Workday Announces Fiscal 2016 Second Quarter Financial Results

**Total Revenues of $282.7 Million, up 51% Year Over Year; Subscription Revenue of $223.7 Million, up 56% Year Over Year**

PLEASANTON, CA--(Marketwired - Aug 26, 2015) - Workday, Inc. (NYSE: WDAY), a leader in enterprise cloud applications forfinance and human resources, today announced results for the fiscal second quarter ended July 31, 2015.

- Total revenues were $282.7 million, an increase of 51% from the second quarter of fiscal 2015. Subscription revenues were $223.7 million, an increase of 56% from the same period last year.
- Operating loss was $67.6 million, or negative 23.9% of revenues, compared to an operating loss of $61.8 million, or negative 33.1% of revenues, in the same period last year. Non-GAAP operating loss for the second quarter was $0.7 million, or negative 0.3% of revenues, compared to a non-GAAP operating loss of $19.1 million last year, or negative 10.2% of revenues.[1]
- Net loss per basic and diluted share was $0.37, compared to a net loss per basic and diluted share of $0.38 in the second quarter of fiscal 2015.
- Operating cash flows for the second quarter were $15.5 million and free cash flows were negative $10.3 million. For the trailing twelve months, operating cash flows were $198.9 million and free cash flows were $77.6 million.[2]
- Cash, cash equivalents and marketable securities were approximately $1.9 billion as of July 31, 2015. Unearned revenues were $683.1 million, a 42% increase from last year.

"We had a great second quarter, and we're proud to share that we've crossed the 1,000-customer milestone," said Aneel Bhusri, co-founder and CEO, Workday. "We saw strong sales traction for growth initiatives including financial management, education and government industry solutions, and European expansion. We also continued our rapid product innovation with the announcement of Workday Planning, a new application that will round out our financial suite and bring budgeting, planning, and forecasting capabilities into Workday."

"We are very pleased with our solid second quarter results," said Mark Peek, co-president and chief financial officer, Workday. "We generated record quarterly revenues and trailing twelve month operating cash flows. Looking ahead, we anticipate third quarter total revenues to be within a range of $300 and $303 million, or growth of 39% to 41% as compared to the prior year."

**Recent Highlights**

- In the second quarter, Workday surpassed the 1,000-customer milestone as the company continues to see increased adoption of its suite of applications.
- Workday announced its intent to deliver Workday Planning, a new budgeting, planning, and forecasting application. When combined with Workday Financial Management and Workday Human Capital Management (HCM), Workday Planning is expected to be the industry's first system to unify real-time finance and HR data with analytics and enterprise planning. Workday plans to make Workday Planning generally available to customers in calendar year 2016.
- Workday will host its ninth annual Workday Rising customer conference from Sept. 28 - Oct. 1 in Las Vegas. The event will bring the extended Workday community together to collaborate and learn about how Workday helps some of the largest organizations around the world grow their businesses.

Workday plans to host a conference call today to review its second quarter financial results and to discuss its financial outlook. The call is scheduled to begin at 2:00 p.m. PT/ 5:00 p.m. ET and can be accessed via webcast or through the company's Investor Relations website at www.workday.com/investorrelations. The webcast will be available live, and a replay will be available following completion of the live broadcast for approximately 45 days.

[1] Non-GAAP operating loss for the fiscal second quarters of 2016 and 2015 exclude share-based compensation expenses, employer payroll tax-related items on employee stock transactions and amortization expense for acquisition-related intangible assets. See the section titled "About Non-GAAP Financial Measures" in the accompanying financial tables for further details.

[2] Free cash flows are defined as operating cash flows minus purchased property and equipment, property and equipment acquired under capital leases and purchased other intangible assets. See the section titled "About Non-GAAP Financial Measures" in the accompanying financial tables for further details.

**About Workday**
Workday is a leading provider of enterprise cloud applications forfinance and human resources. Founded in 2005, Workday delivers financial management, human capital management, and analytics applications designed for the world's largest companies, educational institutions, and government agencies. Hundreds of organizations, ranging from medium-sized businesses to Fortune 50 enterprises, have selected Workday.

**Use of Non-GAAP Financial Measures**
Reconciliations of non-GAAP financial measures to Workday's financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. For a description of these non-GAAP financial measures, including the reasons management uses each measure, please see the section of the tables titled "About Non-GAAP Financial Measures."

**Forward-Looking Statements**
This press release contains forward-looking statements including, among other things, statements regarding Workday's third quarter revenue projections and future product offerings. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and assumptions. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Risks include, but are not limited to: (i) breaches in our security measures, unauthorized access to our customers' data or disruptions in our data center operations; (ii) our ability to manage our growth effectively; (iii) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors and new applications and marketing initiatives by our competitors; (iv) the development of the market for enterprise cloud services; (v) acceptance of our applications and services by customers; (vi) adverse changes in general economic or market conditions; (vii) delays or reductions in information technology spending; (viii) our limited operating history, which makes it difficult to predict future results; and (ix) changes in sales may not be immediately reflected in our results due to our subscription model. Further information on risks that could affect Workday's results is included in our filings with the Securities and Exchange Commission (SEC), including our Form 10-Q for the quarter ended April 30, 2015 and our future reports that we may file with the SEC from time to time, which could cause actual results to vary from expectations. Workday assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

Any unreleased services, features, or functions referenced in this document, our website or other press releases or public statements that are not currently available are subject to change at Workday's discretion and may not be delivered as planned or at all. Customers who purchase Workday services should make their purchase decisions based upon services, features, and functions that are currently available.

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**Workday, Inc.**
**Condensed Consolidated Balance Sheets**
(in thousands)
(unaudited)

| | July 31, 2015 | January 31, 2015[1] |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 230,578 | $ 298,192 |
| Marketable securities | 1,676,351 | 1,559,517 |
| Accounts receivable, net | 156,282 | 188,357 |
| Deferred costs | 18,905 | 20,471 |
| Prepaid expenses and other current assets | 58,412 | 42,502 |
| Total current assets | 2,140,528 | 2,109,039 |
| Property and equipment, net | 172,701 | 140,136 |
| Deferred costs, noncurrent | 20,787 | 20,998 |
| Goodwill and acquisition-related intangible assets, net | 42,953 | 34,779 |
| Other assets | 66,915 | 53,681 |
| Total assets | $ 2,443,884 | $ 2,358,633 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 23,668 | $ 10,623 |
| Accrued expenses and other current liabilities | 31,706 | 24,132 |
| Accrued compensation | 48,347 | 56,152 |
| Capital leases | 743 | 3,207 |
| Unearned revenue | 601,807 | 547,151 |
| Total current liabilities | 706,271 | 641,265 |
| Convertible senior notes, net | 502,045 | 490,501 |
| Unearned revenue, noncurrent | 81,281 | 85,593 |
| Other liabilities | 22,312 | 15,299 |
| Total liabilities | 1,311,909 | 1,232,658 |
| Stockholders' equity: | | |
| Common stock | 190 | 186 |
| Additional paid-in capital | 2,084,815 | 1,948,300 |
| Accumulated other comprehensive income (loss) | 320 | (140) |
| Accumulated deficit | (953,350) | (822,371) |
| Total stockholders' equity | 1,131,975 | 1,125,975 |
| Total liabilities and stockholders' equity | $ 2,443,884 | $ 2,358,633 |

[1]Amounts as of January 31, 2015 were derived from the January 31, 2015 audited financial statements.

**Workday, Inc.**
**Condensed Consolidated Statements of Operations**
(in thousands, except per share data)
(unaudited)

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Revenues:** | | | | |
| Subscription services | $ 223,742 | $ 143,652 | $ 424,735 | $ 267,059 |
| Professional services | 58,954 | 43,128 | 108,918 | 79,458 |
| Total revenues | 282,696 | 186,780 | 533,653 | 346,517 |
| **Costs and expenses[1]:** | | | | |
| Costs of subscription services | 35,287 | 24,373 | 67,069 | 45,832 |
| Costs of professional services | 56,792 | 41,267 | 102,924 | 77,227 |
| Product development | 115,345 | 77,464 | 214,680 | 142,635 |
| Sales and marketing | 106,430 | 78,523 | 201,325 | 146,690 |
| General and administrative | 36,482 | 26,922 | 68,699 | 47,985 |
| Total costs and expenses | 350,336 | 248,549 | 654,697 | 460,369 |
| Operating loss | (67,640) | (61,769) | (121,044) | (113,852) |
| Other expense, net | (3,779) | (6,953) | (11,015) | (13,952) |
| Loss before provision for (benefit from) income taxes | (71,419) | (68,722) | (132,059) | (127,804) |
| Provision for (benefit from) income taxes | (1,998) | 493 | (1,080) | 800 |
| **Net loss** | $ (69,421) | $ (69,215) | $ (130,979) | $ (128,604) |
| **Net loss per share, basic and diluted** | $ (0.37) | $ (0.38) | $ (0.70) | $ (0.70) |
| **Weighted-average shares used to compute net loss per share, basic and diluted** | 189,360 | 184,319 | 188,382 | 183,733 |

(1) Costs and expenses include share-based compensation expenses as follows:

| | | | | |
|---|---|---|---|---|
| Costs of subscription services | $3,173 | $1,608 | $5,221 | $2,663 |
| Costs of professional services | 5,144 | 3,519 | 8,598 | 5,717 |
| Product development | 28,632 | 16,737 | 49,443 | 27,605 |
| Sales and marketing | 13,222 | 7,377 | 21,587 | 14,129 |
| General and administrative | 14,593 | 11,541 | 27,189 | 19,542 |

**Workday, Inc.**
**Condensed Consolidated Statements of Cash Flows**
(in thousands)
(unaudited)

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Cash flows from operating activities** | | | | |
| Net loss | $ (69,421) | $ (69,215) | $ (130,979) | $ (128,604) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 19,888 | 14,474 | 38,457 | 26,997 |
| Share-based compensation expenses | 64,764 | 40,782 | 112,038 | 69,656 |
| Amortization of deferred costs | 7,735 | 4,421 | 12,360 | 8,373 |
| Amortization of debt discount and issuance costs | 6,336 | 6,002 | 12,586 | 11,922 |
| Other | 1,095 | 242 | 1,832 | 846 |
| Changes in operating assets and liabilities, net of business combinations: | | | | |
| Accounts receivable | (27,570) | (1,441) | 32,147 | (8,454) |
| Deferred costs | (7,082) | (6,433) | (10,583) | (9,896) |
| Prepaid expenses and other assets | (7,806) | (2,748) | (15,476) | (10,098) |
| Accounts payable | 1,428 | (23) | 4,180 | (2,453) |
| Accrued expense and other liabilities | (3,521) | (14,602) | 2,664 | (13,511) |
| Unearned revenue | 29,665 | 19,530 | 50,344 | 67,908 |
| Net cash provided by (used in) operating activities | 15,511 | (9,011) | 109,570 | 12,686 |
| **Cash flows from investing activities** | | | | |
| Purchases of marketable securities | (476,470) | (365,779) | (862,045) | (1,036,185) |
| Maturities of marketable securities | 429,186 | 414,242 | 710,593 | 767,472 |
| Sales of available-for-sale securities | 19,524 | 8,138 | 29,524 | 8,138 |
| Business combinations, net of cash acquired | (7,961) | -- | (7,961) | (26,317) |
| Purchases of property and equipment | (25,792) | (28,409) | (55,972) | (38,282) |
| Purchases of cost method investments | (15,750) | (10,000) | (15,750) | (10,000) |
| Sale of cost method investment | 3,538 | -- | 3,538 | -- |
| Other | -- | -- | -- | 1,000 |
| Net cash provided by (used in) investing activities | (73,725) | 18,192 | (198,073) | (334,174) |
| **Cash flows from financing activities** | | | | |
| Proceeds from issuance of common stock from employee equity plans | 19,172 | 15,169 | 22,736 | 18,165 |
| Principal payments on capital lease obligations | (1,016) | (4,418) | (2,464) | (7,162) |
| Shares repurchased for tax withholdings on vesting of restricted stock | -- | (3,284) | -- | (8,291) |
| Other | 362 | -- | 779 | 60 |
| Net cash provided by (used in) financing activities | 18,518 | 7,467 | 21,051 | 2,772 |
| Effect of exchange rate changes | (210) | (15) | (162) | 24 |
| Net increase (decrease) in cash and cash equivalents | (39,906) | 16,633 | (67,614) | (318,692) |
| Cash and cash equivalents at the beginning of period | 270,484 | 246,001 | 298,192 | 581,326 |
| Cash and cash equivalents at the end of period | $ 230,578 | $ 262,634 | $ 230,578 | $ 262,634 |
| **Supplemental cash flow data** | | | | |
| Cash paid for interest | $ 3,211 | $ 3,369 | $ 3,244 | $ 3,558 |
| Cash paid for taxes | 418 | 120 | 1,034 | 120 |
| Non-cash investing and financing activities: | | | | |
| Vesting of early exercise stock options | $ 472 | $ 471 | $ 944 | $ 944 |
| Purchases of property and equipment, accrued but not paid | 18,642 | 12,171 | 18,642 | 12,171 |

**Workday, Inc.**
**Reconciliation of GAAP to Non-GAAP Data**
Three Months Ended July 31, 2015
(in thousands)
(unaudited)

| | **GAAP** | **Share-Based Compensation Expenses** | **Other Operating Expenses (1)** | **Amortization of Debt Discount and Issuance Costs** | **Non-GAAP** |
|---|---|---|---|---|---|

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Costs and expenses: | | | | | | | | | | | | |
| Costs of subscription services | $ 35,287 | | $ (3,173 | ) | $ (76 | ) | $ -- | | $ 32,038 | | | |
| Costs of professional services | 56,792 | | (5,144 | ) | (170 | ) | -- | | 51,478 | | | |
| Product development | 115,345 | | (28,632 | ) | (1,068 | ) | -- | | 85,645 | | | |
| Sales and marketing | 106,430 | | (13,222 | ) | (327 | ) | -- | | 92,881 | | | |
| General and administrative | 36,482 | | (14,593 | ) | (516 | ) | -- | | 21,373 | | | |
| Operating loss | (67,640 | ) | 64,764 | | 2,157 | | -- | | (719 | ) | | |
| Operating margin | *(23.9* | *)%* | *22.9* | *%* | *0.7* | *%* | -- | | *(0.3* | *)%* | | |
| Other expense, net | (3,779 | ) | -- | | -- | | 6,336 | | 2,557 | | | |
| Loss before provision for (benefit from) income taxes | (71,419 | ) | 64,764 | | 2,157 | | 6,336 | | 1,838 | | | |
| Provision for (benefit from) income taxes | (1,998 | ) | -- | | -- | | -- | | (1,998 | ) | | |
| Net income (loss) | $ (69,421 | ) | $ 64,764 | | $ 2,157 | | $ 6,336 | | $ 3,836 | | | |

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

**Workday, Inc.**
**Reconciliation of GAAP to Non-GAAP Data**
Three Months Ended July 31, 2014
(in thousands)
(unaudited)

| | **GAAP** | | **Share-Based Compensation Expenses** | | **Other Operating Expenses (1)** | | **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 | ) | | |

(1) Other operating expenses include employer payroll tax-related items 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, 2015
(in thousands)
(unaudited)

| | **GAAP** | | **Share-Based Compensation Expenses** | | **Other Operating Expenses (1)** | | **Amortization of Debt Discount and Issuance Costs** | | **Non-GAAP** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Costs and expenses: | | | | | | | | | | | | |
| Costs of subscription services | $ 67,069 | | $ (5,221 | ) | $ (262 | ) | $ -- | | $ 61,586 | | | |
| Costs of professional services | 102,924 | | (8,598 | ) | (524 | ) | -- | | 93,802 | | | |
| Product development | 214,680 | | (49,443 | ) | (3,381 | ) | -- | | 161,856 | | | |
| Sales and marketing | 201,325 | | (21,587 | ) | (958 | ) | -- | | 178,780 | | | |
| General and administrative | 68,699 | | (27,189 | ) | (1,103 | ) | -- | | 40,407 | | | |
| Operating loss | (121,044 | ) | 112,038 | | 6,228 | | -- | | (2,778 | ) | | |
| Operating margin | *(22.7* | *)%* | *21.0* | *%* | *1.2* | *%* | -- | | *(0.5* | *)%* | | |
| Other expense, net | (11,015 | ) | -- | | -- | | 12,586 | | 1,571 | | | |
| Loss before provision for (benefit from) income taxes | (132,059 | ) | 112,038 | | 6,228 | | 12,586 | | (1,207 | ) | | |
| Provision for (benefit from) income taxes | (1,080 | ) | -- | | -- | | -- | | (1,080 | ) | | |
| Net loss | $ (130,979 | ) | $ 112,038 | | $ 6,228 | | $ 12,586 | | $ (127 | ) | | |

(1) Other operating expenses include employer payroll tax-related items 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, 2014
(in thousands)
(unaudited)

| | GAAP | Share-Based Compensation Expenses | Other Operating Expenses (1) | Amortization of Debt Discount and Issuance Costs | Non-GAAP |
|---|---|---|---|---|---|
| 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) |

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

**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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net cash provided by (used in) operating activities | $ 15,511 | $ (9,011) | $ 109,570 | $ 12,686 |
| Purchases of property and equipment | (25,792) | (28,409) | (55,972) | (38,282) |
| Free cash flows | $ (10,281) | $ (37,420) | $ 53,598 | $ (25,596) |

| | Trailing Twelve Months Ended July 31, | |
|---|---|---|
| | 2015 | 2014 |
| Net cash provided by (used in) operating activities | $ 198,887 | $ 54,555 |
| Purchases of property and equipment | (121,336) | (67,380) |
| Purchases of other intangible assets | -- | (15,000) |
| Free cash flows | $ 77,551 | $ (27,825) |

**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 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 measure non-GAAP operating loss differs from GAAP in that it excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. Free cash flows differ from GAAP cash flows from operating activities in that it treats purchases of property and equipment, property and equipment acquired under capital leases 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, 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 expenses.* 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 stock unit 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 shares offered under our Employee Stock Purchase Plan, which are elements 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 includes employer payroll tax-related items on employee stock transactions and amortization of acquisition-

related intangible assets. The amount of employer payroll tax-related items on employee stock transactions 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 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.

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https://it-it.newsroom.workday.com/2015-08-26-Workday-Announces-Fiscal-2016-Second-Quarter-Financial-Results