

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended July 31, 2013

(in thousands, except per share data)

(unaudited)

	<u>GAAP</u>	<u>Share-Based Compensation</u>	<u>Employer Payroll Taxes on Employee Stock Transactions</u>	<u>Non-cash Interest</u>	<u>Non-GAAP</u>
Costs and expenses:					
Costs of revenues:					
Subscription services	\$ 16,327	\$ (401)	\$ -	\$ -	\$ 15,926
Professional services	24,427	(801)	(54)	-	23,572
Total costs of revenues	40,754	(1,202)	(54)	-	39,498
Research and development	41,168	(3,465)	(318)	-	37,385
Sales and marketing	44,150	(1,805)	(292)	-	42,053
General and administrative	13,766	(3,311)	(172)	-	10,283
Operating loss	(32,283)	9,783	836	-	(21,664)
Operating margin	-30.0%	9.1%	0.8%	-	-20.1%
Other expense, net	(3,479)	-	-	2,790	(689)
Loss before provision for income taxes	(35,762)	9,783	836	2,790	(22,353)
Provision for income taxes	216	-	-	-	216
Net loss	\$ (35,978)	\$ 9,783	\$ 836	\$ 2,790	\$ (22,569)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (0.21)	\$ 0.06	\$ 0.00	\$ 0.02	\$ (0.13)

(1) Calculated based upon 173,375 basic and diluted weighted-average shares of common stock.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended July 31, 2012

(in thousands, except per share data)

(unaudited)

	<u>GAAP</u>	<u>Share-Based Compensation</u>	<u>Non-GAAP</u>
Costs and expenses:			
Costs of revenues:			
Subscription services	\$ 8,994	\$ (99)	\$ 8,895
Professional services	19,271	(176)	19,095
Total costs of revenues	28,265	(275)	27,990
Research and development	23,552	(552)	23,000
Sales and marketing	29,629	(502)	29,127
General and administrative	7,616	(954)	6,662
Operating loss	(26,360)	2,283	(24,077)
Operating margin	-42.0%	3.6%	-38.4%
Loss before benefit from income taxes	(26,997)	2,283	(24,714)
Benefit from income taxes	(116)	-	(116)
Net loss	\$ (26,881)	\$ 2,283	\$ (24,598)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (0.78)	\$ 0.07	\$ (0.71)

(1) Calculated based upon 34,734 basic and diluted weighted-average shares of common stock.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data
Six Months Ended July 31, 2013
(in thousands, except per share data)
(unaudited)

	<u>GAAP</u>	<u>Share-Based Compensation</u>	<u>Employer Payroll Taxes on Employee Stock Transactions</u>	<u>Non-cash Interest</u>	<u>Non-GAAP</u>
Costs and expenses:					
Costs of revenues:					
Subscription services	\$ 31,257	\$ (663)	\$ (8)	\$ -	\$ 30,586
Professional services	46,196	(1,276)	(347)	-	44,573
Total costs of revenues	77,453	(1,939)	(355)	-	75,159
Research and development	77,450	(5,372)	(550)	-	71,528
Sales and marketing	82,514	(2,848)	(383)	-	79,283
General and administrative	26,690	(7,040)	(225)	-	19,425
Operating loss	(64,907)	17,199	1,513	-	(46,195)
Operating margin	-32.6%	8.6%	0.8%	-	-23.2%
Other expense, net	(3,735)	-	-	2,790	(945)
Loss before provision for income taxes	(68,642)	17,199	1,513	2,790	(47,140)
Provision for income taxes	351	-	-	-	351
Net loss	\$ (68,993)	\$ 17,199	\$ 1,513	\$ 2,790	\$ (47,491)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (0.40)	\$ 0.10	\$ 0.01	\$ 0.01	\$ (0.28)

(1) Calculated based upon 170,617 basic and diluted weighted-average shares of common stock.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data
Six Months Ended July 31, 2012
(in thousands, except per share data)
(unaudited)

	<u>GAAP</u>	<u>Share-Based Compensation</u>	<u>Non-GAAP</u>
Costs and expenses:			
Costs of revenues:			
Subscription services	\$ 16,588	\$ (177)	\$ 16,411
Professional services	36,767	(314)	36,453
Total costs of revenues	53,355	(491)	52,864
Research and development	44,338	(927)	43,411
Sales and marketing	54,467	(869)	53,598
General and administrative	13,677	(1,441)	12,236
Operating loss	(46,317)	3,728	(42,589)
Operating margin	-38.8%	3.2%	-35.6%
Loss before benefit from income taxes	(46,989)	3,728	(43,261)
Benefit from income taxes	(53)	-	(53)
Net loss	\$ (46,936)	\$ 3,728	\$ (43,208)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (1.40)	\$ 0.11	\$ (1.29)

(1) Calculated based upon 33,881 basic and diluted weighted-average shares of common stock.

Workday, Inc.

Revenue by Type
(in thousands)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2013	2012	2013	2012
Revenues:				
Subscription services	\$ 81,111	\$ 42,200	\$ 149,529	\$ 79,122
Professional services	26,444	20,502	49,671	40,398
Total revenues	\$ 107,555	\$ 62,702	\$ 199,200	\$ 119,520
Revenues:				
Subscription services	75.4%	67.3%	75.1%	66.2%
Professional services	24.6%	32.7%	24.9%	33.8%
Total revenues	100.0%	100.0%	100.0%	100.0%

Workday, Inc.
Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows
(A Non-GAAP Financial Measure)
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2013	2012	2013	2012
GAAP cash flows from operating activities	\$ (12,916)	\$ 1,924	\$ 4,394	\$ 14,632
Capital expenditures	(29,732)	(3,805)	(31,627)	(6,002)
Property and equipment acquired under capital lease	-	(3,990)	(115)	(4,224)
Free cash flows	<u>\$ (42,648)</u>	<u>\$ (5,871)</u>	<u>\$ (27,348)</u>	<u>\$ 4,406</u>

	Trailing Twelve Months Ended	
	July 31,	
	2013	2012
GAAP cash flows from operating activities	\$ 976	\$ 2,478
Capital expenditures	(41,523)	(9,922)
Property and equipment acquired under capital lease	(14,608)	(12,415)
Free cash flows	<u>\$ (55,155)</u>	<u>\$ (19,859)</u>

Workday, Inc.**Supplemental financial information including non-GAAP data**

	Quarter ended 7/31/12	Quarter ended 4/30/13	Quarter ended 7/31/13
GAAP results:			
Costs of subscription services	\$ 8,994	\$ 14,930	\$ 16,327
Sequential change %		19.6%	9.4%
Y/Y change %		96.6%	81.5%
Costs of professional services	19,271	21,769	24,427
Sequential change %		6.2%	12.2%
Y/Y change %		24.4%	26.8%
Total costs of revenue	28,265	36,699	40,754
Sequential change %		11.3%	11.0%
Y/Y change %		46.3%	44.2%
Subscription services gross margin	78.7%	78.2%	79.9%
Professional services gross margin	6.0%	6.3%	7.6%
Gross margin	54.9%	60.0%	62.1%
Research and development	23,552	36,282	41,168
Sequential change %		19.9%	13.5%
Y/Y change %		74.6%	74.8%
Sales and marketing	29,629	38,364	44,150
Sequential change %		5.4%	15.1%
Y/Y change %		54.5%	49.0%
General and administrative	7,616	12,924	13,766
Sequential change %		2.8%	6.5%
Y/Y change %		113.2%	80.8%
Operating loss	(26,360)	(32,624)	(32,283)
Operating margin	-42.0%	-35.6%	-30.0%
Sequential change %		2.0%	5.6%
Y/Y change %		-0.5%	12.0%
Other expense, net			(3,479)
Net loss	(26,881)	(33,015)	(35,978)
Net loss attributable to common stockholders	(27,087)	(33,015)	(35,978)
Net loss per share attributable to stockholders, basic and diluted	\$ (0.78)	\$ (0.20)	(0.21)
Weighted-average shares used to compute net loss per share attributable to common stockholders	34,734	168,074	173,375

Workday, Inc.**Supplemental financial information including non-GAAP data**

	Quarter ended 7/31/12	Quarter ended 4/30/13	Quarter ended 7/31/13
Adjustments (1):		(2)	
Costs of subscription services	\$ (99)	\$ (270)	(401)
Costs of professional services	(178)	(768)	(855)
Total costs of revenue	(277)	(1,038)	(1,256)
Subscription services gross margin	0.2%	0.4%	0.5%
Professional services gross margin	0.9%	3.3%	3.2%
Gross margin	0.4%	1.1%	1.2%
Research and development	(552)	(2,139)	(3,783)
Sales and marketing	(500)	(1,134)	(2,097)
General and administrative	(954)	(3,782)	(3,483)
Operating loss	2,283	8,093	10,619
Operating margin	3.6%	8.8%	9.9%
Other expense, net (3)			2,790
Net loss	2,283	8,093	13,409
Net loss attributable to common stockholders	2,283	8,093	13,409
Net loss per share attributable to common stockholders, basic and diluted	\$ 0.07	\$ 0.05	\$ 0.08
Weighted-average shares used to compute net loss per share attributable to common stockholders	34,734	168,074	173,375

(1) Adjustments relate to share-based compensation.

(2) Beginning in the quarter ended 4/30/13, there are adjustments to subtract employer payroll taxes on employee stock transactions.

(3) Beginning in the quarter ended 7/31/2013, there are adjustments to subtract the non-cash interest expense related to the 2018 Notes and 2020 Notes.

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 7/31/12	Quarter ended 4/30/13	Quarter ended 7/31/13
Non-GAAP results:			
Costs of subscription services	\$ 8,895	\$ 14,660	\$ 15,926
Sequential change %		19.3%	8.6%
Y/Y change %		95.1%	79.0%
Costs of professional services	19,093	21,001	23,572
Sequential change %		5.6%	12.2%
Y/Y change %		21.0%	23.5%
Total costs of revenue	27,988	35,661	39,498
Sequential change %		10.8%	10.8%
Y/Y change %		43.4%	41.1%
Subscription services gross margin	78.9%	78.6%	80.4%
Sequential change %		-0.8%	1.8%
Sequential change (bps)			179 bps
Y/Y change %		-1.1%	1.4%
Y/Y change (bps)			144 bps
Professional services gross margin	6.9%	9.6%	10.9%
Sequential change %		0.4%	1.3%
Sequential change (bps)			128 bps
Y/Y change %		-3.2%	4.0%
Y/Y change (bps)			399 bps
Gross margin	55.4%	61.1%	63.3%
Sequential change %		0.6%	2.2%
Sequential change (bps)			219 bps
Y/Y change %		4.9%	7.9%
Y/Y change (bps)			791 bps
Research and development	23,000	34,143	37,385
Sequential change %		17.9%	9.5%
Y/Y change %		67.3%	62.5%
Sales and marketing	29,129	37,230	42,053
Sequential change %		4.8%	13.0%
Y/Y change %		52.1%	44.4%
General and administrative	6,662	9,142	10,283
Sequential change %		-9.6%	12.5%
Y/Y change %		64.0%	54.4%
Operating loss	(24,077)	(24,531)	(21,664)
Operating margin	-38.4%	-26.8%	-20.1%
Sequential change %		4.2%	6.6%
Sequential change (bps)			663 bps
Y/Y change %		5.8%	18.3%
Y/Y change (bps)			1,826 bps
Other expense, net			(689)
Net loss	(24,598)	(24,922)	(22,569)
Net loss attributable to common stockholders	(24,804)	(24,922)	(22,569)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.71)	\$ (0.15)	\$ (0.13)
Weighted-average shares used to compute net loss per share attributable to common stockholders	34,734	168,074	173,375

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding Workday's results, we have disclosed certain non-GAAP financial measures including non-GAAP subscription services gross margin, non-GAAP gross margin, non-GAAP expenses, non-GAAP operating loss, non-GAAP net loss and non-GAAP net loss per share. Workday has provided a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure. These non-GAAP financial measures, other than free cash flows, differ from GAAP in that they exclude share-based compensation, employer payroll taxes on employee stock transactions, and non-cash interest expense related to our convertible senior notes for the periods indicated. Free cash flows differ from GAAP cash flows from operating activities in that it treats capital expenditures and assets acquired under a capital lease as a reduction to cash flows.

Workday's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, and for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate Workday's financial performance and the ability of operations to generate cash. Management believes these non-GAAP financial measures reflect Workday's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Workday's business, as they exclude expenses that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating Workday's 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. Additionally, management believes information regarding free cash flows provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

Management believes these non-GAAP financial measures are useful to investors and others in assessing Workday's operating performance due to the following factors:

- *Share-based compensation.* Although share-based compensation is an important aspect of the compensation of Workday's employees and executives, 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. Furthermore, unlike cash compensation, the value of stock options, which is an element of our ongoing share-based compensation expense, is determined using a complex formula that incorporates factors, such as market volatility, that are beyond our control. Management believes it is useful to exclude share-based compensation in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies.
- *Employer payroll taxes on employee stock transactions.* The amount of employer payroll taxes on employee stock transactions is dependent on Workday's stock price and other factors that are beyond our control and do not correlate to the operation of the business.
- *Non-cash interest expense.* Under GAAP, we are required to separately account for liability (debt) and equity (conversion option) components of the convertible senior notes that were issued in private placements in June 2013. Accordingly, for GAAP purposes we are required to recognize effective interest expense on our convertible senior notes. The effective interest rates, including interest cost related to the amortization of debt issuance costs, were approximately 6.1% for the convertible senior notes due 2018 and approximately 6.4% for the convertible senior notes due 2020, while the contractual interest rates of the notes were 0.75% and 1.50%, respectively. The difference between the effective interest expense and the contractual interest expense is excluded from management's assessment of our operating performance because management believes that this non-cash expense is not indicative of ongoing operating performance. Management believes that the exclusion of the non-cash interest expense provides investors an enhanced view of the company's operational performance.

Additionally, we believe that the non-GAAP financial measure, free cash flows, is meaningful to investors because we review cash flows generated from or used in operations after deducting capital expenditures, whether purchased or leased, due to the fact that these expenditures are considered to be an ongoing operational component of our business.

The use of non-GAAP financial measures has certain limitations as they do not reflect all items of income and expense that affect Workday's operations. Workday compensates for these limitations by reconciling

the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited. Management encourages investors and others to review Workday's financial information in its entirety and not rely on a single financial measure.