensation expenses were $265 million and $251 million for the three months ended July 31, 2021, and 2020, respectively, and $529 million and $488 million for the six months ended July 31, 2021, and 2020, respectively. The increase in share-based compensation expenses includes the impact of RSUs granted to existing and new employees.

(2) Other operating expenses include amortization of acquisition-related intangible assets of $20 million and $16 million for the three months ended July 31, 2021, and 2020, respectively, and $38 million and $32 million for the six months ended July 31, 2021, and 2020, respectively. In addition, other operating expenses include employer payroll tax-related items on employee stock transactions of $8 million and $7 million for the three months ended July 31, 2021, and 2020, respectively, and $53 million and $30 million for the six months ended July 31, 2021, and 2020, respectively.

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

Costs of Subscription Services

See the table above for a reconciliation of GAAP to non-GAAP operating expenses.

GAAP operating expenses in costs of subscription services were $193 million for the three months ended July 31, 2021, compared to $145 million for the prior year period, an increase of $48 million, or 33%. The increase in costs of subscription services included increases of $22 million in employee-related expenses including share-based compensation, $9 million in depreciation expense related to equipment in our data center, and $7 million in third-party expenses for hardware maintenance and data center capacity.

GAAP operating expenses in costs of subscription services were $375 million for the six months ended July 31, 2021, compared to $290 million for the prior year period, an increase of $85 million, or 29%. The increase in costs of subscription services included increases of $44 million in employee-related expenses including share-based compensation, $19 million in depreciation expense related to equipment in our data centers, and $11 million in third-party expenses for hardware maintenance and data center capacity, offset by a decrease of $5 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in costs of subscription services were $159 million for the three months ended July 31, 2021, compared to $121 million for the prior year period, an increase of $38 million, or 31%. The increase in costs of subscription services included increases of $16 million in employee-related expenses, $9 million in depreciation expense related to equipment in our data center, and $7 million in third-party expenses for hardware maintenance and data center capacity.

Non-GAAP operating expenses in costs of subscription services were $306 million for the six months ended July 31, 2021, compared to $243 million for the prior year period, an increase of $63 million, or 26%. The increase in costs of subscription services included increases of $30 million in employee-related expenses, $19 million in depreciation expense related to equipment in our data centers, and $11 million in third-party expenses for hardware maintenance and data center capacity, offset by a decrease of $5 million related to the COVID-19 one-time employee bonus.

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

Costs of Professional Services

See the table above for a reconciliation of GAAP to non-GAAP operating expenses.

GAAP operating expenses in costs of professional services were $153 million for the three months ended July 31, 2021, compared to $139 million for the prior year period, an increase of $14 million, or 10%. The increase in costs of professional services was primarily due to an increase of $14 million in employee-related expenses including share-based compensation.

GAAP operating expenses in costs of professional services were $304 million for the six months ended July 31, 2021, compared to $300 million for the prior year period, an increase of $4 million, or 1%. The increase in costs of professional services included an increase of $23 million in employee-related expenses including share-based compensation, offset by a decrease of $12 million related to the COVID-19 one-time employee bonus and $8 million in reduced subcontractor expenses.

Non-GAAP operating expenses in costs of professional services were $125 million for the three months ended July 31, 2021, compared to $114 million for the prior year period, an increase of $11 million, or 10%. The increase in costs of professional services was primarily due to an increase of $12 million in employee-related expenses.

Non-GAAP operating expenses in costs of professional services were $241 million for the six months ended July 31, 2021, compared to $249 million for the prior year period, a decrease of $7 million, or 3%. The decrease in costs of professional services included decreases of $12 million related to the COVID-19 one-time employee bonus and $8 million in reduced subcontractor expense, offset by an increase of $12 million in employee-related 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 customers continues to grow.

Product Development

See the table above for a reconciliation of GAAP to non-GAAP operating expenses.

GAAP operating expenses in product development were $444 million for the three months ended July 31, 2021, compared to $419 million for the prior year period, an increase of $26 million, or 6%. The increase in product development expenses was primarily due to an increase of $22 million in employee-related expenses including share-based compensation.

GAAP operating expenses in product development were $886 million for the six months ended July 31, 2021, compared to $862 million for the prior year period, an increase of $24 million, or 3%. The increase in product development expenses included an increase of $53 million in employee-related expenses including share-based compensation, offset by a decrease of $31 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in product development were $311 million for the three months ended July 31, 2021, compared to $286 million for the prior year period, an increase of $26 million, or 9%. The increase in product development expenses was primarily due to an increase of $21 million in employee-related expenses.

Non-GAAP operating expenses in product development were $603 million for the six months ended July 31, 2021, compared to $595 million for the prior year period, an increase of $8 million, or 1%. The increase in product development expenses included an increase of $35 million in employee-related expenses, offset by a decrease of $31 million related to the COVID-19 one-time employee bonus.

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

Sales and Marketing

See the table above for a reconciliation of GAAP to non-GAAP operating expenses.

GAAP operating expenses in sales and marketing were $358 million for the three months ended July 31, 2021, compared to $276 million for the prior year period, an increase of $82 million, or 30%. The increase in sales and marketing expenses included increases of $40 million in employee-related expenses including share-based compensation and $31 million related to marketing programs.

GAAP operating expenses in sales and marketing were $685 million for the six months ended July 31, 2021, compared to $595 million for the prior year period, an increase of $90 million, or 15%. The increase in sales and marketing expenses included increases of $63 million in employee-related expenses including share-based compensation and $38 million related to marketing programs, offset by decrease of $25 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in sales and marketing were $296 million for the three months ended July 31, 2021, compared to $219 million for the prior year period, an increase of $77 million, or 35%. The increase in sales and marketing expenses included increases of $37 million in employee-related expenses and $31 million related to marketing programs.

Non-GAAP operating expenses in sales and marketing were $555 million for the six months ended July 31, 2021, compared to $480 million for the prior year period, an increase of $76 million, or 16%. The increase in sales and marketing expenses included increases of $51 million in employee-related expenses and $38 million related to marketing programs, offset by decrease of $25 million related to the COVID-19 one-time employee bonus.

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

General and Administrative

See the table above for a reconciliation of GAAP to non-GAAP operating expenses.

GAAP operating expenses in general and administrative were $114 million for the three months ended July 31, 2021, compared to $99 million for the prior year period, an increase of $14 million, or 14%. The increase in general and administrative expenses included increases of $10 million in employee-related expenses including share-based compensation and $10 million in professional services expenses.

GAAP operating expenses in general and administrative were $226 million for the six months ended July 31, 2021, compared to $194 million for the prior year period, an increase of $31 million, or 16%. The increase in general and administrative expenses included increases of $29 million in employee-related expenses including share-based compensation and $17 million in professional services expenses, offset by a decrease of $6 million related to the COVID-19 one-time employee bonus.

Non-GAAP operating expenses in general and administrative were $77 million for the three months ended July 31, 2021, compared to $65 million for the prior year period, an increase of $12 million, or 19%. The increase in general and administrative expenses included increases of $10 million in professional services expenses and $8 million in employee-related expenses.

Non-GAAP operating expenses in general and administrative were $149 million for the six months ended July 31, 2021, compared to $126 million for the prior year period, an increase of $23 million, or 18%. The increase in general and administrative expenses included increases of $20 million in employee-related expenses and $17 million in professional services expenses, offset by a decrease of $6 million related to the COVID-19 one-time employee bonus.

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

Operating Margins

GAAP operating margins improved from (1.6)% for the three months ended July 31, 2020, to (0.1)% for the three months ended July 31, 2021. Our GAAP operating margins for the three months ended July 31, 2021, have been favorably impacted by our revenue growth outpacing headcount growth and moderation of operating expenses in response to the COVID-19 pandemic.

GAAP operating margins improved from (7.7)% for the six months ended July 31, 2020, to (1.6)% for the six months ended July 31, 2021. Our GAAP operating margins for the six months ended July 31, 2021, have been favorably impacted by our revenue growth outpacing headcount growth, moderation of operating expenses in response to the COVID-19 pandemic, and the COVID-19 one-time employee bonus paid in the prior fiscal year.

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

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

Non-GAAP operating margins declined from 24.3% for the three months ended July 31, 2020, to 23.2% for the three months ended July 31, 2021. The decline in non-GAAP operating margins for the three months ended July 31, 2021, was primarily due to higher operating expenses resulting from higher headcount and timing of marketing programs, partially offset by higher revenues.

Non-GAAP operating margins improved from 18.7% for the six months ended July 31, 2020, to 23.8% for the six months ended July 31, 2021. Our non-GAAP operating margins for the six months ended July 31, 2021, have been favorably impacted by our revenue growth outpacing headcount growth, moderation of operating expenses in response to the COVID-19 pandemic, and the COVID-19 one-time employee bonus paid in the prior fiscal year.

Reconciliations of our GAAP to non-GAAP operating margins were as follows:

	Three Months Ended July 31, 2021			
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP Operating Expenses (1)
Operating margin	(0.1)%	21.0%	2.3%	23.2%

	Three Months Ended July 31, 2020			
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP Operating Expenses (1)
Operating margin	(1.6)%	23.7%	2.2%	24.3%

	Six Months Ended July 31, 2021			
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP Operating Expenses (1)
Operating margin	(1.6)%	21.7%	3.7%	23.8%

	Six Months Ended July 31, 2020			
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP Operating Expenses (1)
Operating margin	(7.7)%	23.4%	3.0%	18.7%

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

Other Income (Expense), Net

We had other income, net of $103 million for the three months ended July 31, 2021, as compared to other expense, net of $11 million for the prior year period. This increase in other income was related to net gains of $106 million on our equity securities, of which $100 million of gains were related to an equity investment that completed its IPO during the quarter, and a decrease in interest expense of $15 million due to the adoption of ASU No. 2020-06 and the conversion of the 2020 Notes in the second quarter of fiscal 2021.

We had other income, net of $94 million for the six months ended July 31, 2021, as compared to other expense, net of $22 million for the prior year period. This increase in other income was related to net gains of $100 million on our equity securities, which was primarily due to an equity investment that completed its IPO during the quarter, and a decrease in interest expense of $28 million due to the adoption of ASU No. 2020-06 and the conversion of the 2020 Notes in the second quarter of fiscal 2021, offset by a decrease of $10 million in interest income on marketable securities as a result of lower prevailing interest rates.

Non-GAAP Financial Measures

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

Non-GAAP Operating Expenses and Non-GAAP Operating Margins

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

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

Limitations on the Use of Non-GAAP Financial Measures

A limitation of our non-GAAP financial measures of non-GAAP operating expenses and non-GAAP operating margins 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 costs of revenues and 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 Margins” for reconciliations from the most directly comparable GAAP financial measures, GAAP operating expenses and GAAP operating margins, to the non-GAAP financial measures, non-GAAP operating expenses and non-GAAP operating margins, for the three and six months ended July 31, 2021, and 2020.

Liquidity and Capital Resources

As of July 31, 2021, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling $3.3 billion, which were primarily held for working capital purposes. Our cash equivalents and marketable securities are composed primarily of, in order from largest to smallest, U.S. treasury securities, commercial paper, money market funds, corporate bonds, U.S. agency obligations, and marketable equity investments. We have financed our operations primarily through customer payments, issuance of debt, and sales of our common stock.

We believe our existing cash, cash equivalents, marketable securities, cash provided by operating activities, unbilled amounts related to the remaining term of contracted noncancelable subscription agreements, which are not reflected on the balance sheet, and, if necessary, our borrowing capacity under our Revolving Credit Facility that provides for $750 million of unsecured financing, will be 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 the COVID-19 pandemic, customer growth rates, subscription renewal activity, headcount growth, timing and extent of development efforts, expansion of sales and marketing activities, introduction of new and enhanced services offerings, timing of construction or acquisition of additional facilities, investments, and acquisition activities. We may enter into arrangements to acquire or invest in complementary businesses, services, technologies, or intellectual property rights in the future. We may also choose to seek additional debt or equity financing.

Our cash flows for the three and six months ended July 31, 2021, and 2020, were as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Net cash provided by (used in):				
Operating activities	$ 198,473	$ 157,210	$ 650,901	$ 420,893
Investing activities	(139,332)	(202,638)	(1,001,048)	(479,985)
Financing activities	66,298	70,780	55,290	570,111
Effect of exchange rate changes	(321)	771	(135)	506
Net increase (decrease) in cash, cash equivalents, and restricted cash	$ 125,118	$ 26,123	$ (294,992)	$ 511,525

Operating Activities

Cash provided by operating activities was $198 million and $157 million for the three months ended July 31, 2021, and 2020, respectively. The improvement in cash flow provided by operating activities was primarily due to increases in sales and related cash collections and moderation of operating expenses in response to the COVID-19 pandemic.

Cash provided by operating activities was $651 million and $421 million for the six months ended July 31, 2021, and 2020, respectively. The improvement in cash flow provided by operating activities was primarily due to increases in sales and related cash collections and moderation of operating expenses in response to the COVID-19 pandemic.

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

Investing Activities

Cash used in investing activities for the three months ended July 31, 2021, was $139 million, which was primarily related to capital expenditures for data center projects of $88 million, purchases of non-marketable equity and other investments of $12 million, and the timing of purchases and maturities of marketable securities. These payments were partially offset by proceeds of $15 million from sales of marketable securities.

Cash used in investing activities for the three months ended July 31, 2020, was $203 million, which was primarily the result of data center and office space projects of $67 million and the timing of purchases and maturities of marketable securities.

Cash used in investing activities for the six months ended July 31, 2021, was $1.0 billion, which was primarily related to cash consideration for the acquisition of Peakon, net of cash acquired, of $679 million, the purchase of leased office space within our corporate headquarters of $171 million, capital expenditures primarily for data center projects of $158 million, and purchases of non-marketable equity and other investments of $58 million. These payments were partially offset by proceeds of $27 million from sales of marketable securities and the timing of purchases and maturities of marketable securities.

Cash used in investing activities for the six months ended July 31, 2020, was $480 million, which was primarily the result of capital expenditures for data center and office space projects of $126 million, purchases of non-marketable equity and other investments of $59 million, and the timing of purchases and maturities of marketable securities.

We expect capital expenditures, excluding owned real estate projects, will be approximately $270 million for fiscal 2022. These capital outlays will largely be used to support our customer growth and continued business expansion. We do not expect to make additional investments in owned real estate projects during fiscal 2022.

Financing Activities

Cash provided by financing activities was $66 million for the three months ended July 31, 2021, which was primarily due to proceeds of $76 million from the issuance of common stock from employee equity plans, offset by a payment of $9 million on the Term Loan.

Cash provided by financing activities was $71 million for the three months ended July 31, 2020, which was primarily due to proceeds of $250 million from borrowings on the Term Loan and $71 million from the issuance of common stock from employee equity plans, offset by the principal payment of $250 million in connection with the conversion of our 1.50% convertible senior notes (“2020 Notes”) during the quarter.

Cash provided by financing activities was $55 million for the six months ended July 31, 2021, which was primarily due to proceeds of $74 million from the issuance of common stock from employee equity plans, offset by a payment of $19 million on the Term Loan.

Cash provided by financing activities was $570 million for the six months ended July 31, 2020, which was primarily due to proceeds of $748 million from borrowings on the Term Loan and $75 million from the issuance of common stock from employee equity plans, offset by the principal payment of $250 million in connection with the conversion of the 2020 Notes.

Our 2022 Notes are convertible at the option of the holders during the third quarter of fiscal 2022 since the trigger for early conversion was met. Through the date of this filing, the amount of the principal balance of the 2022 Notes that has been converted or for which conversion has been requested was not material. We may receive additional conversion requests that require settlement in the third quarter of fiscal 2022. For further information, see Note 11, Debt, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Contractual Obligations

Our contractual obligations primarily consist of borrowings under our Credit Agreement, our convertible senior notes, leases for office space and co-location facilities for data center capacity, and agreements for third-party hosted infrastructure platforms for business operations. We do not consider outstanding purchase orders to be contractual obligations as they represent authorizations to purchase rather than binding agreements. Except for those disclosed below, 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, 2021, filed with the SEC on March 2, 2021.

Credit Agreement

In April 2020, we entered into a Credit Agreement pursuant to which the lenders extended to Workday a senior unsecured Term Loan in an aggregate principal amount of $750 million and an unsecured Revolving Credit Facility in an aggregate principal amount of $750 million. The Term Loan matures on April 2, 2025, and provides for quarterly repayment in installments of the principal amount at a rate of 1.25% of the principal amount per quarter through January 2022, and 2.50% of the principal amount per quarter thereafter. The Revolving Credit Facility may be borrowed, repaid, and reborrowed until April 2, 2025, at which time all amounts borrowed must be repaid. The Term Loan and Revolving Credit Facility bear interest at the interest rates described in Note 11, Debt, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Convertible Senior Notes

In September 2017, we completed an offering of $1.15 billion of 0.25% convertible senior notes due October 1, 2022. We are not required to make principal payments under the 2022 Notes prior to maturity. If the 2022 Notes are not converted to Class A common stock prior to their maturity dates, we are required to repay $1.15 billion in principal on October 1, 2022. The 2022 Notes are convertible at the option of the holders during the third quarter of fiscal 2022. Through the date of this filing, the amount of the principal balance of the 2022 Notes that has been converted or for which conversion has been requested was not material. We may receive additional conversion requests that require settlement in the third quarter of fiscal 2022. We are also required to make interest payments on a semi-annual basis at the interest rates described in Note 11, Debt, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Operating Leases

We have entered into operating lease agreements for our office space, data centers, and other property and equipment with various expiration dates. These lease agreements often provide us with an option to renew. As of July 31, 2021, future contractual lease payments, excluding imputed interest, were $318 million.

Third-Party Hosted Infrastructure Platforms for Business Operation

We have entered into noncancelable agreements with third-party hosted infrastructure platform vendors with various expiration dates. During the second quarter of fiscal 2022, we entered into a six-year, $420 million agreement for the use of cloud services. As of July 31, 2021, future noncancelable minimum payments under these agreements were approximately $790 million.

Purchase Obligations

We entered into a ten-year sporting event sponsorship agreement with future noncancelable minimum payments of approximately $144 million.

Off-Balance Sheet Arrangements

Through July 31, 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates 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 and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require further updates to our estimates or judgments or require us to further revise the carrying value of our assets or liabilities as of July 31, 2021. These estimates may change as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

We believe that the following critical accounting policies involve a high degree of judgment 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

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, 2021, filed with the SEC on March 2, 2021. We no longer consider estimates related to our convertible senior notes to be a critical accounting policy due to the adoption of ASU No. 2020-06 effective February 1, 2021, which simplified the accounting for convertible instruments. There were no other significant changes to our critical accounting policies and estimates during the six months ended July 31, 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The ongoing COVID-19 pandemic has resulted in negative impacts on global economies and financial markets, which may increase our foreign currency exchange risk and interest rate risk. For further discussion of the potential impacts of the COVID-19 pandemic on our business, financial condition, and operating results, see "Risk Factors" included in Part II, Item 1A of this Quarterly Report on Form 10-Q.

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 July 31, 2021, our most significant currency exposures were the euro, Canadian dollar, British pound, and Australian dollar.

Due to our exposure to market risks that may result from changes in foreign currency exchange rates, we enter into foreign currency derivative hedging transactions to mitigate these risks. For further information, see Note 10, Derivative Instruments, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Interest Rate Risk on our Investments

We had cash, cash equivalents, and marketable securities totaling $3.3 billion and $3.5 billion as of July 31, 2021, and January 31, 2021, respectively. Cash equivalents and marketable securities were invested primarily in U.S. treasury securities, U.S. agency obligations, corporate bonds, commercial paper, money market funds, and marketable equity investments. The cash, cash equivalents, and marketable securities are held primarily for working capital purposes. Our investment portfolios are managed to preserve capital and meet liquidity needs. We do not enter into investments for trading or speculative purposes.

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

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

Interest Rate Risk on our Debt

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

As of July 31, 2021, and January 31, 2021, the Term Loan had carrying values of $711 million and $729 million, respectively, and there were no outstanding borrowings under the Revolving Credit Facility. The interest rate on the Term Loan was 1.33% and 1.38% as of July 31, 2021, and January 31, 2021, respectively.

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

In September 2017, we completed an offering of $1.15 billion of 0.25% convertible senior notes due October 1, 2022. The 2022 Notes have a fixed annual interest rate of 0.25%, and therefore we do not have economic interest rate exposure on the 2022 Notes. However, the value of the 2022 Notes is exposed to interest rate risk. Generally, the fair value of the 2022 Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the 2022 Notes is affected by our stock price. The carrying value of the 2022 Notes was $1.1 billion as of July 31, 2021, and January 31, 2021, and the estimated fair value of the 2022 Notes was $1.9 billion and $1.8 billion as of July 31, 2021, and January 31, 2021, respectively. The estimated fair value was determined based on the quoted bid price of the 2022 Notes in an over-the-counter market as of the last trading day of the current fiscal quarter, which was $162.00.

For further information, see Note 11, Debt, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management's evaluation, our principal executive officers and principal financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission 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, despite the fact that the majority of our employees are continuing to work remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the potential impact of the COVID-19 pandemic on the design and operating effectiveness of our internal controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 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 Quarterly Report on Form 10-Q, 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 Quarterly Report on Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." Additional risks beyond those summarized below, or discussed elsewhere in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," may apply to our activities or operations as currently conducted or as we may conduct them in the future, or to the markets in which we currently operate or may in the future operate. Consistent with the foregoing, we are exposed to a variety of risks, including those associated with the following:

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

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

Risks Related to Our Business and Industry

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

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

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

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

Our future revenues rely on continued demand by existing customers and the acquisition of new customers. We have experienced and may continue to experience delays in purchasing decisions from prospective customers and a reduction in customer demand, particularly in the industries most impacted by the COVID-19 pandemic, such as travel and hospitality. Similarly, we have experienced and may continue to experience a reduction in renewal rates, particularly within our subset of small and medium-sized planning customers, as well as reduced customer spend and delayed payments, which could materially impact our business, financial condition, and operating results in future periods. In addition, some of our competitors may offer their products and services at a lower price, or may offer delayed payment terms, financing terms, or other terms and conditions that are more enticing to potential customers. While our subscription services revenues are relatively predictable in the near term as a result of our subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our operating results and overall financial performance until future periods.

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

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

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

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

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

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

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

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

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

In addition, we also rely upon third-party hosted infrastructure partners globally, including Amazon Web Services, Microsoft Corporation, and Google LLC, to serve customers and operate certain aspects of our services, such as environments for development and testing, training, sales demonstrations, and production usage. Any disruption of or interference at our hosted infrastructure partners would impact our operations and our business could be adversely impacted.

Problems faced by these data center operators or hosted infrastructure partners, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our customers or other users. Furthermore, these data center operators or hosted infrastructure partners could decide to close their facilities, cease operations without adequate notice, or stop providing contracted services. In addition, any financial difficulties, such as bankruptcy, faced by these data center operators, our hosted infrastructure partners, or any of the other service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. These facilities may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, natural catastrophic events, as well as local administrative actions (including shelter-in-place or similar orders), changes to legal or permitting requirements, and litigation to stop, limit or delay operation.

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

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

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

To execute our growth plan, we must attract, train, and retain highly qualified personnel. In the technology industry, and particularly in the San Francisco Bay Area, the competition is intense for highly skilled employees, especially for engineers with significant experience in designing and developing software and internet-related services, including in the areas of machine learning and artificial intelligence; for cybersecurity professionals; and for senior sales executives. In addition, the expansion of our sales infrastructure, both domestically and internationally, is necessary to grow our customer base and business. Identifying and recruiting qualified personnel and training them in our sales methodology, our sales systems, and the use of our software requires significant time, expense, and attention. Our business may be adversely affected if our efforts to attract and train new members of our direct sales force do not generate a corresponding increase in revenues. We have experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications, and we may not be able to fill positions in desired geographic areas or at all and may not be successful in achieving the workforce growth goals on the timeline we have publicly announced or at all.

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

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

We believe that a critical component of our success has been our corporate culture, as reflected in our core values: employees, customer service, innovation, integrity, inclusion, 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, the COVID-19 pandemic requires significant action to preserve culture with an employee base temporarily working remotely and facing unique personal and professional challenges. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to achieve our corporate objectives, including our ability to quickly develop and deliver new and innovative products.

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

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

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

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

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

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

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

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

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

Our quarterly operating results, including our revenues, operating margin, profitability, cash flow, unearned revenue, and remaining performance obligations for subscription contracts, or backlog, may vary significantly in the future and period-to-period comparisons of our operating results may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. As discussed above, the extent to which the ongoing COVID-19 pandemic, the resulting global economic uncertainty, and measures taken in response to the pandemic could continue to impact our operating results will depend on future developments, which are highly uncertain and difficult to predict. For example, beginning in March 2020, we began experiencing and continue to experience unfavorable impacts to our new subscription bookings, causing us to reduce our fiscal 2022 subscription revenue outlook. Fluctuations in our quarterly results and related impacts to any earnings guidance we may issue from time to time, including any modification or withdrawal thereof, may negatively impact the value of our securities. Additionally, as we typically sign a significantly higher percentage of agreements with new customers as well as renewal agreements with existing customers in the fourth quarter of each year, we may experience a greater impact on our business and quarterly results due to the prolonged uncertainty.

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

- our ability to attract new customers, customer renewal rates, the financial condition and creditworthiness of our customers, and the timing and rate at which we sign agreements with customers;
- the addition or loss of large customers, including through acquisitions or consolidations;

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

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

We have experienced rapid growth in our customers, headcount, and operations and anticipate that we will continue to expand our customer base, headcount, and operations, in particular, in connection with our publicly announced commitment to increase our workforce by more than 20% in our fiscal year 2022. This growth has placed, and future growth will place, a significant strain on our management, administrative, operational, and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively and to scale our operations appropriately. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial, and management controls as well as our reporting systems and procedures. Failure to effectively manage growth could result in difficulty or delays in deploying products and services to customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features, or other operational difficulties, and any of these difficulties could adversely impact our business performance and operating results.

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

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

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

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

We have acquired, and may in the future acquire, other companies, employee teams, or technologies to complement or expand our applications, enhance our technical capabilities, obtain personnel, or otherwise offer growth opportunities. For example, we acquired Adaptive Insights in fiscal 2019, Scout in fiscal 2020, and Peakon in fiscal 2022. The pursuit of acquisitions may divert the attention of management, disrupt ongoing business, and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

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

- inability to integrate or benefit from an acquisition in a profitable manner;
- acquisition-related costs, liabilities, or tax impacts, some of which may be unanticipated;
- difficulty in integrating the intellectual property, technology infrastructure, and operations of the acquired business, including difficulty in addressing security risks of the acquired business;
- difficulty in integrating and retaining the personnel of the acquired business, including integration of the culture of the acquired company with Workday;
- 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;
- 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 existing business relationships with business partners and customers as a result of the acquisition;
- potential write-offs of acquired assets and potential financial and credit risks associated with acquired customers;
- inability to maintain relationships with key customers, suppliers, and partners of the acquired business;
- difficulty in predicting and controlling the effect of integrating multiple acquisitions concurrently;
- lack of experience in new markets, products, or technologies;
- difficulty in integrating operations and assets of an acquired foreign entity with differences in language, culture, or country-specific regulatory risks;
- the inability to obtain (or a material delay in obtaining) regulatory approvals necessary to complete transactions or to integrate operations, or potential remedies imposed by regulatory authorities as a condition to or following the completion of a transaction, which may include divestitures, ownership or operational restrictions or other structural or behavioral remedies;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Cybersecurity, Data Privacy, and Intellectual Property

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Legal and Regulatory Matters

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

Some of our products and services, such as Workday's People Experience and Talent Optimization product suites, currently utilize or will utilize new and evolving technologies such as machine learning, artificial intelligence, and blockchain. While existing laws and regulations may apply to these types of technologies, the overall regulatory environment governing these types of technologies is still currently undeveloped and likely to evolve as government interest in these technologies increases. Regulation of these technologies, as well as other technologies that we utilize in our products and services, also varies greatly among international, federal, state, and local jurisdictions and is subject to significant uncertainty. Governments and agencies domestic and abroad may in the future change or amend existing laws, or adopt new laws, regulations, or guidance, or take other actions which may severely impact the permitted uses of our technologies. Any failure by us to comply with applicable laws, regulations, guidance, or other rules could result in costly litigation, penalties, or fines. In addition, these regulations and any related enforcement actions could establish and further expand our obligations to customers, individuals, and other third parties with respect to our products and services, limit the countries in which such products and services may be used, restrict the way we structure and operate our business, require us to divert development and other resources, and reduce the types of customers and individuals who can use our products and services. Increased regulation and oversight of products or services which utilize or rely on these technologies may result in costly compliance burdens or otherwise increase our operating costs, detrimentally affecting our business. These new technologies could subject us to additional litigation brought by private parties, which could be costly, time-consuming, and distracting to management and could result in substantial expenses and losses.

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

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

Our contracts with federal, state, local, and foreign government entities are subject to various procurement regulations and other requirements relating to their formation, administration, performance, and termination, which could adversely impact our business and operating results. These laws and regulations provide public sector customers various rights, many of which are not typically found in commercial contracts. For instance, these regulations may require the certification and disclosure of cost and pricing data and other sensitive information in connection with contract negotiations under certain contract types. Any public disclosure of such information may adversely impact our competitive position and our operating results. We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for delays, interruptions, or termination by the government at any time, without cause, which activities may adversely affect our business and operating results and impact other existing or prospective government contracts.

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 July 31, 2021, 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 2022 and 2042. The federal net operating losses generated in and after fiscal 2018 do not expire and may be carried forward indefinitely. We also have federal research tax credit carryforwards, which if not utilized will begin to expire in fiscal 2023. These net operating loss and research tax credit carryforwards could expire unused and be unavailable to reduce future income tax liabilities, which could adversely affect our profitability. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, our ability to utilize net operating loss carryforwards or other tax attributes, such as research tax credits, in any taxable year may be limited if we experience an “ownership change.” A Section 382 “ownership change” generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. It is possible that an ownership change, or any future ownership change, could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our profitability.

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

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

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

Risks Related to Financial Matters

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

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

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

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

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

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

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

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

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

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

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

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

In addition, our indebtedness could, among other things:

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

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

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

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

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

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

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

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

Further, valuations of non-marketable equity investments are inherently complex due to the lack of readily available market data. In addition, we may experience additional volatility to our statements of operations due to changes in market prices of our marketable equity investments, the valuation and timing of observable price changes or impairments of our non-marketable equity investments, including impairments to such investments due to the COVID-19 pandemic, and changes in the proportionate share of earnings and losses or impairment of our equity investments accounted for under the equity method. This volatility could be material to our results in any given quarter and may cause our stock price to decline.

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 July 31, 2021, our Co-Founder, Director, and Chairman Emeritus David Duffield, together with his affiliates, held voting rights with respect to approximately 48 million shares of Class B common stock and 0.3 million shares of Class A common stock. As of July 31, 2021, our Co-Founder, Co-CEO, and Chairman Aneel Bhusri, together with his affiliates, held voting rights with respect to approximately 8 million shares of Class B common stock and 0.3 million shares of Class A common stock. In addition, Mr. Bhusri holds 0.1 million 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 initial public offering. Messrs. Duffield and Bhusri have each initially designated the other as their respective proxies. Accordingly, upon the death or incapacity of either Mr. Duffield or Mr. Bhusri, the other would individually continue to control the voting of shares subject to the voting proxy. Collectively, the shares described above represent a substantial majority of the voting power of our outstanding capital stock. As a result, Messrs. Duffield and Bhusri have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, they have the ability to control the management and affairs of our company as a result of their positions as members of our board of directors and, in the case of Mr. Bhusri, an officer of Workday. Mr. Duffield, in his capacity as a board member, and Mr. Bhusri, in his capacity as a board member and officer, each owe a fiduciary duty to our stockholders and must act in good faith in a manner they reasonably believe to be in the best interests of our stockholders. As stockholders, even as controlling stockholders, they are entitled to vote their shares in their own interests, which may not always be in the interests of our stockholders generally.

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

Our Class B common stock has 10 votes per share and our Class A common stock, which is the stock that is publicly traded, has one vote per share. Stockholders who hold shares of Class B common stock, including our executive officers, directors, and other affiliates, together hold a substantial majority of the voting power of our outstanding capital stock as of July 31, 2021. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval until the conversion of all shares of all Class A and Class B shares to a single class of common stock on the date that is the first to occur of (i) October 17, 2032, (ii) such time as the shares of Class B common stock represent less than 9% of the outstanding Class A and Class B common stock, (iii) nine months following the death of both Mr. Duffield and Mr. Bhusri, or (iv) the date on which the holders of a majority of the shares of Class B common stock elect to convert all shares of Class A common stock and Class B common stock into a single class of common stock. This concentrated control will limit or preclude the ability of non-affiliates to influence corporate matters for the foreseeable future.

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

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

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

- overall performance of the equity markets;
- fluctuations in the valuation of companies perceived by investors to be comparable to us, such as high-growth or cloud companies, or in valuation metrics, such as our price to revenues ratio;
- guidance, as well as our ability to give guidance, as to our operating results and other financial metrics that we provide to the public, differences between our guidance and market expectations, our failure to meet our guidance, any withdrawal of previous guidance or changes from our historical guidance;
- the research and reports that securities or industry analysts publish about us or our business, and whether analysts who cover us downgrade our Class A common stock or publish unfavorable or inaccurate research about our business;
- variations in, and limitations of, the various financial and other metrics and modeling used by analysts in their research and reports about our business;
- announcements of technological innovations, new applications or enhancements to services, acquisitions, strategic alliances, or significant agreements by us or by our competitors;
- announcements of negative corporate developments by us or by our competitors and other high-growth or cloud companies including, among other things, any announcements related to security incidents;
- disruptions in our services due to computer hardware, software, or network problems;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- the economy as a whole, political and regulatory uncertainty, and market conditions in our industry and the industries of our customers;
- trading activity by directors, executive officers, and significant stockholders, or the perception in the market that the holders of a large number of shares intend to sell their shares;
- the exercise of rights held by certain of our stockholders, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders;
- the size of our market float and significant stock option exercises;
- any future issuances of our securities;
- environmental, social, governance, ethical, and other issues impacting our brand;

- sales and purchases of any Class A common stock issued upon conversion of our convertible senior notes or in connection with the convertible note hedge and warrant transactions related to such convertible senior notes;
- our operating performance and the performance of other similar companies; and
- the sale or availability for sale of a large number of shares of our Class A common stock in the public market.

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

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

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

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

- any transaction that would result in a change in control of our company requires the approval of a majority of our outstanding Class B common stock voting as a separate class;
- our dual class common stock structure, which provides our co-founders with the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding Class A and Class B common stock;
- our Board of Directors is classified into three classes of directors with staggered three-year terms and directors are only able to be removed from office for cause;
- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of common stock:
  - certain amendments to our restated certificate of incorporation or amended and restated bylaws will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A and Class B common stock;
  - our stockholders will only be able to take action at a meeting of stockholders and not by written consent; and
  - vacancies on our Board of Directors will be able to be filled only by our Board of Directors and not by stockholders;
- only our chairman of the board, co-chief executive officers, president, or a majority of our Board of Directors are authorized to call a special meeting of stockholders;
- certain litigation against us can only be brought in Delaware;
- we will have two classes of common stock until the date that is the first to occur of (i) October 17, 2032, (ii) such time as the shares of Class B common stock represent less than 9% of the outstanding Class A and Class B common stock, (iii) nine months following the death of both Mr. Duffield and Mr. Bhusri, or (iv) the date on which the holders of a majority of the shares of Class B common stock elect to convert all shares of Class A common stock and Class B common stock into a single class of common stock;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established, and shares of which may be issued, without the approval of the holders of Class A common stock; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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

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

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

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

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

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

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

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

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

General Risk Factors

Adverse economic conditions may negatively impact our business.

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

Also, Brexit has created economic and political uncertainty. While the UK and the EU reached a Trade Cooperation Agreement in December 2020, the impact of Brexit depends on the implementation of this agreement, as well as the terms of the UK's future trade agreements with other countries and such impact may not be fully realized for several years or more. This uncertainty may cause some of our customers or potential customers to curtail spending and may ultimately result in new regulatory, operational, and cost challenges to our UK and global operations.

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

Catastrophic or climate-related events may disrupt our business.

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

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

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

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

During the three months ended July 31, 2021, we issued 47 shares of our unregistered Class A common stock to holders of our 2022 Notes upon settlement of conversion of an immaterial aggregate principal amount of such notes. This share amount represents the conversion value of the 2022 Notes in excess of the principal amount converted. These shares of our Class A common stock were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended ("Securities Act"). For further information, see Note 11, Debt, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 July 31, 2021. The shares purchased represent the exercise of the convertible note hedges relating to the partial early conversion of the 2022 Notes. For further information, see Note 11, Debt, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
May 1, 2021 - May 31, 2021	—	$ —	—	—
June 1, 2021 - June 30, 2021	44	235.04	—	—
July 1, 2021 - July 31, 2021	4	235.25	—	—
Total	48		—	

ITEM 6. EXHIBITS

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

		Incorporated by Reference				
Exhibit No.	Exhibit	Form	File No.	Filing Date	Exhibit No.	Filed Herewith
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

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: August 26, 2021

Workday, Inc.

/s/ Robynne D. Sisco

Robynne D. Sisco
President and Chief Financial Officer
(Principal Financial Officer)