

Workday, Inc.
Form 10-K
March 22, 2016
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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, 2016

OR

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

For transition period from _____ to _____
Commission File Number 001-35680

Workday, Inc.
(Exact name of Registrant as specified in its charter)

Delaware	20-2480422
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6230 Stoneridge Mall Road	94588
Pleasanton, California	(Zip Code)
(Address of principal executive offices)	
(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

The aggregate market value of the voting and non-voting stock of the Registrant as of July 31, 2015 (based on a closing price of \$84.33 per share) held by non-affiliates was approximately \$9.5 billion. As of February 29, 2016, there were approximately 195 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 2016. 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, 2016.

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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 activities, performance, or achievements. We are under no duty to update any of these forward-looking statements after the date of this report or to conform these statements to actual results or revised expectations.

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 finance and human resources. Founded in 2005, Workday delivers financial management, human capital management and analytics applications designed for the world’s largest companies, educational institutions, and government agencies. Organizations headquartered around the globe, ranging from medium-sized businesses to the world's largest enterprises, have selected Workday. We achieved this leadership position through our innovative and adaptable technology, focus on the consumer Internet experience and cloud delivery model.

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 provide 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, organizations can 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 feature releases. We deliver innovation regularly, with major feature releases delivered two times per year as part of our customers' subscription agreement. When the new feature releases are delivered, the prior version is fully replaced. As a result, all Workday customers are on the same version at all times. Feature releases 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.

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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 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. This shift in approach substantially reduces the need for our customers to buy and support a broad range of IT infrastructure, significantly reducing costs and complexity.

Our Applications

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 Financial Management provides the core finance functions of general ledger, global accounting, accounts payable, accounts receivable, cash management, asset management, employee expense management, revenue management, projects, procurement, inventory, and grants management. It also supports built-in financial, operational, and management reporting and analysis in real time without the use of complex and expensive bolt-on business intelligence systems.

Workday Human Capital Management (HCM)

Designed for the largest organizations in the world, Workday Human Capital Management (HCM) allows an organization to staff, pay, organize, and develop 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).

Other Applications

Workday offers a variety of other applications that complement and are unified with Workday Financial Management and Workday HCM. Workday Recruiting is an end-to-end application that supports the needs of candidates, hiring managers, the interview team, and recruiters. Workday Payroll is designed to address the full spectrum of enterprise payroll needs and provides control, accuracy and flexibility, with native payroll offerings in the U.S., Canada and United Kingdom as well as a global payroll cloud partner program to support additional customer needs. Workday Time Tracking, our time and attendance application, is designed to automate workforce management processes and thereby reduce costs and compliance risks. Workday Professional Services Automation (PSA) supports the complete billable projects lifecycle, including project and resource management, time and expense tracking, project billing, revenue recognition, financial reporting, and analytics within a single, unified solution. Workday Insight Applications leverages advanced data science and machine learning methodologies to help customers make smarter financial and workforce decisions, including retention risk analysis through Workday Talent Insights. Workday Student Recruiting and Workday Student Admissions are available as part of Workday Student, an end-to-end student and faculty lifecycle information system to help colleges and universities advance their institutions and enable student success.

Customers

We currently have more than 1,200 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 organization, 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 a former reseller partner.

Our current customer base spans numerous industry categories, including technology, financial services, business and professional services, healthcare and life sciences, manufacturing, retail and hospitality, education, government and non-profit. No individual customer represented more than 10% of our revenues in the year ended January 31, 2016.

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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, 2016, we had approximately 5,200 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 the Workday Service through our direct sales organization, that is comprised of field sales and field sales support personnel. Workday's field sales team is aligned by geography and the number of employees in a prospect account.

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

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 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 the finance and HR-related challenges our customers face 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 \$470 million, \$317 million and \$182 million for the years ended January 31, 2016, 2015 and 2014, respectively.

Competition

The overall market for enterprise application software is rapidly evolving, highly competitive, and subject to changing technology, shifting customer needs and frequent introductions of new applications. We currently compete with large, well-established, enterprise application software vendors, such as SAP SE (SAP) and Oracle Corporation (Oracle). SAP and Oracle are established enterprise software companies that have greater name recognition, much longer operating histories and significantly greater financial, technical, sales, marketing, and other resources than we have and are able to provide a broader scope of business applications 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. (ADP), and Infor Global Solutions, among others. We also face competition from cloud-based vendors including: providers of applications for HCM and payroll services, such as Ceridian, 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 financial management, HCM and analytics 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 configuration, integration, security, scalability and reliability of applications;

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• ability to innovate and respond to customer needs rapidly;
• domain expertise on financial, HR and payroll 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. Our patents begin to expire in 2017.

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. 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, Canada, Norway, Switzerland, New Zealand, Hong Kong and Australia and the Workday logo, our Built for the Future tagline, 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.

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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 designed 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 refunds or service credits to customers for prepaid and unused subscription services, 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; Atlanta, 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, such as 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 center operators could decide to close their facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by our third-party data center 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 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 adversely affect our reputation and operating results, cause us to issue refunds or service credits to customers for prepaid and unused subscription services, subject us to potential liabilities, result in contract terminations, or adversely affect our renewal rates.

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Furthermore, our financial management application is essential to Workday's and our customers' financial projections, reporting and compliance programs, particularly customers who are public reporting companies. Any interruption in our service may affect the availability, accuracy or timeliness of such projections, reporting and programs and as a result 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, or experience service outages or delays in the deployment of our applications, we may be subject to liabilities and our reputation and operating results may be adversely affected.

We have experienced significant growth in the number of users, transactions and data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our operations infrastructure to meet the needs of all of our customers, and to ensure that our services and solutions are accessible within an acceptable load time. We also seek to maintain excess capacity to facilitate the rapid provision of new customer deployments and the expansion of existing customer deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters, updates, the evolution of our applications and to reduce infrastructure latency associated with dispersed geographic locations. However, the provision of new hosting infrastructure requires significant lead time. If we do not accurately predict our infrastructure requirements, our existing customers may experience service outages. If our operations infrastructure fails to scale, customers may experience delays as we seek to obtain additional capacity.

We have experienced, and may in the future experience, system 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. 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 issue refunds or service credits to customers for prepaid and unused subscription services, or we could face contract terminations. Any extended service outages could result in customer losses, and adversely affect our reputation, revenues and operating results.

Catastrophic events may disrupt our business.

Our corporate headquarters are located in Pleasanton, California and we have data centers located in Ashburn, Virginia; Atlanta, Georgia; Portland, Oregon; Sacramento, California; 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 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, processing and disclosure of personal information obtained from consumers and individuals, which could impact our ability to offer our services in certain jurisdictions or our customers' ability to deploy our solutions globally. Privacy-related laws are particularly stringent in Europe. The costs of compliance with and other burdens imposed by privacy-related laws, regulations and standards may limit the use and adoption of our services, reduce overall demand for our services, lead to significant fines, penalties or liabilities for noncompliance, or slow the pace at

which we close sales transactions, any of which could harm our business. Moreover, 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.

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Additionally, we expect that existing laws, regulations and standards may be interpreted in new and differing manners in the future, and may be inconsistent among jurisdictions. For example, the European Court of Justice in October 2015 issued a ruling immediately invalidating the U.S.-EU Safe Harbor Framework, which facilitated personal data transfers to the U.S. in compliance with applicable European data protection laws. While we do not depend upon the U.S.-EU Safe Harbor Framework for transferring European personal data to the U.S., there is regulatory uncertainty surrounding how data transfers from the European Union to the U.S. will be authorized in the future and different European data protection regulators could apply differing standards for the transfer of personal data. Future laws, regulations, standards and other obligations, and changes in the interpretation of existing laws, regulations, standards and other obligations could result in increased regulation, cost of compliance and limitations on data collection, use, disclosure and transfer for Workday and our customers, which could decrease demand for our applications, require us to restrict our business operations, and impair our ability to maintain and grow our customer base and increase our revenue.

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 of 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 the adoption, effectiveness or use of our applications.

In addition to government activity, privacy advocacy groups and the technology and other industries have established or may establish various new, additional or different self-regulatory standards that may place additional burdens on us. Our customers may expect us to meet voluntary certifications, such as ISO 27018 or other standards established by third parties, such as TRUSTe. If we are unable to maintain these certifications or meet these standards, it could reduce demand for our applications and adversely affect our business.

We have experienced rapid growth. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and operational controls or adequately address competitive challenges. We have experienced, 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 approximately 5,200 employees as of January 31, 2016, 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 resources 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 continue to grow, we also need to ensure 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 could adversely affect our business.

Our success depends largely upon the continued services of our 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 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.

An inability to attract and retain highly skilled employees could adversely affect our business and our future growth prospects.

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, especially for engineers with high levels of experience in designing and developing software and Internet-related services and senior sales executives. From time to time, we have experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications, and may not be able to fill positions in desired geographic areas or at all.

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Many of the companies with which we compete for experienced personnel have greater resources than we have and some of these companies may offer greater compensation packages. Particularly in the San Francisco Bay Area, job candidates and existing employees carefully consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity 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. Job candidates may also be threatened with legal action by their existing employers if we hire them, which could have a chilling effect on hiring and result in a diversion of our time and resources. We must also continue to retain and motivate existing employees through our compensation practices, company culture and career development opportunities. If we fail to attract new personnel or to retain our current personnel, our business and future growth prospects could be adversely affected.

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

We believe that a critical component of our success has been our corporate culture, as reflected in our core values: employees, customer service, innovation, integrity and fun. We have invested substantial time and resources in building our team. As we continue to grow and develop the infrastructure associated with being a public company, we will need to maintain our corporate culture among a larger number of employees. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

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 financial management and HCM applications are highly competitive, with relatively low barriers to entry for some applications or services. Our primary competitors are SAP and Oracle, well-established providers of financial management and HCM applications, which have long-standing relationships with many customers. Some customers may be hesitant to switch vendors or to adopt cloud applications such as ours, and prefer to maintain their existing relationships with competitors. SAP and Oracle 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 financial management and HCM 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. 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 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 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.

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If the market for enterprise cloud computing grows more slowly than in recent years, our business could be adversely affected.

The enterprise cloud computing market is not as mature as the market for on-premise enterprise software. Our success will depend to a substantial extent on the continued growth of cloud computing in general, and of financial management and HCM 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 continued 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. Further, the cloud computing market is less developed in many jurisdictions outside of the United States. If we or 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 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 or growth rates 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 sales of our HCM application as well as 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 other applications is more recent, and it is uncertain what proportion of revenues will be contributed by non-HCM applications. 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 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, Android and other mobile-related technologies 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.

Our applications must integrate with a variety of third-party technologies, and if we are unable to ensure that our solutions interoperate with such technologies, demand for our applications and our operating results could be adversely affected.

Our applications must integrate with a variety of technologies and we must continuously modify and enhance our applications to adapt to changes in operating systems, hardware, software, communication, browser and database

technologies. Any failure of our solutions to operate effectively with future technologies or our failure to respond to changes in a timely and effective manner could reduce the demand for our applications, result in customer dissatisfaction and harm our operating results and 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;
- issue refunds or service credits to customers for prepaid and unused subscription services;
- loss of customers;
- diversion of development and customer service resources; and

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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 process, 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, which could adversely affect their perception of our applications' reliability and 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.

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, 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, or failure to renew by, any of our key customers 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.

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 customers are 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 revenue recognition of the

contract could be impacted, and the dissatisfaction with our services could damage our ability to expand the applications subscribed to by our customers. We must also align our product development and professional services operations in order to ensure that customers' evolving needs are met. Negative publicity related to our customer relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

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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, localization of contracts for different legal jurisdictions and associated expenses;
- the need for a go-to-market strategy that aligns product management efforts and the development of supporting infrastructure;
- stricter data privacy laws including requirements that customer data be stored and processed in a designated territory and obligations on us as a data processor;
- difficulties in appropriately staffing and managing foreign operations and providing appropriate compensation for local markets;
- difficulties in leveraging executive presence and company culture globally;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- new and different sources of competition;
- potentially weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- laws, customs 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-corruption laws including the Foreign Corrupt Practices Act;
- the effects of currency fluctuations on our revenues and customer demand for our services;
- adverse tax consequences and tax rulings; and
- unstable economic and political conditions.

The majority of our international costs are denominated in local currencies. In addition, we anticipate that over time, an increasing portion of our international sales 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 have a hedging program but we cannot assure that this hedging program will be effective and we

will continue to have risk of exchange rate fluctuations.

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

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

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

- inability to integrate or benefit from acquisitions in a profitable manner;
- incurrence of acquisition-related costs or liabilities, some of which may be unanticipated;
- difficulty integrating the intellectual property and operations of the acquired business;
- difficulty integrating and retaining the personnel of the acquired business;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- difficulty terminating or converting the customers of the acquired business onto our applications and contract terms;
- 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;
- 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 in the acquisition period because costs associated with acquiring customers are generally incurred up front, while subscription services revenues are generally recognized ratably over the terms of the agreements, which are typically three years. 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.

We may not receive significant revenues from our current development efforts for several years, if at all.

Developing software applications is expensive and the investment in product development often involves a long return on investment cycle. We have made and expect to continue to make significant investments in development and related product opportunities. Accelerated product introductions and short product life cycles require high levels of expenditures that could adversely affect our operating results if not offset by revenue increases. We believe that we must continue to dedicate a significant amount of resources to our development efforts to maintain our competitive position. However, we may not receive significant revenues from these investments for several years, if at all.

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.

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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 services, increasing competition, a decrease in the growth of our overall market, our failure to continue to capitalize on growth opportunities, and the maturation of our business, among others. As our growth rates decline, investors' perceptions of our business and the trading price of our securities could be adversely affected. 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, core operating 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 operating expenses and 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 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 our fiscal fourth quarter;
- the timing and success of new application and service introductions by us or our competitors;
- changes in the competitive dynamics of our industry, including consolidation among competitors, customers or strategic partners;
- changes in laws and regulations that impact our business; and
- the timing of expenses related to acquisitions and potential future charges for impairment of goodwill.

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 subscription contracts in any single quarter will likely have a minor impact on our revenue results for that quarter. However, such a decline will negatively affect our revenues in future quarters. 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 subscription revenues from new customers generally are recognized over the applicable subscription term.

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.

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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 level of satisfaction 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 significant time 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 positive awareness of our brand is critical to achieving widespread acceptance of our applications, attracting new customers and hiring and retaining employees. 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. In addition, if our brand is negatively impacted, it may be more difficult to hire and retain employees.

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. Any significant weakening of the economy in the United States or Europe and of the global economy, more limited availability of credit, a reduction in business confidence and activity, decreased government spending, and other difficulties may affect one or more of the sectors or countries in which we sell our applications. In addition, a strong dollar could reduce demand for our products in countries with relatively weaker currencies. These adverse conditions 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.

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 rely on patent, 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.

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We may be required to spend significant resources to monitor and protect our intellectual property rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could seriously adversely affect our brand and 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 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, they may claim that our applications and underlying technology infringe or violate their intellectual property rights, even if we are unaware of the intellectual property rights that others may claim cover some or all of our technology or services. 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 impacted by an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our technologies and services. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with usage of open source software cannot be eliminated, and could negatively affect our business.

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. 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.

Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations relating to Internet usage. Changes in these laws or regulations could require us to modify our applications in order to comply with these laws or regulations. 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 negatively impact demand for Internet-based applications such as ours.

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In addition, businesses 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. Businesses have been adversely affected by “viruses,” “worms” and similar malicious programs and have experienced a variety of outages and other delays as a result of damage to Internet infrastructure. These issues could negatively impact demand for our cloud-based applications.

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

As a public company, we are required to design and maintain proper and effective internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 (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. In addition, because we use Workday's financial management application, any problems that we experience with financial reporting and compliance could be negatively perceived by prospective or current customers, and negatively impact demand for our applications.

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 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.

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.

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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, 2016, we had federal and state net operating loss carryforwards due to prior period losses, which if not utilized will begin to expire in fiscal 2025 and 2017 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, 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.

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

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us (possibly with retroactive effect), which could require us 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. If our customers must pay additional fines or penalties, it could adversely affect demand for our services.

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 Chairman and CEO have control over key decision making as a result of their control of a majority of our voting stock.

As of January 31, 2016, our co-founder and Chairman David Duffield, together with his affiliates, held voting rights with respect to 66 million shares of Class B common stock and 1 million shares of Class A common stock. In addition, Mr. Duffield holds 0.1 million RSUs, which will be settled in an equivalent number of shares of Class A common stock. As of January 31, 2016, our co-founder and CEO Aneel Bhusri, together with his affiliates, held voting rights with respect to 7 million shares of Class B common stock. In addition, Mr. Bhusri holds exercisable options to acquire 3 million shares of Class B common stock, 1 million shares of Class B restricted stock and 0.3 million RSUs, which will be settled in an equivalent number of shares of Class A common stock. Further, Messrs. Duffield and Bhusri have entered into a voting agreement under which each has granted a voting proxy with respect to certain Class B common stock beneficially owned by him effective upon his death or incapacity as described in our registration statement on Form S-1 filed in connection with our initial public offering.

Messrs. Duffield and Bhusri have each initially designated the other as their respective proxies. Accordingly, upon the death or incapacity of either Mr. Duffield or Mr. Bhusri, the other would individually continue to control the voting of shares subject to the voting proxy. Collectively, the shares described above represent a substantial majority of the voting power of our outstanding capital stock. As a result, Messrs. Duffield and Bhusri have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, they have the ability to control the management and affairs of our company as a result of their positions as our Chairman and CEO, respectively, 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.

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The dual class structure of our common stock has the effect of concentrating voting control with our Chairman and CEO, and also with other executive officers, directors and 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 publicly traded, has one vote per share. Stockholders who hold shares of Class B common stock, including our executive officers, directors and other affiliates, together hold a substantial majority of the voting power of our outstanding capital stock as of January 31, 2016. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval until the conversion of all shares of all Class A and Class B shares to a single class of common stock on the date that is the first to occur of (i) October 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. 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 Chairman and CEO 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, such as high-growth or cloud companies, or in valuation metrics, such as our price to revenues ratio;
- guidance as to our operating results that we provide to the public, differences between our guidance and market expectations, our failure to meet our guidance 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;

our operating performance and the performance of other similar companies; and the sale or availability for sale of a large number of shares of our Class A common stock in the public market. Additionally, the stock markets have at times experienced extreme price and volume fluctuations that have affected and may in the future affect the market prices of equity securities of many companies. These fluctuations have, in some cases, been unrelated or disproportionate to the operating performance of these companies. Further, the trading prices of publicly traded shares of companies in our industry have been particularly volatile and may be very volatile in the future.

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

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We have indebtedness in the form of convertible senior notes.

In June 2013, we completed an offering of \$350 million of 0.75% convertible senior notes due July 15, 2018 (2018 Notes), and we concurrently issued an additional \$250 million of 1.50% convertible senior notes due July 15, 2020 (2020 Notes).

As a result of these convertible notes offerings, we incurred \$350 million principal amount of indebtedness, which we may be required to pay at maturity in 2018, and \$250 million principal amount of indebtedness, which we may be required to pay at maturity in 2020, or 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;
- our dual class common stock structure, which provides our chairman and CEO 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, chief executive officer, either co-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;

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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 our cash balances and may not use them effectively.

We have broad discretion in the use of our cash balances and may not use them effectively. 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 these offerings in a manner that does not produce income or that loses value. Our 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 operations and product development facilities, is located in Pleasanton, California and consists of approximately 538,172 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 at our corporate headquarters and in certain field locations during fiscal 2017.

An affiliate of our Chairman, 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 an affiliate of Mr. Duffield. During the year ended January 31, 2016, we leased approximately 120,077 of additional square footage from the same affiliate of 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.

In January 2014, we acquired a 95 year lease for a 6.9 acre parcel of land in Pleasanton, California. We paid \$10 million to acquire the lease and \$2 million in prepaid rent through December 31, 2020. We expect to start construction of our new development center, consisting of approximately 410,000 square feet of office space, on this property during the first half of fiscal 2017.

We believe that our existing facilities are adequate to meet current requirements, and that we will be able to obtain additional space at other locations at commercially reasonable terms to support our continuing expansion.

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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.

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PART II

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

Market Information for Common Stock

Our Class A common stock is listed on the New York Stock Exchange under the symbol "WDAY."

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.

	High	Low
Year ended January 31, 2016		
First quarter	\$95.17	\$78.40
Second quarter	93.62	74.26
Third quarter	84.84	65.33
Fourth quarter	85.67	60.17
Year ended January 31, 2015		
First quarter	\$116.47	\$64.21
Second quarter	92.15	65.75
Third quarter	97.40	75.23
Fourth quarter	97.16	76.36

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, 2016, 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 210 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.

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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.

Company/Index	Base				
	Period	10/12/2012	1/31/2013	1/31/2014	1/31/2015	1/31/2016
Workday, Inc.	\$100.00	\$109.71	\$183.90	\$163.20	\$129.41
S&P 500 Index	100.00	105.57	128.26	146.50	145.51
S&P 1500 Application Software Index	100.00	110.49	138.28	151.34	171.74

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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.

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	Year Ended January 31,				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
Consolidated Statements of Operations					
Data:					
Revenues:					
Subscription services	\$929,234	\$613,328	\$354,169	\$190,320	\$88,634
Professional services	233,112	174,532	114,769	83,337	45,793
Total revenues	1,162,346	787,860	468,938	273,657	134,427
Costs and expenses ⁽¹⁾ :					
Costs of subscription services	149,869	102,476	69,195	39,251	22,342
Costs of professional services	224,558	162,327	107,615	77,284	43,026
Product development	469,944	316,868	182,116	102,665	62,014
Sales and marketing	434,056	315,840	197,373	123,440	70,356
General and administrative	148,578	106,051	65,921	48,880	15,133
Total costs and expenses	1,427,005	1,003,562	622,220	391,520	212,871
Operating loss	(264,659)	(215,702)	(153,282)	(117,863)	(78,444)
Other expense, net	(24,242)	(30,270)	(17,549)	(1,203)	(1,018)
Loss before provision for income taxes	(288,901)	(245,972)	(170,831)	(119,066)	(79,462)
Provision for income taxes	1,017	2,010	1,678	124	167
Net loss	(289,918)	(247,982)	(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	\$(289,918)	\$(247,982)	\$(172,509)	\$(119,758)	\$(79,971)
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	\$(1.53)	\$(1.35)	\$(1.01)	\$(1.62)	\$(2.71)
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders	190,016	183,702	171,297	74,011	29,478

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

	Year Ended January 31,				
	2016	2015	2014	2013	2012
Costs of subscription services	\$12,060	\$6,053	\$2,408	\$601	\$230
Costs of professional services	19,526	12,890	4,818	1,312	398
Product development	109,362	63,938	21,644	3,528	1,124
Sales and marketing	51,617	29,875	12,131	2,717	839
General and administrative	57,405	43,292	20,850	7,170	1,591

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	As of January 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$300,087	\$298,192	\$581,326	\$84,158	\$57,529
Marketable securities	1,669,372	1,559,517	1,305,253	706,181	53,634
Working capital	1,439,629	1,467,122	1,601,768	629,528	37,934
Property and equipment, net	214,158	140,136	77,664	44,585	25,861
Total assets	2,730,094	2,350,090	2,165,640	959,080	232,638
Total unearned revenue	899,729	632,744	413,565	285,260	188,097
Convertible senior notes, net	507,476	481,958	457,787	—	—
Total liabilities	1,593,937	1,224,115	978,423	366,797	237,293
Redeemable convertible preferred stock	—	—	—	—	170,906
Total stockholders' equity (deficit)	1,136,157	1,125,975	1,187,217	592,283	(175,561)
	Year Ended January 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Cash Flow Data:					
Net cash provided by (used in) operating activities	\$258,637	\$102,003	\$46,263	\$11,214	\$(13,774)
Free cash flows ⁽²⁾	124,970	(1,643)	(29,577)	(23,401)	(34,756)

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.

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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."

Our fiscal year ends on January 31. References to fiscal 2016, for example, refer to the year ended January 31, 2016.

Overview

Workday provides financial management, human capital management, and analytics applications designed for the world's largest companies, educational institutions, and government agencies. We offer innovative and adaptable technology focused on the consumer Internet experience and cloud delivery model. Our applications are designed for global enterprises to manage complex and dynamic operating environments. We provide our customers highly adaptable, accessible and reliable applications to manage critical business functions that 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, and our Financial Management application in 2007. Since then we have continued to invest in innovation and have consistently introduced new services to our customers.

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 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 generally targets organizations with more than 1,000 workers. A substantial amount 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 the significant growth of our employee population. We had approximately 5,200 and approximately 3,750 employees as of January 31, 2016 and 2015, 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 ability to sell our applications globally, particularly in Europe and Asia, through investments in product development and customer support to address the business needs of local markets, increasing our sales and marketing organizations, building and leasing additional office space, and expanding our ecosystem of services partners to support local deployments. We expect to make further significant investments in our data center infrastructure as we plan for future growth. We are also investing in personnel to service our growing customer base. 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. We expect our product development, sales and marketing, and general and administrative expenses as a percentage of total 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. Due to our expanding partner ecosystem, we will not be ramping our professional services organization at the same growth rates as we have in the past, and we expect professional services revenues and the cost of professional services as a percentage of total revenues will continue to decline over time.

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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 80% of our total revenues during fiscal 2016 and represented 97% of our total unearned revenue as of January 31, 2016. 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, and the price of our applications.

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 generally 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 yet been invoiced represent backlog and are not reflected in our consolidated financial statements.

The majority of our consulting engagements are 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.

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 customer support, the costs of data center capacity, and depreciation of computer equipment and software.

Costs of professional services revenues. Costs of professional services revenues consist primarily of employee-related expenses associated with these services, the cost of subcontractors and travel. The percentage of total revenues derived from professional services was 20% in fiscal 2016. The cost of providing professional services is significantly higher as a percentage of the related revenues than for our subscription services.

Product development. Product development expenses consist primarily of employee-related costs. 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 costs, sales commissions, marketing programs and travel. 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 generally 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 costs for finance and accounting, legal, human resources and management information systems personnel, legal costs, professional fees and other corporate expenses.

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Results of Operations

Revenues

Our total revenues for fiscal 2016, 2015 and 2014 were as follows:

	Year Ended January 31,			2015 to 2016 % Change	2014 to 2015 % Change
	2016	2015	2014		
	(in thousands, except percentages)				
Subscription services	\$929,234	\$613,328	\$354,169	52	% 73
Professional services	233,112	174,532	114,769	34	% 52
Total revenues	\$1,162,346	\$787,860	\$468,938	48	% 68

Fiscal 2016 compared to fiscal 2015. Total revenues were \$1.2 billion for fiscal 2016, compared to \$788 million for fiscal 2015, an increase of \$374 million, or 48%. Subscription services revenues were \$929 million for fiscal 2016, compared to \$613 million for fiscal 2015, an increase of \$316 million, or 52%. The increase in subscription revenues was due primarily to an increased number of customer contracts as compared to the prior year period. Professional services revenues were \$233 million for fiscal 2016, compared to \$175 million for the prior year period, an increase of \$58 million, or 34%. The increase in professional services revenues was due primarily to a greater number of customers requesting deployment and integration services.

Fiscal 2015 compared to fiscal 2014. Total revenues were \$788 million for fiscal 2015, compared to \$469 million for fiscal 2014, an increase of \$319 million, or 68%. Subscription services revenues were \$613 million for fiscal 2015, compared to \$354 million for fiscal 2014, an increase of \$259 million, or 73%. The increase in subscription revenues was due primarily to an increased number of customer contracts as compared to the prior year period. Professional services revenues were \$175 million for fiscal 2015, compared to \$115 million for the prior year period, an increase of \$60 million, or 52%. The increase in professional services revenues was due primarily to a greater number of customers requesting deployment and integration services.

Core Operating Expenses

We use 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. We believe 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. We also believe 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 we focus 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 expenses, and certain other expenses, which consist of employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

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Reconciliations of our core operating expenses to the nearest GAAP measure, total operating expenses, are as follows:

	Year Ended January 31, 2016			
	Core	Share-Based	Other	Total
	Operating	Compensation	Operating	Operating
	Expenses ⁽¹⁾	Expenses	Expenses	Expenses
	(in thousands, except percentages)			
Costs of subscription services	\$137,395	\$12,060	\$414	\$149,869
Costs of professional services	204,264	19,526	768	224,558
Product development	353,381	109,362	7,201	469,944
Sales and marketing	380,957	51,617	1,482	434,056
General and administrative	89,078	57,405	2,095	148,578
Total	\$1,165,075	\$249,970	\$11,960	\$1,427,005
Operating loss	\$(2,729)	\$(249,970)	\$(11,960)	\$(264,659)
Operating margin	(0.2)%	(21.6)%	(1.0)%	(22.8)%
	Year Ended January 31, 2015			
	Core	Share-Based	Other	Total
	Operating	Compensation	Operating	Operating
	Expenses ⁽¹⁾	Expenses	Expenses	Expenses
	(in thousands, except percentages)			
Costs of subscription services	\$96,219	\$6,053	\$204	\$102,476
Costs of professional services	148,986	12,890	451	162,327
Product development	249,709	63,938	3,221	316,868
Sales and marketing	284,545	29,875	1,420	315,840
General and administrative	61,557	43,292	1,202	106,051
Total	\$841,016	\$156,048	\$6,498	\$1,003,562
Operating loss	\$(53,156)	\$(156,048)	\$(6,498)	\$(215,702)
Operating margin	(6.7)%	(19.8)%	(0.9)%	(27.4)%
	Year Ended January 31, 2014			
	Core	Share-Based	Other	Total
	Operating	Compensation	Operating	Operating
	Expenses ⁽¹⁾	Expenses	Expenses	Expenses
	(in thousands, except percentages)			
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	\$555,971	\$61,851	\$4,398	\$622,220
Operating loss	\$(87,033)	\$(61,851)	\$(4,398)	\$(153,282)
Operating margin	(18.6)%	(13.2)%	(0.9)%	(32.7)%

⁽¹⁾ 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 (6.7)% for fiscal 2015 to (0.2)% for fiscal 2016 and from (18.6)% for fiscal 2014 to (6.7)% for fiscal 2015. The improvement in our core operating margin was primarily due to higher subscription services revenues in both fiscal 2016 and 2015 compared to prior fiscal years. The improvement in fiscal 2016 was also due to higher professional services revenues driven by improved utilization rates and increased demand for services, and improvements in operating leverage.

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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 \$324 million, or 39% for fiscal 2016 compared to fiscal 2015, and by \$285 million, or 51% for fiscal 2015 compared to fiscal 2014. As quantified below, these increases for both periods were primarily due to higher employee-related costs driven by higher headcount.

Costs of Subscription Services

Fiscal 2016 compared to fiscal 2015. Core operating expenses in costs of subscription services were \$137 million for fiscal 2016, compared to \$96 million for fiscal 2015, an increase of \$41 million, or 43%. The increase was primarily due to increases of \$13 million in employee-related costs driven by higher headcount, \$12 million in depreciation expense related to our data centers, \$7 million in service contracts expense to expand data center capacity, and \$6 million in facility and IT-related expenses.

Fiscal 2015 compared to fiscal 2014. Core operating expenses in costs of subscription services were \$96 million for fiscal 2015, compared to \$67 million for fiscal 2014, an increase of \$29 million, or 43%. The increase was primarily due to increases of \$10 million in employee-related costs driven by higher headcount, \$9 million in depreciation expense related to our data centers, \$6 million in service contracts expense to expand data center capacity, and \$3 million in facility and IT-related expenses.

We expect that 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.

Costs of Professional Services

Fiscal 2016 compared to fiscal 2015. Core operating expenses in costs of professional services were \$204 million for fiscal 2016, compared to \$149 million for fiscal 2015, a \$55 million increase, or 37%. This increase was primarily due to increases of \$37 million to staff our deployment and integration engagements and \$6 million in facility and IT-related expenses.

Fiscal 2015 compared to fiscal 2014. Core operating expenses in costs of professional services were \$149 million for fiscal 2015, compared to \$102 million for fiscal 2014, a \$47 million increase, or 46%. This increase was primarily due to increases of \$36 million to staff our deployment and integration engagements and \$4 million in facility and IT-related expenses.

Due to the large increase in demand for our professional services, we have increased both our internal professional service staff as well as third-party supplemental staff. Going forward, we expect costs of professional services as a percentage of total revenues to continue 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 2017, we anticipate professional services margins to be lower than fiscal 2016 as we invest in building our partnership ecosystem in the education and government sectors, as well as internationally.

Product Development

Fiscal 2016 compared to fiscal 2015. Core operating expenses in product development were \$353 million for fiscal 2016, compared to \$250 million for fiscal 2015, an increase of \$103 million, or 41%. The increase was primarily due to increases of \$73 million in employee compensation costs due to higher headcount, \$20 million in facility and IT-related expenses, \$4 million in third party costs for hardware maintenance and data center capacity, and \$3 million in depreciation expense for our development cloud data center.

Fiscal 2015 compared to fiscal 2014. Core operating expenses in product development were \$250 million for fiscal 2015, compared to \$159 million for fiscal 2014, an increase of \$91 million, or 57%. The increase was primarily due to increases of \$66 million in employee compensation costs due to higher headcount, \$9 million in facility and IT-related expenses, \$6 million in depreciation expense for our development cloud data center and \$5 million in third party costs for hardware maintenance and data center capacity.

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

Sales and Marketing

Fiscal 2016 compared to fiscal 2015. Core operating expenses in sales and marketing were \$381 million for fiscal 2016, compared to \$285 million for fiscal 2015, an increase of \$96 million, or 34%. The increase was primarily due to increases of \$60 million in employee compensation costs due to higher headcount and higher commissionable sales volume, \$15 million in advertising, marketing and event costs, \$10 million in facility and IT-related expenses and \$6 million in travel.

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Fiscal 2015 compared to fiscal 2014. Core operating expenses in sales and marketing were \$285 million for fiscal 2015, compared to \$184 million for fiscal 2014, an increase of \$101 million, or 55%. The increase was primarily due to increases of \$68 million in employee compensation costs due to higher headcount and higher commissionable sales volume, \$17 million in advertising, marketing and event costs, \$7 million in facility and IT-related expenses and \$6 million in travel.

We expect that sales and marketing expenses will continue to increase in absolute dollars as we continue to invest in the expansion of our domestic and international selling and marketing activities to build brand awareness and attract new customers.

General and Administrative

Fiscal 2016 compared to fiscal 2015. Core operating expenses in general and administrative were \$89 million for fiscal 2016, compared to \$62 million for fiscal 2015, an increase of \$27 million, or 44%. The increase was primarily due to \$13 million in higher employee compensation costs due to higher headcount and \$10 million in higher professional services costs including consulting, legal and audit.

Fiscal 2015 compared to fiscal 2014. Core operating expenses in general and administrative were \$62 million for fiscal 2015, compared to \$44 million for fiscal 2014, an increase of \$18 million, or 41%. The increase was primarily due to \$12 million in higher employee compensation costs due to higher headcount, \$4 million in higher professional services costs including consulting, legal and audit and \$2 million in facility and IT-related expenses.

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

Share-Based Compensation Expenses

Share-based compensation expenses were \$250 million, \$156 million and \$62 million in fiscal 2016, 2015 and 2014, respectively. The increase in share-based compensation expenses for fiscal 2016 compared to fiscal 2015 was primarily due to grants of restricted stock units and performance-based restricted stock units to existing and new employees. The increase in share-based compensation expenses for fiscal 2015 compared to fiscal 2014 was primarily due to an increase in the number of employees, as well as a change in the timing of the cycle in which we grant additional equity awards to existing employees which resulted in grants that were made earlier in the fiscal year in fiscal 2015 relative to fiscal 2014. During fiscal 2016, 2015 and 2014, the realized excess tax benefits related to share-based compensation were immaterial. The next grant to existing employees is planned for the first quarter of fiscal 2017.

Other Operating Expenses

Other operating expenses include employer payroll tax-related items on employee stock transactions of \$9 million, \$5 million and \$4 million for fiscal 2016, 2015 and 2014, respectively. In addition, other operating expenses include amortization of acquisition-related intangible assets of \$3 million and \$1 million for fiscal 2016 and 2015, respectively. There was no amortization of acquisition-related intangible assets in fiscal 2014.

Other Expense, Net

Other expense, net, was \$24 million, \$30 million, and \$18 million for fiscal 2016, 2015 and 2014, respectively. The decrease in other expense, net for fiscal 2016 compared to fiscal 2015 was primarily due to the gain on sale of a cost method investment in fiscal 2016 of \$3 million. The increase in other expense, net for fiscal 2015 compared to fiscal 2014 was primarily due to the interest expense related to our June 2013 issuance of 0.75% convertible senior notes due October 15, 2018 (2018 Notes) and 1.50% convertible senior notes due October 15, 2020 (2020 Notes, and together with the 2018 Notes, the Notes), as we incurred a full period of interest expense in fiscal 2015. We issued the Notes in June 2013, and therefore incurred interest on the Notes for only a portion of fiscal 2014.

The contractual cash interest expense related to the Notes was \$6 million, \$6 million and \$4 million for fiscal 2016, 2015 and 2014, respectively. The associated non-cash interest expense related to amortization of the debt discount and amortization of debt issuance costs was \$26 million, \$24 million and \$14 million for fiscal 2016, 2015 and 2014, respectively.

Liquidity and Capital Resources

As of January 31, 2016, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$2.0 billion, which were held for working capital purposes. Our cash equivalents and marketable securities are

composed primarily of U.S. agency obligations, U.S. treasury securities, U.S. corporate securities, commercial paper, and money market funds.

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We have financed our operations primarily through sales of equity securities, customer payments, and issuance of debt. Our future capital requirements will depend on many factors, including our customer growth rate, subscription renewal activity, the timing of construction of our new development center in Pleasanton, California, the timing and extent of development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced services offerings, the continuing market acceptance of our services, and acquisition activities. We may enter into arrangements to acquire or invest in complementary businesses, services and technologies or intellectual property rights in the future. We also may choose to seek additional equity or debt financing.

Our cash flows for fiscal 2016, 2015 and 2014 were as follows:

	Year Ended January 31,		
	2016	2015	2014
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$258,637	\$102,003	\$46,263
Investing activities	(300,147)	(404,167)	(682,633)
Financing activities	44,109	19,455	1,133,610
Effect of exchange rate changes	(704)	(425)	(72)
Net increase (decrease) in cash and cash equivalents	\$1,895	\$(283,134)	\$497,168

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 purchases of other (non-acquisition-related) intangible assets. See “Non-GAAP Financial Measures” below for further information.

Our free cash flows for fiscal 2016, 2015 and 2014 were as follows:

	Year Ended January 31,		
	2016	2015	2014
	(in thousands)		
Net cash provided by (used in) operating activities	\$258,637	\$102,003	\$46,263
Purchases of property and equipment	(133,667)	(103,646)	(60,725)
Property and equipment acquired under capital leases	—	—	(115)
Purchase of other intangible assets	—	—	(15,000)
Free cash flows	\$124,970	\$(1,643)	\$(29,577)

Operating Activities

Cash provided by operating activities was \$259 million, \$102 million and \$46 million for fiscal 2016, 2015 and 2014, respectively. The improvements in cash flows provided by operating activities in both fiscal 2016 and 2015 compared to prior fiscal years resulted primarily from increased cash collections driven by growth in our customer sales contracts, partially offset by increases in our headcount related and other operational expenses.

Investing Activities

Cash used in investing activities for fiscal 2016, 2015 and 2014 was \$300 million, \$404 million and \$683 million, respectively, which was primarily the result of the timing of purchases and maturities of marketable securities and capital expenditures of \$134 million, \$104 million and \$61 million, respectively. During fiscal 2016, we paid \$31 million to acquire new businesses and \$17 million to purchase cost method investments, and we received proceeds of \$103 million from the sale of available-for-sale securities and \$4 million from the sale of a cost method investment. During fiscal 2015, we paid \$26 million to acquire a new business and \$10 million to purchase a cost method investment, and received proceeds of \$53 million from the sale of available-for-sale securities. During fiscal 2014, we paid \$10 million to purchase a leasehold interest in land in Pleasanton adjacent to our existing office space and \$5 million to acquire patents.

We expect capital expenditures, excluding our development center, will be approximately \$175 million for fiscal 2017. 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. We expect capital expenditures for the development center will be approximately \$125 million for fiscal 2017.

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Financing Activities

For fiscal 2016, cash provided by financing activities was \$44 million, primarily as a result of \$46 million of proceeds from the issuance of common stock from employee equity plans, partially offset by \$3 million in principal payments on our capital lease obligations.

For fiscal 2015, cash provided by financing activities was \$19 million, primarily as a result of \$36 million of proceeds from the issuance of common stock from employee equity plans, partially offset by \$10 million in principal payments on our capital lease obligations and \$8 million of Class A common share repurchases for tax withholdings on vesting of restricted stock.

For fiscal 2014, cash provided by financing activities was \$1 billion, primarily as a result of \$584 million in net proceeds from issuance of the Notes, \$592 million in net proceeds from our follow-on offering of Class A common stock, \$93 million in proceeds from the issuance of warrants related to the Notes and \$24 million in proceeds from the issuance of common stock from employee equity plans. These proceeds were partially offset by \$144 million to purchase convertible senior notes hedges and \$12 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.

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 increased by \$127 million to \$125 million for fiscal 2016, compared to \$(2) million for fiscal 2015 and increased by \$28 million to \$(2) million for fiscal 2015, compared to \$(30) million for fiscal 2014. The improvement in free cash flows in fiscal 2016 and 2015 was primarily due to increased sales and related cash collections, partially offset by increased capital expenditures and higher operating expenses, driven primarily by increased headcount.

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 expenses 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 stock unit 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 shares offered under the ESPP, which are elements 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 include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. The amount of employer payroll tax-related items on employee stock transactions is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. For business combinations, we generally allocate a portion of the purchase price to intangible assets. The amount of the allocation is based on estimates and assumptions made by management and is subject to amortization. The amount of purchase price allocated to intangible assets and the term

of its related amortization can vary significantly and are unique to each acquisition and thus we do not believe it is reflective of our ongoing operations.

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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 purchases of other (non-acquisition-related) intangible assets. We use 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 paid for or acquired under capital leases, so that we can evaluate our progress on free cash flows independent of our capital financing decisions. We believe 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, core operating margin and free cash flows is that they do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-GAAP measures of core operating expenses, core operating margin 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 tax-related items, 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 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. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view our non-GAAP financial measures in conjunction with the most comparable GAAP financial measures.

See “Results of Operations—Core 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 2016, 2015 and 2014. 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 2016, 2015 and 2014.

Backlog

We generally sign multiple-year subscription contracts for our applications. The timing of our invoices to each 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 determined to be certain, we consider those future subscription invoices to be non-cancelable backlog. Future invoicing is determined to be 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 specific product or feature. The amount of non-cancelable subscription contract backlog was \$1.6 billion and \$965 million as of January 31, 2016 and 2015, respectively.

We expect that the amount of backlog relative to the total value of our contracts will change from year to year due to several factors, including the amount invoiced early in the contract term, the timing and duration of customer subscription agreements, varying invoicing cycles of subscription agreements, the timing of customer renewals, changes in customer financial circumstances and foreign currency fluctuations. Accordingly, we believe that fluctuations in backlog are not always a reliable indicator of future revenues and we do not utilize backlog as a key management metric internally.

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Contractual Obligations

The following table summarizes our consolidated principal contractual cash obligations as of January 31, 2016:

	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⁾	23,154	6,375	11,321	5,458	—
Operating lease obligations:					
Facilities space ⁽³⁾	177,165	44,370	56,437	37,177	39,181
Facilities space with related party	77,315	7,540	17,951	18,699	33,125
Contractual commitments	7,083	7,083	—	—	—
Total	\$ 884,717	\$ 65,368	\$ 435,709	\$ 311,334	\$ 72,306

⁽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.

For the 95-year lease we entered in January 2013, the cash obligations exclude the potential annual rental increases

⁽³⁾ based on the increases to the Consumer Price Index (CPI). (See more information under “commitments” below). We believe it is likely we will make higher rent payments over the lease term due to future changes in the CPI.

Commitments

Our contractual commitments primarily consist of obligations under leases for office space and co-location facilities for data center capacity. For fiscal 2017, we anticipate leasing additional office space near our headquarters and in various other locations around the world to support our growth. In addition, our existing lease agreements often provide us with an option to renew. We expect our future operating lease obligations will increase as we expand our operations.

In January 2014, we entered into a 95-year lease for a 6.9 acre parcel of land in Pleasanton, California, under which we paid \$2 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. We expect to start construction of our new development center, consisting of approximately 410,000 square feet of office space, on this property during the first half of fiscal 2017. We have entered into an agreement with a contractor for the construction of the new development center, however it is not included in the table above because it allows for termination without significant penalty. As noted in the Liquidity and Capital Resources section above, we expect capital expenditures related to the development center will be approximately \$125 million for fiscal 2017.

We are not required to make principal payments under the Notes prior to maturity. If the Notes are not converted to Class A common stock prior to their maturity dates, we are required to repay \$350 million in principal on July 15, 2018 and \$250 million in principal on July 15, 2020. We are also required to make interest payments on a semi-annual basis at the interest rates described in Note 10 of the notes to the consolidated financial statements.

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.

Off-Balance Sheet Arrangements

Through January 31, 2016, 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.

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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 generally recognized ratably over the contractual term of the arrangement beginning on the date that our service is made available to the customer, assuming all other 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. Subscription contracts have standalone value as we sell the subscriptions separately. All of our professional services have standalone value and can be accounted for separately from subscription services, given the availability of the professional services from other vendors, the nature of our professional services and ongoing sales of our applications to new customers without professional 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 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. If neither VSOE nor TPE exist for a deliverable, arrangements with multiple deliverables can be separated into discrete units of accounting based on our best estimate of selling price. The amount of arrangement fee allocated is limited by contingent revenues, if any.

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We determine the 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

Sales commissions earned by our sales force are considered to be direct sales commissions when they can be associated specifically with a non-cancelable subscription contract. Direct sales commissions are deferred when earned and amortized over the same period that revenues are recognized for the related non-cancelable subscription contract. The commission payments are paid in full after the customer has paid for its first year of service. During fiscal 2016, we deferred \$32 million of commissions and we amortized \$20 million to sales and marketing expenses in the accompanying consolidated statements of operations. During fiscal 2015, we deferred \$23 million of commission expenditures and we amortized \$16 million to sales and marketing expenses in the accompanying consolidated statements of operations. Deferred commissions on our consolidated balance sheets totaled \$51 million and \$37 million at January 31, 2016 and 2015, 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

Refer to Note 2 of the notes to consolidated financial statements for a full description of recent accounting pronouncements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

We transact business globally in multiple currencies. As a result, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Our most significant currency exposures are the Euro, British Pound Sterling and Canadian Dollar. Due to the relative size of our international operations to date and the fact that the majority of our contracts are currently in U.S. dollars, our foreign currency exposure has been fairly limited. We anticipate that our exposure to foreign currency fluctuations will increase over time, and, as a result, we have a hedging program focused on certain currencies. For fiscal 2017 and beyond, we expect the number 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 \$2.0 billion as of January 31, 2016. Cash equivalents and marketable securities were invested primarily in U.S. agency obligations, U.S. treasury securities, U.S. corporate securities, commercial paper, and money market funds. 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 a \$8 million market value reduction in our investment portfolio as of January 31, 2016. Each 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 \$5 million as of January 31, 2016. 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 Accumulated other comprehensive income (loss), and are realized only if we sell the underlying securities.

Market Risk and Market Interest Risk

In June 2013, we issued \$350 million of 2018 Notes and \$250 million of 2020 Notes. Holders may convert the Notes prior to maturity upon the occurrence of certain circumstances. 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. Concurrently with the issuance of the Notes, we entered into separate note hedge and warrant transactions. These separate transactions were completed to reduce the potential economic dilution from the conversion of the Notes.

Our Notes have fixed annual interest rates at 0.75% and 1.50% and, therefore, we do not have economic interest rate exposure on our Notes. However, the values of the Notes are exposed to interest rate risk. Generally, the fair market value of our fixed interest rate Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair values of the 2018 Notes and the 2020 Notes are affected by our stock price. The carrying values of our 2018 Notes and 2020 Notes were \$307 million and \$201 million, respectively, as of January 31, 2016. These represent the liability component of the principal balance of our Notes as of January 31, 2016. The total estimated fair values of the 2018 Notes and 2020 Notes at January 31, 2016 were \$362 million and \$264 million, respectively, and the fair value was determined based on the quoted bid price of the Notes in an over-the-counter market as of the last day of trading for the fiscal period ended at January 31, 2016, which were \$103.50 and \$105.63, respectively. For further information, see Note 10 of the notes to consolidated financial statements.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
WORKDAY, INC.

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Report of 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, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, cash flows, and stockholders' equity for each of the three years in the period ended January 31, 2016. 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2016, 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, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 22, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
March 22, 2016

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Report of 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, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). 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 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, 2016, 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 2016 consolidated financial statements of Workday, Inc. and our report dated March 22, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
March 22, 2016

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WORKDAY, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	January 31, 2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$300,087	\$298,192
Marketable securities	1,669,372	1,559,517
Accounts receivable, net of allowance for doubtful accounts of \$1,592 and \$1,262	293,407	188,357
Deferred costs	21,817	20,471
Prepaid expenses and other current assets	77,625	41,850
Total current assets	2,362,308	2,108,387
Property and equipment, net	214,158	140,136
Deferred costs, noncurrent	30,074	20,998
Goodwill and acquisition-related intangible assets, net	65,816	34,779
Other assets	57,738	45,790
Total assets	\$2,730,094	\$2,350,090
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$19,605	\$10,623
Accrued expenses and other current liabilities	43,122	24,132
Accrued compensation	91,211	56,152
Capital leases	—	3,207
Unearned revenue	768,741	547,151
Total current liabilities	922,679	641,265
Convertible senior notes, net	507,476	481,958
Unearned revenue, noncurrent	130,988	85,593
Other liabilities	32,794	15,299
Total liabilities	1,593,937	1,224,115
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10 million shares authorized as of January 31, 2016 and January 31, 2015; no shares issued and outstanding as of January 31, 2016 and January 31, 2015	—	—
Class A common stock, \$0.001 par value; 750 million shares authorized as of January 31, 2016 and January 31, 2015; 116 million and 105 million shares issued and outstanding as of January 31, 2016 and January 31, 2015	115	104
Class B common stock, \$0.001 par value; 240 million shares authorized as of January 31, 2016 and January 31, 2015; 79 million and 83 million shares issued and outstanding as of January 31, 2016 and January 31, 2015 (including 1 million shares subject to repurchase, legally issued and outstanding as of January 31, 2016 and January 31, 2015)	78	82
Additional paid-in capital	2,247,454	1,948,300
Accumulated other comprehensive income (loss)	799	(140)
Accumulated deficit	(1,112,289)	(822,371)
Total stockholders' equity	1,136,157	1,125,975
Total liabilities and stockholders' equity	\$2,730,094	\$2,350,090
See Notes to Consolidated Financial Statements		

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

	Year Ended January 31,			
	2016	2015	2014	
Revenues:				
Subscription services	\$929,234	\$613,328	\$354,169	
Professional services	233,112	174,532	114,769	
Total revenues	1,162,346	787,860	468,938	
Costs and expenses ⁽¹⁾ :				
Costs of subscription services	149,869	102,476	69,195	
Costs of professional services	224,558	162,327	107,615	
Product development	469,944	316,868	182,116	
Sales and marketing	434,056	315,840	197,373	
General and administrative	148,578	106,051	65,921	
Total costs and expenses	1,427,005	1,003,562	622,220	
Operating loss	(264,659) (215,702) (153,282)
Other expense, net	(24,242) (30,270) (17,549)
Loss before provision for income taxes	(288,901) (245,972) (170,831)
Provision for income taxes	1,017	2,010	1,678	
Net loss	(289,918) (247,982) (172,509)
Net loss attributable to Class A and Class B common stockholders	\$(289,918) \$(247,982) \$(172,509)
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	\$(1.53) \$(1.35) \$(1.01)
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders	190,016	183,702	171,297	

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

	Year Ended January 31,		
	2016	2015	2014
Costs of subscription services	\$12,060	\$6,053	\$2,408
Costs of professional services	19,526	12,890	4,818
Product development	109,362	63,938	21,644
Sales and marketing	51,617	29,875	12,131
General and administrative	57,405	43,292	20,850

See Notes to Consolidated Financial Statements

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WORKDAY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year Ended January 31,			
	2016	2015	2014	
Net loss	\$(289,918	) \$(247,982	) \$(172,509)
Other comprehensive income (loss), net of tax:				
Net change in foreign currency translation adjustment	(3,158	) (525	) (72)
Net change in unrealized gains (losses) on available-for-sale investments	(842	) 116	273	
Net change in market value of effective foreign currency forward exchange contracts	4,939	—	—	
Other comprehensive income (loss), net of tax:	939	(409	) 201	
Comprehensive loss	\$(288,979) \$(248,391) \$(172,308)

See Notes to Consolidated Financial Statements

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

	Year Ended January 31,		
	2016	2015	2014
Cash flows from operating activities			
Net loss	\$(289,918	) \$(247,982	) \$(172,509
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	85,939	59,205	34,695
Share-based compensation expenses	249,970	156,048	61,851
Amortization of deferred costs	23,477	19,288	12,219
Amortization of debt discount and issuance costs	25,518	24,171	14,395
Gain on sale of cost method investment	(3,220) —	—
Other	1,047	2,924	678
Changes in operating assets and liabilities, net of business combinations:			
Accounts receivable	(105,264	) (96,876	) (25,037
Deferred costs	(33,899	) (23,514	) (21,071
Prepaid expenses and other assets	(28,366	) (15,524	) (25,876
Accounts payable	6,824	1,120	3,547
Accrued expense and other liabilities	59,724	3,964	35,066
Unearned revenue	266,805	219,179	128,305
Net cash provided by (used in) operating activities	258,637	102,003	46,263
Cash flows from investing activities			
Purchases of marketable securities	(2,125,841	) (1,737,840	) (1,587,240
Maturities of marketable securities	1,901,858	1,419,454	983,242
Sales of available-for-sale securities	102,711	53,182	—
Business combinations, net of cash acquired	(31,436	) (26,317) —
Purchases of property and equipment	(133,667	) (103,646	) (60,725
Purchases of cost method investments	(16,550	) (10,000	) (2,000
Sale of cost method investment	3,538	—	—
Purchase of other intangible assets	—	—	(15,000
Other	(760	) 1,000	(910
Net cash provided by (used in) investing activities	(300,147	) (404,167	) (682,633
Cash flows from financing activities			
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	45,656	36,239	23,692
Principal payments on capital lease obligations	(3,193	) (9,759	) (12,129
Shares repurchased for tax withholdings on vesting of restricted stock	—	(8,291	) (3,806
Other	1,646	1,266	342
Net cash provided by (used in) financing activities	44,109	19,455	1,133,610
Effect of exchange rate changes	(704) (425) (72

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Net increase (decrease) in cash and cash equivalents	1,895	(283,134) 497,168
Cash and cash equivalents at the beginning of period	298,192	581,326	84,158
Cash and cash equivalents at the end of period	\$300,087	\$298,192	\$581,326
Supplemental cash flow data			
Cash paid for interest	\$6,456	\$6,869	\$4,886
Cash paid for taxes	2,124	943	—
Non-cash investing and financing activities:			
Property and equipment acquired under capital leases	\$—	\$—	\$115
Vesting of early exercised stock options	1,887	1,887	3,043
Purchases of property and equipment, accrued but not paid	14,052	8,776	1,613
Non-cash additions to property and equipment	7,256	—	—

See Notes to Consolidated Financial Statements

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WORKDAY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balances as of January 31, 2013	166,424,872	\$ 162	\$993,933	\$ 68	\$(401,880)	\$ 592,283
Issuance of common stock under employee equity plans	8,689,384	10	23,682	—	—	23,692
Follow-on offering, net of issuance costs	6,900,000	7	592,234	—	—	592,241
Vesting of early exercised stock options	—	1	3,042	—	—	3,043
Vested restricted stock units, net	41,775	—	—	—	—	—
Shares withheld for tax withholding on vesting of restricted stock	—	—	(3,806)	—	—	(3,806)
Share-based compensation	—	—	61,851	—	—	61,851
Exercise of warrants	1,350,000	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	183,406,031	\$ 181	\$ 1,761,156	\$ 269	\$(574,389)	\$ 1,187,217
Issuance of common stock under employee equity plans	3,952,173	4	36,235	—	—	36,239
Vesting of early exercised stock options	—	—	1,887	—	—	1,887
Vested restricted stock units, net	1,057,851	1	—	—	—	1
Shares withheld for tax withholding on vesting of restricted stock	—	—	(8,292)	—	—	(8,292)
Share-based compensation	—	—	156,048	—	—	156,048
Excess tax benefits from share-based compensation	—	—	1,175	—	—	1,175
Other	—	—	91	—	—	91
Other comprehensive income	—	—	—	(409)	—	(409)
Net loss	—	—	—	—	(247,982)	(247,982)
Balances as of January 31, 2015	188,416,055	\$ 186	\$ 1,948,300	\$ (140)	\$(822,371)	\$ 1,125,975
Issuance of common stock under employee equity plans	4,103,433	5	45,651	—	—	45,656
Vesting of early exercised stock options	—	—	1,887	—	—	1,887
Vested restricted stock units, net	1,959,862	2	(2)	—	—	—

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Share-based compensation	—	—	249,970	—	—	249,970
Excess tax benefits from share-based compensation	—	—	1,646	—	—	1,646
Other	—	—	2	—	—	2
Other comprehensive income	—	—	—	939	—	939
Net loss	—	—	—	—	(289,918)	(289,918)
Balances as of January 31, 2016	194,479,350	\$ 193	\$ 2,247,454	\$ 799	\$(1,112,289)	\$ 1,136,157

See Notes to Consolidated Financial Statements

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Workday, Inc.

Notes to Consolidated Financial Statements

Note 1. Overview and Basis of Presentation

Company and Background

Workday provides financial management, human capital management, and analytics applications designed for the world's largest companies, educational institutions, and government agencies. We offer innovative and adaptable technology focused on the consumer Internet experience and cloud delivery model. Our applications are designed for global enterprises to manage complex and dynamic operating environments. We provide our customers highly adaptable, accessible and reliable applications to manage critical business functions that 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 2016, for example, refer to the year ended January 31, 2016.

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. All intercompany balances and transactions have been eliminated.

Certain prior period amounts reported in our consolidated financial statements and notes thereto have been reclassified to conform to the current period presentation. The reclassifications, which include reclassifications related to the adoption of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, and ASU 2015-17, Balance Sheet Classification of Deferred Taxes (see Note 2 - Recently Adopted Accounting Pronouncements), were immaterial and had no effect on previously reported operating results.

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, certain assumptions used in the valuation of equity awards and the fair value of assets acquired and liabilities assumed through business combinations. 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, who is our chief executive officer, 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.

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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 generally 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. Subscription contracts have standalone value as we sell the subscriptions separately. All of our professional services have standalone value and can be accounted for separately from subscription services, given the availability of the professional services from other vendors, the nature of our professional services and ongoing sales of our applications to new customers without professional 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 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. If neither VSOE nor TPE exist for a deliverable, arrangements with multiple deliverables can be separated into discrete 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 the 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.

Cash and Cash Equivalents

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

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Marketable Securities

Our marketable securities consist of U.S. agency obligations, U.S. treasury securities, U.S. corporate securities, and commercial paper. 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 an allowance 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, the collection history of each customer and other relevant factors 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

Sales commissions earned by our sales force are considered to be direct sales commissions when they can be associated specifically with a non-cancelable subscription contract. Direct sales commissions are deferred when earned and amortized over the same period that revenues are recognized for the related non-cancelable subscription 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 the Sales and marketing line in the accompanying consolidated statements of operations.

Derivative Financial Instruments and Hedging Activities

We use derivative financial instruments to manage foreign currency risks (see Note 9). We account for these instruments in accordance with ASC 815, Derivatives and Hedging (ASC 815), which requires that every derivative instrument be recorded on the consolidated balance sheets as either an asset or liability measured at its fair value as of the reporting date.

Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. For foreign currency forward contracts not designated as hedging instruments, which we use to hedge a portion of our net outstanding monetary assets and liabilities, the gains or losses are recognized in earnings in the period of change. For a derivative instrument designated as a cash flow hedge, which we use to hedge certain customer contracts denominated in foreign currencies, the change in fair value on the effective portion is recorded to Accumulated other comprehensive income (loss) in our consolidated balance sheets each reporting period. The balance in Accumulated other comprehensive income (loss) is subsequently reclassified to the related revenue line item in the consolidated statements of operations in the same period that the underlying revenues are earned.

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 related lease term. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Business Combinations

We use our best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed as of the acquisition date. Our estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill.

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In addition, uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. We continue to collect information and reevaluate these estimates and assumptions quarterly and record any adjustments to our preliminary estimates to goodwill provided that we are within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

Goodwill and Acquisition-Related Intangible Assets

Acquisition-related intangible assets with a finite life are typically amortized over useful lives of three to four years. 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 subscription contracts. We generally invoice our customers for our subscription contracts in annual 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 that is anticipated to be recognized during the succeeding twelve-month period is recorded as current unearned revenue and the remaining portion is recorded as noncurrent.

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 million. Concurrently, we issued 1.50% convertible senior notes due July 15, 2020 (2020 Notes) with a principal amount of \$250 million (together with the 2018 Notes, referred to as the Notes). In accounting for the Notes, we separated them into liability and equity components. The carrying amount of the liability components were calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity components representing the conversion options were determined by deducting the fair value of the liability component from the par value of the Notes as a whole. These differences represent debt discounts that are amortized to interest expense over the terms of the Notes. The equity components are not remeasured as long as they continue 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 \$31 million, \$20 million and \$9 million for fiscal 2016, 2015 and 2014, 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 and shares issued under our employee stock purchase plan using the Black-Scholes option-pricing model. For restricted stock awards and units and performance-based restricted stock units, fair value is based on the closing price of our common stock on the grant date. Compensation expense is generally 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.

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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, as a result, 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. We translate the foreign functional currency financial statements to U.S. dollars for those entities that do not have U.S. dollars as their functional currency using the exchange rates at the balance sheet date for assets and liabilities, the period average exchange rates for revenues and expenses, and the historical exchange rates for equity transactions. The effects of foreign currency translation adjustments are recorded in Accumulated other comprehensive income (loss) as a component of stockholders' equity, and related periodic movements are summarized as a line item in our consolidated statements of comprehensive income. Foreign currency transaction gains and losses are included in Other expense, net on the consolidated statements of operations for the period.

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, 2016 or 2015. 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 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; Atlanta, 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, such as environments for development testing, training and sales demonstrations. Any disruption of or interference with our use of AWS would impact our operations.

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Recently Adopted Accounting Pronouncements

As of January 31, 2016, we retrospectively adopted, for all comparative periods presented, ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In order to conform to the current financial statement presentation, \$6 million and \$9 million of unamortized debt issuance costs have been reclassified from Other assets to Convertible senior notes, net on the consolidated balance sheets as of January 31, 2016 and 2015, respectively. See Note 10 for additional information.

As of January 31, 2016, we retrospectively adopted, for all comparative periods presented, ASU 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 provides presentation requirements to classify deferred tax assets and liabilities as noncurrent in a classified statement of financial position. Adoption of this ASU resulted in a reclassification of \$1 million of current deferred tax assets from Prepaid expenses and other current assets to Other assets on the consolidated balance sheets as of both January 31, 2016 and 2015.

Recently Issued Accounting Pronouncements

On May 28, 2014, the FASB issued ASU 2014-9 regarding ASC Topic 606, Revenue from Contracts with Customers. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for our fiscal year beginning February 1, 2018. Early adoption is permitted. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

On January 5, 2016, the FASB issued ASU 2016-1 regarding ASC Topic 825-10, Recognition and Measurement of Financial Assets and Financial Liabilities. The standard requires entities to carry all investments in equity securities at fair value through net income. The guidance is effective for our fiscal year beginning February 1, 2018. Early adoption is permitted. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

On February 25, 2016, FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842). These amendments require the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840 "Leases". The guidance is effective for our fiscal year beginning February 1, 2019. Early adoption is permitted. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

Note 3. Marketable Securities

At January 31, 2016, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
U.S. agency obligations	\$1,018,513	\$127	\$(405)	) \$1,018,235
U.S. treasury securities	338,736	70	(141)	) 338,665
U.S. corporate securities	135,065	36	(18)	) 135,083
Commercial paper	177,390	—	(1)	) 177,389
Money market funds	148,961	—	—	148,961
	\$1,818,665	\$233	\$(565)	) \$1,818,333
Included in cash and cash equivalents	\$148,961	\$—	\$—	\$148,961
Included in marketable securities	\$1,669,704	\$233	\$(565)) \$1,669,372

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At January 31, 2015, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
U.S. agency obligations	\$1,303,829	\$422	\$(16)	) \$1,304,235
U.S. treasury securities	180,559	91	(1)	) 180,649
U.S. corporate securities	99,618	27	(13)	) 99,632
Commercial paper	89,984	—	—	89,984
Money market funds	142,137	—	—	142,137
	\$1,816,127	\$540	\$(30)	) \$1,816,637
Included in cash and cash equivalents	\$257,120	\$—	\$—	\$257,120
Included in marketable securities	\$1,559,007	\$540	\$(30)	) \$1,559,517

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, 2016. No marketable securities held as of January 31, 2016 have been in a continuous unrealized loss position for more than 12 months. During fiscal 2016, we sold \$103 million of our available-for-sale securities and the realized gain from the sale is immaterial.

Note 4. Deferred Costs

Deferred costs consisted of the following (in thousands):

	January 31, 2016	2015
Current:		
Deferred professional service costs	\$895	\$3,606
Deferred sales commissions	20,922	16,865
Total	\$21,817	\$20,471
Noncurrent:		
Deferred professional service costs	\$360	\$1,254
Deferred sales commissions	29,714	19,744
Total	\$30,074	\$20,998

Note 5. Property and Equipment, Net

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

	January 31, 2016	2015
Computers, equipment and software	\$230,705	\$139,569
Computers, equipment and software acquired under capital leases	24,400	34,112
Furniture and fixtures	18,894	13,082
Leasehold improvements	90,562	47,496
	364,561	234,259
Less accumulated depreciation and amortization	(150,403)	) (94,123)
Property and equipment, net	\$214,158	\$140,136

Depreciation expense was \$71 million, \$46 million and \$29 million for fiscal 2016, 2015 and 2014, respectively. These amounts include depreciation of assets recorded under capital leases of \$3 million, \$9 million and \$12 million for fiscal 2016, 2015 and 2014, respectively.

Note 6. Business Combinations

In fiscal 2016 we acquired two businesses in order to expand our product and service offerings. We have included the financial results of the acquired businesses in our consolidated financial statements from the respective acquisition dates. The consideration paid for these acquisitions was \$31 million, net of cash acquired.

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The following table summarizes the estimated fair values of assets acquired and liabilities assumed for all business combinations during the year ended January 31, 2016 (in thousands):

Cash	\$2,143	
Developed technology	17,660	
Deferred revenue	(214)
Net deferred tax liability	(3,796)
Net liabilities assumed	(1,195)
Net assets acquired	14,598	
Goodwill	18,981	
Total purchase consideration	\$33,579	

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The preliminary estimated fair values of assets acquired and liabilities assumed, including current and noncurrent income taxes payable and deferred taxes, and identifiable intangible assets may be subject to change as additional information is received and certain tax returns are finalized. We expect to finalize the allocation of purchase consideration as soon as practicable and no later than one year from the acquisition date.

Developed technology represents the estimated fair value of the acquired existing technology and the goodwill balance is not deductible for U.S. income tax purposes.

Pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

Note 7. Goodwill and Acquisition-related Intangible Assets, Net

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

	January 31,	
	2016	2015
Acquired developed technology	\$20,461	\$4,200
Customer relationship assets	338	338
	20,799	4,538
Less accumulated amortization	(5,308	) (2,071
Acquisition-related intangible assets, net	15,491	2,467
Goodwill	50,325	32,312
Goodwill and acquisition-related intangible assets, net	\$65,816	\$34,779

Developed technology from acquisitions is typically amortized over a useful life of three to four years. Amortization expense related to acquired developed technology was \$3 million and \$1 million for fiscal 2016 and 2015, respectively. There was no amortization expense in fiscal 2014.

As of January 31, 2016, our future estimated amortization expense related to the acquired developed technology is as follows (in thousands):

Fiscal Period:	
2017	\$5,326
2018	4,193
2019	3,811
2020	2,161
Total	\$15,491

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Note 8. Other Assets

Other assets consisted of the following (in thousands):

	January 31,	
	2016	2015
Cost method investment	\$28,742	\$12,910
Acquired land leasehold interest, net	9,781	9,886
Technology patents, net	3,020	3,942
Other	16,195	19,052
Total	\$57,738	\$45,790

We invested \$17 million and \$10 million in private companies in fiscal 2016 and fiscal 2015, respectively. The investments are recorded at cost as we do not have significant influence over the company's operational or financial policies. The investments are 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 cost method balance.

As of January 31, 2016, our future estimated amortization expense related to the acquired land leasehold interest and technology patents are as follows (in thousands):

Fiscal Period:

2017	\$1,027
2018	889
2019	520
2020	463
2021	301
Thereafter	9,601
Total	\$12,801

Note 9. 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 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.

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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, 2016		
	Level 1	Level 2	Total
U.S. agency obligations	\$—	\$1,018,235	1,018,235
U.S. treasury securities	338,665	—	338,665
U.S. corporate securities	—	135,083	135,083
Commercial paper	—	177,389	177,389
Money market funds	148,961	—	148,961
	\$487,626	\$1,330,707	\$1,818,333
Included in cash and cash equivalents			\$148,961
Included in marketable securities			\$1,669,372

Description	Fair Value Measurements as of January 31, 2015		
	Level 1	Level 2	Total
U.S. agency obligations	\$—	\$1,304,235	\$1,304,235
U.S. treasury securities	180,649	—	180,649
U.S. corporate securities	—	99,632	99,632
Commercial paper	—	89,984	89,984
Money market funds	142,137	—	142,137
	\$322,786	\$1,493,851	\$1,816,637
Included in cash and cash equivalents			\$257,120
Included in marketable securities			\$1,559,517

Financial Liabilities

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

	January 31, 2016		January 31, 2015	
	Net Carrying Amount before unamortized debt issuance costs	Estimated Fair Value	Net Carrying Amount before unamortized debt issuance costs	Estimated Fair Value
0.75% Convertible senior notes	\$310,013	\$362,250	\$295,276	\$407,750
1.50% Convertible senior notes	203,923	264,063	195,225	299,063

The difference between the principal amount of the notes, \$350 million for the 0.75% convertible senior notes and \$250 million for the 1.50% convertible senior notes, and the net carrying amount before unamortized debt issuance costs represents the unamortized debt discount (see Note 10). 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, 2016 and January 31, 2015.

Based on the closing price of our common stock of \$63.01 on January 31, 2016, the if-converted value of the 0.75% convertible senior notes and the if-converted value of the 1.50% convertible senior notes were less than their respective principal amounts.

Derivative Financial Instruments

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

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

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Cash Flow Hedges

We are exposed to foreign currency fluctuations resulting from customer contracts denominated in foreign currencies. We initiated a hedging program in fiscal 2016 by entering into foreign currency forward contracts related to certain customer contracts. We designate these forward contracts as cash flow hedging instruments as the accounting criteria for such designation have been met. The effective portion of the gains or losses resulting from changes in the fair value of these hedges is recorded in Accumulated other comprehensive income (loss) on the consolidated balance sheets and will be subsequently reclassified to the related revenue line item in the consolidated statements of operations in the same period that the underlying revenues are earned. The changes in value of these contracts resulting from changes in forward points on our forward contracts are excluded from the assessment of hedge effectiveness and are recorded as incurred in Other expense, net in the consolidated statements of operations.

As of January 31, 2016, we had 65 outstanding foreign currency forward contracts designed as cash flow hedges with a total notional value of \$133 million which had maturities not greater than 15 months. The notional value represents the amount that will be bought or sold upon maturity of the forward contract.

During fiscal 2016, all cash flow hedges were considered effective.

Foreign Currency Forward Contracts not Designated as Hedges

We also enter into foreign currency forward contracts to hedge a portion of our net outstanding monetary assets and liabilities. These forward contracts are not designated as hedging instruments under applicable accounting guidance, and therefore all changes in the fair value of the forward contracts are recorded in Other expense, net in our consolidated statements of operations. These forward contracts are intended to offset the foreign currency gains or losses associated with the underlying monetary assets and liabilities.

As of January 31, 2016 and 2015, we had 21 and 7 outstanding forward contracts with total notional values of \$22 million and \$10 million, respectively. All contracts have maturities not greater than 15 months.

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

		January 31,	
	Consolidated Balance Sheets Location	2016	2015
Derivative Assets:			
Foreign currency forward contracts designated as cash flow hedges	Prepaid expenses and other current assets	\$4,695	\$—
Foreign currency forward contracts not designated as hedges	Prepaid expenses and other current assets	605	371
Derivative Liabilities:			
Foreign currency forward contracts designated as cash flow hedges	Accrued expenses and other current liabilities	\$98	\$—
Foreign currency forward contracts not designated as hedges	Accrued expenses and other current liabilities	56	5

Gains (losses) associated with foreign currency forward contracts designated as cash flow hedges were as follows (in thousands):

		January 31,		
	Consolidated Statements of Operations Location	2016	2015	2014
Gains (losses) recognized in OCI (effective portion) ⁽¹⁾	Accumulated other comprehensive	\$4,939	\$—	\$—

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	income (loss)			
Gains (losses) reclassified from OCI into income (effective portion)	Revenues	3	—	—
Gains (losses) recognized in income (amount excluded from effectiveness testing and ineffective portion)	Other expense, net	148	—	—

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Of the total effective portion of foreign currency forward contracts designated as cash flow hedges as of (1) January 31, 2016, \$0.5 million is expected to be reclassified out of Accumulated other comprehensive income (loss) within the next 12 months.

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

Derivative Type	Consolidated Statements of Operations Location	January 31,		
		2016	2015	2014
Foreign currency forward contracts not designated as hedges	Other expense, net	\$876	\$441	\$—

We are subject to master netting agreements with certain counterparties of the foreign exchange contracts, under which we are permitted to net settle transactions of the same currency with a single net amount payable by one party to the other. It is our policy to present the derivatives gross in the consolidated balance sheets. Our foreign currency forward contracts are not subject to any credit contingent features or collateral requirements and we do not believe we are subject to significant counterparty concentration risk given the short-term nature, volume, and size of the derivative contracts outstanding.

As of January 31, 2016, information related to these offsetting arrangements was as follows (in thousands):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Assets Exposed
Derivative Assets						
Counterparty A	\$212	\$—	\$212	\$(82)	) \$—	\$130
Counterparty B	760	—	760	—	—	760
Counterparty C	4,328	—	4,328	(72)	) —	4,256
Total	\$5,300	\$—	\$5,300	\$(154)	) \$—	\$5,146
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Liabilities Exposed
Derivative Liabilities						
Counterparty A	\$82	\$—	\$82	\$(82)) \$—	\$—
Counterparty B	—	—	—	—	—	—
Counterparty C	72	—	72	(72)) —	—
Total	\$154	\$—	\$154	\$(154)) \$—	\$—

Note 10. Convertible Senior Notes, Net
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 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 million (together with the 2018 Notes, referred to as the 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.

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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 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 million and equity issuance costs of \$2 million. Amortization expense for the liability issuance costs was \$1 million for both fiscal 2016 and 2015. For the 2020 Notes, we recorded liability issuance costs of \$5 million and equity issuance costs of \$2 million. Amortization expense for the liability issuance costs was \$1 million for both fiscal 2016 and 2015.

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The Notes, net consisted of the following (in thousands):

	January 31, 2016		January 31, 2015	
	2018 Notes	2020 Notes	2018 Notes	2020 Notes
Principal amounts:				
Principal	\$ 350,000	\$ 250,000	\$ 350,000	\$ 250,000
Unamortized debt discount ⁽¹⁾	(39,987	) (46,077	) (54,724	) (54,775
Net carrying amount before unamortized debt issuance costs	310,013	203,923	295,276	195,225
Unamortized debt issuance costs ⁽¹⁾⁽²⁾	(3,458	) (3,002	) (4,866	) (3,677
Net carrying amount	\$ 306,555	\$ 200,921	\$ 290,410	\$ 191,548
Carrying amount of the equity component ⁽³⁾	\$ 74,892	\$ 66,007	\$ 74,892	\$ 66,007

(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.

We adopted ASU 2015-03 on January 31, 2016 and have applied the new guidance retrospectively to all prior

(2) periods presented in the financial statements to conform to the fiscal 2016 presentation. See Note 2 for additional information.

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

As of January 31, 2016, the remaining life of the 2018 Notes and 2020 Notes is approximately 29 months and 53 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 (in thousands):

	Year Ended January 31,			
	2016		2015	
	2018 Notes	2020 Notes	2018 Notes	2020 Notes
Contractual interest expense	\$ 2,625	\$ 3,750	\$ 2,625	\$ 3,750
Interest cost related to amortization of debt issuance costs	1,408	675	1,408	674
Interest cost related to amortization of the debt discount	14,737	8,698	13,916	8,172

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 \$144 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 2018 Notes and 2020 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 of 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 \$93 million from the sale of the Warrants, which is recorded in Additional paid-in capital in the consolidated balance sheets.

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Note 11. Commitments and Contingencies

Facility-related Commitments

We have entered into operating lease agreements for certain of our offices and data centers in the U.S. and other countries with various expiration dates. Certain of our office leases are with an affiliate of our Chairman, Mr. Duffield, who is also a significant stockholder (see Note 17). The operating 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. This includes payments for office and data center square footage, as well as data center power capacity for certain data centers. We recognize these expenses on a straight-line basis over the period in which we benefit from the lease and we have accrued for rent expense incurred but not paid. Total rent expense was \$46 million, \$30 million and \$18 million fiscal 2016, 2015 and 2014, respectively.

In January 2014, we entered into a 95-year lease for a 6.9-acre parcel of vacant land in Pleasanton, California, under which we paid \$2 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.

As of January 31, 2016, the future minimum payments by year for our non-cancelable leases are as follows (in thousands):

	Operating Leases	Operating Leases with Related Party
2017	\$44,370	\$ 7,540
2018	31,075	8,882
2019	25,362	9,069
2020	20,566	9,256
2021	16,611	9,443
Thereafter	39,181	33,125
	\$177,165	\$ 77,315

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, 2016, 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 12. Common Stock and Stockholders' Equity

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 million shares of Class B common stock and an aggregate of 42 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 7 million shares of our Class A common stock at a public offering price of \$89.00 per share. We received net proceeds of \$592 million after deducting underwriting discounts and commissions of \$21 million and other offering expenses of \$1 million.

As of January 31, 2016, there were 116 million shares of Class A common stock and 79 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. All of our Class A and Class B shares will convert to a single class of common stock upon the date that is the first to occur of (i) October 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, and (iv) the date on which the holders of a majority of the shares of Class B common stock elect to convert all shares of Class A common stock and Class B common stock into a single class of common stock.

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Employee Equity Plans

Our board of directors adopted the 2012 Equity Incentive Plan (EIP) in August 2012 which became effective on October 10, 2012 and serves as the successor to our 2005 Stock Plan (together with the EIP, the Stock Plans). Pursuant to the terms of the EIP, the share reserve increased by 9 million on both March 25, 2015 and March 31, 2014. As of January 31, 2016, we had approximately 54 million shares of Class A common stock available for future grants.

We also have a 2012 Employee Stock Purchase Plan (ESPP). Under the ESPP, eligible employees are granted options to purchase shares at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. Options to purchase shares are granted twice yearly on or about June 16 and December 16 and exercisable on or about the succeeding December 15 and June 15, respectively, of each year. Pursuant to the terms of the ESPP, the share reserve increased by 2 million shares on March 25, 2015. As of January 31, 2016, 5 million shares of Class A common stock were available for issuance under the ESPP. For fiscal 2016, 0.5 million shares of Class A common shares were purchased under the ESPP at a weighted-average price of \$67.16 per share, resulting in cash proceeds of \$34 million.

Stock Options

The Stock Plans provide for the issuance of incentive and nonstatutory options to employees and non-employees. We have also issued nonstatutory options outside of the Stock Plans. Options issued under the Stock Plans generally are exercisable for periods not to exceed 10 years and generally vest over five years. A summary of information related to stock option activity during fiscal 2016 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, 2015	16,663,557	\$4.06	\$1,256
Stock option grants	—	—	
Stock options exercised	(3,595,411	) 3.21	
Stock options canceled	(205,170	) 10.19	
Balance as of January 31, 2016	12,862,976	\$4.21	\$756
Vested and expected to vest as of January 31, 2016	12,779,675	\$4.18	\$752
Exercisable as of January 31, 2016	11,532,044	\$3.65	\$685

The total grant-date fair value of stock options vested during fiscal 2016, 2015 and 2014 was \$17 million, \$20 million and \$27 million, respectively. The total intrinsic value of the options exercised during fiscal 2016, 2015 and 2014 was \$279 million, \$311 million and \$566 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, 2016 is approximately 5.2 years.

As of January 31, 2016, there was a total of \$17 million in unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of approximately 1.3 years.

The options that are exercisable as of January 31, 2016 have a weighted-average remaining contractual life of approximately 5.0 years. The weighted-average remaining contractual life of outstanding options at January 31, 2016 is approximately 5.2 years.

Common Stock Subject to Repurchase

The Stock 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, 2016 and 2015, we had \$3 million and \$4 million respectively, recorded in liabilities related to early exercises of stock options.

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Restricted Stock Units

The Stock Plans provide for the issuance of restricted stock units ("RSUs") to employees. RSUs generally vest over four years. A summary of information related to RSU activity during fiscal 2016 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Balance as of January 31, 2015	6,409,132	\$ 76.93
RSUs granted	5,307,070	85.29
RSUs vested	(1,959,862	) 77.21
RSUs forfeited	(545,258	) 80.44
Balance as of January 31, 2016	9,211,082	\$ 81.48

The weighted average grant-date fair value of RSUs granted during fiscal 2016, 2015 and 2014 was \$85.29, \$81.65 and \$71.35, respectively. The total fair value of RSUs vested as of the vesting dates during fiscal 2016, 2015 and 2014 was \$162 million, \$90 million and \$4 million, respectively.

As of January 31, 2016, there was a total of \$611 million in unrecognized compensation cost related to unvested RSUs, which is expected to be recognized over a weighted-average period of approximately 2.8 years.

Restricted Stock Awards

The Stock Plans provide for the issuance of restricted stock awards to employees. Restricted stock awards generally vest over five years. Under the EIP, 0.5 million restricted awards of Class B common stock are outstanding with weighted average grant date fair value of \$12.98, all of which are subject to forfeiture as of January 31, 2016. During fiscal 2016, 0.3 million shares of restricted stock awards vested with weighted average grant date fair value of \$12.73. As of January 31, 2016, there was a total of \$6 million in unrecognized compensation cost related to restricted stock awards, which are expected to be recognized over a weighted-average period of approximately 1.8 years.

Performance-based Restricted Stock Units

We granted less than 0.1 million shares of performance-based restricted stock units (PRSUs) during the year ended January 31, 2016, with a weighted average grant date fair value per share of \$76.45. The PRSU awards, which were granted to all employees other than executive management, included performance conditions related to company-wide goals and service conditions. These performance conditions were met and the PRSUs vested on March 15, 2016.

As of January 31, 2016, there was a total of \$2 million in unrecognized compensation cost related to all PRSUs, which is expected to be recognized over a weighted-average period of approximately 2 months.

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 stock option awards and shares issued under the ESPP 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 to determine the fair value of our common stock at each meeting at which awards were approved.

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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 of our common stock and our peer group's 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:

	Year Ended January 31,		
	2016	2015	2014
Stock Options			
Expected volatility	n/a	n/a	54.8% – 55.8%
Expected term (in years)	n/a	n/a	6.11
Risk-free interest rate	n/a	n/a	0.9% - 1.8%
Dividend yield	n/a	n/a	—%
	Year Ended January 31,		
	2016	2015	2014
ESPP			
Expected volatility	32.0% – 34.2%	32.8% – 37.7%	27.7% – 30.4%
Expected term (in years)	0.5	0.5	0.5
Risk-free interest rate	0.26% – 0.51%	0.01% - 0.1%	0.1%
Dividend yield	—%	—%	—%
Weighted-average grant date fair value per share	\$67.23 – 71.81	\$64.12 – 72.26	\$52.88 – 68.43

Note 13. Other Expense, Net

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

	Year Ended January 31,		
	2016	2015	2014
Interest income	\$4,855	\$2,960	\$1,992
Interest expense ⁽¹⁾	(31,932	) (31,060	) (19,618
Gain from sale of cost method investment	3,220	—	—
Other income (expense)	(385	) (2,170	) 77
Other expense, net	\$(24,242	) \$(30,270	) \$(17,549

(1) Interest expense includes the contractual interest expense related to the 2018 Notes and 2020 Notes and non-cash interest related to amortization of the debt discount and debt issuance costs (see Note 10).

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Note 14. Income Taxes

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

	Year Ended January 31,		
	2016	2015	2014
Domestic	\$ (131,377)	\$ (93,619)	\$ (49,652)
Foreign	(157,524)	(152,353)	(121,179)
Total	\$ (288,901)	\$ (245,972)	\$ (170,831)

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

	Year Ended January 31,		
	2016	2015	2014
Current:			
Federal	\$ (2,012)	\$ 90	\$ 60
State	489	106	178
Foreign	2,869	2,128	1,440
Total	\$ 1,346	\$ 2,324	\$ 1,678
Deferred:			
Federal	\$ —	\$ —	\$ —
State	—	—	—
Foreign	(329)	(314)	—
Total	(329)	(314)	—
Provision for income taxes	\$ 1,017	\$ 2,010	\$ 1,678

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

	Year Ended January 31,					
	2016		2015		2014	
Federal statutory rate	35.0	%	35.0	%	35.0	%
Effect of:						
Foreign income at other than U.S. rates	(19.8	)%	(22.5	)%	(25.4)%
Intercompany transactions	—	%	(0.2	)%	(36.8)%
Research tax credits	4.9	%	6.9	%	12.7	%
State taxes	(0.2	)%	(0.1	)%	(0.1)%
Changes in valuation allowance	(15.8	)%	(15.2	)%	18.1	%
Stock compensation	(5.1	)%	(4.0	)%	(3.9)%
Other	0.6	%	(0.7	)%	(0.6)%
	(0.4	)%	(0.8	)%	(1.0)%

As a result of our history of net operating losses, the current federal and current state provision for (benefit from) income taxes relates to accruals, expiration of statute of limitations and adjustments to the interest and penalties for uncertain tax positions, U.S. federal tax expense on taxable income before excess tax benefits and state minimum and capital based income taxes. During the fiscal year ended January 31, 2016, we had recorded a \$3 million tax benefit from the release of an acquired uncertain tax position, including interest and penalties, due to the lapse of the statute of limitations.

We had unrecorded excess stock option tax benefits of \$364 million as of January 31, 2016. These amounts will be credited to additional paid-in capital when the tax deduction is realized on the income tax returns.

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

	January 31,	
	2016	2015
Deferred tax assets:		
Unearned revenue	\$35,884	\$29,093
Other reserves and accruals	29,919	16,337
Federal net operating loss carryforwards	59,497	82,434
State and foreign net operating loss carryforwards	21,357	23,047
Property and equipment	19,518	18,864
Share-based compensation	61,930	34,009
Research and development credits	51,340	38,738
Other	7,725	4,767
	287,170	247,289
Valuation allowance	(222,760	) (177,211
Deferred tax assets, net of valuation allowance	64,410	70,078
Deferred tax liabilities:		
Intercompany transactions	(62,951	) (61,389
Other prepaid assets	(898	) (7,255
Other	—	(783
	(63,849	) (69,427
Net deferred tax assets	\$561	\$651

We regularly assess the need for a valuation allowance against our deferred tax assets by considering both positive and negative evidence related to whether it is more likely than not that our deferred tax assets will be realized. In evaluating the need for a valuation allowance, we consider the cumulative losses in recent years as a significant piece of negative evidence that is generally difficult to overcome.

As of January 31, 2016, we recorded a valuation allowance of \$223 million for the portion of the deferred tax asset that we do not expect to be realized. The valuation allowance on our net deferred tax assets increased by \$46 million and \$47 million for fiscal 2016 and 2015, respectively. We will continue to reassess the future realization of the deferred tax asset and adjust the valuation allowance accordingly.

As of January 31, 2016, we had approximately \$1.2 billion of federal, \$756 million of state and \$77 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 2017 and 2036. The foreign net operating losses do not expire and may be carried forward indefinitely. The net operating losses include amounts relating to the excess tax benefit from stock option exercises, which will be recorded as a credit to additional paid-in capital when realized.

On December 18th, 2015 President Obama signed into law the Protecting Americans from Tax Hikes Act, 2016 (the PATH Act) that retroactively reinstated certain tax benefits and credits that had expired. One of the provisions of the PATH Act was to permanently reinstate the R&D tax credit. The enacted law did not impact our tax provision as the retroactive benefit of the research tax credit was fully offset by an increase in valuation allowance. We also had approximately \$46 million of federal and \$45 million of California research and development tax credit carryforwards as of January 31, 2016. The federal credits expire in varying amounts between the years 2026 and 2036. The California research credits do not expire and may be carried forward indefinitely.

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

We intend to permanently reinvest any future earnings from our foreign operations outside of the U.S. unless such earnings are subject to U.S. federal income taxes. Upon any repatriation of those earnings, in the form of dividends or otherwise, we would be subject to both U.S. income taxes adjusted for foreign tax credits and applicable foreign withholding taxes. As of January 31, 2016, our foreign operations have accumulative deficits; therefore, we have not

provided a deferred tax liability. Additionally, we currently estimate any such hypothetical foreign withholding tax expense to be immaterial to our financial statements.

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

	Year Ended January 31,		
	2016	2015	2014
Unrecognized tax benefits at the beginning of the period	\$88,663	\$77,090	\$15,577
Additions for tax positions taken in prior years	2,818	3,946	1,928
Reductions for tax positions taken in prior years	(881	) (49	) (10,982
Additions for tax positions related to the current year	9,144	7,676	70,567
Reductions related to a lapse of applicable statute of limitations	(1,284) —	—
Unrecognized tax benefits at the end of the period	\$98,460	\$88,663	\$77,090

Our policy is to include interest and penalties related to unrecognized tax benefits within our provision for income taxes. We had accrued interest expense of \$0.1 million, \$1 million and \$1 million and accrued penalties of \$0.1 million, \$1 million and \$1 million as of January 31, 2016, 2015 and 2014, respectively.

Of the total amount of unrecognized tax benefits of \$98 million, \$1 million, if recognized, would impact the effective tax rate, as of January 31, 2016. We believe that it is reasonably possible that the unrecognized tax benefits would decrease by approximately \$0.1 million within the next 12 months as a result of the expiration of statute of limitations. During the fiscal year ended January 31, 2016, we released a reserve in the amount of \$1 million and corresponding interest and penalties in the amount of \$2 million related to an acquired tax position due to the lapse of statute of limitations.

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.

On December 1, 2015, the United States Tax Court issued its final decision with respect to Altera Corporation's litigation with the Internal Revenue Service ("IRS"). The litigation relates to the treatment of share-based compensation expense in an inter-company cost-sharing arrangement with the taxpayer's foreign subsidiary for fiscal years 2004 through 2007. In its final decision, the Court accepted Altera's position of excluding share-based compensation in its cost sharing arrangement and concluded that the related IRS Regulations were invalid. Subsequent to the decision, the IRS filed its appeal on February 23, 2016. Although the IRS has appealed the decision, based on the facts and circumstances of the Tax Court Case, we believe that it is more likely than not that the decision will be upheld. Therefore, we have recorded the effects of the decision and determined that there was no material impact to our effective tax rate and income tax expense due to our current full valuation allowance position. We will continue to monitor ongoing developments and potential impacts to our consolidated financial statements.

Note 15. 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, and common stock issuable pursuant to the ESPP. 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.

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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, 2016		2015		2014	
	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	\$(168,832)	\$(121,086)	\$(133,736)	\$(114,246)	\$(64,985)	\$(107,524)
Denominator:						
Weighted-average common shares outstanding	110,655	79,361	99,070	84,632	64,528	106,769
Basic and diluted net loss per share	\$(1.53)	\$(1.53)	\$(1.35)	\$(1.35)	\$(1.01)	\$(1.01)

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,		
	2016	2015	2014
Outstanding common stock options	12,863	16,664	20,706
Shares subject to repurchase	621	1,164	1,709
Unvested restricted stock awards, units, and PRSUs	9,851	7,283	4,999
Shares related to the convertible senior notes	7,261	7,261	7,261
Shares subject to warrants related to the issuance of convertible senior notes	7,261	7,261	7,261
Shares issuable pursuant to the ESPP	345	246	182
	38,202	39,879	42,118

Note 16. Geographic Information

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

	Year Ended January 31,		
	2016	2015	2014
United States	\$974,217	\$657,085	\$394,564
International	188,129	130,775	74,374
Total	\$1,162,346	\$787,860	\$468,938

Note 17. Related-Party Transactions

We currently lease certain office space from an affiliate of our Chairman, Mr. Duffield, adjacent to our corporate headquarters in Pleasanton, California under various lease agreements. The average term of the agreements is 10 years and the total rent due under the agreements is \$6 million for the fiscal year ended January 31, 2016, and \$88 million in total. Rent expense under these agreements for fiscal 2016, 2015 and 2014 was \$6 million, \$4 million and \$1 million, respectively.

Note 18. 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.

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Note 19. 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 2016 and 2015 (in thousands except per share data):

	Quarter ended							
	January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015	January 31, 2015	October 31, 2014	July 31, 2014	April 30, 2014
Consolidated Statements of Operations Data:								
Total revenues	\$323,427	\$305,266	\$282,696	\$250,957	\$226,273	\$215,070	\$186,780	\$159,737
Operating loss (73,441)								