

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2013

(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 revenues:					
Subscription services	\$ 18,076	\$ (783)	\$ -	\$ -	\$ 17,293
Professional services	30,515	(1,559)	(164)	-	28,792
Total costs of revenues	48,591	(2,342)	(164)	-	46,085
Research and development	49,349	(7,032)	(390)	-	41,927
Sales and marketing	54,051	(4,583)	(87)	-	49,381
General and administrative	16,280	(5,726)	(188)	-	10,366
Operating loss	(40,399)	19,683	829	-	(19,887)
Operating margin	-31.6%	15.4%	0.6%	-	-15.6%
Other expense, net	(6,893)	-	-	5,764	(1,129)
Loss before provision for income taxes	(47,292)	19,683	829	5,764	(21,016)
Provision for income taxes	242	-	-	-	242
Net loss	\$ (47,534)	\$ 19,683	\$ 829	\$ 5,764	\$ (21,258)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (0.27)	\$ 0.11	\$ 0.00	\$ 0.04	\$ (0.12)

(1) Calculated based upon 174,385 basic and diluted weighted-average shares of common stock.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2012

(in thousands, except per share data)

(unaudited)

	GAAP	Share-Based Compensation	Equity Grant to Workday Foundation	Non-GAAP
Costs and expenses:				
Costs of revenues:				
Subscription services	\$ 10,179	\$ (224)	\$ -	\$ 9,955
Professional services	20,015	(385)	-	19,630
Total costs of revenues	30,194	(609)	-	29,585
Research and development	28,075	(1,300)	-	26,775
Sales and marketing	32,584	(970)	-	31,614
General and administrative	22,633	(3,273)	(11,250)	8,110
Operating loss	(40,868)	6,152	11,250	(23,466)
Operating margin	-56.2%	8.4%	15.5%	-32.3%
Loss before provision for income taxes	(41,232)	6,152	11,250	(23,830)
Provision for income taxes	78	-	-	78
Net loss	\$ (41,310)	\$ 6,152	\$ 11,250	\$ (23,908)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (0.67)	\$ 0.10	\$ 0.18	\$ (0.39)

(1) Calculated based upon 61,960 basic and diluted weighted-average shares of common stock.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data
 Nine Months Ended October 31, 2013
 (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 revenues:					
Subscription services	\$ 49,333	\$ (1,446)	\$ (8)	\$ -	\$ 47,879
Professional services	76,711	(2,835)	(511)	-	73,365
Total costs of revenues	126,044	(4,281)	(519)	-	121,244
Research and development	126,799	(12,404)	(940)	-	113,455
Sales and marketing	136,565	(7,431)	(470)	-	128,664
General and administrative	42,970	(12,766)	(413)	-	29,791
Operating loss	(105,306)	36,882	2,342	-	(66,082)
Operating margin	-32.2%	11.3%	0.7%	-	-20.2%
Other expense, net	(10,628)	-	-	8,554	(2,074)
Loss before provision for income taxes	(115,934)	36,882	2,342	8,554	(68,156)
Provision for income taxes	593	-	-	-	593
Net loss	\$ (116,527)	\$ 36,882	\$ 2,342	\$ 8,554	\$ (68,749)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (0.68)	\$ 0.22	\$ 0.01	\$ 0.05	\$ (0.40)

(1) Calculated based upon 171,269 basic and diluted weighted-average shares of common stock.

Workday, Inc.

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

	GAAP	Share-Based Compensation	Equity Grant to Workday Foundation	Non-GAAP
Costs and expenses:				
Costs of revenues:				
Subscription services	\$ 26,767	\$ (401)	\$ -	\$ 26,366
Professional services	56,782	(700)	-	56,082
Total costs of revenues	83,549	(1,101)	-	82,448
Research and development	72,413	(2,227)	-	70,186
Sales and marketing	87,051	(1,838)	-	85,213
General and administrative	36,310	(4,714)	(11,250)	20,346
Operating loss	(87,185)	9,880	11,250	(66,055)
Operating margin	-45.4%	5.1%	5.9%	-34.4%
Loss before provision for income taxes	(88,221)	9,880	11,250	(67,091)
Provision for income taxes	25	-	-	25
Net loss	\$ (88,246)	\$ 9,880	\$ 11,250	\$ (67,116)
Net loss per share attributable to common stockholders, basic and diluted ⁽¹⁾	\$ (2.06)	\$ 0.23	\$ 0.26	\$ (1.57)

(1) Calculated based upon 43,053 basic and diluted weighted-average shares of common stock.

Workday, Inc.
Revenue by Type
(in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Revenues:				
Subscription services	\$ 93,925	\$ 51,576	\$ 243,454	\$ 130,698
Professional services	33,947	21,042	83,618	61,440
Total revenues	<u>\$ 127,872</u>	<u>\$ 72,618</u>	<u>\$ 327,072</u>	<u>\$ 192,138</u>
Revenues:				
Subscription services	73.5%	71.0%	74.4%	68.0%
Professional services	26.5%	29.0%	25.6%	32.0%
Total revenues	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2013	2012	2013	2012
GAAP cash flows from operating activities	\$ 7,076	\$ (9,358)	\$ 11,470	\$ 5,274
Capital expenditures	(16,757)	(801)	(48,384)	(6,803)
Property and equipment acquired under capital lease	-	(13,663)	(115)	(17,887)
Free cash flows	<u>\$ (9,681)</u>	<u>\$ (23,822)</u>	<u>\$ (37,029)</u>	<u>\$ (19,416)</u>
	Trailing Twelve Months Ended			
	October 31,			
	2013	2012		
GAAP cash flows from operating activities	\$ 17,410	\$ (1,369)		
Capital expenditures	(57,479)	(8,060)		
Property and equipment acquired under capital lease	(945)	(22,728)		
Free cash flows	<u>\$ (41,014)</u>	<u>\$ (32,157)</u>		

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 10/31/12	Quarter ended 7/31/13	Quarter ended 10/31/13
GAAP results:			
Costs of subscription services	\$ 10,179	\$ 16,327	\$ 18,076
Sequential change %		9.4%	10.7%
Y/Y change %		81.5%	77.6%
Costs of professional services	20,015	24,427	30,515
Sequential change %		12.2%	24.9%
Y/Y change %		26.8%	52.5%
Total costs of revenue	30,194	40,754	48,591
Sequential change %		11.0%	19.2%
Y/Y change %		44.2%	60.9%
Subscription services gross margin	80.3%	79.9%	80.8%
Professional services gross margin	4.9%	7.6%	10.1%
Gross margin	58.4%	62.1%	62.0%
Research and development	28,075	41,168	49,349
Sequential change %		13.5%	19.9%
Y/Y change %		74.8%	75.8%
Sales and marketing	32,584	44,150	54,051
Sequential change %		15.1%	22.4%
Y/Y change %		49.0%	65.9%
General and administrative	22,633	13,766	16,280
Sequential change %		6.5%	18.3%
Y/Y change %		80.8%	-28.1%
Operating loss	(40,868)	(32,283)	(40,399)
Operating margin	-56.3%	-30.0%	-31.6%
Sequential change %		5.6%	-1.6%
Y/Y change %		12.0%	24.7%
Other expense, net	(364)	(3,479)	(6,893)
Net loss	(41,310)	(35,978)	(47,534)
Net loss attributable to common stockholders	(41,471)	(35,978)	(47,534)
Net loss per share attributable to stockholders, basic and diluted	\$ (0.67)	(0.21)	(0.27)
Weighted-average shares used to compute net loss per share attributable to common stockholders	61,960	173,375	174,385

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 10/31/12	Quarter ended 7/31/13 (2)	Quarter ended 10/31/13
Adjustments (1):			
Costs of subscription services	\$ (224)	(401)	(783)
Costs of professional services	(385)	(855)	(1,723)
Total costs of revenue	(609)	(1,256)	(2,506)
Subscription services gross margin	0.4%	0.5%	0.8%
Professional services gross margin	1.8%	3.2%	5.1%
Gross margin	0.8%	1.2%	2.0%
Research and development	(1,300)	(3,783)	(7,422)
Sales and marketing	(970)	(2,097)	(4,670)
General and administrative	(14,523)	(3,483)	(5,914)
Operating loss	17,402	10,619	20,512
Operating margin	24.0%	9.9%	16.0%
Other expense, net (3)		2,790	5,764
Net loss	17,402	13,409	26,276
Net loss attributable to common stockholders	17,402	13,409	26,276
Net loss per share attributable to common stockholders, basic and diluted	\$ 0.28	\$ 0.08	\$ 0.15
Weighted-average shares used to compute net loss per share attributable to common stockholders	61,960	173,375	174,385

(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.

(4) The fiscal third quarter of 2013 also exclude a one-time charge related to our contribution of 500,000 shares of common stock to the Workday Foundation.

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 10/31/12	Quarter ended 7/31/13	Quarter ended 10/31/13
Non-GAAP results:			
Costs of subscription services	\$ 9,955	\$ 15,926	\$ 17,293
Sequential change %		29.6%	8.6%
Y/Y change %		111.9%	73.7%
Costs of professional services	19,630	23,572	28,792
Sequential change %		18.5%	22.1%
Y/Y change %		35.8%	46.7%
Total costs of revenue	29,585	39,498	46,085
Sequential change %		22.8%	16.7%
Y/Y change %		58.8%	55.8%
Subscription services gross margin	80.7%	80.4%	81.6%
Sequential change %		1.0%	1.2%
Sequential change (bps)		97 bps	122 bps
Y/Y change %		0.7%	0.9%
Y/Y change (bps)		72 bps	89 bps
Professional services gross margin	6.7%	10.9%	15.2%
Sequential change %		1.7%	4.3%
Sequential change (bps)		169 bps	432 bps
Y/Y change %		-1.9%	8.5%
Y/Y change (bps)		(190) bps	848 bps
Gross margin	59.3%	63.3%	64.0%
Sequential change %		2.7%	0.7%
Sequential change (bps)		274 bps	68 bps
Y/Y change %		7.1%	4.7%
Y/Y change (bps)		705 bps	470 bps
Research and development	26,775	37,385	41,927
Sequential change %		29.1%	12.1%
Y/Y change %		83.2%	56.6%
Sales and marketing	31,614	42,053	49,381
Sequential change %		18.4%	17.4%
Y/Y change %		71.8%	56.2%
General and administrative	8,110	10,283	10,366
Sequential change %		1.7%	0.8%
Y/Y change %		84.5%	27.8%
Operating loss	(23,466)	(21,664)	(19,887)
Operating margin	-32.3%	-20.1%	-15.6%
Sequential change %		10.8%	4.6%
Sequential change (bps)		1,081 bps	459 bps
Y/Y change %		12.4%	16.8%
Y/Y change (bps)		1,244 bps	1,676 bps
Other expense, net	(364)	(689)	(1,129)
Net loss	(23,908)	(22,569)	(21,258)
Net loss attributable to common stockholders	(24,069)	(22,569)	(21,258)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.39)	\$ (0.13)	\$ (0.12)
Weighted-average shares used to compute net loss per share attributable to common stockholders	61,960	173,375	174,385

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 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 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, 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 operation. 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, 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.