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

Form 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2022

OR

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

For transition period from _____ to _____

Commission File Number: 001-35680

WORKDAY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

As of November 23, 2022, there were approximately 202 million shares of the registrant's Class A common stock, net of treasury stock, and 55 million shares of the registrant's Class B common stock outstanding.

Workday, Inc.

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

	October 31, 2022	January 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,575,955	\$ 1,534,273
Marketable securities	3,916,130	2,109,888
Trade and other receivables, net	1,040,468	1,242,545
Deferred costs	171,100	152,957
Prepaid expenses and other current assets	266,622	174,402
Total current assets	6,970,275	5,214,065
Property and equipment, net	1,219,127	1,123,075
Operating lease right-of-use assets	268,110	247,808
Deferred costs, noncurrent	359,624	341,259
Acquisition-related intangible assets, net	326,670	391,002
Goodwill	2,840,044	2,840,044
Other assets	405,937	341,252
Total assets	\$ 12,389,787	\$ 10,498,505
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 75,803	\$ 55,487
Accrued expenses and other current liabilities	334,961	195,590
Accrued compensation	406,799	402,885
Unearned revenue	2,815,599	3,110,947
Operating lease liabilities	90,237	80,503
Debt, current	—	1,222,443
Total current liabilities	3,723,399	5,067,855
Debt, noncurrent	2,974,979	617,354
Unearned revenue, noncurrent	63,736	71,533
Operating lease liabilities, noncurrent	196,078	182,456
Other liabilities	22,487	24,225
Total liabilities	6,980,679	5,963,423
Stockholders' equity:		
Common stock	257	251
Additional paid-in capital	8,400,756	7,284,174
Treasury stock	(110,382)	(12,467)
Accumulated other comprehensive income (loss)	104,114	7,709
Accumulated deficit	(2,985,637)	(2,744,585)
Total stockholders' equity	5,409,108	4,535,082
Total liabilities and stockholders' equity	\$ 12,389,787	\$ 10,498,505

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Operations

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Revenues:				
Subscription services	\$ 1,432,393	\$ 1,171,517	\$ 4,071,804	\$ 3,317,140
Professional services	166,710	155,746	497,754	445,517
Total revenues	1,599,103	1,327,263	4,569,558	3,762,657
Costs and expenses (1):				
Costs of subscription services	259,397	200,700	737,301	575,646
Costs of professional services	176,396	159,024	524,398	462,652
Product development	565,727	455,615	1,655,071	1,341,482
Sales and marketing	470,196	366,323	1,358,198	1,050,974
General and administrative	153,708	121,656	427,832	347,391
Total costs and expenses	1,625,424	1,303,318	4,702,800	3,778,145
Operating income (loss)	(26,321)	23,945	(133,242)	(15,488)
Other income (expense), net	4,163	21,557	(48,789)	115,491
Income (loss) before provision for (benefit from) income taxes	(22,158)	45,502	(182,031)	100,003
Provision for (benefit from) income taxes	52,563	2,090	59,021	(2,623)
Net income (loss)	\$ (74,721)	\$ 43,412	\$ (241,052)	\$ 102,626
Net income (loss) per share, basic	\$ (0.29)	\$ 0.17	\$ (0.95)	\$ 0.42
Net income (loss) per share, diluted	\$ (0.29)	\$ 0.17	\$ (0.95)	\$ 0.40
Weighted-average shares used to compute net income (loss) per share, basic	255,753	248,468	253,975	246,348
Weighted-average shares used to compute net income (loss) per share, diluted	255,753	254,760	253,975	253,917

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Costs of subscription services	\$ 25,598	\$ 21,340	\$ 76,918	\$ 62,478
Costs of professional services	26,577	29,105	79,999	83,331
Product development	149,279	135,591	449,764	395,345
Sales and marketing	61,186	55,645	180,233	158,121
General and administrative	51,556	39,437	146,795	111,197
Total share-based compensation expenses	\$ 314,196	\$ 281,118	\$ 933,709	\$ 810,472

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Net income (loss)	\$ (74,721)	\$ 43,412	\$ (241,052)	\$ 102,626
Other comprehensive income (loss):				
Net change in foreign currency translation adjustment	(3,098)	(361)	(6,005)	(1,362)
Net change in unrealized gains (losses) on available-for-sale debt securities	(13,232)	(1,505)	(23,513)	(2,611)
Net change in unrealized gains (losses) on cash flow hedges	57,483	25,389	125,923	38,316
Other comprehensive income (loss)	41,153	23,523	96,405	34,343
Comprehensive income (loss)	\$ (33,568)	\$ 66,935	\$ (144,647)	\$ 136,969

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Common stock:				
Balance, beginning of period	\$ 255	\$ 248	\$ 251	\$ 242
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	1	1	5	7
Settlement of convertible senior notes	1	—	1	—
Balance, end of period	257	249	257	249
Additional paid-in capital:				
Balance, beginning of period	7,988,096	6,639,067	7,284,174	6,254,936
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	709	1,893	84,997	76,374
Share-based compensation	314,196	278,995	933,709	808,299
Exercise of convertible senior notes hedges	97,794	8	97,916	58
Settlement of convertible senior notes	(39)	—	(40)	(2)
Cumulative effect of accounting changes	—	—	—	(219,702)
Balance, end of period	8,400,756	6,919,963	8,400,756	6,919,963
Treasury stock:				
Balance, beginning of period	(12,588)	(12,431)	(12,467)	(12,384)
Exercise of convertible senior notes hedges	(97,794)	(6)	(97,915)	(53)
Balance, end of period	(110,382)	(12,437)	(110,382)	(12,437)
Accumulated other comprehensive income (loss):				
Balance, beginning of period	62,961	(44,150)	7,709	(54,970)
Other comprehensive income (loss)	41,153	23,523	96,405	34,343
Balance, end of period	104,114	(20,627)	104,114	(20,627)
Accumulated deficit:				
Balance, beginning of period	(2,910,916)	(2,714,744)	(2,744,585)	(2,909,990)
Net income (loss)	(74,721)	43,412	(241,052)	102,626
Cumulative effect of accounting changes	—	—	—	136,032
Balance, end of period	(2,985,637)	(2,671,332)	(2,985,637)	(2,671,332)
Total stockholders' equity	\$ 5,409,108	\$ 4,215,816	\$ 5,409,108	\$ 4,215,816

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Common stock (in shares):				
Balance, beginning of period	255,485	248,087	251,209	242,667
Issuance of common stock under employee equity plans, net of shares withheld for employee taxes	1,198	1,429	5,474	6,767
Settlement of convertible senior notes	634	—	635	—
Purchase of treasury stock from the exercise of convertible senior notes hedges	(634)	—	(635)	—
Other	—	43	—	125
Balance, end of period	256,683	249,559	256,683	249,559

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Cash flows from operating activities:				
Net income (loss)	\$ (74,721)	\$ 43,412	\$ (241,052)	\$ 102,626
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	91,854	87,127	274,395	254,973
Share-based compensation expenses	314,196	278,995	933,709	808,349
Amortization of deferred costs	44,830	35,482	126,515	100,844
Non-cash lease expense	23,359	21,407	68,318	64,706
(Gains) losses on investments	(3,833)	(25,222)	20,746	(125,479)
Other	3,251	4,408	15,373	(4,225)
Changes in operating assets and liabilities, net of business combinations:				
Trade and other receivables, net	61,885	6,649	200,008	171,257
Deferred costs	(56,552)	(50,654)	(163,023)	(129,758)
Prepaid expenses and other assets	2,435	18,050	(31,447)	(21,047)
Accounts payable	18,116	(12,007)	20,884	(4,117)
Accrued expenses and other liabilities	47,061	2,498	41,253	(24,109)
Unearned revenue	(63,213)	(25,491)	(302,936)	(158,465)
Net cash provided by (used in) operating activities	408,668	384,654	962,743	1,035,555
Cash flows from investing activities:				
Purchases of marketable securities	(2,310,915)	(722,275)	(5,651,005)	(2,317,040)
Maturities of marketable securities	2,181,147	674,246	3,767,509	2,303,478
Sales of marketable securities	19,988	—	53,355	27,286
Owned real estate projects	(181)	(4)	(446)	(171,498)
Capital expenditures, excluding owned real estate projects	(58,665)	(33,335)	(286,013)	(190,912)
Business combinations, net of cash acquired	—	(60,645)	—	(739,865)
Purchase of other intangible assets	(700)	—	(700)	—
Purchases of non-marketable equity and other investments	(3,250)	(26,720)	(20,173)	(84,526)
Sales and maturities of non-marketable equity and other investments	4,513	1,874	11,674	5,169
Other	—	—	—	1
Net cash provided by (used in) investing activities	(168,063)	(166,859)	(2,125,799)	(1,167,907)
Cash flows from financing activities:				
Proceeds from issuance of debt, net of debt discount	—	—	2,978,077	—
Repayments and extinguishment of debt	(1,149,622)	(9,384)	(1,843,605)	(28,205)
Payments for debt issuance costs	—	—	(7,220)	—
Proceeds from issuance of common stock from employee equity plans, net of taxes paid for shares withheld	710	1,894	85,002	76,381
Other	(161)	(33)	(538)	(409)
Net cash provided by (used in) financing activities	(1,149,073)	(7,523)	1,211,716	47,767
Effect of exchange rate changes	(920)	50	(1,750)	(85)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(909,388)	210,322	46,910	(84,670)
Cash, cash equivalents, and restricted cash at the beginning of period	2,497,043	1,092,929	1,540,745	1,387,921
Cash, cash equivalents, and restricted cash at the end of period	\$ 1,587,655	\$ 1,303,251	\$ 1,587,655	\$ 1,303,251

See Notes to Condensed Consolidated Financial Statements

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Supplemental cash flow data:				
Cash paid for interest	\$ 56,567	\$ 3,837	\$ 59,508	\$ 10,904
Cash paid for income taxes, net of refunds	2,093	2,716	9,863	9,150
Non-cash investing and financing activities:				
Purchases of property and equipment, accrued but not paid	68,028	49,713	68,028	49,713

	As of October 31,	
	2022	2021
Reconciliation of cash, cash equivalents, and restricted cash as shown in the Condensed Consolidated Statements of Cash Flows:		
Cash and cash equivalents	\$ 1,575,955	\$ 1,297,259
Restricted cash included in Prepaid expenses and other current assets	11,700	5,992
Total cash, cash equivalents, and restricted cash	<u>\$ 1,587,655</u>	<u>\$ 1,303,251</u>

See Notes to Condensed Consolidated Financial Statements

Workday, Inc.

Notes to Condensed Consolidated Financial Statements

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

Note 1. Overview and Basis of Presentation

Company and Background

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The condensed consolidated financial statements include the results of Workday, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of our management, the information contained herein reflects all adjustments necessary for a fair presentation of Workday’s financial position, results of operations, stockholders’ equity, and cash flows. All such adjustments are of a normal, recurring nature. The results of operations for the three and nine months ended October 31, 2022, shown in this report are not necessarily indicative of the results to be expected for the full fiscal year ending January 31, 2023. 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, 2022, filed with the SEC on February 28, 2022.

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make certain estimates, judgements, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. For revenue recognition, examples of significant estimates, judgements, and assumptions include the identification of distinct performance obligations and the assessment of the standalone selling price for each performance obligation identified. Other significant estimates, judgements, and assumptions include, but are not limited to, the determination of the period of benefit for deferred commissions, the fair value and useful lives of assets acquired and liabilities assumed through business combinations, and the valuation of non-marketable equity investments. Actual results could differ from those estimates, judgements, and assumptions, and such differences could be material to our 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 a chief operating decision maker (“CODM”) in deciding how to allocate resources and assessing performance. For the nine months ended October 31, 2022, both our Co-Chief Executive Officer and Chairman, Aneel Bhusri, and our Co-Chief Executive Officer, Chano Fernandez, together serve as our CODM. Our CODM allocates resources and assesses performance based upon discrete financial information at the consolidated level.

Note 2. Significant Accounting Policies and Accounting Standards

Significant Accounting Policies

There have been no material changes in our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022.

Concentrations of Risk and Significant Customers

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

No customer individually accounted for more than 10% of trade and other receivables, net as of October 31, 2022, or January 31, 2022. No customer individually accounted for more than 10% of total revenues during the three and nine months ended October 31, 2022, or 2021.

Other than the United States, no country individually accounted for more than 10% of total revenues during the three and nine months ended October 31, 2022, or 2021.

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

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

We are also exposed to concentration of risk in our equity investments portfolio, which consists of marketable equity investments and non-marketable equity investments measured using the measurement alternative. As of both October 31, 2022, and January 31, 2022, we held one marketable equity investment with a carrying value that was individually greater than 10% of our total equity investments portfolio.

Recently Adopted Accounting Pronouncements

ASU No. 2021-08

In October 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured in accordance with Topic 606, *Revenue from Contracts with Customers*, as if the acquirer had originated the contracts. Prior to the adoption of the new standard, such assets and liabilities were recognized by the acquirer at fair value on the acquisition date. We early adopted ASU No. 2021-08 on a prospective basis effective February 1, 2022. The adoption had no impact on our condensed consolidated financial statements during the three and nine months ended October 31, 2022, and any financial impact will be dependent on the magnitude and nature of future business combinations.

Note 3. Investments

Debt Securities

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
U.S. treasury securities	\$ 2,391,963	\$ 1	\$ (10,333)	\$ 2,381,631
U.S. agency obligations	548,109	—	(6,020)	542,089
Corporate bonds	624,186	18	(11,877)	612,327
Commercial paper	1,054,938	—	—	1,054,938
Total debt securities	\$ 4,619,196	\$ 19	\$ (28,230)	\$ 4,590,985
Included in Cash and cash equivalents	\$ 757,758	\$ —	\$ (113)	\$ 757,645
Included in Marketable securities	\$ 3,861,438	\$ 19	\$ (28,117)	\$ 3,833,340

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

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

We classify our debt securities as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. We consider all debt securities as funds available for use in current operations, including those with maturity dates beyond one year, and therefore classify these securities as current assets on the Condensed Consolidated Balance Sheets. Debt securities included in Marketable securities on the Condensed Consolidated Balance Sheets consist of securities with original maturities at the time of purchase greater than three months, and the remaining securities are included in Cash and cash equivalents.

As of October 31, 2022, and January 31, 2022, the fair value of debt securities in an unrealized loss position was \$3.5 billion and \$1.5 billion, respectively, the majority of which had been in a continuous unrealized loss position for less than 12 months. We did not recognize any credit or non-credit related losses related to our debt securities during the periods presented.

We sold \$20 million of debt securities during the three months ended October 31, 2022, and we did not have any sales of debt securities during the three months ended October 31, 2021. We sold \$48 million and \$10 million of debt securities during the nine months ended October 31, 2022, and 2021, respectively. The realized gains and losses from the sales were immaterial.

Equity Investments

Equity investments consisted of the following (in thousands):

	Condensed Consolidated Balance Sheets Location	October 31, 2022	January 31, 2022
Money market funds	Cash and cash equivalents	\$ 528,633	\$ 607,640
Non-marketable equity investments measured using the measurement alternative	Other assets	265,573	256,643
Marketable equity investments	Marketable securities	82,790	104,318
Total equity investments		\$ 876,996	\$ 968,601

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Net realized gains (losses) recognized on equity investments sold ⁽¹⁾	\$ 4,514	\$ 11,759	\$ (365)	\$ 4,236
Net unrealized gains (losses) recognized on equity investments held as of the end of the period	(155)	13,448	(19,121)	121,167
Total net gains (losses) recognized in Other income (expense), net	\$ 4,359	\$ 25,207	\$ (19,486)	\$ 125,403

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

Non-Marketable Equity Investments Measured Using the Measurement Alternative

Non-marketable equity investments measured using the measurement alternative include investments in privately held companies without readily determinable fair values in which we do not own a controlling interest or exercise significant influence. These investments are recorded at cost and are adjusted for observable transactions for same or similar securities of the same issuer or impairment events. The carrying values for our non-marketable equity investments are summarized below (in thousands):

	October 31, 2022	January 31, 2022
Total initial cost	\$ 209,867	\$ 192,694
Cumulative net unrealized gains (losses)	55,706	63,949
Carrying value	<u>\$ 265,573</u>	<u>\$ 256,643</u>

During the three months ended October 31, 2022, we recorded upward adjustments to the carrying value of non-marketable equity investments of \$2 million, impairment losses of \$2 million, and a gain of \$4 million upon exiting a non-marketable equity investment. During the three months ended October 31, 2021, we recorded upward adjustments to the carrying value of non-marketable equity investments of \$20 million and a non-cash gain of \$12 million related to our acquisition of Zimit.

During the nine months ended October 31, 2022, we recorded upward adjustments to the carrying value of non-marketable equity investments of \$8 million, impairment losses of \$10 million, and a net loss of \$2 million upon exiting a non-marketable equity investment. During the nine months ended October 31, 2021, we recorded upward adjustments to the carrying value of non-marketable equity investments of \$34 million, impairment losses of \$2 million, and a non-cash gain of \$12 million related to our acquisition of Zimit.

Marketable Equity Investments

We hold marketable equity investments with readily determinable fair values over which we do not own a controlling interest or exercise significant influence. The carrying values for our marketable equity investments are summarized below (in thousands):

	October 31, 2022	January 31, 2022
Total initial cost	\$ 38,936	\$ 40,739
Cumulative net unrealized gains (losses)	43,854	63,579
Carrying value	<u>\$ 82,790</u>	<u>\$ 104,318</u>

During the three months ended October 31, 2022, and 2021, we did not sell any marketable equity investments. During the nine months ended October 31, 2022, and 2021, we sold marketable equity investments for proceeds of \$5 million and \$17 million, respectively, with corresponding net realized gains of \$1 million and losses of \$6 million, respectively.

For the marketable equity investments held as of the end of each period, we recorded no material unrealized net gains or losses during the three months ended October 31, 2022, and we recorded net losses of \$7 million during the three months ended October 31, 2021. During the nine months ended October 31, 2022, and 2021, we recorded unrealized net losses of \$17 million and gains of \$91 million, respectively, on marketable equity investments held as of the end of each period.

Note 4. Fair Value Measurements

We use a fair value hierarchy that requires we maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Level 1	Level 2	Level 3	Total
U.S. treasury securities	\$ 2,381,631	\$ —	\$ —	\$ 2,381,631
U.S. agency obligations	—	542,089	—	542,089
Corporate bonds	—	612,327	—	612,327
Commercial paper	—	1,054,938	—	1,054,938
Money market funds	528,633	—	—	528,633
Marketable equity investments	82,790	—	—	82,790
Foreign currency derivative assets	—	159,292	—	159,292
Total assets	\$ 2,993,054	\$ 2,368,646	\$ —	\$ 5,361,700
Foreign currency derivative liabilities	\$ —	\$ 36,486	\$ —	\$ 36,486
Total liabilities	\$ —	\$ 36,486	\$ —	\$ 36,486

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

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

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

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

Fair Value Measurements of Other Financial Instruments

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

Note 5. Deferred Costs

Deferred costs, which consist of deferred sales commissions, were \$531 million and \$494 million as of October 31, 2022, and January 31, 2022, respectively. Amortization expense for the deferred costs was \$45 million and \$36 million for the three months ended October 31, 2022, and 2021, respectively, and \$127 million and \$101 million for the nine months ended October 31, 2022, and 2021, respectively. There was no impairment loss in relation to the costs capitalized for the periods presented.

Note 6. Property and Equipment, Net

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

	October 31, 2022	January 31, 2022
Computers, equipment, and software	\$ 1,292,126	\$ 1,071,141
Buildings	718,495	691,896
Leasehold improvements	183,206	158,037
Furniture, fixtures, and transportation equipment	88,090	79,723
Land and land improvements	80,929	80,553
Property and equipment, gross	2,362,846	2,081,350
Less accumulated depreciation and amortization	(1,143,719)	(958,275)
Property and equipment, net	\$ 1,219,127	\$ 1,123,075

Depreciation expense totaled \$69 million and \$66 million for the three months ended October 31, 2022, and 2021, respectively, and \$207 million and \$194 million for the nine months ended October 31, 2022, and 2021, respectively.

Note 7. Acquisition-Related Intangible Assets, Net

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

	October 31, 2022	January 31, 2022
Developed technology	\$ 346,300	\$ 346,300
Customer relationships	311,100	311,100
Backlog	15,000	15,000
Trade name	12,500	12,500
Acquisition-related intangible assets, gross	684,900	684,900
Less accumulated amortization	(358,230)	(293,898)
Acquisition-related intangible assets, net	\$ 326,670	\$ 391,002

Amortization expense related to acquisition-related intangible assets was \$21 million and \$19 million for the three months ended October 31, 2022, and 2021, respectively, and \$64 million and \$57 million for the nine months ended October 31, 2022, and 2021, respectively.

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

Fiscal Period:	
Remainder of 2023	\$ 21,204
2024	74,319
2025	61,663
2026	55,748
2027	31,177
Thereafter	82,559
Total	\$ 326,670

Note 8. Other Assets

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

	October 31, 2022	January 31, 2022
Non-marketable equity and other investments	\$ 268,543	\$ 256,759
Derivative assets	71,482	16,618
Technology patents and other intangible assets, net	20,921	22,792
Prepayments for goods and services	18,767	25,927
Net deferred tax assets	9,441	11,642
Deposits	5,345	6,701
Other	11,438	813
Total other assets	<u>\$ 405,937</u>	<u>\$ 341,252</u>

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

Fiscal Period:	
Remainder of 2023	\$ 853
2024	3,172
2025	2,689
2026	2,434
2027	2,150
Thereafter	9,623
Total	<u>\$ 20,921</u>

Note 9. Derivative Instruments

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

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

Cash Flow Hedges

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

Cash flow hedges are recorded on the Condensed Consolidated Balance Sheets at fair value. Cash flows from 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 are subsequently reclassified to the same line item as the hedged transaction on the Condensed Consolidated Statements of Operations in the same period that the hedged transaction affects earnings. As of October 31, 2022, we estimate that \$39 million of net gains recorded in AOCI related to our cash flow hedges will be reclassified into income within the next 12 months.

As of October 31, 2022, and January 31, 2022, the notional values of the cash flow hedges that we held to buy U.S. dollars in exchange for other currencies were \$1.6 billion and \$1.4 billion, respectively. The notional values of the cash flow hedges that we held to sell U.S. dollars in exchange for other currencies were \$365 million and \$355 million as of October 31, 2022, and January 31, 2022, respectively. All contracts had maturities of less than 48 months.

Non-Designated Hedges

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

As of October 31, 2022, and January 31, 2022, the notional values of the non-designated hedges that we held to buy U.S. dollars in exchange for other currencies were \$127 million and \$217 million, respectively, and the notional values of the non-designated hedges that we held to sell U.S. dollars in exchange for other currencies were \$34 million and \$8 million, respectively.

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

	Condensed Consolidated Balance Sheets Location	October 31, 2022	January 31, 2022
Derivative assets:			
Cash flow hedges	Prepaid expenses and other current assets	\$ 86,853	\$ 21,337
Cash flow hedges	Other assets	71,480	16,618
Non-designated hedges	Prepaid expenses and other current assets	957	1,076
Non-designated hedges	Other assets	2	—
Total derivative assets		<u>\$ 159,292</u>	<u>\$ 39,031</u>
Derivative liabilities:			
Cash flow hedges	Accrued expenses and other current liabilities	\$ 31,331	\$ 7,512
Cash flow hedges	Other liabilities	1,500	5,175
Non-designated hedges	Accrued expenses and other current liabilities	3,655	336
Non-designated hedges	Other liabilities	—	16
Total derivative liabilities		<u>\$ 36,486</u>	<u>\$ 13,039</u>

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

Three Months Ended October 31,						
	2022			2021		
	Revenues	Costs and Expenses	Income Tax	Revenues	Costs and Expenses	Income Tax
Total	\$ 1,599,103	\$ 1,625,424	\$ 52,563	\$ 1,327,263	\$ 1,303,318	\$ 2,090
Gains (losses) related to cash flow hedges	5,647	(11,852)	(3,220)	(3,847)	—	—

Nine Months Ended October 31,						
	2022			2021		
	Revenues	Costs and Expenses	Income Tax	Revenues	Costs and Expenses	Income Tax
Total	\$ 4,569,558	\$ 4,702,800	\$ 59,021	\$ 3,762,657	\$ 3,778,145	\$ (2,623)
Gains (losses) related to cash flow hedges	5,985	(18,636)	(3,220)	(4,996)	—	—

Gains (losses) associated with cash flow hedges were as follows (in thousands):

	Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) Locations	Three Months Ended October 31,		Nine Months Ended October 31,	
		2022	2021	2022	2021
Gains (losses) recognized in OCI	Net change in unrealized gains (losses) on cash flow hedges	\$ 48,058	\$ 21,542	\$ 110,052	\$ 33,320
Gains (losses) reclassified from AOCI into income (effective portion)	Revenues	5,647	(3,847)	5,985	(4,996)
Gains (losses) reclassified from AOCI into income (effective portion)	Costs and expenses	(11,852)	—	(18,636)	—
Gains (losses) reclassified from AOCI into income (effective portion)	Income Tax	(3,220)	—	(3,220)	—

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

	Condensed Consolidated Statements of Operations Location	Three Months Ended October 31,		Nine Months Ended October 31,	
		2022	2021	2022	2021
Gains (losses) related to non-designated hedges	Other income (expense), net	\$ 7,187	\$ 605	\$ 13,288	\$ 2,424

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

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

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented on the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset on the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Assets Exposed
Derivative assets:						
Counterparty A	\$ 30,677	\$ —	\$ 30,677	\$ (879)	\$ —	\$ 29,798
Counterparty B	33,589	—	33,589	(19,020)	—	14,569
Counterparty C	14,153	—	14,153	(7,956)	—	6,197
Counterparty D	72,310	—	72,310	(8,143)	—	64,167
Counterparty E	8,563	—	8,563	(488)	—	8,075
Total	\$ 159,292	\$ —	\$ 159,292	\$ (36,486)	\$ —	\$ 122,806

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented on the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset on the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Liabilities Exposed
Derivative liabilities:						
Counterparty A	\$ 879	\$ —	\$ 879	\$ (879)	\$ —	\$ —
Counterparty B	19,020	—	19,020	(19,020)	—	—
Counterparty C	7,956	—	7,956	(7,956)	—	—
Counterparty D	8,143	—	8,143	(8,143)	—	—
Counterparty E	488	—	488	(488)	—	—
Total	\$ 36,486	\$ —	\$ 36,486	\$ (36,486)	\$ —	\$ —

Note 10. Debt

Outstanding debt consisted of the following (in thousands):

	October 31, 2022	January 31, 2022
2027 Notes	\$ 1,000,000	\$ —
2029 Notes	750,000	—
2032 Notes	1,250,000	—
2022 Notes	—	1,149,817
Term loan under the 2020 Credit Agreement	—	693,750
Total principal amount	3,000,000	1,843,567
Less: unamortized debt discount and issuance costs	(25,021)	(3,770)
Net carrying amount	2,974,979	1,839,797
Less: debt, current	—	(1,222,443)
Debt, noncurrent	\$ 2,974,979	\$ 617,354

As of October 31, 2022, the future principal payments for the outstanding debt were as follows (in thousands):

Fiscal Period:	
Remainder of 2023	\$ —
2024	—
2025	—
2026	—
2027	—
Thereafter	3,000,000
Total principal amount	\$ 3,000,000

Senior Notes

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

The Senior Notes are unsecured obligations and rank equally with all existing and future unsecured and unsubordinated indebtedness of Workday. We may redeem the Senior Notes in whole or in part at any time or from time to time, at specified redemption dates and prices. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Senior Notes under specified terms. The indenture governing the Senior Notes also includes covenants (including certain limited covenants restricting our ability to incur certain liens and enter into certain sale and leaseback transactions), events of default, and other customary provisions. As of October 31, 2022, we were in compliance with all covenants associated with the Senior Notes.

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

As of October 31, 2022, the total estimated fair value of the Senior Notes was \$2.7 billion. The estimated fair values of the Senior Notes, which we have classified as Level 2 financial instruments, were determined based on quoted bid prices in an over-the-counter market on the last trading day of the reporting period.

Credit Agreement

In April 2022, we entered into a credit agreement (“2022 Credit Agreement”) which provides for a revolving credit facility in an aggregate principal amount of \$1.0 billion. The 2022 Credit Agreement replaced our prior credit agreement entered into in April 2020 (“2020 Credit Agreement”) which provided for a term loan facility in an aggregate original principal amount of \$750 million and a revolving credit facility in an aggregate principal amount of \$750 million. Concurrently with entering into the 2022 Credit Agreement, we paid off the remaining principal balance of \$694 million on the term loan under the 2020 Credit Agreement and terminated the revolving credit facility under the 2020 Credit Agreement which had no outstanding balance. The modification to our revolving credit facility and extinguishment of the term loan under the 2020 Credit Agreement did not have a material impact to our Condensed Consolidated Statements of Operations for the nine months ended October 31, 2022.

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

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

Convertible Senior Notes

In September 2017, we issued 0.25% convertible senior notes due October 1, 2022, with a principal amount of \$1.15 billion (“2022 Notes”). The 2022 Notes were unsecured, unsubordinated obligations, and interest was payable in cash in arrears at a fixed rate of 0.25% on April 1 and October 1 of each year. During the three months ended October 31, 2022, the 2022 Notes were converted by note holders, and we repaid the \$1.15 billion principal balance in cash. We also distributed approximately 0.6 million shares of our Class A common stock to note holders during the three months ended October 31, 2022, which represents the conversion value in excess of the principal amount.

Notes Hedges

In connection with the issuance of the 2022 Notes, we entered into convertible note hedge transactions (“Purchased Options”) which gave us the option to purchase, subject to anti-dilution adjustments substantially identical to those in the 2022 Notes, approximately 7.8 million shares of our Class A common stock for \$147.10 per share. During the three months ended October 31, 2022, we received approximately 0.6 million shares of our Class A common stock from the exercise of the Purchased Options, which offset economic dilution to our Class A common stock upon conversion of the 2022 Notes. These shares are held as treasury stock as of October 31, 2022. The Purchased Options were separate transactions and were not part of the terms of the 2022 Notes, and expired on October 1, 2022.

Warrants

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

Interest Expense on Debt

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Contractual interest expense	\$ 28,036	\$ 3,140	\$ 67,702	\$ 9,462
Interest cost related to amortization and write-off of debt discount and issuance costs	1,557	997	6,000	2,991
Total interest expense	<u>\$ 29,593</u>	<u>\$ 4,137</u>	<u>\$ 73,702</u>	<u>\$ 12,453</u>

Note 11. Leases

We have entered into operating lease agreements for our office space, data centers, and other property and equipment. Operating lease right-of-use assets were \$268 million and \$248 million as of October 31, 2022, and January 31, 2022, respectively, and operating lease liabilities were \$286 million and \$263 million as of October 31, 2022, and January 31, 2022, respectively. We have also entered into finance lease agreements for other property and equipment. As of October 31, 2022, and January 31, 2022, finance leases were not material.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Operating lease cost	\$ 25,404	\$ 22,988	\$ 73,821	\$ 70,004
Short-term lease cost	854	1,204	3,001	5,419
Variable lease cost	12,787	8,756	32,970	18,519
Total operating lease cost	<u>\$ 39,045</u>	<u>\$ 32,948</u>	<u>\$ 109,792</u>	<u>\$ 93,942</u>

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Cash paid for operating lease liabilities	\$ 23,190	\$ 21,802	\$ 68,386	\$ 68,375
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	6,611	15,646	93,091	54,335

Other information related to our operating leases was as follows:

	October 31, 2022	January 31, 2022
Weighted average remaining lease term (in years)	5	5
Weighted average discount rate	2.74 %	2.35 %

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

Fiscal Period:	
Remainder of 2023	\$ 26,000
2024	93,305
2025	76,088
2026	47,332
2027	26,790
Thereafter	45,548
Total lease payments	315,063
Less imputed interest	(28,748)
Total operating lease liabilities	<u>\$ 286,315</u>

As of October 31, 2022, we have additional operating leases for data centers that had not yet commenced with total undiscounted lease payments of \$52 million. These operating leases will commence in fiscal 2023 and fiscal 2024, with lease terms ranging from five to six years.

Note 12. Commitments and Contingencies

Purchase Obligations

Our purchase obligations are primarily related to agreements for third-party hosted infrastructure platforms, data center equipment and software, business technology software and support, and sales and marketing activities. During the nine months ended October 31, 2022, there were no material changes outside the ordinary course of business to our non-cancelable purchase obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022.

Legal Matters

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

Note 13. Stockholders' Equity

Common Stock

As of October 31, 2022, there were 202 million shares of Class A common stock, net of treasury stock, and 55 million shares of Class B common stock outstanding. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to 10 votes per share. Each share of Class B common stock can be converted into a share of Class A common stock at any time at the option of the holder.

Employee Equity Plans

On June 22, 2022, our stockholders approved the 2022 Equity Incentive Plan ("2022 Plan"), with a reserve of 30 million shares for issuance. The 2022 Plan serves as the successor to our 2012 Equity Incentive Plan ("2012 Plan" and, together with the 2022 Plan, "Stock Plans"). Awards that are granted on or after the effective date of the 2022 Plan will be granted pursuant to and subject to the terms and provisions of the 2022 Plan. Prior awards granted under the 2012 Plan continue to be subject to the terms and provisions of the 2012 Plan. As of October 31, 2022, we had 29 million shares of Class A common stock available for future grants.

On June 22, 2022, our stockholders approved the Amended and Restated 2012 Employee Stock Purchase Plan ("ESPP"). Under the ESPP, eligible employees are granted options to purchase shares at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. Options to purchase shares are granted twice yearly on or about June 1 and December 1, and are exercisable on or about the succeeding November 30 and May 31, respectively. Pursuant to the terms of the ESPP, the share reserve increased by 2 million shares on March 31, 2022. As of October 31, 2022, 5 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 nine months ended October 31, 2022, is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value
Balance as of January 31, 2022	11,808	\$ 209.12
RSUs granted	8,198	205.45
RSUs vested	(4,298)	202.82
RSUs forfeited	(1,071)	205.52
Balance as of October 31, 2022	14,637	209.18

As of October 31, 2022, there was a total of \$2.3 billion in unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs, which is expected to be recognized over a weighted-average period of approximately three years.

Performance-Based Restricted Stock Units

During fiscal 2022, 0.4 million shares of performance-based restricted stock units (“PRSUs”) were granted to employees below the level of vice president that included both service conditions and performance conditions related to company-wide goals. These performance conditions were met and the PRSUs vested on March 15, 2022. During the nine months ended October 31, 2022, we recognized \$16 million in compensation cost related to these PRSUs. We did not grant any company-wide PRSUs in fiscal 2023.

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 nine months ended October 31, 2022, is as follows (in millions, except number of shares which are reflected in thousands and per share data):

	Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance as of January 31, 2022	387	\$ 20.09	\$ 90
Stock options exercised	(212)	13.46	
Stock options canceled	(45)	16.20	
Balance as of October 31, 2022	130	32.20	16
Vested and expected to vest as of October 31, 2022	130	32.20	16
Exercisable as of October 31, 2022	130	32.16	16

As of October 31, 2022, unrecognized compensation cost related to unvested stock options was not material.

Note 14. Unearned Revenue and Performance Obligations

Subscription services revenues of \$1.2 billion and \$1.0 billion were recognized during the three months ended October 31, 2022, and 2021, respectively, that were included in the unearned revenue balances as of July 31, 2022, and 2021, respectively. Subscription services revenues of \$2.7 billion and \$2.2 billion were recognized during the nine months ended October 31, 2022, and 2021, respectively, that were included in the unearned revenue balances as of January 31, 2022, and 2021, respectively. Professional services revenues recognized in the same periods from unearned revenue balances at the beginning of the respective periods were not material.

Transaction Price Allocated to the Remaining Performance Obligations

As of October 31, 2022, approximately \$14.1 billion of revenues are expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize revenues on approximately \$8.6 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 October 31, 2022, were not material.

Note 15. Other Income (Expense), Net

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Interest income	\$ 31,252	\$ 1,195	\$ 50,473	\$ 4,531
Interest expense ⁽¹⁾	(29,626)	(4,160)	(73,804)	(12,527)
Other ⁽²⁾	2,537	24,522	(25,458)	123,487
Total other income (expense), net	\$ 4,163	\$ 21,557	\$ (48,789)	\$ 115,491

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

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

Note 16. Income Taxes

We reported an income tax provision of \$59 million and an income tax benefit of \$3 million for the nine months ended October 31, 2022, and 2021, respectively. The income tax provision for the nine months ended October 31, 2022, was primarily attributable to a taxable gain recognized from integrating intellectual property, income tax expenses in profitable foreign jurisdictions, and an increase in state taxes due to capitalized research and development expenditures. The income tax benefit for the nine months ended October 31, 2021, was primarily attributable to excess tax benefit from stock option deductions in foreign jurisdictions, reversal of previously accrued tax liabilities upon favorable tax audit results, and amortization of intangibles from business combinations.

The 2017 Tax Cuts and Jobs Act requires research and development expenditures incurred for the tax year beginning after December 31, 2021, to be capitalized and amortized ratably over five years for domestic research and fifteen years for international research. The mandatory capitalization requirement has no material impact to our fiscal 2023 income tax provision due to our tax attributes carryover and full valuation allowance position.

On August 16, 2022, the U.S. enacted the Inflation Reduction Act ("IRA") of 2022, which, among other things, implemented a 15% minimum tax on book income of certain large corporations, a 1% excise tax on net stock repurchases, and several tax incentives to promote clean energy. We evaluated the provisions of the IRA and do not expect any material impact to our fiscal 2023 income tax provision.

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 October 31, 2022, we continue to maintain a full valuation allowance on our deferred tax assets in certain jurisdictions.

Note 17. Net Income (Loss) Per Share

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

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

Basic and diluted net loss per share was the same for the three and nine months ended October 31, 2022, as the inclusion of all potential common shares outstanding would have been anti-dilutive.

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

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2022		2021		2022		2021	
	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)	\$ (58,648)	\$ (16,073)	\$ 33,417	\$ 9,995	\$ (188,757)	\$ (52,295)	\$ 78,546	\$ 24,080
Denominator:								
Weighted-average shares outstanding, basic	200,740	55,013	191,259	57,209	198,876	55,099	188,546	57,802
Net income (loss) per share, basic	<u>\$ (0.29)</u>	<u>\$ (0.29)</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>	<u>\$ (0.95)</u>	<u>\$ (0.95)</u>	<u>\$ 0.42</u>	<u>\$ 0.42</u>
Net income (loss) per share, diluted:								
Numerator:								
Net income (loss)	\$ (58,648)	\$ (16,073)	\$ 33,417	\$ 9,995	\$ (188,757)	\$ (52,295)	\$ 78,546	\$ 24,080
Reallocation of net income as a result of conversion of Class B to Class A common stock	—	—	9,995	—	—	—	24,080	—
Reallocation of net income to Class B common stock	—	—	—	(247)	—	—	—	(718)
Net income (loss) for diluted calculation	(58,648)	(16,073)	43,412	9,748	(188,757)	(52,295)	102,626	23,362
Denominator:								
Weighted-average shares outstanding, basic	200,740	55,013	191,259	57,209	198,876	55,099	188,546	57,802
Conversion of Class B to Class A common stock	—	—	57,209	—	—	—	57,802	—
Dilutive effect of share-based awards	—	—	4,933	—	—	—	6,456	—
Dilutive effect of warrants related to the issuance of convertible senior notes	—	—	1,359	—	—	—	1,113	—
Weighted-average shares outstanding, diluted	200,740	55,013	254,760	57,209	198,876	55,099	253,917	57,802
Net income (loss) per share, diluted	<u>\$ (0.29)</u>	<u>\$ (0.29)</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>	<u>\$ (0.95)</u>	<u>\$ (0.95)</u>	<u>\$ 0.40</u>	<u>\$ 0.40</u>

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Shares related to outstanding share-based awards	16,105	151	15,453	1,801
Shares related to the convertible senior notes	5,182	7,817	6,928	7,817
Shares subject to warrants related to the issuance of convertible senior notes	7,818	—	7,818	—
Total	<u>29,105</u>	<u>7,968</u>	<u>30,199</u>	<u>9,618</u>

Note 18. Geographic Information

Revenues

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
United States	\$ 1,204,842	\$ 991,747	\$ 3,432,249	\$ 2,817,749
Other countries	394,261	335,516	1,137,309	944,908
Total revenues	<u>\$ 1,599,103</u>	<u>\$ 1,327,263</u>	<u>\$ 4,569,558</u>	<u>\$ 3,762,657</u>

Long-Lived Assets

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

	October 31, 2022	January 31, 2022
United States	\$ 1,243,176	\$ 1,174,371
Ireland	158,975	117,049
Other countries	85,086	79,463
Total long-lived assets	<u>\$ 1,487,237</u>	<u>\$ 1,370,883</u>

Note 19. Subsequent Events

Share Repurchase Program

In November 2022, our Board of Directors authorized the repurchase of up to \$500 million of our outstanding shares of Class A common stock (the “Share Repurchase Program”). We may repurchase shares of Class A common stock from time to time through open market purchases, in privately negotiated transactions or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, in accordance with applicable securities laws and other restrictions. The timing and total amount of stock repurchases will depend upon business, economic and market conditions, corporate and regulatory requirements, prevailing stock prices, and other considerations. The Share Repurchase Program will have a term of 18 months, may be suspended or discontinued at any time, and does not obligate us to acquire any amount of Class A common stock.

RSU Vesting Date Modification

In November 2022, we modified the vesting date of all unvested RSU awards from the 15th to the 5th of each month. The change will impact awards vesting after December 31, 2022, and will result in an acceleration of share-based compensation expense of approximately \$30 million in the fourth quarter of fiscal 2023.

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 recent macroeconomic events, inflation, and the coronavirus (“COVID-19”) pandemic, as well as those described in the “Risk Factors” section, which we encourage you to read carefully. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make.

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

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

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

Overview

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

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

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

We regularly evaluate acquisition and investment opportunities in complementary businesses, employee teams, services, technologies, and intellectual property rights in an effort to expand our product and service offerings. For example, in fiscal 2022, we acquired Peakon ApS, a continuous listening platform that captures real-time employee sentiment, Zimit, a configure, price, quote solution built for services industries, and VNDLY, a cloud-based external workforce and vendor management technology. We expect to continue making such acquisitions and investments in the future. While we remain focused on improving operating margin, these acquisitions and investments will increase our costs on an absolute basis in the near term. Many of these investments will occur in advance of experiencing any direct benefit from them and could make it difficult to determine if we are allocating our resources efficiently.

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

Impact of Current Economic Conditions and the COVID-19 Pandemic

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption of financial markets. Additionally, other recent macroeconomic events including rising inflation, the U.S. Federal Reserve raising interest rates, and the Russian invasion of Ukraine have led to further economic uncertainty and volatility.

Despite the continuing uncertainty associated with these events, we are confident in the long-term overall health of our business, the strength of our product offerings, and our ability to continue to execute on our strategy and help our customers on their human resources and finance digital transformation journeys. Demand for our products remains strong, and we continue to achieve solid new subscription bookings.

At the beginning of 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 customer, industry, implementation partner, analyst, investor, and employee events and converted others to virtual-only experiences. During fiscal 2023, we have welcomed back our employees to our offices and resumed travel and in-person events in accordance with applicable regional guidance. We continue to prioritize employee and community health and safety.

Our near-term revenues are relatively predictable as a result of our subscription-based business model. Recently, we have started to experience, and may continue to experience, the lengthening of certain sales cycles, particularly within net new opportunities. If the economic uncertainty continues, we may also experience a negative impact on customer renewals, sales and marketing efforts, revenue growth rates, customer deployments, customer collections, product development, or other financial metrics. Any of these factors could harm our business, financial condition, and operating results. For further discussion of the potential impacts of the COVID-19 pandemic and recent macroeconomic events on our business, financial condition, and operating results, see “Risk Factors” included in Part II, Item 1A of this report.

Financial Results Overview

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

	Three Months Ended October 31,			Nine Months Ended October 31,		
	2022	2021	Change	2022	2021	Change
Total revenues	\$ 1,599,103	\$ 1,327,263	20 %	\$ 4,569,558	\$ 3,762,657	21 %
Subscription services revenues	\$ 1,432,393	\$ 1,171,517	22 %	\$ 4,071,804	\$ 3,317,140	23 %
GAAP operating income (loss)	\$ (26,321)	\$ 23,945	(210) %	\$ (133,242)	\$ (15,488)	760 %
Non-GAAP operating income ⁽¹⁾	\$ 314,234	\$ 332,249	(5) %	\$ 904,344	\$ 912,566	(1) %
GAAP operating margin	(1.6)%	1.8 %	(340 bps)	(2.9)%	(0.4)%	(250 bps)
Non-GAAP operating margin ⁽¹⁾	19.7 %	25.0 %	(530 bps)	19.8 %	24.3 %	(450 bps)
Operating cash flows	\$ 408,668	\$ 384,654	6 %	\$ 962,743	\$ 1,035,555	(7) %
	As of October 31,					
	2022	2021	% Change			
Total subscription revenue backlog	\$ 14,095,906	\$ 10,973,331	28 %			
24-month subscription revenue backlog	\$ 8,622,191	\$ 7,118,050	21 %			
Cash, cash equivalents, and marketable securities	\$ 5,492,085	\$ 3,554,981	54 %			
Headcount	17,522	14,210	23 %			

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

Components of Results of Operations

Revenues

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

Subscription services revenues accounted for approximately 90% of our total revenues for the three and nine months ended October 31, 2022, and represented 96% of our total unearned revenue as of October 31, 2022. Subscription services revenues are driven primarily by the number of customers, the number of workers at each customer, the specific applications subscribed to by each customer, and the price of our applications.

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

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

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

Subscription Revenue Backlog

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

Costs and Expenses

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

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

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

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

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

Results of Operations

Revenues

Our total revenues for the three and nine months ended October 31, 2022, and 2021, were as follows (in thousands, except percentages):

	Three Months Ended October 31,		% Change		Nine Months Ended October 31,		% Change	
	2022	2021			2022	2021		
Subscription services	\$ 1,432,393	\$ 1,171,517	22 %		\$ 4,071,804	\$ 3,317,140	23 %	
Professional services	166,710	155,746	7 %		497,754	445,517	12 %	
Total revenues	<u>\$ 1,599,103</u>	<u>\$ 1,327,263</u>	20 %		<u>\$ 4,569,558</u>	<u>\$ 3,762,657</u>	21 %	

Total revenues were \$1.6 billion for the three months ended October 31, 2022, compared to \$1.3 billion for the prior year period, an increase of \$272 million, or 20%. Subscription services revenues were \$1.4 billion for the three months ended October 31, 2022, compared to \$1.2 billion for the prior year period, an increase of \$261 million, or 22%. The increase in subscription services revenues was primarily due to an increased number of customer contracts and strong customer renewals, with gross revenue retention over 95%. Professional services revenues were \$167 million for the three months ended October 31, 2022, compared to \$156 million for the prior year period, an increase of \$11 million, or 7%. The increase in professional services revenues was primarily due to Workday performing deployment and integration services for a greater number of customers.

Total revenues were \$4.6 billion for the nine months ended October 31, 2022, compared to \$3.8 billion for the prior year period, an increase of \$807 million, or 21%. Subscription services revenues were \$4.1 billion for the nine months ended October 31, 2022, compared to \$3.3 billion for the prior year period, an increase of \$755 million, or 23%. The increase in subscription services revenues was primarily due to an increased number of customer contracts and strong customer renewals, with gross revenue retention over 95%. Professional services revenues were \$498 million for the nine months ended October 31, 2022, compared to \$446 million for the prior year period, an increase of \$52 million, or 12%. The increase in professional services revenues was primarily due to Workday performing deployment and integration services for a greater number of customers.

Subscription Revenue Backlog

Our total subscription revenue backlog as of October 31, 2022, was \$14.1 billion, with \$8.6 billion expected to be recognized in revenues over the next 24 months. As of October 31, 2021, our total subscription revenue backlog was \$11.0 billion, with \$7.1 billion expected to be recognized in revenues over the next 24 months. The increase in subscription revenue backlog was primarily driven by the addition of new customers, expansion of our product offerings with existing customers, and the timing of renewals.

Operating Expenses

GAAP operating expenses were \$1.6 billion for the three months ended October 31, 2022, compared to \$1.3 billion for the prior year period, an increase of \$322 million, or 25%. The increase in GAAP operating expenses included \$228 million in employee-related expenses, including share-based compensation, primarily due to higher headcount, \$34 million in facilities and IT-related expenses, \$20 million in third-party expenses for hardware maintenance and data center capacity, \$9 million in travel expenses, and \$8 million related to marketing programs. Included in employee-related expenses is a performance-based cash bonus program that we introduced in the fourth quarter of fiscal 2022 for all employees not covered under an existing incentive plan ("performance-based cash bonus program"). This program replaced our equity-based PRSU bonus program, resulting in a net increase to GAAP operating expenses of \$7 million.

GAAP operating expenses were \$4.7 billion for the nine months ended October 31, 2022, compared to \$3.8 billion for the prior year period, an increase of \$925 million, or 24%. The increase in GAAP operating expenses included \$654 million in employee-related expenses, including share-based compensation, primarily due to higher headcount, \$78 million in facilities and IT-related expenses, \$52 million in third-party expenses for hardware maintenance and data center capacity, \$43 million in travel expenses, and \$39 million related to marketing programs. Included in employee-related expenses is the performance-based cash bonus program which replaced our equity-based PRSU bonus program, resulting in a net increase to GAAP operating expenses of \$48 million.

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

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

Non-GAAP operating expenses were \$1.3 billion for the three months ended October 31, 2022, compared to \$995 million for the prior year period, an increase of \$290 million, or 29%. The increase in non-GAAP operating expenses included \$197 million in employee-related expenses due to higher headcount and expense related to the performance-based cash bonus program of \$31 million. Additionally, there were increases of \$34 million in facilities and IT-related expenses, \$20 million in third-party expenses for hardware maintenance and data center capacity, \$9 million in travel expenses, and \$8 million related to marketing programs.

Non-GAAP operating expenses were \$3.7 billion for the nine months ended October 31, 2022, compared to \$2.9 billion for the prior year period, an increase of \$815 million, or 29%. The increase in non-GAAP operating expenses included \$552 million in employee-related expenses due to higher headcount and expense related to the performance-based cash bonus program of \$100 million. Additionally, there were increases of \$78 million in facilities and IT-related expenses, \$52 million in third-party expenses for hardware maintenance and data center capacity, \$43 million in travel expenses, and \$39 million related to marketing programs.

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

Three Months Ended October 31, 2022				
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Non-GAAP Operating Expenses
Costs of subscription services	\$ 259,397	\$ (25,598)	\$ (14,100)	\$ 219,699
Costs of professional services	176,396	(26,577)	(623)	149,196
Product development	565,727	(149,279)	(1,899)	414,549
Sales and marketing	470,196	(61,186)	(9,206)	399,804
General and administrative	153,708	(51,556)	(531)	101,621
Total costs and expenses	<u>\$ 1,625,424</u>	<u>\$ (314,196)</u>	<u>\$ (26,359)</u>	<u>\$ 1,284,869</u>
Three Months Ended October 31, 2021				
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Non-GAAP Operating Expenses
Costs of subscription services	\$ 200,700	\$ (21,340)	\$ (12,859)	\$ 166,501
Costs of professional services	159,024	(29,105)	(1,043)	128,876
Product development	455,615	(135,591)	(2,870)	317,154
Sales and marketing	366,323	(55,645)	(9,642)	301,036
General and administrative	121,656	(39,437)	(772)	81,447
Total costs and expenses	<u>\$ 1,303,318</u>	<u>\$ (281,118)</u>	<u>\$ (27,186)</u>	<u>\$ 995,014</u>
Nine Months Ended October 31, 2022				
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Non-GAAP Operating Expenses
Costs of subscription services	\$ 737,301	\$ (76,918)	\$ (45,022)	\$ 615,361
Costs of professional services	524,398	(79,999)	(5,297)	439,102
Product development	1,655,071	(449,764)	(17,146)	1,188,161
Sales and marketing	1,358,198	(180,233)	(32,640)	1,145,325
General and administrative	427,832	(146,795)	(3,772)	277,265
Total costs and expenses	<u>\$ 4,702,800</u>	<u>\$ (933,709)</u>	<u>\$ (103,877)</u>	<u>\$ 3,665,214</u>
Nine Months Ended October 31, 2021				
	GAAP Operating Expenses	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Non-GAAP Operating Expenses
Costs of subscription services	\$ 575,646	\$ (62,478)	\$ (40,195)	\$ 472,973
Costs of professional services	462,652	(83,331)	(9,211)	370,110
Product development	1,341,482	(395,345)	(25,573)	920,564
Sales and marketing	1,050,974	(158,121)	(36,512)	856,341
General and administrative	347,391	(111,197)	(6,091)	230,103
Total costs and expenses	<u>\$ 3,778,145</u>	<u>\$ (810,472)</u>	<u>\$ (117,582)</u>	<u>\$ 2,850,091</u>

(1) Other operating expenses include amortization of acquisition-related intangible assets of \$21 million and \$20 million for the three months ended October 31, 2022, and 2021, respectively, and \$64 million and \$57 million for the nine months ended October 31, 2022, and 2021, respectively. In addition, other operating expenses include employer payroll tax-related items on employee stock transactions of \$5 million and \$7 million for the three months ended October 31, 2022, and 2021, respectively, and \$40 million and \$60 million for the nine months ended October 31, 2022, and 2021, respectively.

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

Costs of Subscription Services

GAAP operating expenses in costs of subscription services were \$259 million for the three months ended October 31, 2022, compared to \$201 million for the prior year period, an increase of \$59 million, or 29%. The increase in costs of subscription services included increases of \$26 million in employee-related expenses, including share-based compensation, primarily due to higher headcount, \$15 million in third-party expenses for hardware maintenance and data center capacity, \$7 million in facilities and IT-related expenses, and \$2 million in depreciation expense related to equipment in our data centers.

GAAP operating expenses in costs of subscription services were \$737 million for the nine months ended October 31, 2022, compared to \$576 million for the prior year period, an increase of \$162 million, or 28%. The increase in costs of subscription services included increases of \$77 million in employee-related expenses, including share-based compensation, primarily due to higher headcount, \$38 million in third-party expenses for hardware maintenance and data center capacity, \$20 million in facilities and IT-related expenses, and \$10 million in depreciation expense related to equipment in our data centers.

Non-GAAP operating expenses in costs of subscription services were \$220 million for the three months ended October 31, 2022, compared to \$167 million for the prior year period, an increase of \$53 million, or 32%. The increase in costs of subscription services included increases of \$22 million in employee-related expenses primarily due to higher headcount, \$15 million in third-party expenses for hardware maintenance and data center capacity, \$7 million in facilities and IT-related expenses, and \$2 million in depreciation expense related to equipment in our data centers.

Non-GAAP operating expenses in costs of subscription services were \$615 million for the nine months ended October 31, 2022, compared to \$473 million for the prior year period, an increase of \$142 million, or 30%. The increase in costs of subscription services included increases of \$64 million in employee-related expenses primarily due to higher headcount, \$38 million in third-party expenses for hardware maintenance and data center capacity, \$20 million in facilities and IT-related expenses, and \$10 million in depreciation expense related to equipment in our data centers.

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

Costs of Professional Services

GAAP operating expenses in costs of professional services were \$176 million for the three months ended October 31, 2022, compared to \$159 million for the prior year period, an increase of \$17 million, or 11%. The increase in costs of professional services was primarily due to an increase of \$12 million in employee-related expenses, including share-based compensation, primarily due to higher headcount.

GAAP operating expenses in costs of professional services were \$524 million for the nine months ended October 31, 2022, compared to \$463 million for the prior year period, an increase of \$62 million, or 13%. The increase in costs of professional services included increases of \$39 million in employee-related expenses, including share-based compensation, primarily due to higher headcount, \$9 million in professional services and subcontractor expenses, and \$7 million in travel expenses.

Non-GAAP operating expenses in costs of professional services were \$149 million for the three months ended October 31, 2022, compared to \$129 million for the prior year period, an increase of \$20 million, or 16%. The increase in costs of professional services was primarily due to an increase of \$15 million in employee-related expenses primarily due to higher headcount.

Non-GAAP operating expenses in costs of professional services were \$439 million for the nine months ended October 31, 2022, compared to \$370 million for the prior year period, an increase of \$69 million, or 19%. The increase in costs of professional services included increases of \$46 million in employee-related expenses primarily due to higher headcount, \$9 million in professional services and subcontractor expenses, and \$7 million in travel 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

GAAP operating expenses in product development were \$566 million for the three months ended October 31, 2022, compared to \$456 million for the prior year period, an increase of \$110 million, or 24%. The increase in product development expenses included increases of \$91 million in employee-related expenses, including share-based compensation, primarily due to higher headcount and \$13 million in facilities and IT-related expenses.

GAAP operating expenses in product development were \$1.7 billion for the nine months ended October 31, 2022, compared to \$1.3 billion for the prior year period, an increase of \$314 million, or 23%. The increase in product development expenses included increases of \$272 million in employee-related expenses, including share-based compensation, primarily due to higher headcount and \$27 million in facilities and IT-related expenses.

Non-GAAP operating expenses in product development were \$415 million for the three months ended October 31, 2022, compared to \$317 million for the prior year period, an increase of \$97 million, or 31%. The increase in product development expenses included increases of \$78 million in employee-related expenses primarily due to higher headcount and \$13 million in facilities and IT-related expenses.

Non-GAAP operating expenses in product development were \$1.2 billion for the nine months ended October 31, 2022, compared to \$921 million for the prior year period, an increase of \$268 million, or 29%. The increase in product development expenses included increases of \$226 million in employee-related expenses primarily due to higher headcount and \$27 million in facilities and IT-related expenses.

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

Sales and Marketing

GAAP operating expenses in sales and marketing were \$470 million for the three months ended October 31, 2022, compared to \$366 million for the prior year period, an increase of \$104 million, or 28%. The increase in sales and marketing expenses included increases of \$74 million in employee-related expenses, including share-based compensation, primarily due to higher headcount, \$9 million in facilities and IT-related expenses, \$7 million in travel expenses, and \$6 million related to marketing programs.

GAAP operating expenses in sales and marketing were \$1.4 billion for the nine months ended October 31, 2022, compared to \$1.1 billion for the prior year period, an increase of \$307 million, or 29%. The increase in sales and marketing expenses included increases of \$204 million in employee-related expenses, including share-based compensation, primarily due to higher headcount, \$36 million related to marketing programs, \$25 million in travel expenses, and \$21 million in facilities and IT-related expenses.

Non-GAAP operating expenses in sales and marketing were \$400 million for the three months ended October 31, 2022, compared to \$301 million for the prior year period, an increase of \$99 million, or 33%. The increase in sales and marketing expenses included increases of \$69 million in employee-related expenses primarily due to higher headcount, \$9 million in facilities and IT-related expenses, \$7 million in travel expenses, and \$6 million related to marketing programs.

Non-GAAP operating expenses in sales and marketing were \$1.1 billion for the nine months ended October 31, 2022, compared to \$856 million for the prior year period, an increase of \$289 million, or 34%. The increase in sales and marketing expenses included increases of \$186 million in employee-related expenses primarily due to higher headcount, \$36 million related to marketing programs, \$25 million in travel expenses, and \$21 million in facilities and IT-related expenses.

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

General and Administrative

GAAP operating expenses in general and administrative were \$154 million for the three months ended October 31, 2022, compared to \$122 million for the prior year period, an increase of \$32 million, or 26%. The increase in general and administrative expenses included increases of \$24 million in employee-related expenses, including share-based compensation, primarily due to higher headcount and \$3 million in facilities and IT-related expenses.

GAAP operating expenses in general and administrative were \$428 million for the nine months ended October 31, 2022, compared to \$347 million for the prior year period, an increase of \$80 million, or 23%. The increase in general and administrative expenses included increases of \$63 million in employee-related expenses, including share-based compensation, primarily due to higher headcount and \$6 million in facilities and IT-related expenses.

Non-GAAP operating expenses in general and administrative were \$102 million for the three months ended October 31, 2022, compared to \$81 million for the prior year period, an increase of \$20 million, or 25%. The increase in general and administrative expenses included increases of \$13 million in employee-related expenses primarily due to higher headcount and \$3 million in facilities and IT-related expenses.

Non-GAAP operating expenses in general and administrative were \$277 million for the nine months ended October 31, 2022, compared to \$230 million for the prior year period, an increase of \$47 million, or 20%. The increase in general and administrative expenses included increases of \$29 million in employee-related expenses primarily due to higher headcount and \$6 million in facilities and IT-related expenses.

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

Operating Margin

GAAP operating margin declined from 1.8% for the three months ended October 31, 2021, to (1.6)% for the three months ended October 31, 2022, primarily related to increases in expenses due to higher headcount, the rollout of the performance-based cash bonus program, a return to travel and in-person events, and other growth investments made across the business, offset by higher revenues.

GAAP operating margin declined from (0.4)% for the nine months ended October 31, 2021, to (2.9)% for the nine months ended October 31, 2022, primarily related to increases in expenses due to higher headcount, the rollout of the performance-based cash bonus program, a return to travel and in-person events, and other growth investments made across the business, offset by higher revenues.

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

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

Non-GAAP operating margin declined from 25.0% for the three months ended October 31, 2021, to 19.7% for the three months ended October 31, 2022, primarily related to increases in expenses due to higher headcount, the rollout of the performance-based cash bonus program, a return to travel and in-person events, and other growth investments made across the business, offset by higher revenues.

Non-GAAP operating margin declined from 24.3% for the nine months ended October 31, 2021, to 19.8% for the nine months ended October 31, 2022, primarily related to increases in expenses due to higher headcount, the rollout of the performance-based cash bonus program, a return to travel and in-person events, and other growth investments made across the business, offset by higher revenues.

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

Three Months Ended October 31, 2022				
	GAAP	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP ⁽¹⁾
Operating income (loss)	\$ (26,321)	\$ 314,196	\$ 26,359	\$ 314,234
Operating margin	(1.6)%	19.6 %	1.7 %	19.7 %
Three Months Ended October 31, 2021				
	GAAP	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP ⁽¹⁾
Operating income (loss)	\$ 23,945	\$ 281,118	\$ 27,186	\$ 332,249
Operating margin	1.8 %	21.2 %	2.0 %	25.0 %
Nine Months Ended October 31, 2022				
	GAAP	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP ⁽¹⁾
Operating income (loss)	\$ (133,242)	\$ 933,709	\$ 103,877	\$ 904,344
Operating margin	(2.9)%	20.4 %	2.3 %	19.8 %
Nine Months Ended October 31, 2021				
	GAAP	Share-Based Compensation Expenses	Other Operating Expenses	Non-GAAP ⁽¹⁾
Operating income (loss)	\$ (15,488)	\$ 810,472	\$ 117,582	\$ 912,566
Operating margin	(0.4)%	21.5 %	3.2 %	24.3 %

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

Other Income (Expense), Net

Other income, net was \$4 million for the three months ended October 31, 2022, which was primarily due to interest income of \$31 million on our marketable debt securities from higher investment balances and rising interest rates, offset by interest expense of \$30 million on our debt primarily related to the Senior Notes entered into during the fiscal year.

Other income, net was \$22 million for the three months ended October 31, 2021, which was primarily due to gains of \$25 million on our equity investments, of which \$12 million related to a non-cash gain related to our acquisition of Zimit.

Other expense, net was \$49 million for the nine months ended October 31, 2022, which was primarily due to interest expense of \$74 million on our debt primarily related to the Senior Notes and losses of \$19 million on our equity investments. Expenses were offset by interest income of \$50 million on our marketable securities from higher investment balances and rising interest rates.

Other income, net was \$115 million for the nine months ended October 31, 2021, which was primarily due to gains of \$125 million on our equity investments, the majority of which related to an equity investment that completed its initial public offering (“IPO”), offset by interest expense of \$12 million on our debt.

Non-GAAP Financial Measures

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

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

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

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

Limitations on the Use of Non-GAAP Financial Measures

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

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

See “Results of Operations—Operating Expenses” and “Results of Operations—Operating Margin” for reconciliations from the most directly comparable GAAP financial measures, GAAP operating expenses, GAAP operating income (loss), and GAAP operating margin, to the non-GAAP financial measures, non-GAAP operating expenses, non-GAAP operating income (loss), and non-GAAP operating margin, for the three and nine months ended October 31, 2022, and 2021.

Liquidity and Capital Resources

As of October 31, 2022, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling \$5.5 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, corporate bonds, U.S. agency obligations, money market funds, and marketable equity investments. We have financed our operations primarily through customer payments, issuance of debt, and sales of our common stock.

We believe our existing cash, cash equivalents, marketable securities, cash provided by operating activities, unbilled amounts related to the remaining term of contracted noncancelable subscription agreements, which are not reflected on the Condensed Consolidated Balance Sheets, and, if necessary, our borrowing capacity under our 2022 Credit Agreement that provides for \$1.0 billion of unsecured financing, are sufficient to meet our working capital, capital expenditure, and debt repayment needs over the next 12 months. As part of our strategy, we may enter into arrangements to acquire or invest in complementary businesses, services, technologies, or intellectual property rights in the future. We may also choose to seek additional debt or equity financing.

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

Our cash flows for the three and nine months ended October 31, 2022, and 2021, were as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2022	2021	2022	2021
Net cash provided by (used in):				
Operating activities	\$ 408,668	\$ 384,654	\$ 962,743	\$ 1,035,555
Investing activities	(168,063)	(166,859)	(2,125,799)	(1,167,907)
Financing activities	(1,149,073)	(7,523)	1,211,716	47,767
Effect of exchange rate changes	(920)	50	(1,750)	(85)
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ (909,388)	\$ 210,322	\$ 46,910	\$ (84,670)

Operating Activities

Cash provided by operating activities was \$409 million and \$385 million for the three months ended October 31, 2022, and 2021, respectively. The increase in cash provided by operating activities resulted from increases in sales and related cash collections, offset by increased payments made to support return to office and in-person events and other growth investments across the business, and an interest payment on our Senior Notes.

Cash provided by operating activities was \$963 million and \$1.0 billion for the nine months ended October 31, 2022, and 2021, respectively. The decline in cash provided by operating activities resulted from increased payments made to support return to office and in-person events and other growth investments across the business, the new employee performance-based cash bonus program for all employees not covered under an existing incentive plan, and an interest payment on our Senior Notes, offset by increases in sales and related cash collections.

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

Investing Activities

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

Cash used in investing activities for the three months ended October 31, 2021, was \$167 million, which primarily resulted from cash consideration for the acquisition of Zimit, net of cash acquired, of \$61 million, a cash outflow from the timing of purchases and maturities of marketable securities of \$48 million, capital expenditures for data center and office space projects of \$33 million, and purchases of non-marketable equity and other investments of \$27 million.

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

Cash used in investing activities for the nine months ended October 31, 2021, was \$1.2 billion, which primarily resulted from cash consideration for the acquisition of Peakon and Zimit, net of cash acquired, of \$740 million, capital expenditures primarily for data center projects of \$191 million, the purchase of leased office space within our corporate headquarters from an affiliate of our Co-Founder and CEO Emeritus, David Duffield, of \$171 million, purchases of non-marketable equity and other investments of \$85 million, and a cash outflow from the timing of purchases and maturities of marketable securities of \$14 million. These payments were partially offset by proceeds of \$27 million from sales of marketable securities.

We expect capital expenditures will be approximately \$375 million in fiscal 2023. This includes investments in our office facilities, corporate IT infrastructure, and customer data centers to support our continued growth.

Financing Activities

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

Cash used in financing activities was \$8 million for the three months ended October 31, 2021, which was primarily due to a payment of \$9 million on the term loan under the 2020 Credit Agreement, partially offset by proceeds of \$2 million from the issuance of common stock from employee equity plans.

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

Cash provided by financing activities was \$48 million for the nine months ended October 31, 2021, which was primarily due to proceeds of \$76 million from the issuance of common stock from employee equity plans, offset by payments of \$28 million on the term loan under the 2020 Credit Agreement.

Contractual Obligations

Except for the fiscal 2023 debt transactions discussed in [Note 10, Debt](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report, which include the issuance of \$3.0 billion of Senior Notes, the modification to our revolving credit facility, the extinguishment of the term loan under the 2020 Credit Agreement, and the conversion of the 2022 Notes, there were 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, 2022.

Critical Accounting Policies and Estimates

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

We believe that the following critical accounting policies involve a high degree of judgement and complexity, and are the most critical to aid in fully understanding and evaluating our financial condition and operating results:

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

For a further discussion of our critical accounting policies, refer to our Annual Report on Form 10-K for the fiscal year ended January 31, 2022. There were no significant changes to our critical accounting policies and estimates during the nine months ended October 31, 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Risk

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

Due to our exposure to market risks that may result from changes in foreign currency exchange rates, we enter into foreign currency derivative hedging transactions to mitigate these risks. For further information, see [Note 9, Derivative Instruments](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Interest Rate Risk on our Investments

We had cash, cash equivalents, and marketable securities totaling \$5.5 billion and \$3.6 billion as of October 31, 2022, and January 31, 2022, 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 Statements of Operations.

An immediate increase of 100 basis points in interest rates would have resulted in a \$20 million and \$11 million market value reduction in our investment portfolio as of October 31, 2022, and January 31, 2022, 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

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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

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

(b) Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our principal executive officers and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officers and principal financial officer concluded that there has not been any material change in our internal control over financial reporting during the quarter covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

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

Summary of Risk Factors

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

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

- if we cannot maintain our corporate culture, we may lose the innovation, teamwork, and passion that we believe contribute to our success, and our business may be harmed;
- because we encounter long sales cycles when selling to large customers and we recognize subscription services revenues over the term of the contract, downturns or upturns in new sales will not be immediately reflected in our operating results and it may be difficult to predict a negative impact on our operating and financial results; additionally, our ability to predict the rate of customer subscription renewals or adoptions is limited;
- our business could be adversely affected if our users are not satisfied with the deployment, training, and support services provided by us and our partners, and such dissatisfaction could damage our ability to expand the applications subscribed to by our current customers and negatively impact our ability to compete for new business;
- sales to customers outside the United States or with international operations expose us to risks inherent in global operations;
- we have a history of cumulative losses and we may not achieve or sustain profitability on a 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;
- adverse litigation results could have a material adverse impact on our business;
- the dual class structure of our common stock has the effect of concentrating voting control with David Duffield and Aneel Bhusri (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;
- 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 continuing global economic and geopolitical volatility, the ongoing COVID-19 pandemic, the impact of inflation on our costs and on customer spending, and measures taken in response to such events will continue to impact our business, financial condition, and operating results will depend on future developments, which are highly uncertain and difficult to predict.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption of financial markets. In addition, the Russian invasion of Ukraine in early fiscal 2023 has led to further economic disruption. While we do not operate in Russia and while our extended workforce in Ukraine is not a material part of our workforce, the conflict has increased inflationary cost pressures and supply chain constraints which have negatively impacted the global economy. Inflationary pressure may result in decreased demand for our products and services, increases in our operating costs (including our labor costs), reduced liquidity, and limits on our ability to access credit or otherwise raise capital. In response to the concerns over inflation risk, the U.S. Federal Reserve raised interest rates multiple times in 2022 and may continue to do so in the future. It is especially difficult to predict the impact of such events on the global economic markets, which have been and will continue to be highly dependent upon the actions of governments, businesses, and other enterprises in response to such events, and the effectiveness of those actions. As a result of these and other recent macroeconomic events, we have experienced volatility in the trading prices for our Class A common stock, and such volatility may continue in the long term. Any sustained adverse impacts from these and other recent macroeconomic events could materially and adversely affect our business, financial condition, operating results, and earnings guidance that we may issue from time to time, which could have a material effect on the value of our Class A common stock.

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

We have reopened our offices and we have begun permitting travel and in-person events, 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, reopening our offices could expose our employees to health risks, and could involve additional costs or liability. While vaccines have become widely available in certain countries, and businesses and economies have reopened, the status of global economic recovery remains uncertain and unpredictable, and will continue to be impacted by developments in the pandemic including any subsequent waves of outbreak or new variant strains of the COVID-19 virus which may require re-closures or other preventative measures. 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 and recent macroeconomic events could also impact our data center and computing infrastructure operations, including potential disruptions to, among other things, the supply chain required to maintain these systems, construction projects designed to expand our data center capacity, and primary vendors who provide critical products and services.

Our future revenues rely on continued demand by existing customers and the acquisition of new customers who may be subject to labor shortages and global supply chain disruptions due to recent macroeconomic events. In connection with recent macroeconomic events, we have experienced and may continue to experience delays in purchasing decisions from existing and prospective customers and a reduction in customer demand. For example, in the early stages of the COVID-19 pandemic, we experienced a reduction in customer demand in the industries most impacted by the COVID-19 pandemic, such as travel and hospitality. Similarly, we experienced a reduction in renewal rates, particularly within our subset of small and medium-sized planning customers, as well as reduced customer spend and delayed payments. Our business, financial condition, and operating results may be negatively impacted in future periods due to a resurgence of COVID-19 or on account of recent macroeconomic events, including economic downturns or recessions. While our subscription services revenues are relatively predictable in the near term as a result of our subscription-based business model, the effect of recent macroeconomic events may not be fully reflected in our operating results and overall financial performance until future periods.

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

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

Our customer agreements typically provide for monthly service level commitments. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our applications as a result of the foregoing or otherwise, we may be contractually obligated to issue service credits or refunds to customers 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 and users from data centers operated by third parties located in the United States, Canada, and Europe. While we control and have access to our servers and all of the components of our network that are located in these data centers, we do not control certain aspects of these facilities, including their operation and security. The owners of these data center facilities have limited or no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if any of these data center operators are acquired, cease to do business, or stop providing contracted services, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and experience possible service interruptions in connection with doing so.

In addition, we rely upon third-party hosted infrastructure partners globally, including AWS, Google LLC, and Microsoft Corporation, to serve customers and operate certain aspects of our services. Any disruption of or interference at our hosted infrastructure partners would impact our operations and our business could be adversely impacted. For example, in July 2022, we experienced a disruption at certain of our hosted data centers in two of our U.S. locations due to high temperatures and power outages that resulted in a brief temporary outage of our services for a subset of our customers. Problems faced by these data center operators or hosted infrastructure partners, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our customers or other users. In addition, any financial difficulties, such as bankruptcy, faced by these data center operators, our hosted infrastructure partners, or any of the other service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. These facilities may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, natural catastrophic events, as well as local administrative actions, 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.

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

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. 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 recent macroeconomic factors. As market volatility due to macroeconomic factors continues, we may face additional challenges in recruiting and retaining qualified personnel. Additionally, job candidates may be threatened with legal action under agreements with their existing employers if we attempt to hire them, which could have an adverse effect on hiring and result in a diversion of our time and resources. We must also continue to retain and motivate existing employees through our compensation practices, company culture, and career development opportunities. Further, our current and future office environments, such as our current hybrid work policies, may not meet the expectations of our employees or prospective employees, and may amplify challenges in recruiting. If we fail to attract new personnel or to retain our current personnel, our business and future growth prospects could be adversely affected.

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

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

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

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

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

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

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

As the markets for our applications mature, or as new competitors introduce new products or services that compete with ours, we may be unable to attract new customers at the same pace or based on the same pricing model as we have used historically. From time to time, we may also change our pricing structure, which could adversely impact demand for our products. Moreover, large customers, which are a primary focus of our sales efforts, have and may continue to request greater price concessions and delayed payment terms. In the early stages of the COVID-19 pandemic, some of our existing and potential customers requested price concessions and delayed payment terms, as well as other terms and conditions that can impact our business and revenues. If these conditions were to return, whether as a result of a resurgence of COVID-19 or due to macroeconomic conditions, 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. Economic uncertainty and the risk or occurrence of global or domestic recessions can prompt existing and prospective customers to demand such concessions with increasing frequency and significance, and our competitors may become more likely to provide such concessions. Attrition of key personnel at our customers has impacted and may continue to impact our direct sales efforts. Furthermore, because our future revenue growth relies, in large part, on new customer acquisition, any inability of our sales force to establish relationships with potential customers during the current environment or prospects deferring buying decisions due to the economic uncertainty, is likely to have a negative impact on our future revenue growth and other financial measures.

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

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

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

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

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

- our ability to attract new customers, 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, the Russia-Ukraine conflict, inflation, and rising interest rates;
- increases or decreases in the number of elements of our services or pricing changes upon any renewals of customer agreements;
- the changes in payment terms and timing of customer payments and payment defaults by customers, including those impacted by the ongoing COVID-19 pandemic;
- changes in our pricing policies or those of our competitors and the mix of applications sold during a period;
- seasonal variations in sales of our applications, which have historically been highest in our fiscal fourth quarter;
- the timing and success of new application and service introductions by us or our competitors;
- changes in the competitive dynamics of our industry, including consolidation among competitors, customers, or strategic partners, and the impact of strategic partnerships, acquisitions, or equity investments;
- expenses related to our real estate portfolio, including our leases and data center expansion; and
- changes in laws and regulations that impact our business or reported financial results, including changes in accounting principles generally accepted in the United States.

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

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

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

We believe that developing and maintaining widespread positive awareness of our brand is critical to achieving widespread acceptance of our applications, retaining and attracting customers, and hiring and retaining employees. However, brand promotion activities may not generate the customer awareness or increased revenues we anticipate, and even if they do, any increase in revenues may not offset the significant expenses we incur in building our brand. As the restrictions due to the COVID-19 pandemic have decreased, we have returned to in-person events, but if due to a resurgence of COVID-19 or otherwise, we reinstate our shift to virtual customer, industry, partner, analyst, investor and employee events, these measures 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 in the future delay certain corporate advertising programs. These measures, if adopted, particularly if extended for prolonged periods, could have negative effects on our ability to develop and maintain widespread positive awareness of our brand, which could harm our business, financial condition, and operating results.

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

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

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

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

- inability to integrate the intellectual property, technology infrastructure, personnel, and operations of the acquired business, including difficulty in addressing security risks of the acquired business, or benefit from an acquisition in a profitable manner;
- acquisition-related costs, liabilities, or tax impacts, some of which may be unanticipated;
- difficulty in leveraging the data of the acquired business if it includes personal data;
- ineffective or inadequate controls, procedures, or policies at the acquired company and increased risk of non-compliance;
- multiple product lines or service offerings as a result of our acquisitions that are offered, priced, and supported differently, as well as the potential for such acquired product lines and service offerings to impact the profitability of existing products;
- the opportunity cost of diverting management and financial resources away from other products, services, and strategic initiatives;
- difficulties and additional expenses associated with synchronizing product offerings, customer relationships, and contract portfolio terms and conditions between Workday and the acquired business;
- unknown liabilities or risks associated with the acquired businesses, including those arising from existing contractual obligations or litigation matters;
- adverse effects on our brand or existing business relationships with business partners and customers as a result of the acquisition;
- potential write-offs of acquired assets and potential financial and credit risks associated with acquired customers;
- inability to maintain relationships with key customers, suppliers, and partners of the acquired business;
- difficulty in predicting and controlling the effect of integrating multiple acquisitions concurrently;
- lack of experience in new markets, products, or technologies;
- difficulty in integrating operations and assets of an acquired foreign entity with differences in language, culture, or country-specific regulatory risks;
- the inability to obtain (or a material delay in obtaining) regulatory approvals necessary to complete transactions or to integrate operations, or potential remedies imposed by regulatory authorities as a condition to or following the completion of a transaction, which may include divestitures, ownership or operational restrictions or other structural or behavioral remedies;
- the failure of strategic acquisitions to perform as expected or to meet financial projections, which may be heightened due to recent macroeconomic events and market volatility; 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, data localization, 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, macroeconomic conditions, including recession, or events such as the Russia-Ukraine conflict. In addition to navigating the challenges related to the ongoing COVID-19 pandemic in foreign jurisdictions, we face other risks in doing business on a global scale that could adversely affect our business, including:

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

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

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

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

Our primary competitors are Oracle Corporation and SAP SE, well-established providers of financial management and HCM applications, which have long-standing relationships with many customers. Some customers may be hesitant to switch vendors or to adopt cloud applications such as ours and may prefer to maintain their existing relationships with competitors. We also face competition from other enterprise software vendors, from regional competitors that only operate in certain geographic markets, and from vendors of specific applications that address only one or a portion of our applications, some of which offer cloud-based solutions. These vendors include, without limitation: UKG Inc. (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 may offer price concessions, delayed payment terms, financing terms, or other terms and conditions that are more enticing to potential customers in light of the challenging business environment created by the COVID-19 pandemic or recent macroeconomic conditions. Pricing pressures and increased competition could result in reduced sales, reduced margins, losses, or a failure to maintain or improve our competitive market position, any of which could adversely affect our business and operating results.

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

Developing software applications and related enhancements, features, and modifications is expensive, and the investment in product development often involves a long return on investment cycle. Accelerated application introductions and short application life cycles require high levels of expenditures that could adversely affect our operating results if not offset by revenue increases, and we believe that we must continue to dedicate a significant amount of resources to our development efforts to maintain our competitive position. However, we may not receive significant revenues from these investments for several years, if at all. Furthermore, macroeconomic conditions including the 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 as our employees continue to work remotely pursuant to our hybrid work model, or if there are 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 recent macroeconomic conditions, our own operations may suffer, which could adversely impact our operating results. In addition, we rely upon licensed third-party software to help improve our internal systems, processes, and controls. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. We may be at a disadvantage if our competitors are effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our services, or in negotiating better rates or terms with such third parties. In addition, acquisitions of our partners by our competitors could end our strategic relationship with the acquired partner and result in a decrease in the number of our current and potential customers, or the support services available for third-party technology may be negatively affected by mergers and consolidation in the software industry. If we are unsuccessful in establishing or maintaining our relationships with these third parties, or in monitoring the quality of their products or performance, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results may suffer.

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

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

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

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

Social and ethical issues relating to the use of new and evolving technologies, such as machine learning and AI, in our offerings may result in reputational harm and liability.

A quickly evolving legal and regulatory environment may cause us to incur increased research and development costs, or divert resources from other development efforts, to address social and ethical issues related to machine learning and AI. We are increasingly building machine learning and AI into many of our offerings. As with many cutting-edge innovations, machine learning and AI present new risks and challenges, and existing laws and regulations may apply to us in new ways, the nature and extent of which are difficult to predict. The risks and challenges presented by machine learning and AI could undermine public confidence in machine learning and AI, which could slow its adoption and affect our business. We develop and offer machine learning products for use cases that could potentially impact human, civil, privacy, or employment rights and dignities. Failure to adequately address ethical and social issues that may arise with such use cases could negatively affect the adoption of our solutions and subject us to reputational harm, regulatory action, or legal liability, which may harm our financial condition and operating results. Potential government regulation related to AI ethics may also increase the burden and cost of research and development in this area. For example, to demonstrate compliance with the New York City Automated Employment Decision Tools law, which will take effect January 1, 2023, customers may publicly disclose information, including the results of disparate impact analyses, about their use of our AI and machine learning products, subjecting us to reputational or business harm or legal liability. Employees, customers, or customers' employees who are dissatisfied with our public statements, policies, practices, or solutions related to the development and use of AI and machine learning may express opinions that could introduce reputational or business harm, or legal liability.

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

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

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

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

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

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

Risks Related to Cybersecurity, Data Privacy, and Intellectual Property

If our information technology systems are compromised or unauthorized access to customer or user data is otherwise obtained, our applications may be perceived as not being secure, our operations may be disrupted, our applications may become unavailable, customers and end users may reduce the use of or stop using our applications, and we may incur significant liabilities.

Our applications involve the storage and transmission of our customers' 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. Additionally, our operations and the availability of the services we provide customers also depend on our information technology systems. As a result, a compromise of our applications or systems, or unauthorized access to, acquisition, use, tampering, release, alteration, theft, loss, or destruction of sensitive data, or unavailability of data, could disrupt our operations or impact the availability or performance of our applications; expose us and our customers to regulatory obligations and actions, litigation, investigations, remediation and indemnity obligations, or supplemental disclosure obligations; damage our reputation and brand; or result in loss of customer, consumer, and partner confidence in the security of our applications, an increase in our insurance premiums, loss of authorization under the Federal Risk and Authorization Management Program ("FedRAMP") or other authorizations, impairment to our business, and other potential liabilities or related fees, expenses, or loss of revenues.

The financial and personnel resources we employ to implement and maintain security measures, including our information security risk insurance policy, may not be sufficient to address our security needs. The security measures we have in place may not be sufficient to protect against security risks, preserve our operations and services and the integrity of customer and personal information, and prevent data loss, misappropriation, and other security breaches. Our information systems may be compromised by computer hackers, employees, contractors, or vendors, as well as software bugs, human error, technical malfunctions, or other malfeasance.

Cybersecurity threats and attacks are often targeted at companies such as ours and may take a variety of forms ranging from individuals or groups of security researchers, including those who appear to offer a solution to a vulnerability in exchange for some compensation, to sophisticated hacker organizations, including state-sponsored actors who may launch coordinated attacks, such as retaliatory cyber attacks stemming from the Russia-Ukraine conflict. In the normal course of business, we are and have been the target of malicious cyber-attack attempts and have experienced other security events. As our market presence grows, we may face increased risks of cybersecurity attack or other security threats. Key cybersecurity risks range from viruses, worms, ransomware, and other malicious software programs, to phishing attacks, to exploitation of software bugs or other defects, to targeted attacks against cloud services and other hosted software, any of which can result in a compromise of our applications or systems and the data we store or process, disclosure of Workday confidential information and intellectual property, production downtimes, reputational harm, and an increase in costs to the business. As the techniques used to obtain unauthorized access or sabotage systems change frequently, are becoming increasingly sophisticated and complex, and generally are not identified until they are launched against a target, and because evidence of unauthorized activity may not have been captured or retained, or may be proactively destroyed by unauthorized actors, we may be unable to anticipate these attacks, assess the true impact they may have on our business and operations, or to implement adequate preventative measures. Future cyber-attacks and other security events may have a significant or material impact on our business and operating results.

There may also be attacks targeting any vulnerabilities in our applications, internally built infrastructure, enhancements, and updates to our existing offerings, or in the many different underlying networks and services that power the internet that our products depend on, most of which are not under our control or the control of our vendors, partners, or customers. Systems and processes designed to protect our applications, systems, software, and data, as well as customer data and other user data, and to prevent data loss and detect security breaches, may not be effective against all cybersecurity threats or perceived threats. We have been subject to such incidents, including through third-party service providers and in connection with acquisitions we have made. In addition, our software development practices have not and may not identify all potential privacy or security issues, and inadvertent disclosures of data have occurred and may occur. For example, in August 2022, we applied a fix in Workday Recruiting to address an issue that temporarily made certain information discoverable to unintended parties. We took immediate action to fix the issue, notify affected customers, and confirm this issue had not impacted Workday's other environments or applications. We have no indication that the data was accessed maliciously. We also performed an internal investigation and engaged a third party to penetration test the systems at issue, which caused, and may continue to cause, expense and business disruption. These efforts may not be completely effective or eliminate potential risks from this and similar incidents.

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

Additionally, during the ongoing COVID-19 pandemic, and potentially beyond as remote work and resource access expand, there is an increased risk of cybersecurity-related events such as 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, and incorporated third-party products, services, and technologies into our own products and services. Addressing security issues associated with acquisitions, partnerships, incorporated technologies, and our supply chain requires significant resources, and we may still inherit additional risks upon integration with or use by Workday. In addition, if a high-profile security breach occurs with respect to an industry peer, our customers and potential customers may generally lose trust in the security of financial management, spend management, human capital management, planning, or analytics applications, or in cloud applications for enterprises in general. Any or all of these issues could negatively affect our ability to attract new customers, cause existing customers to elect to terminate or not renew their subscriptions, result in reputational damage, cause us to pay remediation and indemnity costs and/or issue service credits or refunds to customers for prepaid and unused subscription services, or result in lawsuits, regulatory fines, or other action or liabilities, any of which could adversely affect our business and operating results.

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

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

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

Following the European Union's ("EU") passage of the General Data Protection Regulation ("GDPR"), which became effective in May 2018, the global data privacy compliance landscape outside of the EU has grown increasingly complex, fragmented, and financially relevant to business operations. As a result, our business faces current and prospective risks related to increased regulatory compliance costs, government enforcement actions and/or financial penalties for non-compliance, and reputational harm. For example, in July 2020, the Court of Justice of the EU invalidated the Privacy Shield framework, which enabled companies to legally transfer data from the European Economic Area to the United States. A U.S. Executive Order has been issued that should lead to the development of a new EU-U.S. Privacy Framework under which EU data can legally be transferred to the United States. Until that framework is formally established, uncertainty may continue about the legal requirements for transferring customer personal data to and from Europe, an integral process of our business that remains governed by, and subject to, GDPR requirements. Failure to comply with the GDPR data processing requirements by either ourselves or our subcontractors could lead to regulatory enforcement actions, which can result in monetary penalties of up to 4% of worldwide revenue, private lawsuits, reputational damage, and loss of customers. The UK government is considering amending its data protection legislation. If UK data protection changes significantly from EU norms, new data flow barriers could emerge, creating costs and complexity for companies. Other countries such as Russia, China, and India have also passed or are considering passing laws imposing varying degrees of restrictive data residency requirements. Regulatory developments in the United States present additional risks. For example, the California Consumer Privacy Act ("CCPA") took effect on January 1, 2020, and the California Privacy Rights Act ("CPRA"), which expands upon the CCPA, was passed in November 2020 and comes into effect on January 1, 2023, with a "lookback" period to January 1, 2022. The CCPA and CPRA give California consumers, including employees, certain rights similar to those provided by the GDPR, and also provide for statutory damages or fines on a per violation basis that could be very large depending on the severity of the violation. 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. We have patent applications pending in the United States and throughout the world, but we may be unable to obtain patent protection for the technology covered in our patent applications. In addition, any patents issued to us in the future may not provide us with competitive advantages or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties, including those affiliated with state-sponsored actors, to copy or reverse engineer our applications, including with the assistance of insiders, and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer, and disclosure of our technology may be unenforceable under the laws of jurisdictions outside the United States. In addition, the laws of some countries do not protect proprietary rights to the same extent as the laws of the United States.

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

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

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

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

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

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

Risks Related to Legal and Regulatory Matters

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

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

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

Our contracts with federal, state, local, and foreign government entities are subject to various procurement regulations and other requirements relating to their formation, administration, performance, and termination, which could adversely impact our business and operating results. Government certification requirements applicable to our platform, including FedRAMP, may change and, in doing so, restrict our ability to sell into the governmental sector until we have attained the full or revised certification. These laws and regulations provide public sector customers various rights, many of which are not typically found in commercial contracts. For instance, 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.

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

We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for delays, interruptions, or termination by the government at any time, without cause, which activities may adversely affect our business and operating results and impact other existing or prospective government contracts.

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

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

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

As of October 31, 2022, we had federal and state net operating loss carryforwards due to prior period losses. If not utilized, the pre-fiscal 2018 federal and the state net operating loss carryforwards expire in varying amounts between fiscal 2023 and fiscal 2043. The federal net operating losses generated in and after fiscal 2018 do not expire and may be carried forward indefinitely. We also have federal research tax credit carryforwards, which if not utilized will expire between fiscal 2023 and fiscal 2043. 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 macroeconomic conditions and 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 due to recent macroeconomic events, rising rates of inflation and related interest rate increases, and concerns about a possible recession, we expect it will continue to be even more difficult for us to forecast our operating results. We plan our expense levels and investments on estimates of future revenues and anticipated rates of growth. If our growth does not meet estimates, we may not be able to adjust our spending quickly enough to avoid an adverse impact on our financial results as a consequence of spending that is not aligned with our actual performance.

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

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

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

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

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

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

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

In April 2022, we issued \$3.0 billion aggregate principal amount of senior notes, consisting of \$1.0 billion aggregate principal amount of 3.500% notes due April 1, 2027, \$750 million aggregate principal amount of 3.700% notes due April 1, 2029, and \$1.25 billion aggregate principal amount of 3.800% notes due April 1, 2032. Additionally, in April 2022, we entered into our 2022 Credit Agreement which provides for a revolving credit facility in an aggregate principal amount of \$1.0 billion.

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. 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;
- increase our vulnerability to the impact of adverse economic conditions; and
- negatively impact our credit rating, which could limit our ability to obtain additional financing in the future and adversely affect our business.

Our Senior Notes and 2022 Credit Agreement also impose restrictions on us and require us to maintain compliance with specified covenants. For example, our 2022 Credit Agreement includes a financial covenant that requires us to maintain a specific leverage ratio. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable. Any required repayment of our debt as a result of a fundamental change or other acceleration would lower our current cash on hand such that we would not have those funds available for use in our business.

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

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

Further, valuations of non-marketable equity investments are inherently complex due to the lack of readily available market data. In addition, we may experience additional volatility to our results of operations due to changes in market prices of our marketable equity investments and the valuation and timing of observable price changes or impairments of our non-marketable equity investments. Volatility in the global market conditions, including recent economic disruptions, inflation, and ongoing volatility in the public equity markets, may impact our equity investments. This volatility could be material to our results in any given quarter and may cause our stock price to decline. In addition, our ability to mitigate this volatility and realize gains on investments may be impacted by our contractual obligations to hold securities for a set period of time. For example, to the extent a company we have invested in undergoes an IPO, we may be subject to a lock-up agreement that restricts our ability to sell our securities for a period of time after the public offering or otherwise impedes our ability to mitigate market volatility in such securities.

Risks Related to Ownership of Our Class A Common Stock

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

As of October 31, 2022, our Co-Founder and CEO Emeritus David Duffield, together with his affiliates, held voting rights with respect to approximately 46 million shares of Class B common stock and 0.2 million shares of Class A common stock. As of October 31, 2022, our Co-Founder, Co-CEO, and Chairman Aneel Bhusri, together with his affiliates, held voting rights with respect to approximately 8 million shares of Class B common stock and 0.3 million shares of Class A common stock. In addition, Mr. Bhusri holds 0.1 million RSUs, which will be settled in an equivalent number of shares of Class A common stock. Further, Messrs. Duffield and Bhusri have entered into a voting agreement under which each has granted a voting proxy with respect to certain Class B common stock beneficially owned by him effective upon his death or incapacity as described in our registration statement on Form S-1 filed in connection with our IPO. Messrs. Duffield and Bhusri have each initially designated the other as their respective proxies. Accordingly, upon the death or incapacity of either Mr. Duffield or Mr. Bhusri, the other would individually continue to control the voting of shares subject to the voting proxy. Collectively, the shares described above represent a substantial majority of the voting power of our outstanding capital stock. As a result, Messrs. Duffield and Bhusri have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. As stockholders, even as controlling stockholders, they are entitled to vote their shares in their own interests, which may not always be in the interests of our stockholders generally.

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

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

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

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

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

The trading price of our Class A common stock has historically been volatile and could be subject to wide fluctuations in response to various factors such as those described below. 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, inflationary pressures, recession, other macroeconomic factors, 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 and other macroeconomic factors, include:

- overall performance of the equity markets;
- fluctuations in the valuation of companies perceived by investors to be comparable to us, such as high-growth or cloud companies, or in valuation metrics, such as our price to revenues ratio;
- guidance, as well as our ability to give guidance, as to our operating results and other financial metrics that we provide to the public, differences between our guidance and market expectations, our failure to meet our guidance, any withdrawal of previous guidance or changes from our historical guidance;
- the research and reports that securities or industry analysts publish about us or our business, and whether analysts who cover us downgrade our Class A common stock or publish unfavorable or inaccurate research about our business;
- variations in, and limitations of, the various financial and other metrics and modeling used by analysts in their research and reports about our business;
- announcements of technological innovations, new applications or enhancements to services, acquisitions, strategic alliances, or significant agreements by us or by our competitors;
- announcements of negative corporate developments by us or by our competitors and other high-growth or cloud companies including, among other things, any announcements related to security incidents;
- disruptions in our services due to computer hardware, software, or network problems;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- the economy as a whole, political and regulatory uncertainty, and market conditions in our industry and the industries of our customers;
- trading activity by directors, executive officers, and significant stockholders, or the perception in the market that the holders of a large number of shares intend to sell their shares;
- the size of our market float and significant stock option exercises;
- any future issuances of our securities;
- the inability to execute on our Share Repurchase Program as planned, including failure to meet internal or external expectations around the timing or price of share repurchases, and any reductions or discontinuances of repurchases thereunder;
- environmental, social, governance, ethical, and other issues impacting our brand;
- sales and purchases of any Class A common stock issued in connection with the warrant transactions related to the 2022 Notes;
- our operating performance and the performance of other similar companies; and
- the sale or availability for sale of a large number of shares of our Class A common stock in the public market.

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

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

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

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

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

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

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

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

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

Our restated certificate of incorporation, 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.

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

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

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

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

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

General Risk Factors

Adverse economic conditions may negatively impact our business.

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

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

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

Catastrophic or climate-related events may disrupt our business.

Our corporate headquarters are located in Pleasanton, California, and we have data centers located in the United States, Canada, and Europe. The west coast of the United States contains active earthquake zones and the southeast is subject to seasonal hurricanes or other extreme weather conditions. Additionally, we rely on internal technology systems, our website, our network, and third-party infrastructure and enterprise applications, which are located in a wide variety of regions, for our development, marketing, operational support, hosted services, and sales activities. In the event of a major earthquake, hurricane, or other natural disaster, or a catastrophic event such as fire, power loss, telecommunications failure, vandalism, civil unrest, cyber-attack, geopolitical instability (including the Russia-Ukraine conflict), 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, heat waves, wildfires, increased storm severity, and sea level rise), we may be unable to continue our operations and have, and may in the future, endure system interruptions, and may experience delays in our product development, lengthy interruptions in our services, breaches of data security, and loss of critical data, all of which could cause reputational harm or otherwise have an adverse effect on our business and operating results. In addition, the impacts of climate change on the global economy and our industry are rapidly evolving. We may be subject to increased regulations, reporting requirements, standards, or 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 October 31, 2022, we issued 633,748 shares of our unregistered Class A common stock to holders of our 2022 Notes upon settlement of conversion of an aggregate principal amount of \$1.15 billion of such notes. This share amount represents the conversion value of the 2022 Notes in excess of the principal amount converted. These shares of our Class A common stock were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act. For further information, see [Note 10, Debt](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Purchases of Equity Securities by the Issuer

The table below sets forth information regarding our purchases of our Class A common stock during the three months ended October 31, 2022. The shares purchased represent the exercise of the convertible note hedges relating to the 2022 Notes. For further information, see [Note 10, Debt](#), of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
August 1, 2022 - August 31, 2022	—	\$ —	—	—
September 1, 2022 - September 30, 2022	—	—	—	—
October 1, 2022 - October 31, 2022	633,996	154.25	—	—
Total	633,996		—	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

Exhibit No.	Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Filing Date	Exhibit No.	
31.1	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
31.3	Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.3	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)					X
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document					X
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					X

† Indicates a management contract or compensatory plan.

SIGNATURES

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

Dated: November 29, 2022

Workday, Inc.

/s/ Barbara Larson

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