

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2014
(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>Amortization of Debt Discount and Issuance Costs</u>	<u>Non-GAAP</u>
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 attributable to common stockholders, 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.

Workday, Inc.

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

	<u>GAAP</u>	<u>Share-Based Compensation</u>	<u>Non-GAAP</u>
Costs and expenses:			
Costs of subscription services	\$ 12,484	\$ (200)	\$ 12,284
Costs of professional services	20,502	(612)	19,890
Product development	30,252	(1,301)	28,951
Sales and marketing	36,389	(879)	35,510
General and administrative	12,570	(2,456)	10,114
Operating loss	(30,678)	5,448	(25,230)
Operating margin	-37.6%	6.7%	-30.9%
Loss before provision for income taxes	(30,845)	5,448	(25,397)
Provision for income taxes	99	-	99
Net loss	\$ (30,944)	\$ 5,448	\$ (25,496)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (0.19)	\$ 0.03	\$ (0.16)

(1) Calculated based upon 161,916 basic and diluted weighted-average shares of common stock.

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	Employer Payroll Taxes on Employee Stock Transactions	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 attributable to common stockholders, 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.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2013
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Equity Grant to Workday Foundation	Non-GAAP
Costs and expenses:				
Costs of subscription services	\$ 39,251	\$ (601)	\$ -	\$ 38,650
Costs of professional services	77,284	(1,312)	-	75,972
Product development	102,665	(3,528)	-	99,137
Sales and marketing	123,440	(2,717)	-	120,723
General and administrative	48,880	(7,170)	(11,250)	30,460
Operating loss	(117,863)	15,328	11,250	(91,285)
Operating margin	-43.1%	5.6%	4.1%	-33.4%
Loss before provision for income taxes	(119,066)	15,328	11,250	(92,488)
Provision for income taxes	124	-	-	124
Net loss	\$ (119,190)	\$ 15,328	\$ 11,250	\$ (92,612)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (1.62)	\$ 0.21	\$ 0.15	\$ (1.26)

(1) Calculated based upon 74,011 basic and diluted weighted-average shares of common stock.

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,	
	2014	2013	2014	2013
GAAP cash flows from operating activities	\$ 34,793	\$ 5,940	\$ 46,263	\$ 11,214
Capital expenditures	(12,341)	(9,095)	(60,725)	(15,898)
Property and equipment acquired under capital lease	-	(830)	(115)	(18,717)
Purchase of other intangible assets	(15,000)	-	(15,000)	-
Free cash flows	<u>\$ 7,452</u>	<u>\$ (3,985)</u>	<u>\$ (29,577)</u>	<u>\$ (23,401)</u>

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 1/31/13	Quarter ended 10/31/13	Quarter ended 1/31/14
GAAP results:			
Costs of subscription services	\$ 12,484	\$ 18,076	\$ 19,862
Sequential change %		10.7%	9.9%
Y/Y change %		77.6%	59.1%
Costs of professional services	20,502	30,515	30,904
Sequential change %		24.9%	1.3%
Y/Y change %		52.5%	50.7%
Total costs of revenue	32,986	48,591	50,766
Sequential change %		19.2%	4.5%
Y/Y change %		60.9%	53.9%
Subscription services gross margin	79.1%	80.8%	82.1%
Professional services gross margin	6.4%	10.1%	0.8%
Gross margin	59.5%	62.0%	64.2%
Product development	30,252	49,349	55,317
Sequential change %		19.9%	12.1%
Y/Y change %		75.8%	82.9%
Sales and marketing	36,389	54,051	60,808
Sequential change %		22.4%	12.5%
Y/Y change %		65.9%	67.1%
General and administrative	12,570	16,280	22,951
Sequential change %		18.3%	41.0%
Y/Y change %		-28.1%	82.6%
Operating loss	(30,678)	(40,399)	(47,976)
Operating margin	-37.6%	-31.6%	-33.8%
Sequential change %		-1.6%	-2.2%
Y/Y change %		24.7%	3.8%
Other expense, net	(167)	(6,893)	(6,921)
Net loss	(30,944)	(47,534)	(55,982)
Net loss attributable to common stockholders	(30,944)	(47,534)	(55,982)
Net loss per share attributable to stockholders, basic and diluted	\$ (0.19)	\$ (0.27)	\$ (0.32)
Weighted-average shares used to compute net loss per share attributable to common stockholders	161,916	174,385	175,194

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 1/31/13	Quarter ended 10/31/13	Quarter ended 1/31/14
Adjustments (1):		(2)	
Costs of subscription services	\$ (200)	\$ (783)	\$ (971)
Costs of professional services	(612)	(1,723)	(2,128)
Total costs of revenue	(812)	(2,506)	(3,099)
Subscription services gross margin	0.3%	0.8%	0.9%
Professional services gross margin	2.8%	5.1%	6.8%
Gross margin	1.0%	2.0%	2.2%
Product development	(1,301)	(7,422)	(9,844)
Sales and marketing	(879)	(4,670)	(5,113)
General and administrative	(2,456)	(5,914)	(8,969)
Operating loss	5,448	20,512	27,025
Operating margin	6.7%	16.0%	19.0%
Other expense, net (3)		5,764	5,841
Net loss	5,448	26,276	32,866
Net loss attributable to common stockholders	5,448	26,276	32,866
Net loss per share attributable to common stockholders, basic and diluted	\$ 0.03	\$ 0.15	\$ 0.19
Weighted-average shares used to compute net loss per share attributable to common stockholders	161,916	174,385	175,194

(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 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 1/31/13	Quarter ended 10/31/13	Quarter ended 1/31/14
Non-GAAP results:			
Costs of subscription services	\$ 12,284	\$ 17,293	\$ 18,891
Sequential change %		8.6%	9.2%
Y/Y change %		73.7%	53.8%
Costs of professional services	19,890	28,792	28,776
Sequential change %		22.1%	-0.1%
Y/Y change %		46.7%	44.7%
Total costs of revenue	32,174	46,085	47,667
Sequential change %		16.7%	3.4%
Y/Y change %		55.8%	48.2%
Subscription services gross margin	79.4%	81.6%	82.9%
Sequential change %		1.2%	1.3%
Sequential change (bps)		122 bps	135 bps
Y/Y change %		0.9%	3.5%
Y/Y change (bps)		89 bps	354 bps
Professional services gross margin	9.2%	15.2%	7.6%
Sequential change %		4.3%	-7.6%
Sequential change (bps)		432 bps	(756) bps
Y/Y change %		8.5%	-1.5%
Y/Y change (bps)		848 bps	(154) bps
Gross margin	60.5%	64.0%	66.4%
Sequential change %		0.7%	2.4%
Sequential change (bps)		68 bps	244 bps
Y/Y change %		4.7%	5.9%
Y/Y change(bps)		470 bps	587 bps
Product development	28,951	41,927	45,473
Sequential change %		12.1%	8.5%
Y/Y change %		56.6%	57.1%
Sales and marketing	35,510	49,381	55,695
Sequential change %		17.4%	12.8%
Y/Y change %		56.2%	56.8%
General and administrative	10,114	10,366	13,982
Sequential change %		0.8%	34.9%
Y/Y change %		27.8%	38.2%
Operating loss	(25,230)	(19,887)	(20,951)
Operating margin	-30.9%	-15.6%	-14.8%
Sequential change %		4.6%	0.8%
Sequential change (bps)		459 bps	78 bps
Y/Y change %		16.8%	16.2%
Y/Y change (bps)		1,676 bps	1,618 bps
Other expense, net	(167)	(1,129)	(1,080)
Net loss	(25,496)	(21,258)	(23,116)
Net loss attributable to common stockholders	(25,496)	(21,258)	(23,116)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.16)	\$ (0.12)	\$ (0.13)
Weighted-average shares used to compute net loss per share attributable to common stockholders	161,916	174,385	175,194

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. 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, a one-time charge related to our contribution of 500,000 shares of common stock to the Workday Foundation and amortization of debt discount and issuance costs, 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 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, 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, 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. 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, 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.
- *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.
- *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.
- *Equity Grant to Workday Foundation.* During the third quarter of fiscal 2013, Workday granted 500,000 shares of common stock to the Workday Foundation. The Workday Foundation is a non-profit organization established to provide grants, humanitarian relief and employee matching contributions and support volunteerism and social development projects. This grant resulted in a one-time charge of \$11.3 million, which was recorded to the General and administrative expenses line of the statement of operations. Management does not expect to make future grants of shares to the Foundation and therefore considers this charge non-recurring. As such, management believes it is useful to exclude this one-time charge in order to better understand the ongoing expenses of our core business and to facilitate comparison of our results across periods.

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 other purchased intangible assets, 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.