

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2015
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽²⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 29,218	\$ (1,431)	\$ (103)	\$ -	\$ 27,684
Costs of professional services	40,737	(2,959)	(247)	-	37,531
Product development	88,963	(17,142)	(1,123)	-	70,698
Sales and marketing	88,469	(7,068)	(424)	-	80,977
General and administrative	29,270	(10,784)	(514)	-	17,972
Operating loss	(50,384)	39,384	2,411	-	(8,589)
Operating margin	-22.3%	17.4%	1.1%	-	-3.8%
Other expense, net	(8,271)	-	-	6,166	(2,105)
Loss before provision for income taxes	(58,655)	39,384	2,411	6,166	(10,694)
Provision for income taxes	811	-	-	-	811
Net loss	\$ (59,466)	\$ 39,384	\$ 2,411	\$ 6,166	\$ (11,505)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.32)	\$ 0.21	\$ 0.01	\$ 0.04	\$ (0.06)

- (1) Calculated based upon 185,696 basic and diluted weighted-average shares of common stock.
(2) Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangibles.

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	GAAP	Share-Based Compensation	Other Operating Expenses ⁽²⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 19,862	\$ (962)	\$ (9)	\$ -	\$ 18,891
Costs of professional services	30,904	(1,983)	(145)	-	28,776
Product development	55,317	(9,240)	(604)	-	45,473
Sales and marketing	60,808	(4,700)	(413)	-	55,695
General and administrative	22,951	(8,084)	(885)	-	13,982
Operating loss	(47,976)	24,969	2,056	-	(20,951)
Operating margin	-33.8%	17.6%	1.4%	-	-14.8%
Other expense, net	(6,921)	-	-	5,841	(1,080)
Loss before provision for income taxes	(54,897)	24,969	2,056	5,841	(22,031)
Provision for income taxes	1,085	-	-	-	1,085
Net loss	\$ (55,982)	\$ 24,969	\$ 2,056	\$ 5,841	\$ (23,116)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.32)	\$ 0.14	\$ 0.01	\$ 0.04	\$ (0.13)

- (1) Calculated based upon 175,194 basic and diluted weighted-average shares of common stock.
(2) Other operating expenses include employer payroll tax-related items on employee stock transactions.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2015
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽²⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 102,476	\$ (6,053)	\$ (204)	\$ -	\$ 96,219
Costs of professional services	162,327	(12,890)	(451)	-	148,986
Product development	316,868	(63,938)	(3,221)	-	249,709
Sales and marketing	315,840	(29,875)	(1,420)	-	284,545
General and administrative	106,051	(43,292)	(1,202)	-	61,557
Operating loss	(215,702)	156,048	6,498	-	(53,156)
Operating margin	-27.4%	19.8%	0.9%	-	-6.7%
Other expense, net	(30,270)	-	-	24,171	(6,099)
Loss before provision for income taxes	(245,972)	156,048	6,498	24,171	(59,255)
Provision for income taxes	2,010	-	-	-	2,010
Net loss	\$ (247,982)	\$ 156,048	\$ 6,498	\$ 24,171	\$ (61,265)
Net loss per share, basic and diluted ⁽¹⁾	\$ (1.35)	\$ 0.85	\$ 0.04	\$ 0.13	\$ (0.33)

(1) Calculated based upon 183,702 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangibles.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2014
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽²⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 69,195	\$ (2,408)	\$ (17)	\$ -	\$ 66,770
Costs of professional services	107,615	(4,818)	(656)	-	102,141
Product development	182,116	(21,644)	(1,544)	-	158,928
Sales and marketing	197,373	(12,131)	(883)	-	184,359
General and administrative	65,921	(20,850)	(1,298)	-	43,773
Operating loss	(153,282)	61,851	4,398	-	(87,033)
Operating margin	-32.7%	13.2%	0.9%	-	-18.6%
Other expense, net	(17,549)	-	-	14,395	(3,154)
Loss before provision for income taxes	(170,831)	61,851	4,398	14,395	(90,187)
Provision for income taxes	1,678	-	-	-	1,678
Net loss	\$ (172,509)	\$ 61,851	\$ 4,398	\$ 14,395	\$ (91,865)
Net loss per share, basic and diluted ⁽¹⁾	\$ (1.01)	\$ 0.36	\$ 0.03	\$ 0.08	\$ (0.54)

(1) Calculated based upon 171,297 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll tax-related items on employee stock transactions.

Workday, Inc.

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

	Three Months Ended January 31,		Year Ended January 31,	
	2015	2014	2015	2014
GAAP cash flows from operating activities	\$ 48,275	\$ 34,793	\$ 102,003	\$ 46,263
Capital expenditures	(37,665)	(12,341)	(103,646)	(60,725)
Property and equipment acquired under capital lease	-	-	-	(115)
Purchase of other intangible assets	-	(15,000)	-	(15,000)
Free cash flows	<u>\$ 10,610</u>	<u>\$ 7,452</u>	<u>\$ (1,643)</u>	<u>\$ (29,577)</u>

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

	Quarter ended 1/31/14	Quarter ended 10/31/14	Quarter ended 1/31/15
GAAP results:			
Costs of subscription services	\$ 19,862	\$ 27,426	\$ 29,218
Sequential change %		12.5%	6.5%
Y/Y change %		51.7%	47.1%
Costs of professional services	30,904	44,363	40,737
Sequential change %		7.5%	-8.2%
Y/Y change %		45.4%	31.8%
Total costs of revenue	50,766	71,789	69,955
Sequential change %		9.4%	-2.6%
Y/Y change %		47.7%	37.8%
Subscription services gross margin	82.1%	83.3%	83.9%
Professional services gross margin	0.8%	12.4%	8.3%
Gross margin	64.2%	66.6%	69.1%
Product development	55,317	85,270	88,963
Sequential change %		10.1%	4.3%
Y/Y change %		72.8%	60.8%
Sales and marketing	60,808	80,681	88,469
Sequential change %		2.7%	9.7%
Y/Y change %		49.3%	45.5%
General and administrative	22,951	28,796	29,270
Sequential change %		7.0%	1.6%
Y/Y change %		76.9%	27.5%
Operating loss	(47,976)	(51,466)	(50,384)
Operating margin	-33.8%	-23.9%	-22.3%
Sequential change %		9.2%	1.6%
Y/Y change %		7.7%	11.5%
Other expense, net	(6,921)	(8,047)	(8,271)
Net loss	(55,982)	(59,912)	(59,466)
Net loss per share	\$ (0.32)	\$ (0.33)	\$ (0.32)
Weighted-average shares used to compute net loss per share	175,194	184,310	185,696

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

	Quarter ended 1/31/14	Quarter ended 10/31/14	Quarter ended 1/31/15
Adjustments:			
Costs of subscription services (1)	\$ (971)	\$ (1,972)	\$ (1,534)
Costs of professional services (1)	(2,128)	(4,283)	(3,206)
Total costs of revenue	(3,099)	(6,255)	(4,740)
Subscription services gross margin	0.9%	1.2%	0.8%
Professional services gross margin	6.8%	8.5%	7.2%
Gross margin	2.2%	2.9%	2.1%
Product development (1)(2)	(9,844)	(19,819)	(18,265)
Sales and marketing (1)	(5,113)	(9,163)	(7,492)
General and administrative (1)	(8,969)	(13,296)	(11,298)
Operating loss	27,025	48,533	41,795
Operating margin	19.0%	22.5%	18.5%
Other expense, net (3)	5,841	6,083	6,166
Net loss	32,866	54,616	47,961
Net loss per share	\$ 0.19	\$ 0.30	\$ 0.26
Weighted-average shares used to compute net loss per share	175,194	184,310	185,696

(1) Adjustments relate to share-based compensation and employer payroll tax-related items on employee stock transactions.

(2) Beginning in the quarter ended 4/30/2014, there is an adjustment to subtract amortization of acquisition-related intangible assets.

(3) Adjustments related to the amortization of debt discount and issuance costs related to the 2018 Notes and 2020 Notes.

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

	Quarter ended 1/31/14	Quarter ended 10/31/14	Quarter ended 1/31/15
Non-GAAP results:			
Costs of subscription services	\$ 18,891	\$ 25,454	\$ 27,684
Sequential change %		12.0%	8.8%
Y/Y change %		47.2%	46.5%
Costs of professional services	28,776	40,080	37,531
Sequential change %		6.3%	-6.4%
Y/Y change %		39.2%	30.4%
Total costs of revenue	47,667	65,534	65,215
Sequential change %		8.5%	-0.5%
Y/Y change %		42.2%	36.8%
Subscription services gross margin	82.9%	84.5%	84.8%
Sequential change %		0.3%	0.3%
Sequential change (bps)		34 bps	26 bps
Y/Y change %		2.9%	1.9%
Y/Y change (bps)		293 bps	184 bps
Professional services gross margin	7.6%	20.9%	15.5%
Sequential change %		8.3%	-5.4%
Sequential change (bps)		831 bps	(541) bps
Y/Y change %		5.7%	7.9%
Y/Y change (bps)		571 bps	786 bps
Gross margin	66.4%	69.5%	71.2%
Sequential change %		1.9%	1.7%
Sequential change (bps)		188 bps	165 bps
Y/Y change %		5.5%	4.8%
Y/Y change (bps)		557 bps	478 bps
Product development	45,473	65,451	70,698
Sequential change %		9.2%	8.0%
Y/Y change %		56.1%	55.5%
Sales and marketing	55,695	71,518	80,977
Sequential change %		0.9%	13.2%
Y/Y change %		44.8%	45.4%
General and administrative	13,982	15,500	17,972
Sequential change %		6.1%	15.9%
Y/Y change %		49.5%	28.5%
Operating loss	(20,951)	(2,933)	(8,589)
Operating margin	-14.8%	-1.4%	-3.8%
Sequential change %		8.9%	-2.4%
Sequential change (bps)		887 bps	(243) bps
Y/Y change %		14.2%	11.0%
Y/Y change (bps)		1,419 bps	1,097 bps
Other expense, net	(1,080)	(1,964)	(2,105)
Net loss	(23,116)	(5,296)	(11,505)
Net loss per share	\$ (0.13)	\$ (0.03)	\$ (0.06)
Weighted-average shares used to compute net loss per share	175,194	184,310	185,696

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding Workday's results, we have disclosed the following non-GAAP financial measures: non-GAAP operating loss, non-GAAP net loss per share and free cash flows. Workday has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. The non-GAAP financial measures non-GAAP operating loss and non-GAAP net loss per share differ from GAAP in that they exclude share-based compensation, employer payroll tax-related items on employee stock transactions, amortization of acquisition-related intangible assets and non-cash interest expense related to our convertible senior notes, as applicable. Free cash flows differ from GAAP cash flows from operating activities in that it treats capital expenditures, assets acquired under a capital lease and purchased other (non-acquisition related) intangible assets 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 excluding the following items from the GAAP Condensed Consolidated Statement of Operations is 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 our employees and executives, management believes it is useful to exclude share-based compensation in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. For restricted share awards, the amount of share-based compensation expenses is not reflective of the value ultimately received by the grant recipients. Moreover, determining the fair value of certain of the share-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related share-based awards. Unlike cash compensation, the value of stock options and the Employee Stock Purchase Plan, which is an element of our ongoing share-based compensation expenses, is determined using a complex formula that incorporates factors, such as market volatility and forfeiture rates, that are beyond our control.
- *Other Operating Expenses.* Other operating expenses included employer payroll tax-related items on employee stock transactions for the three months and year ended January 31, 2015 and 2014 and amortization of acquisition-related intangible assets for the three months and year ended January 31, 2015. The amount of employer payroll tax-related items on share-based compensation is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. 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 the ongoing operations.
- *Amortization of debt discount and issuance costs.* 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 the effective interest expense on our convertible senior notes and amortize the issuance costs over the term of the notes. The difference between the effective interest expense and the contractual interest expense and the amortization expense of issuance costs are excluded from management's assessment of our operating performance because management believes that these non-cash expenses are 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, and purchased other intangible assets, due to the fact that these expenditures are considered to be an ongoing operational component of our business. This provides an enhanced view of cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

The use of non-GAAP operating loss and net loss per share 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.