

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

Form 10-K

(Mark One)

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

For the fiscal year ended January 31, 2014

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)
6230 Stoneridge Mall Road
Pleasanton, California
(Address of principal executive offices)

20-2480422
(I.R.S. Employer
Identification Number)

94588
(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

Name of each exchange on which registered

Class A Common Stock, par value \$0.001

New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Based on the closing price of the Registrant's Common Stock on the last business day of the Registrant's most recently completed second fiscal quarter, which was July 31, 2013, the aggregate market value of its shares (based on a closing price of \$68.29 per share) held by non-affiliates was approximately \$4.5 billion. Shares of the Registrant's Common Stock held by each executive officer and director and by each entity or person that owned 5 percent or more of the Registrant's outstanding Common Stock were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of February 28, 2014, there were approximately 184 million shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in 2014. The Proxy Statement will be filed by the Registrant with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year ended January 31, 2014.

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. All statements contained in this report other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “seek”, and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, 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 and assumptions, including those described in the “Risk Factors” section. 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 and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, 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.

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

ITEM 1. BUSINESS

Overview

Workday is a leading provider of enterprise cloud applications for global human resources and finance. Founded in 2005, Workday delivers human capital management, financial management, and analytics applications designed for the world’s largest organizations. We achieved this leadership position through our innovative and adaptable technology, focus on the consumer Internet experience and cloud delivery model. We believe we are the only company to provide this complete set of unified cloud applications to enterprises.

Organizations today operate in environments that are highly complex and changing at an increasing rate. Managers and employees must quickly synthesize vast amounts of information and react to rapid changes in global business and regulatory environments. To be successful, they need highly functional and flexible software that enables informed decision-making about the enterprise-wide allocation of their resources. Additionally, managers and employees expect to interact with enterprise systems in an open, intuitive and collaborative way, including real-time access through a wide range of mobile and computing devices. We believe that legacy, on-premise systems make those interactions difficult, as their user interfaces are not intuitive and were not originally designed for mobility.

Workday is leading the way in helping organizations better manage their financial and human capital resources. As part of our applications, we have delivered embedded analytics that capture the content and context of everyday business events, facilitating fast and informed decision-making from wherever users are working. In addition, we provide an intuitive user experience similar to those of leading consumer Internet sites, reducing the time for training on our applications.

Since Workday is delivered in the cloud, it enables organizations to embrace change in their operating environments with support for new regulatory requirements, increased performance and enhancement of the user experience that we deliver through our rapid innovation cycle of frequent functionality-rich updates. We currently provide updates two times per year as part of the subscription agreement and when the new update is delivered, the prior version is fully replaced. As a result, all Workday customers are on the same version at all times. Updates are included in our customers' Workday subscription and are not subject to an additional fee. Workday customers benefit from the most current technologies without the burden of large upgrade costs typically associated with traditional on-premise software.

We deliver our cloud applications using an innovative technology foundation that leverages the most recent advances in cloud computing and data management and allows us to deliver applications that are highly functional, flexible and fast. Our customers benefit from moving beyond the limitations associated with traditional on-premise software to highly configurable applications delivered over the Internet. Our use of a multi-tenant architecture in which customers are on the same version of our software enables innovations to be deployed quickly. In addition, we use objects to represent real-world entities such as employees, benefits, budgets, charts of accounts and organizations, combining business logic and data in one place and creating actionable analytics that are part of our core transactional systems of record. Our use of in memory data management allows rapid and efficient delivery of embedded business intelligence. We also provide open, standards-based web-services application programming interfaces and pre-built packaged integrations and connectors called Cloud Connect. This shift in approach substantially reduces the need for our customers to buy and support a broad range of IT infrastructure, and significantly reduces the cost and complexity relative to implementations and upgrades of on-premise software.

Our Applications

Workday HCM

Designed for the largest organizations in the world, Workday Human Capital Management (Workday HCM) supports a company in organizing, staffing, paying, and developing its global workforce. This unified application includes Global Human Resources Management (Workforce Lifecycle Management, Organization Management, Compensation, Absence, and Employee Benefits Administration) and Global Talent Management (Goal Management, Performance Management, Succession Planning, and Career and Development Planning). Workday HCM also includes Project and Work Management designed to enable organizations to create and manage and track initiatives, build project plans and utilize project breakdown structures that include phases, tasks, and milestones.

Workday Payroll

Workday Payroll is a modern payroll application designed to address the full spectrum of enterprise payroll needs in the U.S. and Canada, and includes the control, accuracy and flexibility to support the unique needs of organizations. Workday Payroll allows customers to group employees, manage calculation rules and pay employees according to their organizational, policy and reporting needs. Workday Payroll is unified with Workday's other applications using the same business process framework and core worker data including benefits, compensation, absences and other employee records. In this unified self-service application, employees can request time off, check online pay slips and make payment elections from the same system, using the same user interface.

Workday Financial Management

Workday Financial Management is a comprehensive, unified application built on a single, global core with a full range of financial capabilities, relevant analytics and metrics, and fully auditable process management built to help manage financial processes for global organizations.

Workday's Financial Management tools provide the core finance functions of general ledger, global accounting, revenue management, accounts payable, employee expense management, and accounts receivable, along with tools to help organizations manage their cash, assets, contracts, grants, expenses, procurement, and support their financial reporting requirements. It also provides management reporting and analysis in real time without the use of complex and expensive bolt-on data warehouses and business intelligence systems.

Workday Big Data Analytics

Unified with Workday applications for human resources and finance, Workday Big Data Analytics is an end-to-end analytics system that equips users with insights previously seen as too difficult or time consuming to obtain. With a simple, intuitive user interface that matches the Workday experience customers have come to expect, users can quickly combine Workday data with non-Workday data of any source, size, or structure. To add depth to reports and dashboards accessible on a tablet, smartphone, or desktop, customers can either augment existing analytics in Workday or leverage pre-built analytic templates designed for the most requested HR and financial insights.

Customers

We currently have more than 600 customers, with a focus on large, global organizations. We define a customer as a separate and distinct buying entity, such as a company, an educational or government institution, or a distinct business unit of a large corporation, which has entered into a master subscription agreement with us to access our cloud applications, including customers that are in the process of deploying our applications. While a single customer may have multiple organizations, operating segments or locations, we only include the customer once for this metric. We exclude from our customer count small- to medium-sized business customers who have contracted for our subscription services through our reseller partner.

Our current customer base spans numerous industry categories, including technology, financial services, business services, healthcare and life sciences, manufacturing, consumer and retail and education and government. No individual customer represented more than 10% of our revenues in the year ended January 31, 2014.

We have built a company culture centered around our customers' success and satisfaction. We have developed several programs designed to provide customers with service options to enhance their experience with our applications. These services include 24x7 support; a professional services ecosystem that consists of our Workday consulting teams and system integrators that are trained on our applications; a Customer Success Management group to assist customers in production; and an online community to facilitate collaboration among customers and with the Workday application development teams.

Employees

As of January 31, 2014, we had more than 2,600 employees. We also engage contractors and consultants. None of our employees are represented by a labor union. We have not experienced any work stoppages, and we consider our relations with our employees to be very good.

Sales and Marketing

We sell substantially all of our software applications through our direct sales organization. Our direct sales team is composed of inside sales and field sales personnel who are generally organized by geography, account size, and application type.

We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs and through our strategic relationships. Our marketing programs target finance and HR executives, technology professionals and senior business leaders.

As a core part of our strategy, we have developed an ecosystem of partners to both broaden and complement our application offerings and to provide a broad array of services that lie outside of Workday's areas of focus. These relationships include software and technology partners, consulting and implementation services providers, and business process outsourcing (BPO) partners, and enable Workday to address a broader set of problems for our customers while maintaining focus on executing against our strategy.

Product Development

Our ability to compete depends in large part on our continuous commitment to product development and our ability to rapidly introduce new applications, technologies, features and functionality. Our product development organization is responsible for the design, development, testing and certification of our applications. We focus our efforts on developing new applications and core technologies and further enhancing the usability, functionality, reliability, performance and flexibility of existing applications.

Product development expenses were \$182.1 million, \$102.7 million and \$62.0 million for the years ended January 31, 2014, 2013 and 2012, respectively.

Competition

The overall market for enterprise application software is rapidly evolving and highly competitive, and subject to changing technology, shifting customer needs and frequent introductions of new applications. We currently compete with large, well-established, enterprise application software vendors, such as Oracle Corporation and SAP AG. These two companies are expanding their traditional on-premise enterprise applications with cloud applications, either through acquisition or in-house development. Oracle Corporation and SAP AG are established enterprise software companies that have greater name recognition, larger customer bases, much longer operating histories and significantly greater financial, technical, sales, marketing and other resources than we have and are able to provide comprehensive business applications that are broader in scope than our current suite of applications. We also face competition from other enterprise software vendors and from vendors of specific applications, some of which offer cloud-based solutions. These vendors include The Ultimate Software Group, Inc., Automated Data Processing, Inc. and Lawson Software Inc., which was acquired by an affiliate of Infor Global Solutions. We also face competition from cloud-based vendors including: providers of applications for HCM and payroll services, such as Ceridian, Inc.; providers of cloud-based expense management applications such as Concur Technologies, Inc.; and providers of financial management applications such as NetSuite, Inc. We may also face competition from a variety of vendors of cloud-based and on-premise software applications that address only a portion of one of our applications. In addition, other cloud companies that provide services in different markets may develop solutions in our target markets, and some potential customers may elect to develop their own internal solutions. However, the domain expertise that is required for a successful solution in the areas of HCM, payroll and financial management may inhibit new entrants that are unable to invest the necessary capital to accurately reflect global requirements and regulations. We expect continued consolidation in our industry that could lead to significantly increased competition.

We believe the principal competitive factors in our market include the following:

- level of customer satisfaction;
- ease of deployment and use of applications;
- breadth and depth of application functionality;
- total cost of ownership;
- brand awareness and reputation;
- modern and adaptive technology platform;
- capability for customization, configurability, integration, security, scalability and reliability of applications;

- ability to innovate and respond to customer needs rapidly;
- domain expertise on HR, payroll and financial regulations;
- size of customer base and level of user adoption;
- customer confidence in financial stability and future viability; and
- ability to integrate with legacy enterprise infrastructures and third-party applications.

We believe that we compete favorably on the basis of these factors. Our ability to remain competitive will largely depend on our ongoing performance in the areas of application development and customer support.

Intellectual Property

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

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to copy or obtain and use our technology to develop applications with the same functionality as our application. Policing unauthorized use of our technology and intellectual property rights is difficult.

We expect that software and other applications in our industry may be subject to third-party infringement claims as the number of competitors grows and the functionality of applications in different industry segments overlaps. Any of these third parties might make a claim of infringement against us at any time.

Corporate Information

We were incorporated in March 2005 in Nevada, and in June 2012 we reincorporated in Delaware. We are organized and operate in one reporting segment. Our principal executive offices are located at 6230 Stoneridge Mall Road, Pleasanton, California 94588, and our telephone number is (877) WORKDAY. Our website address is www.workday.com. The information on, or that can be accessed through, our website is not part of this report. Workday is our registered trademark in the United States, the European Community and Canada, and the Workday logo, Workday Object Management Server and all of our product names are our trademarks. Other trademarks, service marks, or trade names appearing in this report are the property of their respective owners.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Securities Exchange Act of 1934, as amended. The public may obtain these filings at the Securities and Exchange Commission (SEC)'s Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding Workday and other companies that file materials with the SEC electronically. Copies of Workday's reports on Form 10-K, Forms 10-Q and Forms 8-K, may be obtained, free of charge, electronically through our internet website, http://www.workday.com/company/investor_relations/sec_filings.php.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this report, including the consolidated financial statements and the related notes included elsewhere in this 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, results of operations, 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.

Risk Factors Related to Our Business

If our security measures are breached or unauthorized access to customer data is otherwise obtained, our applications may be perceived as not being secure, customers 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' proprietary information, including personal or identifying information regarding their employees, customers and suppliers, as well as their finance and payroll data. As a result, unauthorized or excessive access or security breaches could result in the loss of information, litigation, indemnity obligations and other liabilities. While we have security measures in place to protect customer information and prevent data loss and other security breaches, if these measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and someone obtains unauthorized access to our customers' data, our reputation could be damaged, our business may suffer and we could incur significant liabilities. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. 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 issue credits or refunds to our customers, or result in lawsuits, regulatory fines or other action or liabilities, which could adversely affect our operating results.

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

We host our applications and serve all of our customers from data centers located in Ashburn, Virginia; Lithia Springs, Georgia; Portland, Oregon; Dublin, Ireland; and Amsterdam, the Netherlands. While we control and have access to our servers and all of the components of our network that are located in our external data centers, we do not control the operation of these facilities. The owners of our data center facilities have 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 one of our data center operators is acquired, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

In addition, we rely upon Amazon Web Services (AWS), which provides a distributed computing infrastructure platform for business operations, to operate certain aspects of our services, including our big data analytics application, and certain environments for development testing, training and sales demonstrations. Given this, along with the fact that we cannot easily switch our AWS operations to another cloud provider, any disruption of or interference with our use of AWS would impact our operations and our business could be adversely impacted.

Problems faced by our third-party data center operations, 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, or problems faced by AWS, could adversely affect the experience of our

customers. Our third-party data centers operators could decide to close their facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by our third-party data centers operators or any of the 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. Additionally, if our data centers or AWS are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. Any changes in third-party service levels at our data centers or at AWS or any errors, defects, disruptions, or other performance problems with our applications could adversely affect our reputation and may damage our customers' stored files or result in lengthy interruptions in our services. Interruptions in our services might reduce our revenues, cause us to issue refunds to customers for prepaid and unused subscription services, subject us to potential liability, or adversely affect our renewal rates.

Furthermore, our financial management application is essential to our customers' financial projections, reporting and compliance programs. Any interruption in our service may affect the availability, accuracy or timeliness of these programs and could damage our reputation, cause our customers to terminate their use of our applications, require us to indemnify our customers against certain losses and prevent us from gaining additional business from current or future customers.

If we fail to manage our technical operations infrastructure, our existing customers may experience service outages and our new customers may experience delays in the deployment of our applications.

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. 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, 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. We have experienced, and may in the future experience, website disruptions, outages and other performance problems. These problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, 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. If we do not accurately predict our infrastructure requirements, our existing customers may experience service outages that may subject us to financial penalties, financial liabilities and customer losses. If our operations infrastructure fails to keep pace with increased sales, customers may experience delays as we seek to obtain additional capacity, which could adversely affect our reputation and adversely affect our revenues.

Catastrophic events may disrupt our business.

Our corporate headquarters are located in Pleasanton, California and our data centers are located in Ashburn, Virginia; Lithia Springs, Georgia; Sacramento, California; Portland, Oregon; Dublin, Ireland; and Amsterdam, the Netherlands. We also rely on AWS's distributed computing infrastructure platform. The west coast of the United States contains active earthquake zones and the southeast is subject to seasonal hurricanes. Additionally, we rely on our network and third-party infrastructure and enterprise applications, internal technology systems and our website for our development, marketing, operational support, hosted services and sales activities. In the event of a major earthquake, hurricane or catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war or terrorist attack, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our application development, lengthy interruptions in our services, breaches of data security and loss of critical data, all of which could have an adverse effect on our future operating results.

Privacy concerns and laws or other domestic or foreign regulations may reduce the effectiveness of our applications and adversely affect our business.

Our customers can use our applications to collect, use and store personal or identifying information regarding their employees, customers and suppliers. National and local governments and agencies in the countries in which our customers operate have adopted, are considering adopting, or may adopt laws and regulations regarding the collection, use, storage and disclosure of personal information obtained from consumers and individuals. These laws are particularly stringent in Europe. If Workday employees fail to adhere to adequate data protection practices around the usage of our customer's personal data, it may damage our reputation and brand. In addition, the affected customers or government authorities could initiate legal or regulatory action against us in connection with such incidents, which could result in significant fines, penalties and liabilities.

The costs of compliance with, and other burdens imposed by, privacy laws and regulations that are applicable to the businesses of our customers may adversely affect our customers' ability and willingness to process, handle, store, use and transmit demographic and personal information from their employees, customers and suppliers, which could limit the use, effectiveness and adoption of our applications and reduce overall demand. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption, effectiveness or use of our applications.

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. If the processing of personal information were to be curtailed in this manner, our software applications would be less effective, which may reduce demand for our applications and adversely affect our business.

We have experienced rapid growth in recent periods. 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 recently experienced and are continuing to experience a period of rapid growth in our customers, headcount and operations. In particular, we grew from approximately 300 employees as of December 31, 2008 to more than 2600 employees as of January 31, 2014, and have also significantly increased the size of our customer base. We anticipate that we will significantly expand our operations and headcount in the near term, and will continue to expand our customer base. This growth has placed, and future growth will place, a significant strain on our management, general and administrative and operational infrastructure. Our success will depend in part on our ability to manage this growth effectively and to scale our operations. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. As we grow, we also need to ensure that we maintain our corporate culture; that our policies and procedures evolve to reflect our current operations and are appropriately communicated to and observed by employees; and that we appropriately manage our corporate information assets, including confidential and proprietary information. Failure to effectively manage growth could result in difficulty or delays in deploying 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 results of operations.

We depend on our senior management team and the loss of one or more key employees or an inability to attract and retain highly skilled employees could adversely affect our business.

Our success depends largely upon the continued services of our key executive officers. We also rely on our leadership team in the areas of product development, marketing, sales, services and general and administrative functions, and on mission-critical individual contributors in product development. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. 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, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers or key employees and any failure to develop an appropriate succession plan for these persons could have a serious adverse effect on our business.

To execute our growth plan, we must attract and retain highly qualified personnel, and our managers must be successful in hiring employees who are a good cultural fit and have the competencies to succeed at Workday. Competition for these personnel is intense, particularly in the San Francisco Bay Area, and especially for engineers with high levels of experience in designing and developing software and Internet-related services and senior sales executives. We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications and may need to source talent in other geographic areas. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or Workday have breached their legal obligations, resulting in a diversion of our time and resources. In addition, job candidates and existing employees carefully consider the value of the stock awards they receive in connection with their employment. If the perceived value of our stock awards declines, or if the mix of equity and cash compensation that we offer is unattractive, it may adversely affect our ability to recruit and retain highly skilled employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, through our compensation practices, company culture and career development opportunities, our business and future growth prospects could be adversely affected.

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

The markets for HCM and financial management applications are highly competitive, with relatively low barriers to entry for some applications or services. Our primary competitors are Oracle and SAP, well-established providers of HCM and financial management applications, which have long-standing relationships with many customers. Some customers may be hesitant to adopt cloud applications such as ours and prefer to upgrade the more familiar applications offered by these vendors that are deployed on-premise. Oracle and SAP are larger and have greater name recognition, much longer operating histories, larger marketing budgets and significantly greater resources than we do. These vendors, as well as other competitors, could offer HCM and financial management applications on a standalone basis at a low price or bundled as part of a larger product sale. 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. For example, Oracle acquired Taleo Corporation, and SAP acquired SuccessFactors and Ariba, Inc. Legacy vendors may also seek to partner with other leading cloud providers, such as the alliance between Oracle and Salesforce.com. We also face competition from custom-built software vendors and from vendors of specific applications, some of which offer cloud-based solutions. These vendors include, without limitation: The Ultimate Software Group, Inc., Automatic Data Processing and Infor Global Solutions. We also face competition from cloud-based vendors including providers of applications for HCM and payroll services such as Ceridian; providers of cloud-based expense management applications such as Concur Technologies, Inc.; and providers of financial management applications such as NetSuite, Inc. We may also face competition from a variety of vendors of cloud-based and on-premise software applications that address only a portion of one of our applications. In addition, other companies that provide cloud applications in different target markets, such as Salesforce.com and NetSuite, may develop applications or acquire companies that operate in our target markets, and some potential customers may elect to develop their own internal applications. With the introduction of new technologies and market entrants, we expect this competition to intensify in the future.

Many of our competitors are able to devote greater resources to the development, promotion and sale of their products and services. Furthermore, our current or potential competitors may be acquired by third parties with greater available resources and the ability to initiate or withstand substantial price competition. In addition, many of our competitors have established marketing relationships, access to larger customer bases and major distribution agreements with consultants, system integrators and resellers. Our competitors may also establish

cooperative relationships among themselves or with third parties that may further enhance their product offerings or resources. If our competitors' products, services or technologies become more accepted than our applications, 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, some of our competitors may offer their products and services at a lower price. If we are unable to achieve our target pricing levels, our operating results would be negatively affected. 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.

If the market for enterprise cloud computing develops more slowly than we expect or declines, our business could be adversely affected.

The enterprise cloud computing market is not as mature as the market for on-premise enterprise software, and it is uncertain whether cloud computing will achieve and sustain high levels of customer demand and market acceptance. Our success will depend to a substantial extent on the widespread adoption of cloud computing in general, and of HCM and financial management services in particular. Many enterprises have invested substantial personnel and financial resources to integrate traditional enterprise software into their businesses, and therefore may be reluctant or unwilling to migrate to cloud computing. It is difficult to predict customer adoption rates and demand for our applications, the future growth rate and size of the cloud computing market or the entry of competitive applications. The expansion of the cloud computing market depends on a number of factors, including the cost, performance, and perceived value associated with cloud computing, as well as the ability of cloud computing companies to address security and privacy concerns. If other cloud computing providers experience security incidents, loss of customer data, disruptions in delivery or other problems, the market for cloud computing applications as a whole, including our applications, may be negatively affected. If cloud computing does not achieve widespread adoption, or there is a reduction in demand for cloud computing caused by a lack of customer acceptance, technological challenges, weakening economic conditions, security or privacy concerns, competing technologies and products, decreases in corporate spending or otherwise, it could result in decreased revenues and our business could be adversely affected.

To date, we have derived a substantial majority of our subscription services revenues from our HCM application. Our efforts to increase use of our HCM application and our other applications may not succeed, and may reduce our revenue growth rate.

To date we have derived a substantial majority of our subscription services revenues from our HCM application. Any factor adversely affecting sales of this application, including application release cycles, market acceptance, product competition, performance and reliability, reputation, price competition, and economic and market conditions, could adversely affect our business and operating results. Our participation in the markets for our payroll, financial management, big data analytics, time tracking, procurement, employee expense management applications and recruiting is relatively new, and it is uncertain whether these areas will ever result in significant revenues for us. Further, the introduction of new applications beyond these markets may not be successful.

If we are not able to provide successful enhancements, new features and modifications, our business could be adversely affected.

If we are unable to provide enhancements and new features for our existing applications or new applications that achieve market acceptance or that keep pace with rapid technological developments, our business could be adversely affected. For example, we are focused on enhancing the features and functionality of our non-HCM applications to enhance their utility to larger customers with complex, dynamic and global operations. The success of enhancements, new features and applications depends on several factors, including the timely completion, introduction and market acceptance of the enhancements or new features or applications. Failure in this regard may significantly impair our revenue growth. In addition, because our applications are designed to

operate on a variety of systems, we will need to continuously modify and enhance our applications to keep pace with changes in Internet-related hardware, iOS and other software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements or in bringing them to market in a timely fashion. We must also appropriately balance the product 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 technologies could reduce the demand for our applications, result in customer dissatisfaction and adversely affect our business.

If our applications fail to perform properly, our reputation could be adversely affected, our market share could decline and we could be subject to liability claims.

Our applications are inherently complex and may contain material defects or errors. Any defects in functionality or that cause interruptions in the availability of our applications could result in:

- loss or delayed market acceptance and sales;
- breach of warranty claims;
- sales credits or refunds for prepaid amounts related to unused subscription services;
- loss of customers;
- diversion of development and customer service resources; and
- injury to our reputation.

The costs incurred in correcting any material defects or errors might be substantial and could adversely affect our operating results.

Because of the large amount of data that we collect and manage, it is possible that hardware failures or errors in our systems could result in data loss or corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant. Furthermore, the availability or performance of our applications could be adversely affected by a number of factors, including customers' inability to access the Internet, the failure of our network or software systems, security breaches or variability in user traffic for our services. We may be required to issue credits or refunds for prepaid amounts related to unused services or otherwise be liable to our customers for damages they may incur resulting from certain of these events. For example, our customers 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' access to our applications, adversely affect their perception of our applications' reliability and reduce our revenues. In addition to potential liability, if we experience interruptions in the availability of our applications, our reputation could be adversely affected and we could lose customers.

Our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. 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.

Large customers often demand more configuration and integration services, or customized features and functions that we do not offer, which could adversely affect our business and operating results.

Large customers may demand more configuration and integration services, which increase our upfront investment in sales and deployment efforts, with no guarantee that these customers will increase the scope of their subscription. As a result of these factors, we must devote a significant amount of sales support and professional services resources to individual customers, increasing the cost and time required to complete sales.

Additionally, our applications do not currently permit customers to add new data fields and functions or to modify our code. If prospective customers require customized features or functions that we do not offer, and that would be difficult for them to deploy themselves, then the market for our applications will be more limited and our business could suffer.

Because we sell applications to manage complex operating environments of large customers, we encounter long sales cycles, which could adversely affect our operating results in a given period.

Our ability to increase revenues and achieve and maintain profitability depends, in large part, on widespread acceptance of our applications by large businesses and other organizations. As we target our sales efforts at these customers, we face greater costs, longer sales cycles and less predictability in completing some of our sales. In the large enterprise market, the customer's decision to use our applications may be an enterprise-wide decision and, therefore, these types of sales require us to provide greater levels of education regarding the use and benefits of our applications. In addition, because we are a relatively new company with a limited operating history, our target customers may prefer to purchase applications that are critical to their business from one of our larger, more established competitors. Our typical sales cycles are six to twelve months, and we expect that this lengthy sales cycle may continue or increase as customers adopt our applications beyond HCM. Longer sales cycles could cause our operating and financial results to suffer in a given period.

Our customers' deployment timeframes vary based on many factors including the number and type of applications being deployed, the complexity and scale of the customers' businesses, the configuration requirements, the number of integrations with other systems and other factors, many of which are beyond our control.

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 negatively affect our ability to market our applications.

We rely on our reputation and recommendations from key customers in order to promote subscriptions to our applications. The loss of any of our key customers, or a failure of some of them to renew, could have a significant impact on our revenues, reputation and our ability to obtain new customers. In addition, acquisitions of our customers could lead to cancellation of our contracts with those customers or by the acquiring companies, thereby reducing the number of our existing and potential customers. Acquisitions of our partners could also result in a decrease in the number of our current and potential customers, as our partners may no longer facilitate the adoption of our applications.

We typically provide service level commitments under our customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face contract terminations, which could adversely affect our revenues.

Our customer agreements typically provide service level commitments on a monthly basis. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our applications, we may be contractually obligated to provide these customers with service credits, refunds for prepaid amounts related to unused subscription services, or we could face contract terminations. Our revenues could be significantly affected if we suffer unscheduled downtime that exceeds the allowed downtimes under our agreements with our customers. Any extended service outages could adversely affect our reputation, revenues and operating results.

Our business could be adversely affected if our customers are not satisfied with the deployment services provided by us or our partners.

Our business depends on our ability to satisfy our customers, both with respect to our application offerings and the professional services that are performed to help our customers use features and functions that address their business needs. 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 our deployment services. If a customer is not satisfied with the quality of work performed by us or a third party or with the type of professional services or applications delivered, then we could incur additional costs to address the situation, the profitability of that work might be impaired, and the customer's dissatisfaction with our services could damage our ability to expand the number of applications subscribed to by that customer. 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.

Any failure to offer high-quality technical support services may adversely affect our relationships with our customers and our financial results.

Once our applications are deployed, our customers depend on our support organization to resolve technical issues relating to our applications. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. We also may be unable to modify the format of our support services to compete with changes in support services provided by our competitors. Increased customer demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on our applications and business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our applications to existing and prospective customers, and our business, operating results and financial position.

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

A key element of our growth strategy is to expand our international operations and develop a worldwide customer base. To date, we have not realized a substantial portion of our revenues from customers headquartered outside the United States. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks that are different from those in the United States. Because of our limited experience with international operations, our international expansion efforts may not be successful in creating demand for our applications outside of the United States or in effectively selling subscriptions to our applications in all of the international markets we enter. In addition, we will face risks in doing business internationally that could adversely affect our business, including:

- the need to localize and adapt our applications for specific countries, including translation into foreign languages and associated expenses;
- our ability to clearly articulate a go-to-market strategy that aligns product management efforts and the development of supporting infrastructure;
- data privacy laws which require that customer data be stored and processed in a designated territory;
- difficulties in appropriately staffing and managing foreign operations and determining appropriate compensation for local markets;
- difficulties in leveraging executive presence and company culture globally;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- new and different sources of competition;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- laws and business practices favoring local competitors;

- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- ensuring compliance with anti-bribery laws including the Foreign Corrupt Practices Act;
- adverse tax consequences; and
- unstable regional and economic political conditions.

Today, our international contracts are only occasionally denominated in local currencies. However, the majority of our international costs are denominated in local currencies. We anticipate that over time, an increasing portion of our international contracts may be denominated in local currencies. Therefore, fluctuations in the value of the U.S. dollar and foreign currencies may impact our operating results when translated into U.S. dollars. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuations.

We have acquired, and may in the future acquire, other companies 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 or technologies to complement or expand our applications, enhance our technical capabilities, obtain personnel or otherwise offer growth opportunities. The pursuit of acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

We have limited experience in acquiring other businesses. We may not be able to integrate acquired personnel, operations and technologies successfully or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- inability to integrate or benefit from acquired technologies or services in a profitable manner;
- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- difficulty integrating the accounting systems, operations and personnel of the acquired business;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- difficulty converting the customers of the acquired business onto our applications and contract terms, including disparities in the revenues, licensing, support or professional services model of the acquired company;
- diversion of management's attention from other business concerns;
- adverse effects on our existing business relationships with business partners and customers as a result of the acquisition;
- the potential loss of key employees;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

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

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

We have a history of cumulative losses and we do not expect to be profitable for the foreseeable future.

We have incurred significant losses in each period since our inception in 2005. These losses and our accumulated deficit reflect the substantial investments we made to acquire new customers and develop our applications. We expect our operating expenses to increase in the future due to anticipated increases in sales and marketing expenses, product development expenses, operations costs and general and administrative costs, and therefore we expect our losses to continue for the foreseeable future. Furthermore, to the extent we are successful in increasing our customer base, we will also incur increased losses 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. You should not consider our recent growth in revenues as indicative of our future performance. Accordingly, we cannot assure you that we will achieve profitability in the future, nor that, if we do become profitable, we will sustain profitability.

If we experience significant fluctuations in our rate of anticipated growth and fail to balance our expenses with our revenue forecasts, our results could be harmed.

Our ability to forecast our future rate of growth is limited and subject to a number of uncertainties, including general economic and market conditions. We plan our expense levels and investment on estimates of future revenue and future anticipated rates of growth. We may not be able to adjust our spending quickly enough if our growth rates fall short of our expectations.

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

We may not be able to sustain our revenue growth rates in the future.

You should not consider our historical revenue growth rates as indicative of our future performance. Our revenue growth rates have declined, and may decline in future periods, as the size of our customer base increases and as we achieve higher market penetration rates. Other factors may also contribute to declines in our growth rates, including slowing demand for our products, 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, among others. As our growth rates decline, investors' perceptions of our business and the trading price of our securities could be adversely affected.

Because 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 from customers ratably over the terms of their contracts, which are typically three years. 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 subscriptions 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. Accordingly, the effect of significant downturns in sales and market acceptance of our applications, and potential changes in our pricing policies or rate of renewals, may not be fully reflected in our results of operations until future periods. We may be unable to adjust our cost structure to reflect the changes in revenues. In addition, a significant 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 revenues from new customers must be recognized over the applicable subscription term.

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

Our quarterly results of operations, including the levels of our revenues, gross margin, profitability, cash flow and unearned revenue, 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. Fluctuation in quarterly results may negatively impact the value of our securities. Factors that may cause fluctuations in our quarterly financial results include, without limitation, those listed below:

- our ability to attract new customers;
- the addition or loss of large customers, including through acquisitions or consolidations;
- the timing of recognition of revenues;
- 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, industry and market conditions;
- customer renewal rates;
- increases or decreases in the number of elements of our services or pricing changes upon any renewals of customer agreements;
- changes in our pricing policies or those of our competitors;
- the mix of applications sold during a period;
- seasonal variations in sales of our applications, which have historically been highest in the fourth quarter of a calendar year;
- the timing and success of new application and service introductions by us or our competitors or any other change in the competitive dynamics of our industry, including consolidation among competitors, customers or strategic partners; and
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies.

Our ability to predict the rate of customer subscription renewals or adoptions, and the impact these renewals and adoptions will have on our revenues or operating results, is limited.

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 price or based on the same pricing

model as we have used historically. Moreover, large customers, which are the focus of our sales efforts, may demand greater price concessions. As a result, in the future we may be required to reduce our prices, which could adversely affect our revenues, gross margin, profitability, financial position and cash flow.

In addition, our customers have no obligation to renew their subscriptions for our applications after the expiration of the initial subscription period. Our customers may renew for fewer elements of our applications or on different pricing terms. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our pricing or our applications and their ability to continue their operations and spending levels. If our customers do not renew their subscriptions for our applications on similar pricing terms, our revenues may decline and our business could suffer. 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 features or enhanced elements of our applications to our current customers. This may require increasingly costly sales efforts that are targeted at senior management. If these efforts are not successful, our business may suffer.

Failure to adequately expand our direct sales force will impede our growth.

We will need to continue to expand and optimize our sales infrastructure in order to grow our customer base and our business. We plan to continue to expand our direct sales force, both domestically and internationally. Identifying and recruiting qualified personnel and training them in the use of our software requires significant time, expense and attention. It can take nine months or longer before our sales representatives are fully-trained and productive. Our business may be adversely affected if our efforts to expand and train our direct sales force do not generate a corresponding increase in revenues. In particular, if we are unable to hire, develop and retain talented sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the expected benefits of this investment or increase our revenues.

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

We believe that developing and maintaining widespread awareness of our brand in a cost-effective manner is critical to achieving widespread acceptance of our applications and attracting new customers. Brand promotion activities may not generate customer awareness or increase revenues, and even if they do, any increase in revenues may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, or incur substantial expenses, 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.

Our growth depends in part on the success of our strategic relationships with third parties.

In order to grow our business, we anticipate that we will continue to depend on relationships with third parties, such as deployment partners, and technology and content providers. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our services. In addition, acquisitions of our partners by our competitors could result in a decrease in the number of our current and potential customers, as our partners may no longer facilitate the adoption of our applications by potential customers.

If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased customer usage of our applications or increased revenues.

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. The financial recession resulted in a significant weakening of the economy in the United States and Europe and of the global economy, more limited availability of credit, a reduction in business confidence and activity, and other difficulties that may affect one or more of the industries to which we sell our applications. In addition, in the United States there has been pressure to reduce government spending. This might reduce demand for our applications from organizations that receive funding from the U.S. government and could negatively affect the U.S. economy, which could further reduce demand for our applications. Further, the economies of countries in Europe have been experiencing weakness associated with high sovereign debt levels, weakness in the banking sector and uncertainty over the future of the Euro zone. We have operations in Ireland and current and potential new customers in Europe. If economic conditions in Europe and other key markets for our applications continue to remain uncertain or deteriorate further, many customers may delay or reduce their information technology spending. This could result in reductions in sales of our applications, longer sales cycles, reductions in subscription duration and value, 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. In addition, there can be no assurance that enterprise software spending levels will increase following any recovery.

Our customers may fail to pay us in accordance with the terms of their agreements, necessitating action by us to compel payment.

We typically enter into multiple year, non-cancelable arrangements with customers of our services. If customers fail to pay us under the terms of our agreements, we may be adversely affected both from the inability to collect amounts due and the cost of enforcing the terms of our contracts, including litigation. The risk of such negative effects increases with the term length of our customer arrangements. Furthermore, some of our customers may seek bankruptcy protection or other similar relief and fail to pay amounts due to us, or pay those amounts more slowly, either of which could adversely affect our operating results, financial position and cash flow.

Any failure to protect our intellectual property rights 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 primarily rely on copyright, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these 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 seriously adversely affect our brand and adversely impact our 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 success depends upon our not infringing upon the intellectual property rights of others. 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 we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. In the future, others may claim that our applications and underlying technology infringe or violate their intellectual property rights. However, we may be unaware of the

intellectual property rights that others may claim cover some or all of our technology or services. 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, 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. Even if we were to prevail in such a 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.

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. 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 subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our technologies and services. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with usage of open source software cannot be eliminated, and could negatively affect our business.

We employ third-party licensed software for use in or with our applications, and the inability to maintain these licenses or errors in the software we license could result in increased costs, or reduced service levels, which would adversely affect our business.

Our applications incorporate certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools from third parties in the future. 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. In addition, integration of the software used in our applications with new third-party software may require significant work and require substantial investment of our time and resources. Also, to the extent that our applications depend upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in this third-party software could prevent the deployment or impair the functionality of our applications, delay new application introductions, result in a failure of our applications and injure our reputation. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties.

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our applications, and could have a negative impact on our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our applications in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications or generally, result in reductions in the demand for Internet-based applications such as ours.

In addition, the use of the Internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the Internet and its acceptance as a business tool has been adversely affected by “viruses,” “worms” and similar malicious programs and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the Internet is adversely affected by these issues, demand for our applications could suffer.

We are obligated to develop and maintain proper and effective internal controls over financial reporting. We may not complete our analysis of our internal controls over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in the accuracy and completeness of our financial reports and the market price of our securities may be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) 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 New York Stock Exchange (NYSE), the SEC, or other regulatory authorities, which could require additional financial and management resources.

The requirements of being a public company may strain our resources and divert management’s attention.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, (the Exchange Act), the Sarbanes-Oxley Act, the Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the listing requirements of the NYSE and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources. In particular, we have incurred and expect to continue to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management’s attention may be diverted from other business concerns, which could harm our business and operating results. Although we have hired additional employees to comply with these requirements, we may need to hire more employees in the future, in particular accounting, financial and internal audit staff, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in

many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

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

As of January 31, 2014, we had federal and state net operating loss carryforwards due to prior period losses, which if not utilized will begin to expire in 2025 and 2015 for federal and state purposes, respectively. We also have federal research tax credit carryforwards, which if not utilized will begin to expire in 2025. 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 (the Code), 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.

Adverse tax laws or regulations could be enacted or existing laws could be applied to us or our customers, which could increase the costs of our services and adversely impact our business.

The application of federal, state, local and international tax laws to services provided electronically is evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services provided over the Internet. These enactments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and ultimately result 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 or our customers to pay additional tax amounts, as well as require us or our customers to pay 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.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Risks Related to Our Class A Common Stock

Our co-founders and co-CEOs have control over key decision making as a result of their control of a majority of our voting stock.

Our co-founder and co-CEO David Duffield, together with his affiliates, as of February 28, 2014, holds voting rights with respect to 68.3 million shares of Class B common stock and 0.1 million shares of Class A Common Stock, and in addition, holds 0.1 million restricted stock units, which will be settled in an equivalent number of shares of Class A common stock. As of February 28, 2014, our co-founder and co-CEO Aneel Bhusri, together with his affiliates, holds voting rights with respect to 7.1 million shares of Class B common stock and 0.4 million shares of Class A common stock. In addition, Mr. Bhusri holds exercisable options to acquire 3.2 million shares of Class B common stock, 1.0 million shares of Class B restricted stock and 0.1 million restricted stock units, which will be settled in an equivalent number of shares of Class A common stock. Further, Messrs. Duffield and Bhusri have entered into a voting agreement under which each has granted a voting proxy with respect to certain Class B common stock beneficially owned by him effective upon his death or incapacity as described in our registration statement on Form S-1 filed in connection with our initial public offering. Messrs. Duffield and Bhusri have each initially designated the other as their respective proxies. Accordingly, upon the death or incapacity of either Mr. Duffield or Mr. Bhusri, the other would individually continue to control the voting of shares subject to the voting proxy. Collectively, the shares described above represent a substantial majority of the voting power of our outstanding capital stock. As a result, Messrs. Duffield and Bhusri have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, they have the ability to control the management and affairs of our company as a result of their positions as our co-CEOs and their ability to control the election of our directors. As board members and officers, Messrs. Duffield and Bhusri owe a fiduciary duty to our stockholders and must act in good faith in a manner they reasonably believe to be in the best interests of our stockholders. As stockholders, even as controlling stockholders, they are entitled to vote their shares in their own interests, which may not always be in the interests of our stockholders generally.

The dual class structure of our common stock has the effect of concentrating voting control with our co-CEOs, and also with executive officers, directors and other affiliates; this will limit or preclude the ability of non-affiliates to influence corporate matters.

Our Class B common stock has ten votes per share and our Class A common stock, which is the stock that is currently 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 February 28, 2014. 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 October 11, 2032, or such earlier time: as the shares of Class B common stock represent less than 9% of all outstanding shares of our Class A and Class B common stock; if agreed by the holders of the majority of the Class B common stock; or nine months following the death of both Mr. Duffield and Mr. Bhusri. 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, our co-CEOs 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 been volatile historically, and could be subject to wide fluctuations in response to various factors described below. These factors, as well as the volatility of our Class A common stock, could also impact the price of our convertible senior notes. The factors that may affect the trading price of our securities, some of which are beyond our control, include:

- overall performance of the equity markets;
- fluctuations in the valuation of companies perceived by investors to be comparable to us or in valuation metrics, such as our price to revenues ratio;
- changes in the estimates of our operating results that we provide to the public, our failure to meet these projections or changes in recommendations by securities analysts that follow our securities;
- announcements of technological innovations, new applications or enhancements to services, acquisitions, strategic alliances or significant agreements by us or by our competitors;
- 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, market conditions in our industry, and the industries of our customers;
- trading activity by directors, executive officers and significant stockholders, or the perception in the market that the holders of a large number of shares intend to sell their shares;
- the exercise of rights held by certain of our stockholders, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders;
- the size of our market float and significant option exercises;
- any future issuances of securities;
- sales and purchases of any Class A common stock issued upon conversion of our convertible senior notes or in connection with the convertible note hedge and warrant transactions related to such convertible senior notes; and
- our operating performance and the performance of other similar companies.
- The sale or availability for sale of a large number of shares of our Class A common stock in the public market could cause the price of our Class A common stock to decline.

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

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

We have indebtedness in the form of convertible senior notes.

In June 2013, we completed an offering of \$350.0 million of 0.75% convertible senior notes due July 15, 2018 (2018 Notes), and we concurrently issued an additional \$250.0 million of 1.50% convertible senior notes due July 15, 2020 (2020 Notes).

As a result of these convertible notes offerings, we incurred \$350.0 million principal amount of indebtedness, the principal amount of which we may be required to pay at maturity in 2018, and \$250.0 million principal amount of indebtedness, the principal amount of which we may be required to pay at maturity in 2020, or, in each of the foregoing, upon the occurrence of a fundamental change (as defined in the applicable indenture). There can be no assurance that we will be able to repay this indebtedness when due, or that we will be able to refinance this indebtedness on acceptable terms or at all. In addition, this 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;
- 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; and
- limit our flexibility in planning for and reacting to changes in our business.

Exercise of the warrants associated with our 2018 Notes or our 2020 Notes may affect the price of our Class A common stock.

In connection with our offering of the 2018 Notes, we sold warrants to acquire up to approximately 4.2 million shares of our Class A common stock at an initial strike price of \$107.96, which become exercisable beginning on October 15, 2018. In connection with our offering of the 2020 Notes, we sold warrants to acquire up to approximately 3.1 million shares of our Class A common stock at an initial strike price of \$107.96, which become exercisable beginning on October 15, 2020. The warrants may be settled in shares or in cash. The exercise of the warrants could have a dilutive effect if the market price per share of our Class A common stock exceeds the strike price of the warrants. The counterparties to the warrant transactions and note hedge transactions relating to the 2018 Notes and the 2020 Notes are likely to enter into or unwind various derivative instruments with respect to our Class A common stock or purchase or sell shares of our Class A common stock or other securities linked to or referencing our Class A common stock in secondary market transactions prior to the respective maturity of the 2018 Notes and the 2020 Notes. These activities could adversely affect the trading price of our Class A common stock.

Delaware law and provisions in our restated certificate of incorporation 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 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 restated bylaws contain provisions that may make the acquisition of our company 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;
- we have a dual class common stock structure, which provides our co-chief executive officers 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 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, our co-chief executive officers, our president, or a majority of our board of directors are authorized to call a special meeting of stockholders;
- certain litigation against us can only be brought in Delaware;
- we will have two classes of common stock until the date that is the first to occur of (i) October 11, 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.

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.

We have broad discretion in the use of the net proceeds from our initial public offering, our convertible senior notes offerings, and our follow-on offering and may not use them effectively.

We have broad discretion in the application of the net proceeds that we received from our initial public offering, our convertible senior notes offerings and our follow-on offering, including working capital, possible acquisitions and other general corporate purposes, and we may spend or invest these proceeds in a way with which our investors disagree. The failure by our management to apply these funds effectively could adversely affect our business and financial condition. Pending their use, we may invest the net proceeds from our initial public offering and convertible senior notes offerings in a manner that does not produce income or that loses value. These investments may not yield a favorable return to our investors and may negatively impact the price of our securities.

If securities or industry analysts publish inaccurate or unfavorable research about our business, or discontinue publishing research about our business, the price and trading volume of our securities could decline.

The trading market for our securities will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, the price of our securities would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our securities could decrease, which might cause the price and trading volume of our securities to decline.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters, which includes our operations and product development facilities, is located in Pleasanton, California, and consists of approximately 322,088 square feet of space under multiple leases.

We also lease offices in various North American, European and Asian locations. We expect to expand our facilities capacity, including at our corporate headquarters and in certain field locations, during fiscal 2015. One of our co-CEOs, Mr. Duffield, acquired commercial real estate in close proximity to our corporate headquarters in 2013. At the time of this acquisition, we had existing leases in the buildings acquired by Mr. Duffield. We expect to lease additional space at that site in the coming year and beyond. We have and will continue to seek independent evaluations of current market rates at the time we sign new leases with the goal of leasing at a rate comparable to the current market price. During the year ended January 31, 2014, we leased approximately 65,244 of additional square footage from Mr. Duffield. In January 2014, we acquired a 95 year lease for a 6.9 acre parcel of land adjacent to our existing Pleasanton, California leased facilities. The lease affords us the opportunity to develop office space for employees in Pleasanton, California. We paid \$10.0 million to acquire the lease and \$1.5 million in prepaid rent through December 31, 2020. If construction does not commence by June 30, 2015, we will be required to make additional payments to the lessor, ranging from \$0.2 million to \$1.0 million based on the length of the delay. We believe that we will be able to obtain additional space at other locations at commercially reasonable terms to support our continuing expansion.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various legal proceedings arising from the normal course of business activities. We are not presently a party to any litigation the outcome of which we believe, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial condition. Defending such proceedings is costly and can impose a significant burden on management and employees, we may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurances that favorable final outcomes will be obtained.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information for Common Stock

Our Class A common stock has been listed on the New York Stock Exchange under the symbol "WDAY" since October 12, 2012, the date of our initial public offering.

The following table sets forth for the indicated periods the high and low intra-day sales prices of our Class A common stock as reported by the New York Stock Exchange.

	<u>High</u>	<u>Low</u>
Year ended January 31, 2013		
Third quarter (from October 12, 2012)	\$57.21	\$45.05
Fourth quarter	\$57.10	\$46.00
Year ended January 31, 2014		
First quarter	\$65.00	\$50.26
Second quarter	\$69.75	\$59.87
Third quarter	\$84.42	\$67.78
Fourth quarter	\$94.55	\$70.84

Our Class B common stock is not listed or traded on any stock exchange.

Dividend Policy

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

Stockholders

As of January 31, 2014, there were 37 stockholders of record of our Class A common stock, including The Depository Trust Company, which holds shares of our common stock on behalf of an indeterminate number of beneficial owners, as well as 244 stockholders of record of our Class B common stock.

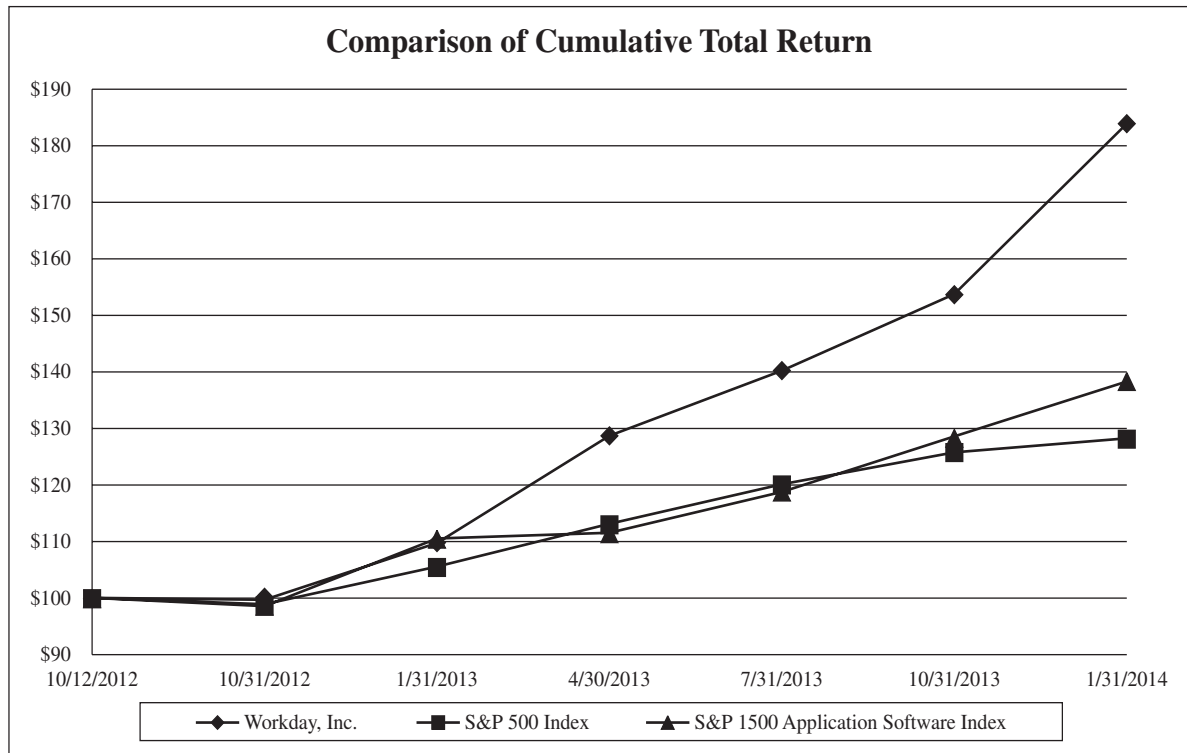
Securities Authorized for Issuance under Equity Compensation Plans

The information concerning our equity compensation plans is incorporated by reference herein to the section of the Proxy Statement entitled "Equity Compensation Plan Information."

Stock Performance Graph

The following shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filing.

This chart compares the cumulative total return on our common stock with that of the S&P 500 Index and the S&P 1500 Application Software Index. The chart assumes \$100 was invested at the close of market on October 12, 2012, in the Class A common stock of Workday, Inc., the S&P 500 Index and the S&P 1500 Application Software Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



<u>Company/Index</u>	<u>Base Period 10/12/2012</u>	<u>10/31/2012</u>	<u>1/31/2013</u>	<u>4/30/2013</u>	<u>7/31/2013</u>	<u>10/31/2013</u>	<u>1/31/2014</u>
Workday, Inc.	100	\$99.61	\$109.71	\$128.67	\$140.25	\$153.77	\$183.90
S&P 500 Index	100	98.89	105.57	113.14	120.05	125.75	128.26
S&P 1500 Application Software Index	100	98.58	110.49	111.49	118.79	128.56	138.28

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

We changed the end of our fiscal year from December 31 to January 31, effective for our fiscal year ended January 31, 2012. The consolidated statements of operations data and the consolidated balance sheets data are derived from our audited consolidated financial statements and should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, our consolidated financial statements and the related notes included elsewhere in this filing. Our historical results are not necessarily indicative of our results in any future period.

	Year Ended January 31,			One Month Ended January 31,	Year Ended December 31,	
	2014	2013	2012	2011	2010	2009
	(in thousands, except per share data)					
Consolidated Statements of Operations Data:						
Revenues:						
Subscription services	\$ 354,169	\$ 190,320	\$ 88,634	\$ 4,814	\$ 36,594	\$ 13,746
Professional services	114,769	83,337	45,793	2,468	31,461	11,499
Total revenues	<u>468,938</u>	<u>273,657</u>	<u>134,427</u>	<u>7,282</u>	<u>68,055</u>	<u>25,245</u>
Costs and expenses ⁽¹⁾ :						
Costs of subscription services	69,195	39,251	22,342	1,187	11,419	6,623
Costs of professional services	107,615	77,284	43,026	2,717	28,445	13,882
Product development	182,116	102,665	62,014	3,962	39,175	30,045
Sales and marketing	197,373	123,440	70,356	3,771	36,524	20,875
General and administrative	65,921	48,880	15,133	1,077	8,553	5,215
Total costs and expenses	<u>622,220</u>	<u>391,520</u>	<u>212,871</u>	<u>12,714</u>	<u>124,116</u>	<u>76,640</u>
Operating loss	(153,282)	(117,863)	(78,444)	(5,432)	(56,061)	(51,395)
Other income (expense), net	<u>(17,549)</u>	<u>(1,203)</u>	<u>(1,018)</u>	<u>(8)</u>	<u>(57)</u>	<u>1,544</u>
Loss before provision for income taxes	(170,831)	(119,066)	(79,462)	(5,440)	(56,118)	(49,851)
Provision for income taxes	<u>1,678</u>	<u>124</u>	<u>167</u>	<u>10</u>	<u>97</u>	<u>91</u>
Net loss	(172,509)	(119,190)	(79,629)	(5,450)	(56,215)	(49,942)
Accretion of redeemable convertible preferred stock	<u>—</u>	<u>(568)</u>	<u>(342)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net loss attributable to common stockholders	<u><u>\$(172,509)</u></u>	<u><u>\$(119,758)</u></u>	<u><u>\$(79,971)</u></u>	<u><u>\$(5,450)</u></u>	<u><u>\$(56,215)</u></u>	<u><u>\$(49,942)</u></u>
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	<u><u>\$ (1.01)</u></u>	<u><u>\$ (1.62)</u></u>	<u><u>\$ (2.71)</u></u>	<u><u>\$ (0.20)</u></u>	<u><u>\$ (2.22)</u></u>	<u><u>\$ (2.28)</u></u>
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders	<u>171,297</u>	<u>74,011</u>	<u>29,478</u>	<u>27,642</u>	<u>25,367</u>	<u>21,922</u>

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

	Year Ended January 31,			One Month Ended January 31,	Year Ended December 31,	
	2014	2013	2012	2011	2010	2009
Costs of subscription services	\$ 2,408	\$ 601	\$ 230	\$ 4	\$ 55	\$ 15
Costs of professional services	4,818	1,312	398	12	118	64
Product development	21,644	3,528	1,124	47	556	272
Sales and marketing	12,131	2,717	839	28	310	187
General and administrative	20,850	7,170	1,591	102	663	358

	As of January 31,			As of December 31,	
	2014	2013	2012	2010	2009
	(in thousands)				

Consolidated Balance Sheet Data:

Cash and cash equivalents	\$ 581,326	\$ 84,158	\$ 57,529	\$ 30,887	\$ 34,372
Marketable securities	1,305,253	706,181	53,634	4,498	20,557
Working capital (deficit)	1,601,768	629,528	37,934	(4,065)	36,222
Property and equipment, net	77,664	44,585	25,861	12,896	8,821
Total assets	2,176,265	959,080	232,638	100,605	97,829
Total unearned revenue	413,565	285,260	188,097	97,404	53,633
Convertible senior notes, net	468,412	—	—	—	—
Total liabilities	989,048	366,797	237,293	122,689	66,447
Redeemable convertible preferred stock	—	—	170,906	75,555	75,555
Total stockholders' equity (deficit)	1,187,217	592,283	(175,561)	(97,639)	(44,173)

	Year Ended January 31,			One Month Ended January 31	Year Ended December 31,	
	2014	2013	2012	2011	2010	2009
	(in thousands)					

Cash Flow Data:

Net cash provided by (used in)						
operating activities	\$ 46,263	\$ 11,214	\$(13,774)	\$(1,069)	\$(15,335)	\$(30,128)
Free cash flows ⁽²⁾	(29,577)	(23,401)	(34,756)	(1,134)	(24,109)	(34,357)

- ⁽²⁾ Free cash flows, a non-GAAP financial measure, is defined as net cash provided by (used in) operating activities minus purchases of property and equipment, property and equipment acquired under capital leases and purchase of other intangible assets. Each adjusting item is separately presented on our consolidated statements of cash flows. See Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" for further information.

ITEM 7. 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 consolidated financial statements and notes thereto included elsewhere in this report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in “Risk Factors.”

Overview

Workday provides enterprise cloud applications for human capital management (HCM), payroll, financial management and analytics. We offer innovative and adaptable technology focused on the consumer Internet experience and cloud delivery model. Our applications are designed for global enterprises to manage complex and dynamic operating environments. We provide our customers highly adaptable, accessible and reliable applications to manage critical business functions that enable them to optimize their financial and human capital resources.

We were founded in 2005 to deliver cloud applications to global enterprises. Our applications are designed around the way people work today – in an environment that is global, collaborative, fast-paced and mobile. Our cycle of frequent updates has facilitated rapid innovation and the introduction of new applications throughout our history. We began offering our Human Capital Management (HCM) application in 2006. Since then we have continued to invest in innovation and have consistently introduced new services to our customers, including our Financial Management application in 2007, our Procurement and Employee Expense Management applications in 2008, our Payroll and mobile applications in 2009, our Talent Management application in 2010, our native iPad application and Workday integration platform in 2011, Time Tracking and Grants Management applications in 2012 and Big Data Analytics in 2013.

We offer Workday applications to our customers on an enterprise-wide subscription basis, typically with three-year terms and with subscription fees largely based on the size of the customer’s workforce. We generally recognize revenues from subscription fees ratably over the term of the contract. We currently derive a substantial majority of our subscription services revenues from subscriptions to our HCM application. We market our applications primarily through our direct sales force.

We have achieved significant growth in a relatively short period of time. Our diverse customer base includes large, global companies and our direct sales force targets organizations with more than 1,000 workers. As of January 31, 2014, we had more than 600 customers. A substantial majority of our growth comes from new customers. Our current financial focus is on growing our revenues and expanding our customer base. While we are incurring losses today, 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. Our operating expenses have increased significantly in absolute dollars in recent periods, primarily due to our significant growth in employees. We had more than 2,600 and more than 1,700 employees as of January 31, 2014 and 2013, respectively.

We intend to continue investing for long-term growth. We have invested, and expect to continue to invest, heavily in our application development efforts to deliver additional compelling applications and to address customers’ evolving needs. In addition, we plan to continue to expand our sales and marketing organizations to sell our applications globally. We have made significant investments in our data center infrastructure in fiscal 2014. We expect to continue this effort in fiscal 2015 as we update our technology and plan for future customer growth. We are also investing in personnel to service our growth in customers. These 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 will make it difficult to determine if we are allocating our resources efficiently. As a result of these investments, we do not expect to be profitable in the near future. We expect our product

development, sales and marketing, and general and administrative expenses as a percentage of revenues to decrease over time 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 and by utilizing more of the capacity of our data centers.

Since inception, we have 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. In addition, over time we expect professional services revenues and the cost of professional services as a percentage of total revenues to decline as we increasingly rely on our partners to deploy Workday applications and as the number of our existing customers continues to grow.

Fiscal Year End

Our fiscal year ends on January 31. References to fiscal 2014, for example, refer to the year ended January 31, 2014.

Components of Results of Operations

Revenues

We primarily derive our revenues from subscription services fees and professional services fees. Subscription services revenues primarily consist of fees that give our customers access to our cloud applications, which include routine customer support at no additional cost. Professional services fees include deployment services, optimization services, and training.

Subscription services revenues accounted for over 75% of our total revenues during fiscal 2014 and represented over 90% of our total unearned revenue as of January 31, 2014. Subscription services revenues are driven primarily by the number of customers, the number of workers at each customer, the number of applications subscribed to by each customer, the price of our applications, and to a lesser extent, renewal rates. To date, revenues from renewals have not been a substantial component of revenues.

The mix of the applications to which a customer subscribes can affect our financial performance due to price differentials in our applications. Compared to our other offerings, our HCM application has been available for a longer period of time, is more established in the marketplace and has benefited from continued enhancements of the functionality over a longer period of time, all of which help us to improve our pricing for that application. However, new products or services offerings by competitors in the future could impact the mix and pricing of our offerings.

Subscription services fees are recognized ratably as revenues over the contract term beginning on the date the application is made available to the customer, which is generally within one week of contract signing. Our subscription contracts typically have a term of three years and are non-cancelable. We generally invoice our customers in advance, in annual installments. Amounts that have been invoiced are initially recorded as unearned revenue. Amounts that have not been invoiced represent backlog and are not reflected in our consolidated financial statements.

Our consulting engagements are typically billed on a time and materials basis, and revenues are typically recognized as the services are performed. We offer a number of training options intended to support our customers in configuring, using and administering our services. In some cases, we supplement our consulting teams by subcontracting resources from our service partners and deploying them on customer engagements. As Workday's professional services organization and the Workday-related consulting practices of our partner firms

continue to develop, we expect the 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 professional services revenues as a percentage of total revenues to decline over time.

Approximately 2% of our total revenues for year ended January 31, 2014 were derived from multiple-deliverable arrangements that were accounted for as a single unit of accounting, because some of our professional services offerings did not have standalone value when the related contracts were executed. In these situations, all revenue is recognized ratably over the term of the subscription contract. Additionally, in these situations, we defer the direct costs of the related professional services contract and those direct costs are amortized over the same period as the professional services revenues are recognized. As of January 31, 2014, less than 10% of our total unearned revenue balance represented multiple-deliverable arrangements accounted for as a single unit of accounting. For contracts executed subsequent to February 1, 2012, there was standalone value for all deliverables.

Costs and Expenses

Costs of subscription services revenues. Costs of subscription services revenues consist primarily of employee-related expenses related to hosting our applications and providing support, the costs of data center capacity, and depreciation of owned and leased computer equipment and software.

Costs of professional services revenues. Costs of professional services revenues consist primarily of employee-related expenses associated with these services, the cost of subcontractors and travel costs. The percentage of total revenues derived from professional services was 24% in fiscal 2014. The cost of providing professional services is significantly higher as a percentage of the related revenues than for our subscriptions.

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

Sales and marketing. Sales and marketing expenses consist primarily of employee-related expenses, sales commissions, marketing programs and travel related expenses. Marketing programs consist of advertising, events, corporate communications, brand building and product marketing activities. Commissions earned by our sales force that can be associated specifically with a non-cancelable subscription contract are deferred and amortized over the same period that revenues are recognized for the related non-cancelable contract.

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

Results of Operations

Revenues

Our total revenues for fiscal 2014, 2013 and 2012 were as follows:

	Year Ended January 31,				
	2014	2013	2012	2013 to 2014 % Change	2012 to 2013 % Change
	(in thousands)				
Subscription services	\$354,169	\$190,320	\$ 88,634	86%	115%
Professional services	114,769	83,337	45,793	38	82
Total revenues	<u>\$468,938</u>	<u>\$273,657</u>	<u>\$134,427</u>	71	104

Fiscal 2014 compared to fiscal 2013. Total revenues were \$468.9 million for fiscal 2014, compared to \$273.7 million for fiscal 2013, an increase of \$195.2 million, or 71%. Subscription services revenues were \$354.2 million for fiscal 2014, or 76% of total revenues, compared to \$190.3 million, or 70% of total revenues, for fiscal 2013, an increase of \$163.9 million or 86%. The increase in subscription services revenues was due primarily to the addition of new customers as compared to the prior year period. We had more than 600 customers as of January 31, 2014 compared to more than 400 customers as of January 31, 2013. Professional services revenues were \$114.8 million for fiscal 2014, compared to \$83.3 million for fiscal 2013, an increase of \$31.5 million, or 38%. The increase in professional services revenues was due primarily to the addition of new customers and a greater number of customers requesting deployment and integration services.

Fiscal 2013 compared to fiscal 2012. Total revenues were \$273.7 million for fiscal 2013, compared to \$134.4 million for fiscal 2012, an increase of \$139.2 million, or 104%. Subscription services revenues were \$190.3 million, or 70% of total revenues, for fiscal 2013, compared to \$88.6 million, or 66% of total revenues, for fiscal 2012. The increase in subscription services revenues was due primarily to the addition of new and larger customer contracts as compared to the prior year. We had more than 400 customers as of January 31, 2013 compared to more than 250 customers as of January 31, 2012. Professional services revenues were \$83.3 million, or 30% of total revenues, for fiscal 2013, compared to \$45.8 million, or 34% of total revenues, for fiscal 2012. The increase in professional services revenues was due primarily to a larger customer base requesting deployment and integration services.

Core Operating Expenses

Management uses the non-GAAP financial measure of core 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 and the ability of operations to generate cash. Management believes that core operating expenses reflects our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business, as it excludes expenses that are not reflective of ongoing operating results. Management also believes that core operating expenses provides useful information to investors and others in understanding and evaluating our operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

The following discussion of our core operating expenses and the components comprising our core operating expenses highlights the factors that our management focuses upon in evaluating our operating margin and operating expenses. The increases or decreases in operating expenses discussed in this section do not include changes relating to share-based compensation, and certain other expenses, which consist of employer payroll taxes on employee stock transactions and an equity grant to the Workday Foundation.

Information about our operating expenses is as follows:

	Year Ended January 31, 2014			
	Core Operating Expenses⁽¹⁾	Share-Based Compensation Expenses	Other Operating Expenses	Total Operating Expenses
	(in thousands)			
Costs of subscription services	\$ 66,770	\$ 2,408	\$ 17	\$ 69,195
Costs of professional services	102,141	4,818	656	107,615
Product development	158,928	21,644	1,544	182,116
Sales and marketing	184,359	12,131	883	197,373
General and administrative	43,773	20,850	1,298	65,921
Total operating expenses	<u>\$555,971</u>	<u>\$ 61,851</u>	<u>\$ 4,398</u>	<u>\$ 622,220</u>
Operating loss	\$(87,033)	\$(61,851)	\$(4,398)	\$(153,282)
Operating margin	(19)%	(13)%	(1)%	(33)%

	Year Ended January 31, 2013			
	Core Operating Expenses ⁽¹⁾	Share-Based Compensation Expenses	Other Operating Expenses	Total Operating Expenses
	(in thousands)			
Costs of subscription services	\$ 38,650	\$ 601	\$ —	\$ 39,251
Costs of professional services	75,972	1,312	—	77,284
Product development	99,137	3,528	—	102,665
Sales and marketing	120,723	2,717	—	123,440
General and administrative	30,460	7,170	11,250	48,880
Total operating expenses	<u>\$364,942</u>	<u>\$ 15,328</u>	<u>\$ 11,250</u>	<u>\$ 391,520</u>
Operating loss	<u>\$(91,285)</u>	<u>\$(15,328)</u>	<u>\$(11,250)</u>	<u>\$(117,863)</u>
Operating margin	(33)%	(6)%	(4)%	(43)%

	Year Ended January 31, 2012		
	Core Operating Expenses ⁽¹⁾	Share-Based Compensation Expenses	Total Operating Expenses
	(in thousands)		
Costs of subscription services	\$ 22,112	\$ 230	\$ 22,342
Costs of professional services	42,628	398	43,026
Product development	60,890	1,124	62,014
Sales and marketing	69,517	839	70,356
General and administrative	13,542	1,591	15,133
Total operating expenses	<u>\$208,689</u>	<u>\$ 4,182</u>	<u>\$212,871</u>
Operating loss	<u>\$(74,262)</u>	<u>\$(4,182)</u>	<u>\$(78,444)</u>
Operating margin	(55)%	(3)%	(58)%

- ⁽¹⁾ Core operating expenses is a non-GAAP financial measure that excludes share-based compensation and certain other operating expenses from our total operating expenses calculated in accordance with GAAP. The other operating expenses excluded are employer payroll taxes on employee stock transactions and an equity grant to the Workday Foundation. See “Non-GAAP Financial Measures” below for further information.

Core operating margin

Core operating margins, calculated using GAAP revenues and core operating expenses, improved from (33)% for fiscal 2013 to (19)% for fiscal 2014 and from (55)% for fiscal 2012 to (33)% for fiscal 2013. The improvement in our operating margin was primarily due to higher subscription services revenues in both fiscal 2014 and 2013 compared to prior fiscal years. In evaluating our results, we generally focus on core operating expenses. We believe that our core operating expenses reflect our ongoing business in a manner that allows meaningful period-to-period comparisons. Our core operating expenses are reconciled to the most comparable U.S. generally accepted accounting principles (GAAP) measure, “total operating expenses,” in the table above.

Core operating expenses increased by \$191.0 million, or 52% for fiscal 2014, compared to fiscal 2013 and by \$156.3 million or 75% for fiscal 2013, compared to fiscal 2012. As quantified below, these increases for both periods were primarily due to higher employee-related costs driven by higher headcount.

Cost of subscription services

Fiscal 2014 compared to fiscal 2013. Core operating expenses in costs of subscription services were \$66.8 million for fiscal 2014, compared to \$38.7 million for fiscal 2013, an increase of \$28.1 million, or 73%. The increase was primarily due to an increase of \$10.4 million in depreciation expense related to our data

centers, an increase of \$8.8 million in employee-related costs driven by higher headcount and an increase of \$6.6 million in service contracts expense to expand data center capacity. We expect that in the future, core operating expenses in costs of subscription services will continue to increase in absolute dollars as we improve and expand our data center capacity and operations.

Fiscal 2013 compared to fiscal 2012. Core operating expenses in costs of subscription services were \$38.7 million for fiscal 2013, compared to \$22.1 million for fiscal 2012, an increase of \$16.6 million, or 75%. The increase was primarily due to an increase of \$5.8 million in employee-related costs driven by higher headcount and an increase of \$4.8 million in depreciation expenses for additional data center equipment. In addition, we had an increase of \$2.9 million in service delivery costs and an increase of \$1.5 million in facilities costs due to our increased data center capacity.

Cost of professional services

Fiscal 2014 compared to fiscal 2013. Core operating expenses in costs of professional services were \$102.1 million for fiscal 2014, compared to \$76.0 million for fiscal 2013, a \$26.1 million increase, or 34%. This increase was primarily due to increases of \$21.3 million to staff our deployment and integration engagements and \$1.6 million in facility and IT-related expense. Due to the large increase in demand for our professional services versus the prior year, we have increased both our internal professional service staff as well as third-party supplemental staff. Over time, we expect costs of professional services as a percentage of total revenues to decline as we increasingly rely on third parties to deploy our applications and as the number of our customers continues to grow. For fiscal 2015, we anticipate professional services margins to be lower than fiscal 2014 as we invest in deploying new customers in financial management applications, medium-size enterprise, and education and government categories, where the third party partner ecosystem is still maturing.

Fiscal 2013 compared to fiscal 2012. Core operating expenses in costs of professional services were \$76.0 million for fiscal 2013, compared to \$42.6 million for fiscal 2012, an increase of \$33.4 million, or 78%. The increase was primarily due to additional costs of \$30.7 million to staff our deployment and integration engagements. Due to the large increase in demand for our professional services versus fiscal 2012, we increased both our internal professional service staff as well as third party supplemental staff.

Product development

Fiscal 2014 compared to fiscal 2013. Core operating expenses in product development were \$158.9 million for fiscal 2014, compared to \$99.1 million for fiscal 2013, an increase of \$59.8 million, or 60%. The increase was primarily due to increases of \$44.9 million in employee compensation costs due to higher headcount, \$6.4 million in facility and IT-related expenses and \$3.8 million in contracted costs for our development cloud data center. We expect that in the future, product development expenses will continue to increase in absolute dollars as we improve and extend our applications and develop new technologies.

Fiscal 2013 compared to fiscal 2012. Core operating expenses in product development were \$99.1 million for fiscal 2013, compared to \$60.9 million for fiscal 2012, an increase of \$38.2 million, or 63%. The increase was primarily due to an increase of \$28.0 million in employee-related costs due to higher headcount and a \$2.6 million increase in contractor costs as we supplemented our internal development professionals.

Sales and marketing

Fiscal 2014 compared to fiscal 2013. Core operating expenses in sales and marketing were \$184.4 million for fiscal 2014, compared to \$120.7 million for fiscal 2013, an increase of \$63.7 million, or 53%. The increase was primarily due to increases of \$47.2 million in employee compensation costs due to higher headcount and higher commissionable sales volume, \$5.9 million in advertising, marketing and event costs, \$4.2 million in travel expenses and \$4.2 million in facility and IT-related expenses. We expect that sales and marketing expenses will continue to increase in absolute dollars in the future as we continue to invest in sales and marketing by expanding our domestic and international selling and marketing activities, building brand awareness and attracting new customers.

Fiscal 2013 compared to fiscal 2012. Core operating expenses in sales and marketing were \$120.7 million for fiscal 2013, compared to \$69.5 million for fiscal 2012, an increase of \$51.2 million, or 74%. The increase was primarily due to increases of \$35.9 million in employee-related costs driven by higher headcount, \$5.0 million in advertising, marketing and event costs, and \$3.2 million in travel expenses.

General and administrative

Fiscal 2014 compared to fiscal 2013. Core operating expenses in general and administrative were \$43.8 million for fiscal 2014, compared to \$30.5 million for fiscal 2013, an increase of \$13.3 million, or 44%. The increase was primarily due to \$10.6 million in higher compensation costs due to higher headcount and \$2.1 million in higher professional services costs including consulting, legal and audit. We expect general and administrative expenses will increase in absolute dollars as we invest in our infrastructure and incur additional employee-related costs, professional fees and insurance costs related to the growth of our business and international expansion.

Fiscal 2013 compared to fiscal 2012. Core operating expenses in general and administrative were \$30.5 million for fiscal 2013, compared to \$13.5 million for fiscal 2012, an increase of \$17.0 million, or 126%. The increase was primarily due to \$10.0 million in higher employee-related costs driven by higher headcount. Also contributing to the change was a \$4.9 million increase in professional services costs as we transitioned to being a public company.

Share-Based Compensation Expenses

Share-based compensation expenses were \$61.9 million, \$15.3 million and \$4.2 million in fiscal 2014, 2013 and 2012, respectively. The increase in share-based compensation expenses for fiscal 2014 compared to fiscal 2013 was primarily due to grants of restricted stock units to existing and new employees during fiscal 2014. During fiscal 2014, we realized \$0.3 million excess tax benefits related to share-based compensation expenses. The increase in share-based compensation expenses for fiscal 2013 compared to fiscal 2012 was primarily due to equity grants in fiscal 2013 when the market value of our common stock was significantly higher than when the fiscal 2012 grants were made.

Many of the fiscal 2014 grants occurred in August 2014 and thus we expect share-based compensation expenses in fiscal 2015 to increase as we will have a full year of expense recognition related to these grants and we expect to make additional share grants in fiscal 2015.

Other Operating Expenses

Other operating expenses, which consist of employer payroll tax on employee stock transactions for fiscal 2014 and a one-time charge related to our contribution of 500,000 shares of common stock to the Workday Foundation in fiscal 2013, were \$4.4 million and \$11.3 million, respectively. Employer payroll taxes on employee stock transactions substantially increased beginning in April 2013 after the expiration of the lock-up period instituted for our initial public offering. Before fiscal 2014, the employer payroll tax on employee stock transactions was not included in other operating expenses as it was not material.

Other Expense, Net

Other expense, net, was \$17.5 million for fiscal 2014 compared to \$1.2 million for fiscal 2013, an increase of \$16.3 million. The increase was primarily due to the interest expense related to our 0.75% convertible senior notes due July 15, 2018 (2018 Notes) and 1.50% convertible senior notes due July 15, 2020 (2020 Notes, and together with the 2018 Notes, referred to as Notes), including the contractual cash interest expense of \$4.0 million and non-cash interest expense related to amortization of the debt discount and amortization of debt issuance costs of \$14.4 million.

Liquidity and Capital Resources

As of January 31, 2014, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$1.9 billion, which were held for working capital purposes. Our cash equivalents and marketable securities are comprised primarily of U.S. agency obligations, U.S. treasury securities, money market funds, commercial paper, and U.S. corporate securities.

We have financed our operations primarily through sales of equity securities, customer payments, and issuance of debt. In July 2013, we issued Notes which provided us with net proceeds of \$584.3 million. In January 2014, we sold 6.9 million shares of our Class A common stock in a follow-on offering which provided us with net proceeds of \$592.2 million. Our future capital requirements will depend on many factors, including our customer growth rate, subscription renewal activity, the timing and extent of development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced services offerings, and the continuing market acceptance of our services. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, and intellectual property rights. We may choose to seek additional equity or debt financing.

Our cash flows for fiscal 2014, 2013 and 2012 were as follows:

	Year Ended January 31,		
	2014	2013	2012
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$ 46,263	\$ 11,214	\$(13,774)
Investing activities	(682,633)	(670,118)	(56,195)
Financing activities	1,133,610	685,537	96,978
Effect of exchange rate changes	(72)	(4)	8
Net increase in cash and cash equivalents	<u>\$ 497,168</u>	<u>\$ 26,629</u>	<u>\$ 27,017</u>

In evaluating our performance internally, we focus on long-term, sustainable growth in free cash flows. We define free cash flows, a non-GAAP financial measure, as net cash provided by (used in) operating activities minus purchases of property and equipment, property and equipment acquired under capital leases and purchase of other intangible assets. See “Non-GAAP Financial Measures” for additional information.

Our free cash flows for fiscal 2014, 2013 and 2012 were as follows:

	Year Ended January 31,		
	2014	2013	2012
	(in thousands)		
Net cash provided by (used in) operating activities	\$ 46,263	\$ 11,214	\$(13,774)
Purchases of property and equipment	(60,725)	(15,898)	(4,999)
Property and equipment acquired under capital leases	(115)	(18,717)	(15,983)
Purchase of other intangible assets	(15,000)	—	—
Free cash flows	<u>\$(29,577)</u>	<u>\$(23,401)</u>	<u>\$(34,756)</u>

Operating Activities

Management uses cash provided by (used in) operating activities as a key financial metric. For fiscal 2014, cash provided by operating activities was \$46.3 million as compared to \$11.2 million for fiscal 2013 and a use of cash in operating activities of \$13.8 million for fiscal 2012. The increase in cash flows compared to prior fiscal years resulted primarily from increased cash collections driven by growth in sales to our customers. This increase in collections in both fiscal 2014 and 2013 was partially offset by increases in our operating expenses, which was primarily driven by increased headcount.

Investing Activities

Cash used in investing activities for fiscal 2014, 2013 and 2012 was \$682.6 million, \$670.1 million and \$56.2 million respectively, and was primarily the result of the timing of purchases and maturities of marketable securities and of capital expenditures of \$60.7 million, \$15.9 million and \$5.0 million, respectively. Following the initial public offering of our Class A common stock in October 2012, the issuance of our Notes in July 2013 and our follow-on offering of Class A common stock in January 2014, we purchased a significant amount of marketable securities. In addition, during fiscal 2014, we paid \$10.0 million to purchase a leasehold interest and \$5.0 million to acquire patents. We expect capital expenditures will be approximately \$100 million for fiscal 2015. We expect that these capital outlays will largely be used to expand the infrastructure of our data centers and to build out additional office space to support our growth.

Financing Activities

For fiscal 2014, financing activities provided \$1.1 billion, primarily as a result of \$584.3 million in net proceeds from issuance of the Notes, \$592.2 million in net proceeds from our follow-on offering of Class A common stock, \$92.7 million in proceeds from the issuance of warrants related to the Notes and \$23.7 million in proceeds from issuance of our Class A common stock from the exercise of stock options and the purchase of shares under the Employee Stock Purchase Plan (ESPP). These proceeds were partially offset by \$143.7 million to purchase convertible senior notes hedges and \$12.1 million in principal payments on our capital lease obligations. We purchased the convertible senior notes hedges to offset potential economic dilution to our Class A Common Stock upon any conversion of the Notes.

For fiscal 2013, financing activities provided \$685.5 million, primarily as a result of \$684.6 million of net proceeds from our initial public offering of Class A common stock in October 2012 and \$10.4 million in proceeds from the exercise of stock options, partially offset by \$9.5 million in principal payments on our capital lease obligations.

For fiscal 2012, financing activities provided \$97.0 million primarily as a result of \$95.0 million of net proceeds from issuance of Series F redeemable convertible preferred stock and \$6.3 million in proceeds from the exercise of stock options, partially offset by \$4.3 million in principal payments on our capital lease obligations.

Free Cash Flows

In addition to cash provided by (used in) operating activities, management uses free cash flows as a key financial metric. Free cash flows decreased by \$6.2 million to \$(29.6) million for fiscal 2014, compared to \$(23.4) million for fiscal 2013, and improved by \$11.4 million to \$(23.4) million for fiscal 2013, compared to \$(34.8) million for fiscal 2012. The reduction in free cash flows in fiscal 2014 as compared to fiscal 2013 was primarily due to a significant increase in cash paid for property and equipment and payments made for a leasehold interest and patents, partially offset by increased sales and the related cash collections. The increase in free cash flows in 2013 was primarily due to increased sales and the related cash collections.

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 core operating expenses, core operating margin and free cash flows each meet the definition of a non-GAAP financial measure.

Core Operating Expenses

We define core operating expenses as our total operating expenses excluding the following components, which we believe are not reflective of our ongoing operational expenses. In each case, for the reasons set forth below, management believes that excluding the component provides useful information to investors and others in

understanding and evaluating our operating results and future 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 in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. For restricted share awards, the amount of share-based compensation expenses is not reflective of the value ultimately received by the grant recipients. Moreover, determining the fair value of certain of the share-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related share-based awards. Unlike cash compensation, the value of stock options and the Employee Stock Purchase Plan, which is an element of our ongoing share-based compensation expenses, is determined using a complex formula that incorporates factors, such as market volatility and forfeiture rates, that are beyond our control.
- *Other Operating Expenses.* Other operating expenses included employer payroll taxes on employee stock transactions for fiscal 2014 and a one-time charge related to our contribution of equity to the Workday Foundation for fiscal 2013. The amount of employer payroll taxes on share-based compensation is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. During fiscal 2013, Workday granted 500,000 shares of common stock to the Workday Foundation. The Workday Foundation is a non-profit organization established to provide grants and humanitarian relief, employer matching contributions and to support volunteerism and social development projects. This grant resulted in a one-time charge of \$11.3 million, which was recorded to the General and administrative expenses line of the consolidated statements of operations. Management does not expect to make future grants of shares to the Foundation and therefore considers this charge non-recurring. As such, management believes it is useful to exclude this one-time charge in order to better understand the ongoing expenses of our core business and to facilitate comparison of our results across periods.

Free cash flows

We define free cash flows as net cash provided by (used in) operating activities minus purchases of property and equipment, property and equipment acquired under capital leases and purchase of other intangible assets. Management uses free cash flows as a measure of financial progress in our business, as it balances operating results, cash management and capital efficiency. When calculating free cash flows, we subtract the gross value of all equipment, even when acquired under capital leases, so we can evaluate our progress on free cash flows independent of our capital financing decisions.

Management believes information regarding free cash flows provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

Limitations on the use of Non-GAAP financial measures

A limitation of our non-GAAP financial measures of core operating expenses and free cash flows is that they do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-GAAP measures of core operating expenses and free cash flows should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP. Additionally, 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 taxes, the cash salary expense included in costs of revenues and operating expenses would be higher, which would affect our cash position. Further, the non-GAAP measure of core operating

expenses has certain limitations because it does not reflect all items of income and expense that affect our operations and are reflected in the GAAP measure of total operating expenses.

We compensate for these limitations by reconciling core operating expenses to the most comparable GAAP financial measure and reviewing these measures in conjunction with GAAP financial information. Management encourages 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” for a reconciliation of the non-GAAP financial measure of core operating expenses to the most comparable GAAP measure, “total operating expenses,” for fiscal 2014, 2013 and 2012.

See “Liquidity and Capital Resources” for a reconciliation of free cash flows to the most comparable GAAP measure, “net cash provided by (used in) operating activities,” for fiscal 2014, 2013 and 2012.

Backlog

We generally sign multiple-year subscription contracts for our applications. The timing of our invoices to the customer is a negotiated term and varies among our subscription contracts. For multiple-year agreements, it is common to invoice an initial amount at contract signing followed by subsequent annual invoices. At any point in the contract term, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenues, unearned revenue or elsewhere in our consolidated financial statements. To the extent future invoicing is considered certain, we consider the contract to be non-cancelable backlog. Future invoicing is considered certain when we have a fully executed non-cancelable contract, and invoicing is not dependent on a future event such as customer funding or the delivery of a product. The amount of subscription contract backlog was \$636.1 million as of January 31, 2014.

We expect that the amount of backlog relative to the total value of our contracts will change from year to year for several reasons, including the amount of cash collected early in the contract term, the specific timing and duration of large customer subscription agreements, varying invoicing cycles of subscription agreements, the specific timing of customer renewals, changes in customer financial circumstances and foreign currency fluctuations. Backlog may also vary based on changes in the average non-cancelable term of our subscription agreements. Accordingly, we believe that fluctuations in backlog are not a reliable indicator of future revenues and we do not utilize backlog as a key management metric internally.

Contractual Obligations

The following table summarizes our consolidated principal contractual cash obligations, as of January 31, 2014:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
0.75% Convertible Senior Notes due 2018 ⁽¹⁾	\$350,000	\$ —	\$ —	\$350,000	\$ —
1.50% Convertible Senior Notes due 2020 ⁽¹⁾	250,000	—	—	—	250,000
Aggregate interest obligation ⁽²⁾	35,904	6,375	12,750	11,321	5,458
Capital lease obligations ⁽³⁾	13,574	9,901	3,673	—	—
Operating lease obligations:					
Facilities space ⁽⁴⁾	59,109	12,894	13,578	7,554	25,083
Facilities space with related party	22,414	2,179	4,668	4,890	10,677
Contractual commitments	4,358	4,358	—	—	—
Total	<u>\$735,359</u>	<u>\$35,707</u>	<u>\$34,669</u>	<u>\$373,765</u>	<u>\$291,218</u>

⁽¹⁾ Represents aggregate principal amount of the notes, without the effect of associated discounts.

- (2) Represents estimated aggregate interest obligations for our outstanding Notes that are payable in cash.
- (3) Includes principal and imputed interest.
- (4) For the 95-year lease we entered in January 2013, the cash obligations exclude the potential annual rental increases based on the increases to the Consumer Price Index (CPI). (See more information under “commitments” below). We expect to make higher rent payments over the lease term due to increases in the CPI.

Commitments

Our principal commitments primarily consist of obligations under leases for office space and co-location facilities for data center capacity and our development and test data center, and computer equipment. For fiscal 2015, we anticipate leasing additional office space near our headquarters and in various other locations around the world to support our growth.

In January 2014, Workday acquired a 95-year lease for a 6.9 acre parcel of land adjacent to our existing Pleasanton, California leased facilities. The lease affords us the opportunity to develop office space for employees in Pleasanton, California. We paid \$10.0 million to acquire the lease and \$1.5 million in prepaid rent through December 31, 2020. If construction does not commence by June 30, 2015, we will be required to make additional payments to the lessor, ranging from \$0.2 million to \$1.0 million based on the length of the delay.

Purchase orders are not included in the table above. Our purchase orders represent authorizations to purchase rather than binding agreements. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included in the table above. In addition, future obligations relating to the lease described above for construction costs and required extension payments, if any, are not included in the above table because the costs and payments are dependent on the timing and scope of construction, which is not yet known.

Off-Balance Sheet Arrangements

Through January 31, 2014, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

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

We believe that of our significant accounting policies, which are described in Note 2 to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition

We derive our revenues primarily from subscription services fees and from professional services fees, including training. We sell subscriptions to our cloud applications through contracts that are generally three years

in length. Our arrangements do not contain general rights of return. Our subscription contracts do not provide customers with the right to take possession of the software supporting the applications and, as a result, are accounted for as service contracts.

We commence revenue recognition for our cloud applications and professional services when all of the following criteria are met:

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

Subscription Services Revenues

Subscription services revenues are recognized ratably over the contractual term of the arrangement beginning on the date that our service is made available to the customer, assuming all revenue recognition criteria have been met.

Professional Services Revenues

Professional services revenues are generally recognized as the services are rendered for time and material contracts, or on a proportional performance basis for fixed price contracts. The majority of our professional services contracts are on a time and materials basis. Training revenues are recognized as the services are rendered.

Multiple Deliverable Arrangements

For arrangements with multiple deliverables, we evaluate whether the individual deliverables qualify as separate units of accounting. In order to treat deliverables in a multiple deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, we account for each deliverable separately and revenue is recognized for the respective deliverables as they are delivered. If one or more of the deliverables does not have standalone value upon delivery, the deliverables that do not have standalone value are generally combined with the final deliverable within the arrangement and treated as a single unit of accounting. Revenue for arrangements treated as a single unit of accounting is generally recognized over the period commencing upon delivery of the final deliverable and over the remaining term of the subscription contract.

Subscription contracts have standalone value as we sell the subscriptions separately. In determining whether professional services can be accounted for separately from subscription services, we consider the availability of the professional services from other vendors, the nature of our professional services and whether we sell our applications to new customers without professional services. As of January 31, 2012, we did not have standalone value for the professional services related to the deployment of our financial management application. This was due to the fact that we had historically performed the majority of these services to support our customers' deployments of this application. In fiscal 2013, we determined that we had established standalone value for the deployment services related to our financial management application. This was primarily due to the growing number of partners that were trained and certified to perform these deployment services, the successful completion of a significant deployment engagement by a firm in our professional services ecosystem and the sale of several financial management cloud application subscription arrangements to customers without our deployment services. Because we established standalone value for our deployment services related to our financial management application in fiscal 2013, such service arrangements entered into after February 1, 2012 are being accounted for separately from subscription services.

When multiple deliverables included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on their relative selling price. Multiple deliverable arrangement accounting guidance provides a hierarchy to use when determining the relative selling price for each unit of accounting. Vendor-specific objective evidence (VSOE) of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence (TPE) of selling price is used to establish the selling price if it exists. VSOE and TPE do not currently exist for any of our deliverables. Accordingly, for arrangements with multiple deliverables that can be separated into different units of accounting, we allocate the arrangement fee to the separate units of accounting based on our best estimate of selling price. The amount of arrangement fee allocated is limited by contingent revenues, if any.

We determine our best estimate of selling price for our deliverables based on our overall pricing objectives, taking into consideration market conditions and entity-specific factors. We evaluate our best estimate of selling price by reviewing historical data related to sales of our deliverables, including comparing the percentages of our contract prices to our list prices. We also consider several other data points in our evaluation, including the size of our arrangements, the cloud applications sold, customer demographics and the numbers and types of users within our arrangements.

Deferred Commissions

Direct sales commissions are deferred when earned and amortized over the same period that revenues are recognized for the related non-cancelable cloud application services contract. The commission payments are paid in full after the customer has paid for its first year of service. During fiscal 2014, we deferred \$19.4 million of commission expenditures and we amortized \$10.0 million to sales and marketing expenses in the accompanying consolidated statements of operations. During fiscal 2013, we deferred \$12.8 million of commission expenditures and we amortized \$6.5 million to sales and marketing expense. Deferred commissions on our consolidated balance sheets totaled \$29.3 million and \$19.9 million at January 31, 2014 and 2013, respectively.

Convertible Senior Notes

In accounting for the issuance of the Notes, we separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes as a whole. This difference represents a debt discount that is amortized to interest expense over the terms of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the Notes, we allocated the total amount incurred to the liability and equity components. Issuance costs attributable to the liability components are being amortized to expense over the respective terms of the Notes, and issuance costs attributable to the equity components were netted with the respective equity component in additional paid-in capital.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The standard requires entities to present information about reclassification adjustments from accumulated other comprehensive income in their financial statements or footnotes. The guidance is effective for fiscal periods beginning after December 15, 2012. We adopted this new guidance on February 1, 2013 and it did not have an impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro and British Pound Sterling. Due to the relative size of our international operations to date and the fact that the majority of our international contracts are currently in U.S. dollars, our foreign currency exposure has been fairly limited. We expect our international operations to continue to grow in the near term and we expect to begin a hedging program in fiscal 2015. For fiscal 2015 and beyond, we expect the percentage of contracts denominated in currencies other than the U.S. dollars to increase.

Interest rate sensitivity

We had cash, cash equivalents and marketable securities totaling \$1.9 billion as of January 31, 2014. Cash equivalents and marketable securities were invested primarily in U.S. agency obligations, U.S. treasury securities, commercial paper, money market funds, and corporate securities. The cash, cash equivalents and marketable securities are held for working capital purposes. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash equivalents and our portfolio of marketable 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. However because we classify our marketable securities as “available for sale,” no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary.

An immediate increase of 100-basis points in interest rates would have resulted in an \$8.5 million market value reduction in our investment portfolio as of January 31, 2014. All of our investments earn less than 100-basis points and as a result, an immediate decrease of 100-basis points in interest rates would have increased the market value by \$1.4 million as of January 31, 2014. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our investment securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities.

At January 31, 2013, we had cash, cash equivalents and marketable securities totaling \$790.3 million. The fixed-income portfolio was also subject to interest rate risk; however, the risk was not material.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WORKDAY, INC.

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Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Workday, Inc.

We have audited the accompanying consolidated balance sheets of Workday, Inc. as of January 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, cash flows and redeemable convertible preferred stock and stockholders' equity (deficit) for each of the three years in the period ended January 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Workday, Inc. at January 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Workday, Inc.'s internal control over financial reporting as of January 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 31, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
March 31, 2014

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Workday, Inc.

We have audited Workday, Inc.'s internal control over financial reporting as of January 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Workday, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Workday, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the fiscal 2014 consolidated financial statements of Workday, Inc. and our report dated March 31, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
March 31, 2014

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

	January 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 581,326	\$ 84,158
Marketable securities	1,305,253	706,181
Accounts receivable, net of allowance for doubtful accounts of \$783 and \$613	92,184	67,437
Deferred costs	16,446	9,816
Prepaid expenses and other current assets	28,449	16,710
Total current assets	2,023,658	884,302
Property and equipment, net	77,664	44,585
Deferred costs, noncurrent	20,797	18,575
Goodwill and acquisition related intangible assets, net	8,488	8,488
Other assets	45,658	3,130
Total assets	\$2,176,265	\$ 959,080
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 6,212	\$ 2,665
Accrued expenses and other current liabilities	17,999	13,558
Accrued compensation	55,620	27,203
Capital leases	9,377	12,008
Unearned revenue	332,682	199,340
Total current liabilities	421,890	254,774
Convertible senior notes, net	468,412	—
Capital leases, noncurrent	3,589	12,972
Unearned revenue, noncurrent	80,883	85,920
Other liabilities	14,274	13,131
Total liabilities	989,048	366,797
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10 million shares authorized as of January 31, 2014 and January 31, 2013; no shares issued and outstanding as of January 31, 2014	—	—
Class A common stock, \$0.001 par value; 750 million shares authorized as of January 31, 2014 and January 31, 2013; 91 million and 26 million shares issued and outstanding as of January 31, 2014 and January 31, 2013	90	26
Class B common stock, \$0.001 par value; 240 million shares authorized as of January 31, 2014 and January 31, 2013; 92 million and 140 million shares issued and outstanding as of January 31, 2014 and January 31, 2013 (including 2 million and 3 million shares subject to repurchase, legally issued and outstanding as of January 31, 2014 and January 31, 2013)	91	136
Additional paid-in capital	1,761,156	993,933
Accumulated other comprehensive income	269	68
Accumulated deficit	(574,389)	(401,880)
Total stockholders' equity	1,187,217	592,283
Total liabilities and stockholders' equity	\$2,176,265	\$ 959,080

See Notes to Consolidated Financial Statements

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

	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Subscription services	\$ 354,169	\$ 190,320	\$ 88,634
Professional services	114,769	83,337	45,793
Total revenues	468,938	273,657	134,427
Costs and expenses ⁽¹⁾ :			
Costs of subscription services	69,195	39,251	22,342
Costs of professional services	107,615	77,284	43,026
Product development	182,116	102,665	62,014
Sales and marketing	197,373	123,440	70,356
General and administrative	65,921	48,880	15,133
Total costs and expenses	622,220	391,520	212,871
Operating loss	(153,282)	(117,863)	(78,444)
Other expense, net	(17,549)	(1,203)	(1,018)
Loss before provision for income taxes	(170,831)	(119,066)	(79,462)
Provision for income taxes	1,678	124	167
Net loss	(172,509)	(119,190)	(79,629)
Accretion of redeemable convertible preferred stock	—	(568)	(342)
Net loss attributable to Class A and Class B common stockholders	<u>\$(172,509)</u>	<u>\$(119,758)</u>	<u>\$(79,971)</u>
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	<u>\$ (1.01)</u>	<u>\$ (1.62)</u>	<u>\$ (2.71)</u>
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders	<u>171,297</u>	<u>74,011</u>	<u>29,478</u>

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

	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Costs of subscription services	\$ 2,408	\$ 601	\$ 230
Costs of professional services	4,818	1,312	398
Product development	21,644	3,528	1,124
Sales and marketing	12,131	2,717	839
General and administrative	20,850	7,170	1,591

See Notes to Consolidated Financial Statements

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

	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net loss	\$(172,509)	\$(119,190)	\$(79,629)
Other comprehensive income (loss), net of tax:			
Changes in foreign currency translation adjustment	(72)	(4)	9
Net change in unrealized gains (losses) on available-for-sale investments	273	69	(11)
Other comprehensive income (loss), net of tax:	201	65	(2)
Comprehensive loss	<u>\$(172,308)</u>	<u>\$(119,125)</u>	<u>\$(79,631)</u>

See Notes to Consolidated Financial Statements

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

	Year Ended January 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net loss	\$ (172,509)	\$(119,190)	\$(79,629)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	34,695	17,722	9,319
Share-based compensation expenses	61,851	15,328	4,182
Amortization of deferred costs	12,219	11,368	7,099
Amortization of debt discount and issuance costs	14,395	—	—
Donation of common stock to Workday Foundation	—	11,250	—
Other	678	56	60
Changes in operating assets and liabilities:			
Accounts receivable	(25,037)	(12,970)	(39,025)
Deferred costs	(21,071)	(17,153)	(12,036)
Prepaid expenses and other assets	(25,876)	(9,877)	(4,909)
Accounts payable	3,547	(65)	2,195
Accrued expense and other liabilities	35,066	17,582	9,260
Unearned revenue	128,305	97,163	89,710
Net cash provided by (used in) operating activities	46,263	11,214	(13,774)
Cash flows from investing activities:			
Purchases of marketable securities	(1,587,240)	(765,797)	(63,282)
Maturities of marketable securities	983,242	111,577	13,086
Purchases of property and equipment	(60,725)	(15,898)	(4,999)
Purchase of cost method investment	(2,000)	—	(1,000)
Purchase of other intangible assets	(15,000)	—	—
Other	(910)	—	—
Net cash used in investing activities	(682,633)	(670,118)	(56,195)
Cash flows from financing activities:			
Proceeds from initial public offering, net of issuance costs	—	684,620	—
Proceeds from follow-on offering, net of issuance costs	592,241	—	—
Proceeds from borrowings on convertible senior notes, net of issuance costs	584,291	—	—
Proceeds from issuance of warrants	92,708	—	—
Purchase of convertible senior notes hedges	(143,729)	—	—
Proceeds from issuance of common stock from employee equity plans	23,692	10,370	6,265
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	—	—	95,009
Principal payments on capital lease obligations	(12,129)	(9,453)	(4,296)
Other	(3,464)	—	—
Net cash provided by financing activities	1,133,610	685,537	96,978
Effect of exchange rate changes	(72)	(4)	8
Net increase in cash and cash equivalents	497,168	26,629	27,017
Cash and cash equivalents at the beginning of period	84,158	57,529	30,512
Cash and cash equivalents at the end of period	<u>\$ 581,326</u>	<u>\$ 84,158</u>	<u>\$ 57,529</u>
Supplemental cash flow data:			
Cash paid for interest	<u>\$ 4,886</u>	<u>\$ 1,315</u>	<u>\$ 898</u>
Non-cash investing and financing activities:			
Property and equipment acquired under capital leases	<u>\$ 115</u>	<u>\$ 18,717</u>	<u>\$ 15,983</u>
Accretion of redeemable convertible preferred stock	<u>\$ —</u>	<u>\$ 568</u>	<u>\$ 342</u>
Vesting of early exercised stock options	<u>\$ 3,043</u>	<u>\$ 2,447</u>	<u>\$ 395</u>
Purchases of property and equipment, accrued but not paid	<u>\$ 1,613</u>	<u>\$ —</u>	<u>\$ —</u>

See Notes to Consolidated Financial Statements

WORKDAY, INC.
CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK
AND STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands, except share data)

	Redeemable Convertible Preferred Stock Shares	Convertible Preferred Stock Shares	Common Stock Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Amounts	Amount	Amount	Amount	Amount	Amount	Amount
Balances as of January 31, 2011	22,954,545	\$ 75,555	\$ 68	\$ 99,344	\$ 5	\$(202,151)	\$ (102,707)
Issuance of Series F redeemable convertible preferred stock, net of issuance costs	7,435,149	95,009					
Issuance of common stock under employee equity plans				2,536			2,542
Vesting of early exercised stock options				395			395
Grant of restricted stock award			100,000				
Share-based compensation				4,182			4,182
Accretion of redeemable convertible preferred stock issuance costs		342				(342)	(342)
Other comprehensive loss					(2)		(2)
Net loss						(79,629)	(79,629)
Balances as of January 31, 2012	30,389,694	\$ 170,906	\$ 68	\$ 106,457	\$ 3	\$(282,122)	\$ (175,561)
Issuance of common stock under employee equity plans				2,416			2,419
Vesting of early exercised stock options				2,445			2,447
Grant of restricted stock awards							
Share-based compensation				15,328			15,328
Conversion of preferred stock to common stock				171,443			171,473
Initial public offering, net of issuance costs				684,594			684,620
Donation of shares to Workday Foundation				11,250			11,250
Accretion of redeemable convertible preferred stock issuance costs		568				(568)	(568)
Other comprehensive income					65		65
Net loss						(119,190)	(119,190)
Balances as of January 31, 2013			\$ 162	\$ 993,933	\$ 68	\$(401,880)	\$ 592,283
Issuance of common stock under employee equity plans				23,682			23,692
Follow-on offering, net of issuance costs				592,234			592,241
Vesting of early exercised stock options				3,042			3,043
Vested restricted stock units net							
Shares withheld for tax withholding on vesting of restricted stock				(3,806)			(3,806)
Share-based compensation				61,851			61,851
Exercise of warrants				1			1
Excess tax benefits from share-based compensation				342			342
Purchase of convertible senior notes hedges				(143,729)			(143,729)
Issuance of warrants				92,708			92,708
Equity component of convertible senior notes				140,899			140,899
Other comprehensive income					201		201
Net loss						(172,509)	(172,509)
Balances as of January 31, 2014			\$ 181	\$ 1,761,156	\$ 269	\$(574,389)	\$ 1,187,217

See Notes to Consolidated Financial Statements

Note 1. Overview and Basis of Presentation

Company and Background

Workday provides enterprise cloud applications for human capital management (HCM), payroll, financial management and analytics. We offer innovative and adaptable technology focused on the consumer Internet experience and cloud delivery model. Our applications are designed for global enterprises to manage complex and dynamic operating environments. We provide our customers highly adaptable, accessible and reliable applications to manage critical business functions that enable them to optimize their financial and human capital resources. We were originally incorporated in March 2005 in Nevada and in June 2012, we reincorporated in Delaware.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2014, for example, refer to the year ended January 31, 2014.

Basis of Presentation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the results of Workday, Inc. and its wholly-owned subsidiaries.

For the consolidated statements of operations for the years ended January 31, 2013 and 2012, to conform to the current year's presentation, we separated Revenues into Subscription services revenues and Professional services revenues and Costs of revenues to Costs of subscription services and Costs of professional services. This change had no impact on Total revenues or Total costs and expenses. In addition, for the consolidated statements of operations we renamed Research and development to Product development. Product development includes all costs related to research and development activities.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. These estimates include, but are not limited to, the determination of the relative selling prices for our services, the recoverability of deferred commissions and certain assumptions used in the valuation of equity awards. Actual results could differ from those estimates and such differences could be material to our consolidated financial position and results of operations.

Segment information

We operate in one operating segment, cloud applications. Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance. Our chief operating decision maker allocates resources and assesses performance based upon discrete financial information at the consolidated level. Since we operate in one operating segment, all required financial segment information can be found in the consolidated financial statements.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition

We derive our revenues primarily from subscription services fees and from professional services fees, including training. We sell subscriptions to our cloud applications through contracts that are generally three years

in length. Our arrangements do not contain general rights of return. Our subscription contracts do not provide customers with the right to take possession of the software supporting the applications and, as a result, are accounted for as service contracts.

We commence revenue recognition for our cloud applications and professional services when all of the following criteria are met:

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

Subscription Services Revenues

Subscription services revenues are recognized ratably over the contractual term of the arrangement beginning on the date that our service is made available to the customer, assuming all revenue recognition criteria have been met.

Professional Services Revenues

Professional services revenues are generally recognized as the services are rendered for time and materials contracts, or on a proportional performance basis for fixed price contracts. The majority of our professional services contracts are on a time and materials basis. Training revenues are recognized as the services are rendered.

Multiple Deliverable Arrangements

For arrangements with multiple deliverables, we evaluate whether the individual deliverables qualify as separate units of accounting. In order to treat deliverables in a multiple deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, we account for each deliverable separately and revenue is recognized for the respective deliverables as they are delivered. If one or more of the deliverables does not have standalone value upon delivery, the deliverables that do not have standalone value are generally combined with the final deliverable within the arrangement and treated as a single unit of accounting. Revenue for arrangements treated as a single unit of accounting is generally recognized over the subscription services period, which is considered the final deliverable.

Subscription services contracts have standalone value as we sell the subscriptions separately. In determining whether professional services can be accounted for separately from subscription services, we consider the availability of the professional services from other vendors, the nature of our professional services and whether we sell our applications to new customers without professional services. As of January 31, 2012, we did not have standalone value for the professional services related to the deployment of our financial management application. This was due to the fact that we had historically performed the majority of these services to support our customers' deployments of this application. In fiscal 2013, we determined that we had established standalone value for the deployment services related to our financial management application. This was primarily due to the growing number of partners that were trained and certified to perform these deployment services, the successful completion of a significant deployment engagement by a firm in our professional services ecosystem and the sale of several financial management cloud application subscription arrangements to customers without our deployment services. Because we established standalone value for our deployment services related to our financial management application in fiscal 2013, such service arrangements entered into after February 1, 2012 are being accounted for separately from subscription services.

When multiple deliverables included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on their relative selling price. Multiple deliverable arrangements accounting guidance provides a hierarchy to use when determining the relative selling price for each unit of accounting. Vendor-specific objective evidence (VSOE) of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence (TPE) of selling price is used to establish the selling price if it exists. VSOE and TPE do not currently exist for any of our deliverables. Accordingly, for arrangements with multiple deliverables that can be separated into different units of accounting, we allocate the arrangement fee to the separate units of accounting based on our best estimate of selling price. The amount of arrangement fee allocated is limited by contingent revenues, if any.

We determine our best estimate of selling price for our deliverables based on our overall pricing objectives, taking into consideration market conditions and entity-specific factors. We evaluate our best estimate of selling price by reviewing historical data related to sales of our deliverables, including comparing the percentages of our contract prices to our list prices. We also consider several other data points in our evaluation, including the size of our arrangements, the cloud applications sold, customer demographics and the numbers and types of users within our arrangements.

Costs of Subscription Services

Costs of subscription services primarily consist of costs related to providing our cloud applications, compensation and other employee-related expenses for data center staff, payments to outside service providers, data center and networking expenses and depreciation expenses.

Costs of Professional Services

Costs of professional services primarily consist of costs related to providing deployment services, optimization services and training and include compensation and other employee-related expenses for professional services staff, costs of subcontractors and travel.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. Our cash equivalents generally consist of investments in U.S. treasury securities, U.S. agency obligations, money market funds and commercial paper. Cash and cash equivalents are stated at fair value.

Marketable Securities

Our marketable securities consist of U.S. agency obligations, U.S. treasury securities, commercial paper, money market funds, U.S. corporate securities, and certificates of deposit. We classify our marketable securities as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. We may sell these securities at any time for use in current operations or for other purposes, such as consideration for acquisitions, even if they have not yet reached maturity. As a result, we classify our investments, including securities with maturities beyond twelve months as current assets in the accompanying consolidated balance sheets. All marketable securities are recorded at their estimated fair value. Unrealized gains and losses for available-for-sale securities are recorded in other comprehensive income (loss). We evaluate our investments to assess whether those with unrealized loss positions are other-than-temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other expense, net in the consolidated statements of operations.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on our assessment of the collectability of accounts. We regularly review the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice and the collection history of each customer to determine the appropriate amount of our allowance. Accounts receivable deemed uncollectable are charged against the allowance for doubtful accounts when identified. For all periods presented, the allowance for doubtful accounts activity was not significant.

Deferred Commissions

Deferred commissions earned by our sales force that can be associated specifically with a non-cancelable cloud application services contract. Direct sales commissions are deferred when earned and amortized over the same period that revenues are recognized for the related non-cancelable cloud application services contract. The commission payments are paid in full after the customer has paid for its first year of service.

Amortization of deferred commissions is included in sales and marketing in the accompanying consolidated statements of operations.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the assets or the lease term.

Goodwill and Acquisition-Related Intangible Assets

We determine and allocate the purchase price of an acquired company to the tangible and intangible assets acquired and liabilities assumed as of the business combination date. Intangible assets with a finite life are amortized over their estimated useful lives. Goodwill is tested for impairment at least annually, and more frequently upon the occurrence of certain events. We completed our annual impairment test in our fourth quarter, which did not result in any impairment of the goodwill balance.

Unearned Revenue

Unearned revenue primarily consists of customer billings in advance of revenues being recognized from our cloud applications contracts. We generally invoice our customers for our cloud applications contracts in annual or multi-year installments. Our typical payment terms provide that customers pay a portion of the total arrangement fee within 30 days of the contract date. Unearned revenue also includes certain deferred professional services fees that are accounted for as a single unit of accounting with cloud applications fees and are recognized as revenues over the same period as the related cloud applications contract. Unearned revenue that is anticipated to be recognized during the succeeding 12-month period is recorded as current unearned revenue and the remaining portion is recorded as noncurrent.

Convertible Senior Notes

In June 2013, we issued 0.75% convertible senior notes due July 15, 2018 (2018 Notes) with a principal amount of \$350.0 million. Concurrently, we issued 1.50% convertible senior notes due July 15, 2020 (2020 Notes) with a principal amount of \$250.0 million (together with the 2018 Notes, referred to as Notes). In accounting for the Notes, we separated them into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes as a whole.

This difference represents a debt discount that is amortized to interest expense over the terms of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the Notes, we allocated the total amount incurred to the liability and equity components. Issuance costs attributable to the liability components are being amortized to expense over the respective terms of the Notes, and issuance costs attributable to the equity components were netted with the respective equity component in additional paid-in capital.

Advertising Expenses

Advertising is expensed as incurred. Advertising expense was \$8.7 million, \$6.5 million and \$3.9 million for fiscal 2014, 2013 and 2012, respectively.

Share-Based Compensation

All share-based compensation to employees is measured based on the grant-date fair value of the awards and recognized in our consolidated statements of operations over the period during which the employee is required to perform services in exchange for the award (generally the vesting period of the award). We estimate the fair value of stock options granted using the Black-Scholes option-pricing model. For restricted stock awards and units, fair value is based on the closing price of our common stock on the grant date. Compensation expense is recognized over the vesting period of the applicable award using the straight-line method.

Compensation expense for non-employee stock options is calculated using the Black-Scholes option-pricing model and is recorded as the options vest. Non-employee options subject to vesting are required to be periodically revalued over their service period, which is generally the same as the vesting period.

Income Taxes

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

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

Warranties and Indemnification

Our cloud applications are generally warranted to perform materially in accordance with our online help documentation under normal use and circumstances. Additionally, our contracts generally include provisions for indemnifying customers against liabilities if our cloud applications contracts infringe a third party's intellectual

property rights, and we may also incur liabilities if we breach the security and/or confidentiality obligations in our contracts. To date, we have not incurred any material costs, and we have not accrued any liabilities in the accompanying consolidated financial statements, as a result of these obligations. We have entered into service-level agreements with a majority of our customers warranting defined levels of uptime reliability and performance and permitting those customers to receive credits or refunds for prepaid amounts related to unused subscription services or to terminate their agreements in the event that we fail to meet those levels. To date, we have not experienced any significant failures to meet defined levels of reliability and performance as a result of those agreements and, as a result, we have not accrued any liabilities related to these agreements in the consolidated financial statements.

Foreign Currency Exchange

The functional currency for certain of our foreign subsidiaries is the U.S. dollar, while others use local currencies as their functional currency. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars for those entities that do not have U.S. dollars as their functional currency are recorded as part of a separate component of the consolidated statements of comprehensive loss. Foreign currency transaction gains and losses are included in the consolidated statements of operations for the period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

Concentrations of Risk and Significant Customers

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. Our deposits exceed federally insured limits.

No single customer represented over 10% of accounts receivable in the consolidated financial statements as of January 31, 2014 or 2013. No single customer represented over 10% of total revenues for any of the periods in the consolidated financial statements.

In order to reduce the risk of down time of our enterprise cloud applications, we have established data centers in various geographic regions. We have internal procedures to restore services in the event of disaster at one of our current data center facilities. We serve our customers and users from data center facilities operated by third parties, located in Ashburn, Virginia; Lithia Springs, Georgia; Portland, Oregon; Dublin, Ireland; and Amsterdam, the Netherlands. 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 on Amazon Web Services (AWS), which provides a distributed computing infrastructure platform for business operations, to operate certain aspects of our services, including our big data analytics application, and certain environments for development testing, training and sales demonstrations. Any disruption of or interference with our use of AWS would impact our operations.

Recently Issued and Adopted Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The standard requires entities to present information about reclassification adjustments from accumulated other comprehensive income in their financial statements or footnotes. The guidance is effective for fiscal periods beginning after December 15, 2012. We adopted this new guidance on February 1, 2013 and it did not have an impact on our consolidated financial statements.

Note 3. Marketable Securities

At January 31, 2014, marketable securities consisted of the following (in thousands):

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Aggregate Fair Value</u>
U.S. agency obligations	\$1,125,170	\$334	\$ (50)	\$1,125,454
U.S. treasury securities	536,747	88	(47)	536,788
Commercial paper	62,997	—	—	62,997
U.S. corporate securities	11,771	6	—	11,777
Money market funds	90,159	—	—	90,159
	<u>\$1,826,844</u>	<u>\$428</u>	<u>\$ (97)</u>	<u>\$1,827,175</u>
Included in cash and cash equivalents	<u>521,956</u>	<u>3</u>	<u>(37)</u>	<u>521,922</u>
Included in marketable securities	<u>\$1,304,888</u>	<u>\$425</u>	<u>\$ (60)</u>	<u>\$1,305,253</u>

At January 31, 2013, marketable securities consisted of the following (in thousands):

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Aggregate Fair Value</u>
U.S. agency obligations	\$614,171	\$ 64	\$ (11)	\$614,224
U.S. treasury securities	65,174	5	—	65,179
Commercial paper	64,538	1	—	64,539
Certificates of deposit	250	—	—	250
U.S. corporate securities	8,128	—	(1)	8,127
Money market funds	17,395	—	—	17,395
	<u>\$769,656</u>	<u>\$ 70</u>	<u>\$ (12)</u>	<u>\$769,714</u>
Included in cash and cash equivalents	<u>\$ 63,533</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 63,533</u>
Included in marketable securities	<u>\$706,123</u>	<u>\$ 70</u>	<u>\$ (12)</u>	<u>\$706,181</u>

We do not believe the unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence, which includes our intent to hold these investments to maturity as of January 31, 2014. All marketable securities held as of January 31, 2014 have not been in a continuous unrealized loss position for more than 12 months. There were no sales of available-for-sale securities during any of the periods presented. As of January 31, 2014, cash equivalents and marketable securities totaling \$1.6 billion had maturity dates within one year. Marketable securities on the consolidated balance sheets consist of securities with original or remaining maturities at the time of purchase of greater than three months and the remainder of the securities is reflected in cash and cash equivalents.

Note 4. Deferred Costs

Deferred costs consisted of the following (in thousands):

	<u>January 31,</u>	
	<u>2014</u>	<u>2013</u>
Current:		
Deferred professional service costs	\$ 3,555	\$ 1,654
Deferred sales commissions	<u>12,891</u>	<u>8,162</u>
Total	<u>\$16,446</u>	<u>\$ 9,816</u>
Noncurrent:		
Deferred professional service costs	\$ 4,357	\$ 6,843
Deferred sales commissions	<u>16,440</u>	<u>11,732</u>
Total	<u>\$20,797</u>	<u>\$18,575</u>

Note 5. Property and Equipment

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

	<u>January 31,</u>	
	<u>2014</u>	<u>2013</u>
Computers, equipment and software	\$ 75,867	\$ 28,770
Computers, equipment and software acquired under capital leases	38,912	39,300
Furniture and fixtures	7,782	4,689
Leasehold improvements	<u>15,885</u>	<u>6,581</u>
	138,446	79,340
Less accumulated depreciation and amortization	<u>(60,782)</u>	<u>(34,755)</u>
Property and equipment, net	<u>\$ 77,664</u>	<u>\$ 44,585</u>

Depreciation expense was \$29.3 million, \$15.9 million and \$8.9 million for fiscal 2014, 2013 and 2012, respectively. These amounts include depreciation of assets recorded under capital leases of \$12.3 million, \$10.2 million and \$4.3 million for fiscal 2014, 2013 and 2012, respectively.

Note 6. Goodwill and Acquisition Related Intangible Assets, Net

In February 2008, we acquired Cape Clear, an enterprise software company. Our goodwill and a portion of our intangible assets are attributed to this acquisition. The intangible assets related to the acquisition were fully amortized as of January 31, 2013.

Goodwill and acquisition related intangible assets consisted of the following (in thousands):

	<u>January 31,</u>
	<u>2014 and 2013</u>
Acquired purchased technology	\$ 600
Customer relationship assets	<u>338</u>
	938
Less accumulated amortization	<u>(938)</u>
Acquisition related intangible assets, net	—
Goodwill	<u>8,488</u>
Goodwill and acquisition related intangible assets, net	<u>\$8,488</u>

Note 7. Other Assets

Other assets consisted of the following (in thousands):

	<u>January 31,</u>	
	<u>2014</u>	<u>2013</u>
Issuance cost of convertible senior notes	\$10,625	\$ —
Acquired land leasehold interest, net	9,991	—
Technology patents, net	4,865	—
Others	20,177	3,130
Total	<u>\$45,658</u>	<u>\$3,130</u>

In January 2014, Workday acquired a 95-year lease for a 6.9 acre parcel of land adjacent to our existing Pleasanton, California leased facilities. The lease affords us the opportunity to develop office space for employees in Pleasanton, California. We paid \$10.0 million to acquire the lease and \$1.5 million in prepaid rent through December 31, 2020. If construction does not commence by June 30, 2015, we will be required to make additional payments to the lessor, ranging from \$0.2 million to \$1.0 million based on the length of the delay. The \$10.0 million purchase price of this lease was recorded in other assets on the consolidated balance sheet. In addition, in fiscal 2014, we signed an agreement to acquire a portfolio of patents for \$5.0 million with weighted-average useful remaining lives of 6 years.

As of January 31, 2014, our future estimated amortization expense related to the acquired leasehold interest and patents are as follows (in thousands):

2015	\$ 1,028
2016	1,027
2017	1,027
2018	889
2019	520
Thereafter	<u>10,365</u>
Total	<u>\$14,856</u>

Note 8. Fair Value Measurements

We measure our financial assets and liabilities at fair value at each reporting period using a fair value hierarchy that requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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 — Include other inputs that are directly or indirectly observable in the marketplace.

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

Financial assets

We value our marketable securities using quoted prices for identical instruments in active markets when available. If we are unable to value our marketable securities using quoted prices for identical instruments in active markets, we value our investments using independent pricing vendors' reports that utilize quoted market

prices for comparable instruments. We validate, on a sample basis, the derived prices provided by the independent pricing vendors by comparing their assessment of the fair values of our investments against the fair values of the portfolio balances of another third-party professional's pricing service. To date, all of our marketable securities can be valued using one of these two methodologies.

Based on our valuation of our marketable securities, we concluded that they are classified in either Level 1 or Level 2 and we have no financial assets or liabilities measured using Level 3 inputs. The following tables present information about our assets that are measured at fair value on a recurring basis using the above input categories (in thousands):

Description	Fair Value Measurements as of January 31, 2014		
	Level 1	Level 2	Total
U.S. agency obligations	\$ —	\$1,125,454	\$1,125,454
U.S. treasury securities	536,788	—	536,788
Commercial paper	—	62,997	62,997
U.S. corporate securities	—	11,777	11,777
Money market funds	90,159	—	90,159
	<u>\$626,947</u>	<u>\$1,200,228</u>	<u>\$1,827,175</u>
Included in cash and cash equivalents			<u>\$ 521,922</u>
Included in marketable securities			<u>\$1,305,253</u>

Description	Fair Value Measurements as of January 31, 2013		
	Level 1	Level 2	Total
U.S. agency obligations	\$ —	\$ 614,224	\$ 614,224
U.S. treasury securities	65,179	—	65,179
Commercial paper	—	64,539	64,539
Certificates of deposit	—	250	250
U.S. corporate securities	—	8,127	8,127
Money market funds	17,395	—	17,395
	<u>\$ 82,574</u>	<u>\$ 687,140</u>	<u>\$ 769,714</u>
Included in cash and cash equivalents			<u>\$ 63,533</u>
Included in marketable securities			<u>\$ 706,181</u>

Financial liabilities

The carrying amounts and estimated fair values of financial instruments not recorded at fair value are as follows (in thousands):

	January 31, 2014	
	Carrying Amount	Estimated Fair Value
0.75% Convertible senior notes	\$281,359	\$434,875
1.50% Convertible senior notes	187,053	319,219

The estimated fair value of the convertible senior notes, which we have classified as Level 2 financial instruments, was determined based on the quoted bid price of the convertible senior notes in an over-the-counter market on January 31, 2014.

Based on the closing price of our common stock of \$89.54 on January 31, 2014, the if-converted value of the 0.75% convertible senior notes and the if-converted value of the 1.50% convertible senior notes were more than their respective principal amounts.

Note 9. Convertible Senior Notes

Convertible Senior Notes

In June 2013, we issued 0.75% convertible senior notes due July 15, 2018 (2018 Notes) with a principal amount of \$350.0 million. The 2018 Notes are unsecured, unsubordinated obligations, and interest is payable in cash in arrears at a fixed rate of 0.75% on January 15 and July 15 of each year, beginning on January 15, 2014. The 2018 Notes mature on July 15, 2018 unless repurchased or converted in accordance with their terms prior to such date. We cannot redeem the 2018 Notes prior to maturity.

Concurrently, we issued 1.50% convertible senior notes due July 15, 2020 (2020 Notes) with a principal amount of \$250.0 million (together with the 2018 Notes, referred to as Notes). The 2020 Notes are unsecured, unsubordinated obligations of Workday, and interest is payable in cash in arrears at a fixed rate of 1.50% on January 15 and July 15 of each year, beginning on January 15, 2014. The 2020 Notes mature on July 15, 2020 unless repurchased or converted in accordance with their terms prior to such date. We cannot redeem the 2020 Notes prior to maturity.

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

For the 2018 Notes, the initial conversion rate is 12.0075 shares of Class A Common Stock per \$1,000 principal amount, which is equal to an initial conversion price of approximately \$83.28 per share of Class A Common Stock, subject to adjustment. Prior to the close of business on March 14, 2018, the conversion is subject to the satisfaction of certain conditions as described below. For the 2020 Notes, the initial conversion rate is 12.2340 shares of Class A Common Stock per \$1,000 principal amount, which is equal to an initial conversion price of approximately \$81.74 per share of Class A Common Stock, subject to adjustment. Prior to the close of business on March 13, 2020, the conversion is subject to the satisfaction of certain conditions, as described below.

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

Holders of the 2018 Notes and 2020 Notes may convert all or a portion of their Notes prior to the close of business on March 14, 2018 for the 2018 Notes and March 13, 2020 for the 2020 Notes, in multiples of \$1,000 principal amount, only under the following circumstances:

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

In accounting for the issuance of the Notes, we separated each of the Notes into liability and equity components. The carrying amounts of the liability components were calculated by measuring the fair value of similar liabilities that do not have associated convertible features. The carrying amount of the equity components representing the conversion option were determined by deducting the fair value of the liability components from the par value of the respective Notes. These differences represent debt discounts that are amortized to interest expense over the respective terms of the Notes. The equity components are not remeasured as long as they continue to meet the conditions for equity classification.

We allocated the total issuance costs incurred to the 2018 Notes and 2020 Notes on a prorated basis using the aggregate principal balances. In accounting for the issuance costs related to the 2018 Notes and 2020 Notes, we allocated the total amount of issuance costs incurred to liability and equity components. Issuance costs attributable to the liability components are being amortized to interest expense over the respective terms of the Notes, and the issuance costs attributable to the equity components were netted against the respective equity components in additional paid-in capital. For the 2018 Notes, we recorded liability issuance costs of \$7.2 million and equity issuance costs of \$2.0 million. Amortization expense for the liability issuance costs was \$0.9 million for fiscal 2014. For the 2020 Notes, we recorded liability issuance costs of \$4.7 million and equity issuance costs of \$1.8 million. Amortization expense for the liability issuance costs was \$0.4 million for fiscal 2014.

The Notes consisted of the following (in thousands):

	<u>January 31, 2014</u>	
	<u>2018 Notes</u>	<u>2020 Notes</u>
Principal amounts:		
Principal	\$350,000	\$250,000
Unamortized debt discount ⁽¹⁾	(68,641)	(62,947)
Net carrying amount	<u>\$281,359</u>	<u>\$187,053</u>
Carrying amount of the equity component ⁽²⁾	<u>\$ 74,892</u>	<u>\$ 66,007</u>

⁽¹⁾ Included in the consolidated balance sheets within Convertible senior notes, net and amortized over the remaining lives of the Notes on the straight-line basis as it approximates the effective interest rate method.

⁽²⁾ Included in the consolidated balance sheets within additional paid-in capital, net of \$2.0 million and \$1.8 million for the 2018 Notes and 2020 Notes, respectively, in equity issuance costs.

As of January 31, 2014, the remaining life of the 2018 Notes and 2020 Notes is approximately 53 months and 77 months, respectively.

The effective interest rates of the liability components of the 2018 Notes and 2020 Notes are 5.75% and 6.25%, respectively. These interest rates were based on the interest rates of similar liabilities at the time of issuance that did not have associated convertible features. The following table sets forth total interest expense recognized related to the 2018 Notes and 2020 Notes for fiscal 2014 (in thousands):

	<u>2018 Notes</u>	<u>2020 Notes</u>
Contractual interest expense	\$1,633	\$2,333
Interest cost related to amortization of debt issuance costs	876	420
Interest cost related to amortization of the debt discount	8,265	4,834

Notes Hedges

In connection with the issuance of the 2018 Notes and 2020 Notes, we entered into convertible note hedge transactions with respect to our Class A Common Stock (Purchased Options). The Purchased Options cover, subject to anti-dilution adjustments substantially identical to those in the Notes, approximately 7.3 million shares

of our Class A Common Stock and are exercisable upon conversion of the Notes. The Purchased Options have initial exercise prices that correspond to the initial conversion prices of the 2018 Notes and 2020 Notes, respectively, subject to anti-dilution adjustments substantially similar to those in the Notes. The Purchased Options will expire in 2018 for the 2018 Notes and in 2020 for the 2020 Notes, if not earlier exercised. The Purchased Options are intended to offset potential economic dilution to our Class A Common Stock upon any conversion of the Notes. The Purchased Options are separate transactions and are not part of the terms of the Notes.

We paid an aggregate amount of \$143.7 million for the Purchased Options, which is included in additional paid-in capital in the consolidated balance sheets.

Warrants

In connection with the issuance of the Notes, we also entered into warrant transactions to sell warrants (the Warrants) to acquire, subject to anti-dilution adjustments, up to approximately 4.2 million shares in July 2018 and 3.1 million shares in July 2020 our Class A Common Stock at an exercise price of \$107.96 per share. If the warrants are not exercised on their exercise dates, they will expire. If the market value per share of our Class A Common Stock exceeds the applicable exercise price of the Warrants, the Warrants will have a dilutive effect on our earnings per share assuming that we are profitable. The Warrants are separate transactions, and are not part of the terms of the Notes or the Purchased Options.

We received aggregate proceeds of \$92.7 million from the sale of the Warrants, which is recorded in additional paid-in capital in the consolidated balance sheets.

Note 10. Commitments and Contingencies

Leases

We lease office space under noncancelable operating leases in the U.S. and overseas with various expiration dates. Certain of our office leases are with an affiliate of our co-CEO, David Duffield, who is also a director and significant stockholder of Workday. In addition, we lease certain equipment and related software from an affiliate of Mr. Duffield (see Note 16) and from various third parties. The equipment lease terms contain a bargain purchase option, therefore, the leases are classified as capital leases.

On January 30, 2014, we entered into a 95-year lease to lease a 6.9-acre parcel of vacant land, under which we paid a one-time \$0.5 million transfer fee for obtaining the lease, and a prepayment of \$1.5 million for base rent from commencement through December 31, 2020. Annual rent payments of \$0.2 million plus increases based on increases in the consumer price index begin on January 1, 2021 and continue through the end of the lease. If construction does not commence by June 30, 2015, we will be required to make additional payments to the lessor, ranging from \$0.2 million to \$1.0 million based on the length of the delay. As of January 31, 2014, the future minimum lease payments by year under non-cancelable leases are as follows (in thousands):

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Operating Leases with Related Party</u>
2015	\$ 9,901	\$12,894	\$ 2,179
2016	3,673	8,546	2,306
2017	—	5,032	2,362
2018	—	4,116	2,417
2019	—	3,438	2,473
Thereafter	—	25,083	10,677
	<u>13,574</u>	<u>59,109</u>	<u>22,414</u>
Less amount representing interest and taxes	(608)	—	—
	<u>12,966</u>	<u>\$59,109</u>	<u>\$22,414</u>
Less current portion	9,377		
Noncurrent	<u>\$ 3,589</u>		

The facility lease agreements generally provide for rental payments on a graduated basis and for options to renew, which could increase future minimum lease payments if exercised. We recognize rent expense on a straight-line basis over the period in which we benefit from the lease and have accrued for rent expense incurred but not paid. Rent expense was \$11.0 million, \$5.5 million and \$3.4 million for fiscal 2014, 2013 and 2012, respectively.

Legal Matters

We are a party to various legal proceedings and claims which arise in the ordinary course of business. In our opinion, as of January 31, 2014, 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 11. Common Stock and Stockholders' Equity (Deficit)

Common Stock

In connection with our initial public offering in October 2012 (IPO), we amended our certificate of incorporation to provide for Class A common stock, Class B common stock and preferred stock. Upon the closing of the IPO, all shares of our then-outstanding redeemable convertible preferred stock and convertible preferred stock automatically converted into an aggregate of 98.0 million shares of Class B common stock and an aggregate of 42.1 million shares of our then-outstanding common stock converted into an equal number of Class B common stock.

In January 2014, we completed our follow-on offering, in which we issued 6.9 million shares of our Class A common stock at a public offering price of \$89.00 per share. We received net proceeds of \$592.2 million after deducting underwriting discounts and commissions of \$21.2 million and other offering expenses of \$0.7 million.

As of January 31, 2014, there were 91.1 million shares of Class A common stock and 92.3 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 ten 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.

Donation to the Workday Foundation

In August 2012, with approval of the board of directors, we donated 500,000 shares of Class B common stock to the Workday Foundation. We incurred a share-based charge of \$11.3 million for the value of the donated shares, which was recorded in general and administrative expense in fiscal 2013.

Common Stock Subject to Repurchase

The equity plans allow for the early exercise of stock options for certain individuals as determined by the board of directors. We have the right to purchase at the original exercise price any unvested (but issued) common shares during the repurchase period following termination of services of an employee. The consideration received for an exercise of an option is considered to be a deposit of the exercise price and the related dollar amount is recorded as a liability. The shares and liabilities are reclassified into equity as the awards vest. As of January 31, 2014 and 2013, we had \$6.4 million and \$9.4 million respectively, recorded in liabilities related to early exercises of stock options.

Employee Equity Plans

Our board of directors adopted the 2012 Equity Incentive Plan in August 2012 which became effective on October 10, 2012 and serves as the successor to our 2005 Stock Plan (together with the 2012 Equity Incentive

Plan (EIP)). Pursuant to the terms of the EIP, the share reserve increased by 8.3 million shares on March 31, 2013. As of January 31, 2014, we had approximately 43.7 million shares of Class A common stock available for future grants under the EIP.

Employee Stock Purchase Plan

Our board of directors adopted the 2012 Employee Stock Purchase Plan (ESPP) in August 2012, which became effective on October 10, 2012. The ESPP was approved with a reserve of 2.0 million shares of Class A common stock for future issuance under various terms provided for in the 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 generally granted twice yearly on June 1 and December 1 and exercisable on the succeeding November 30 and May 31, respectively, of each year. We commenced our first purchase period under the ESPP on June 1, 2013. As of January 31, 2014, 1.8 million shares of Class A common stock were available for issuance under the ESPP. For fiscal 2014, 189,885 shares of Class A common shares were purchased under the ESPP at a weighted-average price of \$52.88 per share, resulting in cash proceeds of \$10.0 million.

Stock Options

The EIP provides for the issuance of incentive and nonstatutory options to employees and non-employees. We have also issued nonstatutory options outside of the EIP. Options issued under the EIP generally are exercisable for periods not to exceed 10 years and generally vest over four or five years.

A summary of information related to stock option activity during fiscal 2014 is as follows (in millions, except share and per share data):

	Outstanding Stock Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Balance as of January 31, 2013	29,856,042	\$ 3.19	\$1,499
Stock option grants	74,050	60.78	
Stock options exercised	(8,689,384)	1.57	
Stock options canceled	(534,501)	9.24	
Balance as of January 31, 2014	<u>20,706,207</u>	<u>\$ 3.93</u>	<u>\$1,773</u>
Vested and expected to vest as of January 31, 2014	<u>20,007,366</u>	<u>\$ 3.81</u>	<u>\$1,715</u>
Exercisable as of January 31, 2014	<u>13,978,141</u>	<u>\$ 2.56</u>	<u>\$1,216</u>

The total grant-date fair value of stock options vested during fiscal 2014, 2013 and 2012 was \$27.2 million, \$6.6 million and \$2.5 million, respectively. The total intrinsic value of the options exercised during fiscal 2014, 2013 and 2012 was \$566.2 million, \$69.8 million and \$19.6 million, respectively. The intrinsic value is the difference between the current fair value of the stock and the exercise price of the stock option. The weighted-average remaining contractual life of vested and expected to vest options as of January 31, 2014 is approximately 6.8 years.

As of January 31, 2014, there was a total of \$58.7 million in unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of approximately 3.1 years.

The options that are exercisable as of January 31, 2014 have a weighted-average remaining contractual life of approximately 6.5 years. The weighted-average remaining contractual life of outstanding options at January 31, 2014 is approximately 6.8 years.

Restricted Stock Awards

The EIP provides for the issuance of restricted stock awards to employees. Restricted stock awards generally vest over five years. Under the EIP, 1.0 million restricted awards of Class B common stock are outstanding with weighted average grant date fair value of \$12.85, all of which are subject to forfeiture as of January 31, 2014. During fiscal 2014, 0.3 million shares of restricted stock awards vested with weighted average grant date fair value of \$12.34.

As of January 31, 2014, there was a total of \$12.9 million in unrecognized compensation cost related to restricted stock awards, which are expected to be recognized over a weighted-average period of approximately 3.8 years.

Restricted Stock Units

The EIP provides for the issuance of restricted stock units to employees. Restricted stock units issued under the 2005 Stock Plan generally vest over five years and restricted stock units issued under the EIP generally vest over four years. During fiscal 2014, we issued 3.9 million restricted stock units of Class A common stock under the EIP with a weighted average grant date fair value of \$71.35.

A summary of information related to restricted stock units activity during fiscal 2014 is as follows:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Balance as of January 31, 2013	163,400	\$48.82
Restricted stock units granted	3,919,524	71.35
Restricted stock units vested	(49,275)	52.92
Restricted stock units forfeited	<u>(66,921)</u>	67.34
Balance as of January 31, 2014	<u>3,966,728</u>	<u>\$70.72</u>

As of January 31, 2014, there was a total of \$251.0 million in unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of approximately 3.5 years.

Share-Based Compensation to Employees

All share-based payments to employees are measured based on the grant date fair value of the awards and recognized in the consolidated statements of operations over the period during which the employee is required to perform services in exchange for the award (generally the vesting period of the award). We estimate the fair value of equity awards using the Black-Scholes option-pricing model. We determine the assumptions for the option-pricing model as follows:

Fair Value of Common Stock

Prior to our IPO, our board of directors considered numerous objective and subjective factors to determine the fair value of our common stock at each meeting at which awards were approved. The factors included, but were not limited to: (i) contemporaneous third-party valuations of our common stock; (ii) the prices, rights, preferences and privileges of our preferred stock relative to those of our common stock; (iii) the lack of marketability of our common stock; (iv) our actual operating and financial results; (v) current business conditions and projections; and (vi) the likelihood of achieving a liquidity event, such as an IPO or sale of our company, given prevailing market conditions.

Since our IPO, we have used the market closing price for our Class A common stock as reported on the New York Stock Exchange.

Risk-Free Interest Rate

The weighted-average, risk-free interest rate is based on the rate for a U.S. Treasury zero-coupon issue with a term that approximates the expected life of the option grant at the date closest to the option grant date.

Expected Term

The expected term represents the period that our share-based awards are expected to be outstanding. The expected term assumptions were determined based on the vesting terms, exercise terms and contractual lives of the options.

Volatility

We determine the price volatility factor based on the historical volatility data of our peer group, as we currently do not have a sufficient trading history for our common stock.

Dividend Yield

We have not paid and do not expect to pay dividends.

Assumptions

The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period the estimates are revised. We consider many factors when estimating expected forfeitures, including the types of awards and employee class. Actual results, and future changes in estimates, may differ substantially from our current estimates.

The assumptions used for the periods presented were as follows:

<u>Stock Options</u>	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Expected volatility	54.8% – 55.8%	54.3% – 61.1%	58.1% – 59.1%
Expected term (in years)	6.11	5 – 6.4	5 – 6.4
Risk-free interest rate	0.9% – 1.8%	0.8% – 1.0%	0.9% – 2.7%
Dividend yield	0%	0%	0%

<u>ESPP</u>	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Expected volatility	27.7% – 30.4%	n/a	n/a
Expected term (in years)	0.5	n/a	n/a
Risk-free interest rate	0.1%	n/a	n/a
Dividend yield	0%	n/a	n/a
Weighted-average grant date fair value per share	\$52.88 – 68.43	n/a	n/a

Note 12. Other Expense, Net

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

	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Interest income	\$ 1,992	\$ 560	\$ 68
Interest expense ⁽¹⁾	(19,618)	(1,363)	(976)
Other income (expense)	77	(400)	(110)
Other expense, net	<u>\$(17,549)</u>	<u>\$(1,203)</u>	<u>\$(1,018)</u>

- ⁽¹⁾ During fiscal 2014, interest expense includes the contractual interest expense related to the 2018 Notes and 2020 Notes, non-cash interest related to amortization of the debt discount and amortization of debt issuance costs (see Note 9).

Note 13. Income Taxes

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

	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Domestic	\$ (49,652)	\$(119,793)	\$(78,721)
Foreign	(121,179)	727	(741)
Total	<u>\$(170,831)</u>	<u>\$(119,066)</u>	<u>\$(79,462)</u>

We did not record an income tax provision for deferred taxes for any of the periods presented because we provided a full valuation allowance against our deferred tax assets. The provision (benefit) for income taxes consisted of the following (in thousands):

	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Federal	\$ 60	\$(160)	\$ 60
State	178	42	38
Foreign	1,440	242	69
Total	<u>\$1,678</u>	<u>\$ 124</u>	<u>\$167</u>

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

	<u>Year Ended January 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Federal statutory rate	35.0%	35.0%	35.0%
Effect of:			
Foreign income at other than U.S. rates	(25.4)	0.3	(0.3)
Intercompany transactions	(36.8)	—	—
Research tax credits	12.7	—	—
State taxes, net of federal benefit	1.9	5.0	5.2
Changes in valuation allowance	16.1	(37.8)	(38.7)
Stock Compensation	(3.9)	(2.4)	(1.1)
Other	(0.6)	(0.2)	(0.3)
	<u>(1.0)%</u>	<u>(0.1)%</u>	<u>(0.2)%</u>

As a result of our history of net operating losses, the current federal and current state provision (benefit) for income taxes relates to accruals and adjustments to the interest and penalties for uncertain tax positions and state minimum and capital based income taxes. Current foreign income taxes are associated with our non-U.S. operations.

We had unrecorded excess stock option tax benefits of \$157.0 million as of January 31, 2014. These amounts will be credited to additional paid-in capital when such amounts reduce cash taxes payable.

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

	<u>January 31, 2014</u>	<u>January 31, 2013</u>
Deferred tax assets:		
Unearned revenue	\$ 26,079	\$ 28,346
Other reserves and accruals	16,751	11,960
Federal net operating loss carryforwards	82,006	87,222
State and foreign net operating loss carryforwards	23,221	22,888
Property and equipment	11,753	6,196
Share-based compensation	12,092	3,797
Research and development credits	21,763	—
Other	2,642	138
	<u>196,307</u>	<u>160,547</u>
Valuation allowance	<u>(130,462)</u>	<u>(158,003)</u>
Deferred tax assets, net of valuation allowance	65,845	2,544
Deferred tax liabilities:		
Intercompany transactions	(61,701)	—
Other prepaid assets	(4,144)	(2,544)
	<u>(65,845)</u>	<u>(2,544)</u>
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

As a result of continuing losses, we have determined that it is more likely than not that we will not realize the benefits of the deferred tax assets and therefore we have recorded a valuation allowance to reduce the carrying value of the deferred tax assets to zero. As a result, the valuation allowance on our net deferred tax assets decreased by \$27.5 million and increased by \$41.4 million during fiscal 2014 and 2013, respectively.

As of January 31, 2014, we had approximately \$672.6 million of federal, \$487.7 million of state and \$75.6 million of foreign net operating loss carryforwards available to offset future taxable income. If not utilized, the federal and state net operating loss carryforwards expire in varying amounts between the years 2015 and 2034. The foreign net operating losses do not expire and may be carried forward indefinitely.

The net operating losses include no amounts relating to the excess tax benefit of stock option exercises, which when realized will be recorded as a credit to additional paid-in capital. We also had approximately \$19.5 million of federal and \$18.2 million of California research and development tax credit carryforwards as of January 31, 2014. The federal credits expire in varying amounts between the years 2025 and 2034. The California research credits do not expire and may be carried forward indefinitely.

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

We consider all undistributed earnings of our foreign subsidiaries to be permanently invested in foreign operations unless such earnings are subject to federal income taxes. Undistributed earnings of our foreign subsidiaries amounted to approximately \$0.1 million at January 31, 2014. Accordingly, no deferred tax liabilities have been recorded with respect to undistributed earnings of the foreign subsidiaries. Upon repatriation of those earnings, in the form of dividends or otherwise, we would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and potentially withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable due to the complexities associated with its hypothetical calculation.

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

	Year Ended January 31,		
	2014	2013	2012
Unrecognized tax benefits at the beginning of the period	\$ 15,577	\$10,705	\$ 8,598
Additions for tax positions taken in prior years	1,928	1,392	—
Reductions for tax positions taken in prior years . . .	(10,982)	—	—
Additions for tax provisions related to the current year	<u>70,567</u>	<u>3,480</u>	<u>2,107</u>
Unrecognized tax benefits at the end of the period	<u>\$ 77,090</u>	<u>\$15,577</u>	<u>\$10,705</u>

Our policy is to include interest and penalties related to unrecognized tax benefits within our provision for income taxes. As of January 31, 2014, 2013 and 2012 we had accrued interest of \$0.6 million, \$0.4 million and \$0.4 million, respectively. As of January 31, 2014, we had accrued penalties of \$0.8 million. As of January 31, 2013 and 2012, we had accrued penalties of \$0.8 million and \$1.0 million, respectively.

Included in the balance of unrecognized tax benefits at January 31, 2014, 2013 and 2012 are potential benefits of \$2.1 million, \$1.7 million and \$1.7 million, respectively, which if recognized, would affect the tax rate on earnings. We do not expect any unrecognized tax benefits to be recognized within the next 12 months.

We file federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. Due to our net operating loss carryforwards, our income tax returns generally remain subject to examination by federal and most state and foreign tax authorities. We are currently under examination by the Internal Revenue Service (IRS) for our 2011 tax year.

Note 14. Net loss per share

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including our outstanding stock options, outstanding warrants, common stock related to unvested early exercised stock options, common stock related to unvested restricted stock awards and convertible senior notes to the extent dilutive. Anti-dilutive securities for fiscal 2012 included our redeemable convertible preferred stock and convertible preferred stock that were both outstanding prior to our IPO. Basic and diluted net loss per share was the same for each period presented, as the inclusion of all potential common shares outstanding would have been anti-dilutive.

The net loss per share attributable to common stockholders is allocated based on the contractual participation rights of the Class A common shares and Class B common shares as if the loss for the year has been distributed. As the liquidation and dividend rights are identical, the net loss attributable to common stockholders is allocated on a proportionate basis.

We consider shares issued upon the early exercise of options subject to repurchase and unvested restricted stock awards to be participating securities because holders of such shares have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares. In future periods, to the extent we are profitable, we will subtract earnings allocated to these participating securities from net income to determine net income attributable to common stockholders.

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

	Year Ended January 31,					
	2014		2013		2012	
	Class A	Class B	Class A	Class B	Class A	Class B
Basic and diluted net loss attributable to Class A and Class B common stockholders per share:						
Numerator:						
Allocation of distributed net loss attributable to common stockholders	\$(64,985)	\$(107,524)	\$(12,955)	\$(106,803)	\$—	\$(79,971)
Denominator:						
Weighted-average common shares outstanding	64,528	106,769	8,006	66,005	—	29,478
Basic and diluted net loss per share	\$ (1.01)	\$ (1.01)	\$ (1.62)	\$ (1.62)	\$—	\$ (2.71)

The anti-dilutive securities excluded from the weighted-average shares used to calculate the diluted net loss per common share were as follows (in thousands):

	Year Ended January 31,		
	2014	2013	2012
Shares subject to outstanding common stock options and warrants ⁽¹⁾	20,706	31,206	30,561
Shares subject to repurchase	1,709	2,916	2,927
Shares subject to unvested restricted stock awards and units	4,999	1,503	100
Redeemable convertible preferred stock	—	—	30,390
Convertible preferred stock	—	—	67,586
Convertible senior notes	7,261	—	—
Warrants related to the issuance of convertible senior notes	7,261	—	—
	<u>41,936</u>	<u>35,625</u>	<u>131,564</u>

⁽¹⁾ Warrants to purchase 1.4 million shares were outstanding as of January 31, 2013 and were exercised during fiscal 2014.

Note 15. Geographic Information

Revenue by geography is generally based on the address of the customer as defined in our master subscription agreement. The following tables set forth revenue by geographic area (in thousands):

	Year Ended January 31,		
	2014	2013	2012
United States	\$394,564	\$226,006	\$111,574
International	74,374	47,651	22,853
Total	<u>\$468,938</u>	<u>\$273,657</u>	<u>\$134,427</u>

Note 16. Related-Party Transactions

In June 2010, we entered into a capital lease agreement with an affiliate of Mr. Duffield. The lease agreement provides for an equipment lease financing facility to be drawn upon for purchases of certain equipment for use in our business operations. The amounts paid under this agreement in fiscal 2014, 2013 and 2012 were \$2.2 million, \$4.2 million and \$4.6 million, respectively. The final lease payment is due in May 2014.

We currently lease certain office space in Pleasanton, California under various lease agreements with an affiliate of Mr. Duffield. The term of the agreements is 10 years commencing in fiscal 2014 and the total rent due under the agreements was \$1.3 million for fiscal 2014, and \$23.7 million in total.

Note 17. 401(k) Plan

We have a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code covering eligible employees. To date, we have not made any matching contributions to this plan.

Note 18. Selected Quarterly Financial Data (unaudited)

The following tables set forth selected unaudited quarterly consolidated statements of operations data for each of the eight quarters in fiscal 2014 and 2013 (in thousands except per share data):

	Quarter ended							
	January 31, 2014	October 31, 2013	July 31, 2013	April 30, 2013	January 31, 2013	October 31, 2012 ⁽¹⁾	July 31, 2012	April 30, 2012
Consolidated Statements of Operations Data:								
Total revenues	\$141,866	\$127,872	\$107,555	\$ 91,645	\$ 81,519	\$ 72,618	\$ 62,702	\$ 56,818
Operating loss	(47,976)	(40,399)	(32,283)	(32,624)	(30,678)	(40,868)	(26,360)	(19,957)
Net loss	(55,982)	(47,534)	(35,978)	(33,015)	(30,944)	(41,310)	(26,881)	(20,055)
Net loss attributable to common stockholders	(55,982)	(47,534)	(35,978)	(33,015)	(30,944)	(41,471)	(27,087)	(20,256)
Net loss per share attributable to common stockholders, basic and diluted	(0.32)	(0.27)	(0.21)	(0.20)	(0.19)	(0.67)	(0.78)	(0.61)

⁽¹⁾ Workday granted 500,000 shares of common stock to the Workday Foundation, resulting a one-time charge of \$11.3 million, which was recorded to the General and administrative expenses line of the statement of operations.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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

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

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on the assessment, management has concluded that its internal control over financial reporting was effective as of January 31, 2014 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report with respect to our internal control over financial reporting, which appears in Part II, Item 8 of this Annual Report on Form 10-K, and is incorporated herein by reference.

(c) Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our principal executive officers and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(d) and 15d-15(d) 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.

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

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

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning our directors, compliance with Section 16(a) of the Exchange Act, our Audit Committee and any changes to the process by which stockholders may recommend nominees to the Board required by this Item are incorporated herein by reference to information contained in the Proxy Statement, including “Proposal No 1. — Election of Directors”, “Directors and Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

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

We have adopted a code of ethics, our Code of Conduct, which applies to all employees, including our principal executive officers, our principal financial officer, and all other executive officers. The Code of Conduct is available on our Web site at http://www.workday.com/company/investor_relations/corporate_governance.php. A copy may also be obtained without charge by contacting Investor Relations, Workday, Inc., 6230 Stoneridge Mall Road, Pleasanton, California 94588 or by calling (925) 951-9000.

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) *Exhibits.* The following exhibits are included herein or incorporated herein by reference:

Exhibit No.	Exhibit	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
3.1	Restated Certificate of Incorporation of the Registrant.	10-Q	001-35680	October 31, 2012	3.1
3.2	Restated Bylaws of the Registrant.	8-K	001-35680	March 13, 2013	3.1
4.1	Form of Registrant's Class A common stock certificate.	S-1/A	333-183640	October 1, 2012	4.1
4.2	Form of Registrant's Class B common stock certificate.	S-8	333-184395	October 12, 2012	4.9
4.3	Amended and Restated Investors' Rights Agreement, dated October 13, 2011, by and among the Registrant certain security holders of the Registrant.	S-1	333-183640	August 30, 2012	4.2
4.4	2018 Indenture dated June 17, 2013 between Workday, Inc. and Wells Fargo Bank, National Association.	8-K	001-35680	June 17, 2013	4.1
4.5	2020 Indenture dated June 17, 2013 between Workday, Inc. and Wells Fargo Bank, National Association.	8-K	001-35680	June 17, 2013	4.2
10.1	Form of Indemnification Agreement.	S-1	333-183640	August 30, 2012	10.1
10.2†	2005 Stock Plan, as amended and form of stock option and stock option exercise agreement.	10-Q	001-35680	June 5, 2013	10.12
10.3†	2012 Equity Incentive Plan.	S-8	333-187665	April 1, 2013	4.4
10.4	2012 Equity Incentive Plan form of agreements.	S-1	333-183640	August 30, 2012	10.3
10.5†	2012 Employee Stock Purchase Plan.	S-1	333-183640	August 30, 2012	10.4
10.6†	Offer Letter between Michael A. Stankey and the Registrant, dated September 4, 2009.	S-1	333-183640	August 30, 2012	10.5
10.7†	Offer Letter between James P. Shaughnessy and the Registrant, dated July 7, 2011.	S-1	333-183640	August 30, 2012	10.6
10.8†	Offer Letter between Mark S. Peek and the Registrant, dated April 9, 2012, as amended May 22, 2012.	S-1	333-183640	August 30, 2012	10.7
10.9	Offer Letter between James J. Bozzini and the Registrant dated December 4, 2006				X

Exhibit No.	Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Filing Date	Exhibit No.	
10.10	Office Lease Agreement, dated September 18, 2008, between Registrant and 6200 Stoneridge Mall Road Investors, LLC	S-1	333-183640	August 30, 2012	10.8	
10.11	Restated and Amended Pleasanton Ground Lease by and between San Francisco Bay Area Rapid Transit District and CREA/ Windstar Pleasanton, LLC and related assignment agreement dated January 30, 2014.					X
10.12	Sub-Sublease, dated September 22, 2008, between Registrant and E-Loan, Inc.	S-1	333-183640	August 30, 2012	10.9	
10.13	Form of Warrant to Purchase Class B Common Stock, dated May 19, 2008, issued by the Registrant to Flextronics International Management Services Ltd., as amended.	S-1	333-183640	August 30, 2012	10.10	
10.14	Stock Restriction Agreement, by and among the Registrant, David A. Duffield and Aneel Bhusri.	S-1/A	333-183640	October 1, 2012	10.11	
10.15	Form of Convertible Bond Hedge Confirmation (2018)	8-K	001-35680	June 17, 2013	99.1	
10.16	Form of Warrant Confirmation (2018)	8-K	001-35680	June 17, 2013	99.2	
10.17	Form of Convertible Bond Hedge Confirmation (2020)	8-K	001-35680	June 17, 2013	99.3	
10.18	Form of Warrant Confirmation (2020)	8-K	001-35680	June 17, 2013	99.4	
10.19	Form of Additional Convertible Bond Hedge Confirmation (2018)	8-K	001-35680	June 24, 2013	99.1	
10.20	Form of Additional Warrant Confirmation (2018)	8-K	001-35680	June 24, 2013	99.2	
10.21	Form of Additional Convertible Bond Hedge Confirmation (2020)	8-K	001-35680	June 24, 2013	99.3	
10.22	Form of Additional Warrant Confirmation (2020)	8-K	001-35680	June 24, 2013	99.4	
21.1	List of Subsidiaries of Registrant.					X
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.					X
24.1	Power of Attorney (see page 81 to this Report)					X

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31.1	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
31.3	Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.3*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

† Indicates a management contract or compensatory plan.

* As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Annual Report on Form 10-K and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of Workday, Inc. under the Securities Act of 1933 or the Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pleasanton, State of California, on this 31st day of March, 2014.

WORKDAY, INC.

/s/ Mark S. Peek

Mark S. Peek
Chief Financial Officer

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ David A. Duffield _____ David A. Duffield	Co-Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	March 31, 2014
/s/ Aneel Bhusri _____ Aneel Bhusri	Chairman and Co-Chief Executive Officer <i>(Principal Executive Officer)</i>	March 31, 2014
/s/ Mark S. Peek _____ Mark S. Peek	Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i>	March 31, 2014
/s/ A. George Battle _____ A. George Battle	Director	March 31, 2014
/s/ Christa Davies _____ Christa Davies	Director	March 31, 2014
/s/ Michael M. McNamara _____ Michael M. McNamara	Director	March 31, 2014
/s/ Scott D. Sandell _____ Scott D. Sandell	Director	March 31, 2014
/s/ George J. Still, Jr. _____ George J. Still, Jr.	Director	March 31, 2014
/s/ Jerry Yang _____ Jerry Yang	Director	March 31, 2014

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