

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended July 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	\$ 24,373	\$ (1,608)	\$ (42)	\$ -	\$ 22,723
Costs of professional services	41,267	(3,519)	(46)	-	37,702
Product development	77,464	(16,737)	(788)	-	59,939
Sales and marketing	78,523	(7,377)	(238)	-	70,908
General and administrative	26,922	(11,541)	(767)	-	14,614
Operating loss	(61,769)	40,782	1,881	-	(19,106)
Operating margin	-33.1%	21.9%	1.0%	-	-10.2%
Other expense, net	(6,953)	-	-	6,002	(951)
Loss before provision for income taxes	(68,722)	40,782	1,881	6,002	(20,057)
Provision for income taxes	493	-	-	-	493
Net loss	\$ (69,215)	\$ 40,782	\$ 1,881	\$ 6,002	\$ (20,550)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.38)	\$ 0.22	\$ 0.01	\$ 0.04	\$ (0.11)

(1) Calculated based upon 184,319 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes on employee stock transactions and amortization of acquisition-related intangible assets.

Workday, Inc.
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Three Months Ended July 31, 2013
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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	\$ 16,327	\$ (401)	\$ -	\$ -	\$ 15,926
Costs of professional services	24,427	(801)	(54)	-	23,572
Product 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, basic and diluted ⁽¹⁾	\$ (0.21)	\$ 0.06	\$ -	\$ 0.02	\$ (0.13)

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

(2) Other operating expenses include employer payroll taxes on employee stock transactions.

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

	<u>GAAP</u>	<u>Share-Based Compensation</u>	<u>Other Operating Expenses ⁽²⁾</u>	<u>Amortization of Debt Discount and Issuance costs</u>	<u>Non-GAAP</u>
Costs and expenses:					
Costs of subscription services	\$ 45,832	\$ (2,663)	\$ (88)	\$ -	\$ 43,081
Costs of professional services	77,227	(5,717)	(135)	-	71,375
Product development	142,635	(27,605)	(1,470)	-	113,560
Sales and marketing	146,690	(14,129)	(511)	-	132,050
General and administrative	47,985	(19,542)	(358)	-	28,085
Operating loss	(113,852)	69,656	2,562	-	(41,634)
Operating margin	-32.9%	20.1%	0.8%	-	-12.0%
Other expense, net	(13,952)	-	-	11,922	(2,030)
Loss before provision for income taxes	(127,804)	69,656	2,562	11,922	(43,664)
Provision for income taxes	800	-	-	-	800
Net loss	\$ (128,604)	\$ 69,656	\$ 2,562	\$ 11,922	\$ (44,464)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.70)	\$ 0.38	\$ 0.01	\$ 0.07	\$ (0.24)

(1) Calculated based upon 183,733 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes on employee stock transactions and amortization of acquisition-related intangible assets.

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>Other Operating Expenses ⁽²⁾</u>	<u>Amortization of Debt Discount and Issuance costs</u>	<u>Non-GAAP</u>
Costs and expenses:					
Costs of subscription services	\$ 31,257	\$ (663)	\$ (8)	\$ -	\$ 30,586
Costs of professional services	46,196	(1,276)	(347)	-	44,573
Product 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, 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.

(2) Other operating expenses include employer payroll taxes 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 July 31,		Six Months Ended July 31,	
	2014	2013	2014	2013
GAAP cash flows from operating activities	\$ (9,011)	\$ (12,916)	\$ 12,686	\$ 4,394
Capital expenditures	(28,409)	(29,732)	(38,282)	(31,627)
Property and equipment acquired under capital lease	-	-	-	(115)
Free cash flows	<u>\$ (37,420)</u>	<u>\$ (42,648)</u>	<u>\$ (25,596)</u>	<u>\$ (27,348)</u>
	Trailing Twelve Months Ended July 31,			
	2014	2013		
GAAP cash flows from operating activities	\$ 54,555	\$ 976		
Capital expenditures	(67,380)	(41,523)		
Property and equipment acquired under capital lease	-	(14,608)		
Purchase of other intangible assets	(15,000)	-		
Free cash flows	<u>\$ (27,825)</u>	<u>\$ (55,155)</u>		

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

	Quarter ended 7/31/13	Quarter ended 4/30/14	Quarter ended 7/31/14
GAAP results:			
Costs of subscription services	\$ 16,327	\$ 21,459	\$ 24,373
Sequential change %		8.0%	13.6%
Y/Y change %		43.7%	49.3%
Costs of professional services	24,427	35,960	41,267
Sequential change %		16.4%	14.8%
Y/Y change %		65.2%	68.9%
Total costs of revenue	40,754	57,419	65,640
Sequential change %		13.1%	14.3%
Y/Y change %		56.5%	61.1%
Subscription services gross margin	79.9%	82.6%	83.0%
Professional services gross margin	7.6%	1.0%	4.3%
Gross margin	62.1%	64.1%	64.9%
Product development	41,168	65,171	77,464
Sequential change %		17.8%	18.9%
Y/Y change %		79.6%	88.2%
Sales and marketing	44,150	68,167	78,523
Sequential change %		12.1%	15.2%
Y/Y change %		77.7%	77.9%
General and administrative	13,766	21,063	26,922
Sequential change %		-8.2%	27.8%
Y/Y change %		63.0%	95.6%
Operating loss	(32,283)	(52,083)	(61,769)
Operating margin	-30.0%	-32.6%	-33.1%
Sequential change %		1.2%	-0.5%
Y/Y change %		3.0%	-3.1%
Other expense, net	(3,479)	(6,999)	(6,953)
Net loss	(35,978)	(59,389)	(69,215)
Net loss per share	\$ (0.21)	\$ (0.32)	\$ (0.38)
Weighted-average shares used to compute net loss per share	173,375	183,084	184,319

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 7/31/13	Quarter ended 4/30/14	Quarter ended 7/31/14
Adjustments (1):			
Costs of subscription services	\$ (401)	\$ (1,101)	\$ (1,650)
Costs of professional services	(855)	(2,287)	(3,565)
Total costs of revenue	(1,256)	(3,388)	(5,215)
Subscription services gross margin	0.5%	0.9%	1.1%
Professional services gross margin	3.2%	6.3%	8.3%
Gross margin	1.2%	2.1%	2.8%
Product development (2)	(3,783)	(11,550)	(17,525)
Sales and marketing	(2,097)	(7,025)	(7,615)
General and administrative	(3,483)	(7,592)	(12,308)
Operating loss	10,619	29,555	42,663
Operating margin	9.9%	18.5%	22.8%
Other expense, net (3)	2,790	5,920	6,002
Net loss	13,409	35,475	48,665
Net loss per share	\$ 0.08	\$ 0.19	\$ 0.26
Weighted-average shares used to compute net loss per share	173,375	183,084	184,319

(1) Adjustments relate to share-based compensation and employer payroll taxes 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 7/31/13	Quarter ended 4/30/14	Quarter ended 7/31/14
Non-GAAP results:			
Costs of subscription services	\$ 15,926	\$ 20,358	\$ 22,723
Sequential change %		7.8%	11.6%
Y/Y change %		38.9%	42.7%
Costs of professional services	23,572	33,673	37,702
Sequential change %		17.0%	12.0%
Y/Y change %		60.3%	59.9%
Total costs of revenue	39,498	54,031	60,425
Sequential change %		13.4%	11.8%
Y/Y change %		51.5%	53.0%
Subscription services gross margin	80.4%	83.5%	84.2%
Sequential change %		0.6%	0.7%
Sequential change (bps)		57 bps	68 bps
Y/Y change %		4.9%	3.8%
Y/Y change (bps)		493 bps	382 bps
Professional services gross margin	10.9%	7.3%	12.6%
Sequential change %		-0.3%	5.3%
Sequential change (bps)		(31) bps	527 bps
Y/Y change %		-2.3%	1.7%
Y/Y change (bps)		(227) bps	172 bps
Gross margin	63.3%	66.2%	67.6%
Sequential change %		-0.2%	1.5%
Sequential change (bps)		(22) bps	147 bps
Y/Y change %		5.1%	4.4%
Y/Y change (bps)		509 bps	437 bps
Product development	37,385	53,621	59,939
Sequential change %		17.9%	11.8%
Y/Y change %		57.0%	60.3%
Sales and marketing	42,053	61,142	70,908
Sequential change %		9.8%	16.0%
Y/Y change %		64.2%	68.6%
General and administrative	10,283	13,471	14,614
Sequential change %		-3.7%	8.5%
Y/Y change %		47.4%	42.1%
Operating loss	(21,664)	(22,528)	(19,106)
Operating margin	-20.1%	-14.1%	-10.2%
Sequential change %		0.7%	3.9%
Sequential change (bps)		66 bps	387 bps
Y/Y change %		12.7%	9.9%
Y/Y change (bps)		1,266 bps	991 bps
Other expense, net	(689)	(1,079)	(951)
Net loss	(22,569)	(23,914)	(20,550)
Net loss per share	\$ (0.13)	\$ (0.13)	\$ (0.11)
Weighted-average shares used to compute net loss per share	173,375	183,084	184,319

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 taxes 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 taxes on employee stock transactions for the three and six months ended July 31, 2014 and 2013 and amortization of acquisition-related intangible assets for the three and six months ended July 31, 2014. The amount of employer payroll taxes on share-based compensation is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. 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.