

WORKIVA INC

Form 10-Q

November 07, 2018

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

**QUARTERLY
REPORT
PURSUANT TO
SECTION 13 OR
15(d) OF THE
SECURITIES
EXCHANGE
ACT OF 1934**

**For the
quarterly
period ended
September 30,
2018**

OR

**TRANSITION
REPORT
PURSUANT TO
SECTION 13 OR
15(d) OF THE
SECURITIES
EXCHANGE
ACT OF 1934**

**For transition
period from
to**

**Commission File
Number
001-36773**

WORKIVA INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-2509828

(I.R.S.
Employer
Identification
Number)

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2900 University Blvd
Ames, IA 50010
(888) 275-3125

(Address of principal executive offices and zip code)

(888) 275-3125

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

As of November 5, 2018, there were approximately 34,126,724 shares of the registrant's Class A common stock and 9,722,484 shares of the registrant's Class B common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical facts, including statements regarding our future results of operations and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017, in “Item 1A. Risk Factors” in Part II of this Quarterly Report on Form 10-Q and in any subsequent filing we make with the SEC, as well as in any documents incorporated by reference that describe risks and factors that could cause results to differ materially from those projected in these forward-looking statements.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements or events and circumstances reflected in the forward-looking statements will occur. We are under no duty to update any of these forward-looking statements after completion of this Quarterly Report on Form 10-Q to conform these statements to actual results or revised expectations.

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements****WORKIVA INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share and per share amounts)**

	As of September 30, 2018		As of December 31, 2017
(unaudited)			
ASSETS			
Current assets			
Cash and cash equivalents	71,843	\$	60,333
Marketable securities	25,145		16,364
Accounts receivable, net of allowance for doubtful accounts of \$719 and \$388 at September 30, 2018 and December 31, 2017, respectively	40,697		28,800
Deferred commissions	5,887		2,376
Other receivables	1,392		975
	5,727		6,444

Prepaid expenses			
Total current assets	150,691	115,292	
Property and equipment, net	39,759	40,444	
Deferred commissions, non-current	7,368	—	
Intangible assets, net	1,116	1,118	
Other assets	1,414	861	
Total assets	\$ 200,448	\$ 157,715	

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WORKIVA INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(in thousands, except share and per share amounts)

	As of September 30, 2018		As of December 31, 2017
--	-------------------------------------	--	------------------------------------

(unaudited)

**LIABILITIES
AND
STOCKHOLDERS'
DEFICIT**

Current liabilities

Accounts payable	5,053	\$	3,060
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Accrued expenses and other current liabilities	34,146		20,212
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Deferred revenue			104,684
------------------	--	--	---------

Deferred government grant obligation			228
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Current portion of capital lease and financing obligations			1,181
--	--	--	-------

Total current liabilities	169,043		129,341
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Deferred revenue			22,709
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Deferred government grant			278
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obligation	
Other long-term liabilities	3,896
Capital lease and financing obligations	18,425
Total liabilities	174,649
Stockholders' deficit	
Class A common stock, \$0.001 par value per share, 1,000,000,000 shares authorized, 34,077,670 and 32,165,407 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	32
Class B common stock, \$0.001 par value per	10

share,
500,000,000
shares
authorized,
9,722,484
and
10,203,371
shares
issued
and
outstanding
at
September
30,
2018
and
December
31,
2017,
respectively

Preferred
stock,
\$0.001
par
value
per
share,
100,000,000

shares
authorized,
no
shares
issued
and
outstanding

Additional
paid-in-capital
286,888

248,289

Accumulated
deficit
(299,306)

(265,337)

Accumulated
other
comprehensive
income
87

72

Total
stockholders'
deficit
Total

(16,934)

200,448

\$ 157,715

liabilities
and

stockholders'
deficit

See accompanying notes.

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Table of Contents**WORKIVA INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except share and per share amounts)****(unaudited)**

Three months ended September 30,		Nine months ended September 30,	
2018	2017	2018	2017
Revenue			
Subscription and support	\$ 51,306	\$ 43,214	\$ 146,613
Professional services	9,567	8,854	29,629
Total revenue	60,873	52,068	179,909
Cost of revenue			
Subscription and support	8,139	8,472	25,578
Professional services	7,520	7,180	22,888
Total cost of revenue	15,659	15,652	48,466
Gross profit	45,214	36,416	131,443
Operating expenses			
Research and development	19,984	17,527	60,829
Sales and marketing	4,068	23,712	67,326
General administrative	11,864	8,959	45,286
Total operating expenses	35,916	50,198	173,441

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Loss from operations	(10,702)	(13,782)	(41,998)	(29,630)
Interest expense	(448)	(464)	(1,347)	(1,394)
Other income, net	203	198	1,038	986
Loss before provision for income taxes	(10,947)	(14,048)	(42,307)	(30,038)
Provision for income taxes	17	25	43	67
Net loss	(10,964)	\$ (14,073)	\$ (42,350)	\$ (30,105)
Net loss per common share:				
Basic and diluted	\$ (0.25)	\$ (0.34)	\$ (0.98)	\$ (0.73)
Weighted-average common shares outstanding	43,973,428	41,815,139	43,359,939	41,453,736

See accompanying notes.

Table of Contents**WORKIVA INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(in thousands)****(unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net loss	(10,964)	\$ (14,073)	\$ (42,350)	\$ (30,105)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment, net of income tax benefit (expense) of (\$5) and \$0 for the three months ended September 30, 2018 and 2017, respectively, and net of income tax		(82)	21	(168)

benefit
 (expense)
 of
 (\$5) and
 \$2
 for
 the
 nine
 months
 ended
 September
 30,
 2018
 and
 2017,
 respectively
 Unrealized
 gain
 (loss)
 on
 available-for-sale
 securities,
 net
 of
 income
 tax
 benefit (expense)
 of
 \$1
 and
 \$0
 for
 the
 three
 months
 ended
 September
 30,
 2018
 and
 2017,
 respectively, and
 net
 of
 income
 tax
 benefit
 (expense)
 of
 \$1

(7)

(6)

(7)

and
 (\$2)
 for
 the
 nine
 months
 ended
 September
 30,
 2018
 and
 2017,
 respectively

Other
 comprehensive
 income
 (loss),
 net
 of
 tax

	(89)	15	(175)
Comprehensive loss	\$ (10,952)	\$ (14,162)	\$ (42,335)
			\$ (30,280)

See accompanying notes.

Table of Contents**WORKIVA INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cash flows from operating activities				
Net loss	(10,964)	\$ (14,073)	\$ (42,350)	\$ (30,105)
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation and amortization	1,133	854	2,881	2,612
Stock-based compensation expense	6,949	4,664	23,319	13,200
Provision for (recovery of) doubtful accounts	128	(691)	311	(259)
(Accretion) amortization of premiums and discounts on marketable	(66)	24	(63)	83

securities, net			
Recognition of deferred government grant obligation	(207)	(208)	(943)
Deferred income tax	—	(4)	—
Changes in assets and liabilities:			
Accounts receivable (1,691)	(757)	4,615	(1,299)
Deferred commissions (1,939)	(179)	(5,608)	(330)
Other receivables (591)	468	(416)	443
Prepaid expenses and other 2,501	5,123	712	3,097
Other assets (389)	(87)	(557)	(74)
Accounts payable 616	669	1,999	1,008
Deferred revenue 8,630	5,904	15,032	24,398
Accrued expenses and other liabilities 2,269	3,474	7,156	(83)
Net cash provided by 7,582 operating activities	5,186	6,819	11,748
Cash flows from investing			

activities

Purchase of property and equipment	(987)	(742)	(1,134)
Purchase of marketable securities	(5,017)	(17,724)	(11,367)
Maturities of marketable securities	4,600	9,000	7,681
Purchase of intangible assets	(46)	(174)	(144)
Net cash used in investing activities	(2,410)	(9,640)	(4,964)

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Table of Contents**WORKIVA INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(continued)****(in thousands)****(unaudited)**

	Three months ended September		Nine months ended	
	30,		September 30,	
	2018	2017	2018	2017
Cash flows from financing activities				
Proceeds from option exercises	7,534	1,154	13,927	6,669
Taxes paid related to net share settlements of stock-based compensation awards				
Proceeds from shares issued in connection with employee stock purchase plan	1,846	—	3,216	—
Repayment of other long-term debt	(53)	—	—	(73)
Principal payments	(348)	(348)	(879)	(1,135)

on capital lease and financing obligations					
Proceeds from government grants	—	22	22		
Deferred financing costs	(71)	—	(81)		
Net cash provided by financing activities	682	14,425	4,466		
Effect of foreign exchange rates on cash	93	(94)	187		
Net increase in cash and cash equivalents	2,732	11,510	11,437		
Cash and cash equivalents at beginning of period	57,495	60,333	51,281		
Cash and cash equivalents at end of	\$ 71,843	\$ 62,718	\$ 71,843	\$ 62,718	

period

**Supplemental
cash
flow
disclosure**

Cash paid for interest	\$ 436	\$ 447	\$ 1,304	\$ 1,194
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Cash paid for income taxes, net of refunds	\$ —	\$ 2	\$ 56	\$ 42
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**Supplemental
disclosure
of
noncash
investing
and
financing
activities**

Allowance for tenant improvements	\$ 1,153	\$ —	\$ 1,280	\$ —
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Purchases of property and equipment	\$ 105	\$ —	\$ 105	\$ —
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accrued but not paid

See accompanying notes.

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1. Organization and Significant Accounting Policies

Organization

Workiva Inc., a Delaware corporation, and its wholly-owned subsidiaries (the “Company” or “we” or “us”) created Wdesk, an intuitive cloud platform that modernizes how people work within thousands of organizations. Wdesk is built on a data management engine, offering controlled collaboration, data connections, granular permissions and a full audit trail. We offer Wdesk solutions for a wide range of use cases in the following markets: finance and accounting, audit and internal controls, risk and compliance, and performance and management reporting. Our operational headquarters are located in Ames, Iowa, with additional offices located in the United States, Europe, and Canada.

We updated our accounting policies on the use of estimates, revenue recognition, deferred revenue, and deferred commissions as a result of our adopting Financial Accounting Standards Board (FASB) guidance issued in accounting standards codification (ASC) 606, *Revenue Recognition - Revenue from Contracts with Customers*, under the Accounting Standards Update (ASU) 2014-09 (collectively the new revenue standard). Otherwise, there have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 22, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

Basis of Presentation and Principles of Consolidation

The financial information presented in the accompanying unaudited condensed consolidated financial statements has been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and in accordance with rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The condensed consolidated balance sheet data as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation of our financial position and results of operations. The operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results expected for the full year ending December 31, 2018.

Seasonality has affected our revenue, expenses and cash flows from operations. Revenue from professional services has been higher in the first quarter as many of our customers file their Form 10-K in the first calendar quarter. Sales and marketing expense has been higher in the third quarter due to our annual user conference in September. In addition, the timing of the payments of cash bonuses to employees during the first and fourth calendar quarters may result in some seasonality in operating cash flow. The condensed consolidated financial information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this report and the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 22, 2018.

The unaudited condensed consolidated financial statements include the accounts of Workiva Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and various other assumptions believed to be reasonable. These estimates include, but are not limited to, the allowance for doubtful accounts, the determination of the relative selling prices of our services, the measurement of material rights, health insurance claims incurred but not yet reported, valuation of available-for-sale marketable securities, useful lives of deferred contract costs, intangible assets and property and equipment, income taxes and certain assumptions used in the valuation of equity awards. While these estimates are based on our best knowledge of current events and actions that may affect us in the future, actual results may differ materially from these estimates.

Revenue Recognition

We generate revenue through the sale of subscriptions to our cloud-based software and the delivery of professional services. We recognize revenue when control of these services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

We report revenue net of sales and other taxes collected from customers to be remitted to government authorities.

Subscription and Support Revenue

We recognize subscription and support revenue on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our subscription contracts are generally three to 36 months in duration, are billed in advance and are non-cancelable. We consider the access to Wdesk and related support services in a customer contract to be a series of distinct services which comprise a single performance obligation because they are substantially the same and have the same pattern of transfer.

Professional Services Revenue and Customer Options

Professional services revenues primarily consist of fees for document set up, XBRL tagging, and consulting with our customers on business processes and best practices for using Wdesk. We have determined that an agreement to purchase these professional services constitutes an option to purchase services in accordance with ASC 606 rather than an agreement that creates enforceable rights and obligations because of the customer's contractual right to cancel services that have not yet been used. In the limited case of agreements where we determined that the option provides the customer with a material right, we allocate a portion of the transaction price to the material right. Professional service agreements that do not contain a material right are accounted for when the customer exercises its option to purchase additional services.

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Revenue is recognized for document set ups when the service is complete and control has transferred to the customer. Revenues from XBRL tagging and consulting services are recognized as the services are performed.

Contracts with Multiple Performance Obligations

Some of our contracts with customers contain multiple performance obligations in the event that we determine a material right exists. For these contracts, we account for the individual performance obligations separately when they are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. If these criteria are not met, the promised services are accounted for as a combined performance obligation. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and entity-specific factors, including the size of our arrangements, length of term, customer demographics and the numbers and types of users within our arrangements.

Deferred Revenue

We typically invoice our customers for subscription and support fees in advance on a quarterly, annual, two- or three-year basis, with payment due at the start of the subscription term. Unpaid invoice amounts for non-cancelable services starting in future periods are included in accounts receivable and deferred revenue. The portion of deferred revenue that we anticipate will be recognized after the succeeding twelve-month period is recorded as non-current deferred revenue, and the remaining portion is recorded as current deferred revenue.

Customer Deposits

As an agreement to purchase professional services constitutes a customer option, fees received in advance of these services being performed are considered customer deposits and are included in accrued expenses and other current liabilities on the condensed consolidated balance sheet. Unpaid invoice amounts for these professional services starting in future periods are excluded from accounts receivable and accrued expenses and other current liabilities.

Deferred Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions paid where the amortization period is one year or less are expensed as incurred. All other sales commissions are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be three years. We determined the period of benefit by taking into consideration our standard contract terms and conditions, rate of technological change and other factors. Amortization expense is included in sales and marketing expense in the accompanying condensed consolidated statements of operations.

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Income Taxes

On December 22, 2017, the U.S. federal government enacted legislation commonly referred to as the “Tax Cuts and Jobs Act” (the “TCJA”). The TCJA makes widespread changes to the Internal Revenue Code, including, among other items, the introduction of a new international “Global Intangible Low-Taxed Income” (“GILTI”) regime effective January 1, 2018. Companies may adopt one of two views in regards to establishing deferred taxes in accordance with the new (“GILTI”) regime under ASC 740. Companies may account for the effects of GILTI either (1) in the period the entity becomes subject to GILTI, or (2) establish deferred taxes (similar to the guidance that currently exists with respect to basis differences that will reverse under current Subpart F rules) for basis differences that upon reversal will be subject to GILTI. We have elected to account for the effects of GILTI in the period incurred. Adjustments related to GILTI have been offset by a corresponding reduction to the valuation allowance and as a result have zero impact on our effective tax rate. We will continue to refine our calculations as additional guidance is released during the measurement period as permitted by SEC Staff Accounting Bulletin 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, also known as Accounting Standards Codification Topic 606 (ASC 606), which amends the guidance in former ASC 605, *Revenue Recognition*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Effective January 1, 2018, we adopted ASU 2014-09 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of our accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The primary impact on accounts receivables and deferred revenue of adopting the new standard relates to recording deferred revenue when payments are due in advance of our performance of subscription based contracts. This recording has resulted in an offsetting increase in accounts receivable and deferred revenue.

The effect of adopting the new standard on accrued expenses and other current liabilities relates to the reclassification of amounts collected in advance related to the purchase of professional services from deferred revenue to accrued expenses and other current liabilities as these agreements to purchase professional services constitute a customer option.

The primary impact of adopting the new standard on our sales and marketing expense relates to the deferral of incremental commission costs of obtaining subscription contracts. Under the previous guidance, we deferred only direct and incremental commission costs to obtain a contract and amortized those costs on a straight-line basis over the lesser of 12 months or the non-cancelable term of the customer contract based on the terms of our commission arrangements. Under the new standard, we defer all incremental commission costs to obtain the contract. We amortize these costs on a straight-line basis over a period of benefit that we have determined to be three years.

The adoption of ASC 606 primarily resulted in an acceleration of revenue as of December 31, 2017, which in turn reduced our existing deferred tax asset for amounts that had previously been included

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in deferred revenue. Additionally, the amortization of the costs of obtaining a contract has generated additional deferred tax liabilities that ultimately reduced our net deferred tax asset position. As we have provided a full valuation allowance against our net deferred tax assets in the jurisdictions impacted by the adoption of ASC 606, this aggregate impact was offset by a corresponding reduction to the valuation allowance.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09 were as follows (in thousands):

	As of December 31, 2017	Adjustments Due to ASU 2014-09	As of January 1, 2018
Assets			
Accounts receivable, net	\$ 28,800	\$ 16,900	\$ 45,700
Deferred commissions	2,376	650	3,026
Deferred commissions, non-current	—	4,655	4,655
Liabilities			
Accrued expenses and other current liabilities	20,212	6,956	27,168
Deferred revenue	104,684	6,625	111,309
Deferred revenue, non-current	22,709	243	22,952
Equity			
Accumulated deficit	\$ (265,337)	\$ 8,381	\$ (256,956)

In accordance with the new revenue standard requirements, the impact of adoption on our condensed consolidated balance sheet as of September 30, 2018 and statement of operations for the three and nine months ended September 30, 2018 was as follows (in thousands, except per share data):

	As of September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
Assets			
Accounts receivable, net	\$ 40,697	\$ 25,971	\$ 14,726
Deferred commissions	5,887	3,002	2,885
Deferred commissions, non-current	7,368	—	7,368
Liabilities			

Accrued expenses and other current liabilities	34,146	27,098	7,048
Deferred revenue	128,435	124,709	3,726
Deferred revenue, non-current	20,650	18,188	2,462
Equity			
Accumulated deficit	\$ (299,306)	\$ (311,049)	\$ 11,743

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	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change	As Reported	Balances Without Adoption of ASC 606	Effect of Change
Revenues						
Subscription and support	\$ 51,306	\$ 51,183	\$ 123	\$ 146,613	\$ 145,889	\$ 724
Professional services	9,567	10,041	(474)	33,296	35,589	(2,293)
Operating expenses						
Sales and marketing	24,068	25,705	(1,637)	67,326	72,257	(4,931)
Net loss	\$ (10,964)	\$ (12,250)	\$ 1,286	\$ (42,350)	\$ (45,712)	\$ 3,362
Net loss per common share						
Basic and diluted	\$ (0.25)	\$ (0.28)	\$ 0.03	\$ (0.98)	\$ (1.05)	\$ 0.07

The adoption of ASC 606 had no impact on our total cash flows from operations.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. This ASU clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The ASU is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Effective January 1, 2018, we adopted this standard. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. This ASU simplifies the accounting for nonemployee share-based payment transactions. Under the new guidance, equity-classified share-based payment awards issued to nonemployees will now be measured on the grant date, instead of the previous requirement to remeasure the awards through performance completion date. Awards that include performance conditions will recognize compensation cost when the achievement of the performance condition is probable, rather than upon achievement of the performance condition. Finally, the current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting will be eliminated, except for awards in the form of convertible instruments. The ASU is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted, including interim periods, but no earlier than the adoption of ASC 606. Effective June 20, 2018, we adopted this standard. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

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New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued guidance codified in ASC 842, *Leases*, which supersedes the guidance in former ASC 840, *Leases*, to increase transparency and comparability among organizations by requiring recognition of right-of-use assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements (with the exception of short-term leases). The standard will become effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements* that allows entities to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We plan to elect this new transition guidance when we adopt the standard on January 1, 2019. We have formed a team to identify and analyze our arrangements for leases and have begun assessing our lease population for the new standard and evaluating the impact to our consolidated financial statements. We currently expect to use the package of practical expedients which allows us to not (1) reassess whether any expired or existing contracts are considered or contain leases; (2) reassess the lease classification for any expired or existing leases; and (3) reassess the initial direct costs for any existing leases. We anticipate the standard will have a material impact on our balance sheet.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends the current accounting guidance and requires the measurement of all expected losses based on historical experience, current conditions and reasonable and supportable forecasts. For trade receivables, loans, and other financial instruments, we will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. The standard will become effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Application of the amendments is through a cumulative-effect adjustment to retained earnings as of the effective date. We plan to adopt this standard on the effective date and are currently evaluating the impact of this new standard on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which clarifies the accounting for implementation costs in cloud computing arrangements. The update will become effective for interim and annual periods beginning after December 15, 2019 and may be adopted either retrospectively or prospectively. Early adoption is permitted. We plan to adopt this standard prospectively on the effective date. We are currently evaluating the impacts that adoption of this ASU will have on our consolidated financial statements.

Table of Contents**2. Supplemental Consolidated Balance Sheet and Statement of Operations Information*****Accrued Expenses and Other Current Liabilities***

Accrued expenses and other current liabilities consisted of (in thousands):

	September 30, 2018	December 31, 2017
Accrued vacation	\$ 6,819	\$ 6,087
Accrued commissions	3,342	3,297
Accrued bonuses	9,672	4,419
Estimated health insurance claims	1,190	1,090
ESPP employee contributions	1,165	1,419
Customer deposits	7,048	—
Accrued other liabilities	4,910	3,900
	\$ 34,146	\$ 20,212

Other Income, net

Other income, net for the three and nine months ended September 30, 2018 and 2017 consisted of (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest income	\$ 341	\$ 168	\$ 843	\$ 388
Income from training reimbursement program	—	207	208	943
Other	(138)	(177)	(13)	(345)
	\$ 203	\$ 198	\$ 1,038	\$ 986

Table of Contents**3. Cash Equivalents and Marketable Securities**

At September 30, 2018, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Money market funds	\$ 48,869	\$ —	\$ —	\$ 48,869
Commercial paper	10,734	—	—	10,734
U.S. treasury debt securities	2,484	—	(4)	2,480
U.S. corporate debt securities	12,002	1	(72)	11,931
	\$ 74,089	\$ 1	\$ (76)	\$ 74,014
Included in cash and cash equivalents	\$ 48,869	\$ —	\$ —	\$ 48,869
Included in marketable securities	\$ 25,220	\$ 1	\$ (76)	\$ 25,145

At December 31, 2017, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Money market funds	\$ 49,452	\$ —	\$ —	\$ 49,452
U.S. treasury debt securities	3,083	—	(8)	3,075
U.S. corporate debt securities	13,350	—	(61)	13,289
	\$ 65,885	\$ —	\$ (69)	\$ 65,816
Included in cash and cash equivalents	\$ 49,452	\$ —	\$ —	\$ 49,452
Included in marketable securities	\$ 16,433	\$ —	\$ (69)	\$ 16,364

The following table presents gross unrealized losses and fair values for those marketable securities that were in an unrealized loss position as of September 30, 2018, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

As of September 30, 2018

	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury debt securities	\$ 2,480	\$ (4)	\$ —	\$ —
U.S. corporate debt securities	5,615	(23)	4,515	(49)
Total	\$ 8,095	\$ (27)	\$ 4,515	\$ (49)

We do not believe any of the unrealized losses represented an other-than-temporary impairment based on our evaluation of available evidence, which includes our intent as of September 30, 2018 to hold these investments until the cost basis is recovered.

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Table of Contents**4. Fair Value Measurements**

We determine the fair values of our financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value assumes that the transaction to sell the asset or transfer the liability occurs in the principal or most advantageous market for the asset or liability and establishes that the fair value of an asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 - Inputs are unobservable inputs based on our assumptions.

Financial Assets

Cash equivalents primarily consist of AAA-rated money market funds with overnight liquidity and no stated maturities. We classified cash equivalents as Level 1 due to the short-term nature of these instruments and measured the fair value based on quoted prices in active markets for identical assets.

When available, our marketable securities are valued using quoted prices for identical instruments in active markets. If we are unable to value our marketable securities using quoted prices for identical instruments in active markets, we value our investments using broker reports that utilize quoted market prices for comparable instruments. We validate, on a sample basis, the derived prices provided by the brokers by comparing their assessment of the fair values of our investments against the fair values of the portfolio balances of another third-party professional pricing service. As of September 30, 2018, all of our marketable securities were valued using quoted prices for comparable instruments in active markets and are classified as Level 2.

Based on our valuation of our money market funds and marketable securities, we concluded that they are classified in either Level 1 or Level 2 and we have no financial assets measured using Level 3 inputs. The following table presents information about our assets that are measured at fair value on a recurring basis using the above input categories (in thousands):

Description	Fair Value Measurements as of September 30, 2018			Total	Fair Value Measurements as of December 31, 2017		
	Total	Level 1	Level 2		Level 1	Level 2	
Money market funds	\$ 48,869	\$ 48,869	\$ —	\$ 49,452	\$ 49,452	\$ —	
Commercial paper	10,734	—	10,734	—	—	—	
U.S. treasury debt securities	2,480	—	2,480	3,075	—	3,075	
U.S. corporate debt securities	11,931	—	11,931	13,289	—	13,289	
	\$ 74,014	\$ 48,869	\$ 25,145	\$ 65,816	\$ 49,452	\$ 16,364	

Included in cash and cash equivalents	\$ 48,869	\$ 49,452
Included in marketable securities	\$ 25,145	\$ 16,364

Table of Contents**5. Deferred Costs**

Deferred costs, which primarily consist of costs to obtain contracts with customers, were \$13.3 million as of September 30, 2018. Amortization expense for the deferred costs was \$2.5 million and \$6.9 million for the three and nine months ended September 30, 2018, respectively. There was no significant impairment loss in relation to the costs capitalized for the periods presented.

6. Commitments and Contingencies***Lease Commitments***

As of September 30, 2018, future estimated minimum lease payments under non-cancelable operating leases were as follows (in thousands):

	Operating Leases	
Remainder of 2018	\$	1,047
2019		3,616
2020		3,344
2021		3,252
2022		2,969
Thereafter		13,318
Total minimum lease payments	\$	27,546

There have been no material changes in our future estimated minimum lease payments under non-cancelable capital and financing leases, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Litigation

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of any currently pending legal proceedings to which we are a party will not have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Table of Contents**7. Stock-Based Compensation**

We grant stock-based incentive awards to attract, motivate and retain qualified employees, non-employee directors and consultants, and to align their financial interests with those of our stockholders. We utilize stock-based compensation in the form of restricted stock awards, restricted stock units, options to purchase Class A common stock and Employee Stock Purchase Plan (“ESPP”) purchase rights.

As of September 30, 2018, awards outstanding under the 2009 Plan consisted of stock options, and awards outstanding under the 2014 Plan consisted of stock options and restricted stock units.

In June 2018, stockholders approved an amendment to the 2014 Plan that increased the number of shares available for grant by 3,000,000. As of September 30, 2018, 3,187,998 shares of Class A common stock were available for grant under the 2014 Plan.

Our ESPP became effective on June 13, 2017. Under the ESPP, eligible employees are granted options to purchase shares of Class A common stock at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. Options to purchase shares are granted twice yearly on or about January 15 and July 15 and are exercisable on or about the succeeding July 14 and January 14, respectively, of each year. As of September 30, 2018, 4,820,623 shares of Class A common stock were available for issuance under the ESPP. No participant may purchase more than \$12,500 worth of common stock in a six-month offering period.

Stock-Based Compensation Expense

Stock-based compensation expense was recorded in the following cost and expense categories consistent with the respective employee or service provider’s related cash compensation (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cost of revenue				
Subscription and support	\$ 161	\$ 204	\$ 560	\$ 522
Professional services	153	129	449	329
Operating expenses				
Research and development	1,624	601	4,140	1,566
Sales and marketing	1,397	788	3,950	2,141
General and administrative	3,614	2,942	14,220	8,642
Total	\$ 6,949	\$ 4,664	\$ 23,319	\$ 13,200

The fair value of each option grant and each share issued under the ESPP is estimated on the date of grant using the Black-Scholes option-pricing model. For stock options, expected volatility is based on the historical volatility of our common stock and historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the options. For the ESPP purchase rights, expected volatility is based on the historical volatility of our common stock. The expected term represents the period of time the options and the ESPP purchase rights are expected to be outstanding. For stock options, the expected term is based on the “simplified method” as defined by SEC Staff Accounting Bulletin No. 110 (Topic 14.D.2). We use the “simplified method” due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the options. The expected term for the ESPP purchase rights approximates the offering period. The risk-free interest rate is based on yields on U.S. Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities) with a

maturity similar to the estimated expected term of the options and ESPP purchase rights.

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The fair value of our stock options and ESPP purchase rights was estimated assuming no expected dividends and the following weighted-average assumptions:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Stock Options				
Expected term (in years)	—	6.1	—	6.0 - 6.1
Risk-free interest rate	—%	1.9% - 2.1%	—%	1.9% - 2.1%
Expected volatility	—%	38.9% - 39.1%	—%	38.9% - 43.8%
ESPP				
Expected term (in years)	0.5	0.5	0.5	0.5
Risk-free interest rate	2.4%	1.2%	1.8% - 2.4%	1.2%
Expected volatility	36.4%	28.5%	22.2% - 36.4%	28.5%

Stock Options

The following table summarizes the option activity under the Plans for the nine months ended September 30, 2018:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
				(in thousands)
Outstanding at December 31, 2017	8,145,777	\$ 13.33	7.0	\$ 65,913
Granted	—	—		
Forfeited	(192,777)	17.38		
Exercised	(1,259,276)	11.06		
Outstanding at September 30, 2018	6,693,724	\$ 13.64	6.4	\$ 173,093
Exercisable at September	4,873,606	\$ 12.64	5.8	\$ 130,920

30, 2018

Options to purchase Class A common stock generally vest over a three- or four-year period and are generally granted for a term of ten years. The total intrinsic value of options exercised during the nine months ended September 30, 2018 and 2017 was \$22.1 million and \$5.5 million, respectively.

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2017 was \$6.41. No options were granted during the nine months ended September 30, 2018. The total fair value of options vested during the nine months ended September 30, 2018 and 2017 was approximately \$10.3 million and \$7.7 million, respectively. Total unrecognized compensation expense of \$10.4 million related to options will be recognized over a weighted-average period of 2.2 years.

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Table of Contents**Restricted Stock Awards**

We have granted restricted stock awards to our executive officers that vest in three equal annual installments from the date of grant. The recipient of an award of restricted stock under the Plan may vote and receive dividends on the shares of restricted stock covered by the award. The fair value for restricted stock awards is calculated based on the stock price on the date of grant. The total fair value of restricted stock awards vested during the nine months ended September 30, 2018 and 2017 was approximately \$2.2 million and \$2.4 million, respectively.

The following table summarizes the restricted stock award activity under the Plan for the nine months ended September 30, 2018:

	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2017	163,332	\$ 13.40
Granted	—	—
Forfeited	—	—
Vested	(163,332)	13.40
Unvested at September 30, 2018	—	\$ —

Compensation expense associated with unvested restricted stock awards is recognized on a straight-line basis over the vesting period. At September 30, 2018, there was no unrecognized compensation expense related to restricted stock awards.

Restricted Stock Units

Restricted stock units granted to employees generally vest over a three- or four-year period in equal, annual installments or with three-year cliff vesting. Restricted stock units granted to non-employee members of our Board of Directors generally have one-year cliff vesting from the date of grant. The recipient of a restricted stock unit award under the Plan will have no rights as a stockholder until share certificates are issued by us, but, at the discretion of our Compensation Committee, has the right to receive a dividend equivalent payment in the form of additional restricted stock units. Additionally, until the shares are issued, they have no voting rights and may not be bought or sold. The fair value for restricted stock units is calculated based on the stock price on the date of grant. The total fair value of restricted stock units vested during the nine months ended September 30, 2018 and 2017 was approximately \$7.2 million and \$2.5 million, respectively.

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The following table summarizes the restricted stock unit activity under the Plan for the nine months ended September 30, 2018:

	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2017	574,072	\$ 14.51
Granted	2,123,130	23.93
Forfeited	(42,044)	22.56
Vested ⁽¹⁾	(440,029)	16.47
Unvested at September 30, 2018	2,215,129	\$ 23.00

(1) As of September 30, 2018, recipients of 554,621 shares had elected to defer settlement of the vested restricted stock units in accordance with our Nonqualified Deferred Compensation Plan.

Compensation expense associated with unvested restricted stock units is recognized on a straight-line basis over the vesting period. At September 30, 2018, there was approximately \$40.9 million of total unrecognized compensation expense related to restricted stock units, which is expected to be recognized over a weighted-average period of 2.4 years.

Employee Stock Purchase Plan

During the nine months ended September 30, 2018, 179,377 shares of common stock were purchased under the ESPP at a weighted-average price of \$17.93 per share, resulting in cash proceeds of \$3.2 million.

Compensation expense associated with ESPP purchase rights is recognized on a straight-line basis over the vesting period. At September 30, 2018, there was approximately \$407,000 of total unrecognized compensation expense related to the ESPP, which is expected to be recognized over a weighted-average period of 0.3 years.

Table of Contents**8. Revenue Recognition*****Disaggregation of Revenue***

The following table presents our revenues disaggregated by industry (in thousands). Certain year-to-date amounts have been reclassified to conform with current period presentation. These reclassifications have no impact on total revenue.

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Information technology	\$ 7,698	\$ 22,843
Consumer discretionary	7,248	20,918
Industrials	6,890	20,706
Diversified financials	6,847	20,198
Banks	6,044	17,628
Healthcare	5,347	15,786
Energy	4,805	14,303
Other	15,994	47,527
Total revenues	\$ 60,873	\$ 179,909

The following table presents our revenues disaggregated by type of good or service (in thousands):

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Subscription and support	\$ 51,306	\$ 146,613
XBRL professional services	6,312	23,080
Other services	3,255	10,216
Total revenues	\$ 60,873	\$ 179,909

Deferred Revenue

During the three months ended September 30, 2018, we recognized \$47.2 million of revenue that was included in the deferred revenue balance at the beginning of the period. During the nine months ended September 30, 2018, we recognized \$93.9 million of revenue that was included in the deferred revenue balance at the beginning of the period.

Transaction Price Allocated to the Remaining Performance Obligations

As of September 30, 2018, revenue of approximately \$149.1 million is expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize approximately \$128.4 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

Table of Contents**9. Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including our outstanding stock options, stock related to unvested restricted stock awards, and common stock issuable pursuant to the ESPP to the extent dilutive.

The net loss per share is allocated based on the participation rights of the Class A and Class B common shares as if the loss for the year has been distributed. As the liquidation and dividend rights are identical, the net loss is allocated on a proportionate basis.

We consider unvested restricted stock awards granted under the 2014 Equity Incentive Plan to be participating securities because holders of such shares have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares. In future periods to the extent we are profitable, we will subtract earnings allocated to these participating securities from net income to determine net income attributable to common stockholders.

A reconciliation of the denominator used in the calculation of basic and diluted loss per share is as follows (in thousands, except share and per share data):

	Three months ended		September 30, 2017	
	September 30, 2018		September 30, 2017	
	Class A	Class B	Class A	Class B
<i>Numerator</i>				
Net loss	\$ (8,532)	\$ (2,432)	\$ (10,467)	\$ (3,606)
<i>Denominator</i>				
Weighted-average common shares outstanding - basic and diluted	34,221,118	9,752,310	31,100,994	10,714,145
Basic and diluted net loss per share	\$ (0.25)	\$ (0.25)	\$ (0.34)	\$ (0.34)

	Nine months ended		September 30, 2017	
	September 30, 2018		September 30, 2017	
	Class A	Class B	Class A	Class B
<i>Numerator</i>				
Net loss	\$ (32,616)	\$ (9,734)	\$ (22,255)	\$ (7,850)
<i>Denominator</i>				
Weighted-average common shares outstanding - basic and diluted	33,393,426	9,966,513	30,644,955	10,808,781
Basic and diluted net loss per share	\$ (0.98)	\$ (0.98)	\$ (0.73)	\$ (0.73)

The anti-dilutive securities excluded from the weighted-average shares used to calculate the diluted net loss per common share were as follows:

As of
September September
30, 30, 2017

2018

Shares subject to outstanding common stock options	6,693,724	8,336,496
Shares subject to unvested restricted stock awards	—	176,665
Shares issuable pursuant to the ESPP	108,929	87,265

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2018. In addition to historical consolidated financial information, this discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to these differences include, but are not limited to, those identified below, and those discussed in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017, in “Item 1A. Risk Factors” in Part II of this Quarterly Report on Form 10-Q and in any subsequent filing we make with the SEC.

Overview

Workiva provides Wdesk, an intuitive cloud platform that modernizes how customers work with business data at thousands of organizations. Wdesk is built on a data management engine, offering controlled collaboration, data connections, granular permissions and a full audit trail. Wdesk helps mitigate risk, improves productivity and gives users confidence in their data-driven decisions. As of September 30, 2018, we provided our solutions to more than 3,200 enterprise customers, including more than 75% of FORTUNE 500[®] companies⁽¹⁾.

(1) Claim not confirmed by FORTUNE or Time Inc. FORTUNE 500 is a registered trademark of Time Inc. and is used under license. FORTUNE and Time Inc. are not affiliated with, and do not endorse products or services of, Workiva Inc.

Our scalable, enterprise-grade data engine enables users to collect, aggregate and manage their unstructured and structured data in Wdesk. Although our Wdesk platform is used for hundreds of different use cases across public and private companies, state and local governments and universities, we are currently focusing our sales and marketing resources to expand the use of Wdesk in four areas: finance and accounting, audit and internal controls, risk and compliance, and performance and management reporting.

We operate our business on a software-as-a-service (SaaS) model. Customers enter into quarterly, annual and multi-year subscription contracts to gain access to Wdesk. Our subscription fee includes the use of our software and technical support. Our pricing is based primarily on the number of corporate entities, number of users, level of customer support and length of contract. Our pricing model is scaled to the number of users, so the subscription price per user typically decreases as the number of users increases. We charge customers additional fees primarily for document setup and XBRL tagging services. We generate sales primarily through our direct sales force and, to a lesser extent, our customer success and professional services teams. In addition, we augment our direct-sales channel with partnerships. Our advisory and service partners offer a wider range of domain and functional expertise that broadens the capabilities of Wdesk, bringing scale and support to customers and prospects. Our technology partners enable more data and process integrations to help customers connect critical transactional systems directly to Wdesk, which becomes a central repository of trusted data, with powerful linking, auditability and control features.

Our integrated platform, subscription-based model, and exceptional customer support have contributed to a low rate of customer turnover while achieving strong revenue growth. Our subscription and support revenue retention rate was 95.9% (excluding add-on seats) for the twelve months ended September 30, 2018.

We continue to invest in the development of our solutions, infrastructure and sales and marketing to drive long-term growth. Our full-time employee headcount expanded to 1,293 at September 30, 2018 from 1,284 at September 30, 2017, an increase of 0.7%.

We have achieved significant revenue growth in recent periods. Our revenue grew to \$60.9 million and \$179.9 million during the three and nine months ended September 30, 2018, respectively,

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from \$52.1 million and \$153.4 million during the three and nine months ended September 30, 2017, respectively. We incurred net losses of \$11.0 million and \$42.4 million during the three and nine months ended September 30, 2018, respectively, compared to \$14.1 million and \$30.1 million during the three and nine months ended September 30, 2017, respectively.

As an “emerging growth company,” the Jumpstart Our Business Startups Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We will no longer be able to take advantage of this exemption beginning on December 31, 2018, when we will be deemed a large accelerated filer and, as a result, cease to be an “emerging growth company.”

Key Factors Affecting Our Performance

Generate Growth From Existing Customers. Wdesk can exhibit a powerful network effect within an enterprise, meaning that the usefulness of our platform attracts additional users and more data. As more employees in an enterprise use Wdesk, additional opportunities for collaboration and automation drive demand among their colleagues for add-on seats. Expansion within current customers includes adding users for both existing solutions and new use cases.

Pursue New Customers. Our first software solution enabled customers to streamline and automate their SEC regulatory filing process. In 2013, we began expanding into additional markets that were faced with managing large, complex processes with many contributors and disparate sets of business data. We now sell to new customers in the areas of finance and accounting, risk and compliance, audit and internal controls, and performance and management reporting. We intend to continue to build our sales and marketing organization and leverage our brand equity to attract new customers.

Offer More Solutions. We intend to introduce new solutions to continue to meet growing demand for our Wdesk platform. Our close and trusted relationships with our customers are a source for new use cases, features and solutions. We have a disciplined process for tracking, developing and releasing new solutions that are designed to have immediate, broad applicability; a strong value proposition; and a high return on investment for both Workiva and our customers. Our advance planning team assesses customer needs, conducts industry-based research and defines new markets. This vetting process involves our sales, product marketing, customer success, professional services, research and development, finance and senior management teams.

Expand Across Enterprises. Our success in delivering multiple solutions has created demand from customers for a broader-based, enterprise-wide Wdesk platform. In response, we have been improving our technology and realigning sales and marketing to capitalize on our growing enterprise-wide opportunities. We believe this expansion will add seats and revenue and continue to support our high revenue retention rates. However, we expect that enterprise-wide deals will be larger and more complex, which tend to lengthen the sales cycle.

Add Partners. We continue to add partners. Our consulting and accounting partners offer a broader range of services that leverage the capabilities of Wdesk. Our technology partners enable data connections and process integrations to further streamline critical business functions as we capitalize on growing Wdesk demand for broader-based, enterprise-wide opportunities.

Investment in growth. We plan to continue to invest in the development of our Wdesk platform to enhance our current offerings and build new features. In addition, we expect to continue to invest in our sales, marketing, professional services and customer success organizations to drive additional revenue and support the needs of our growing customer base. Investments we make in our sales and marketing and research and development organizations will occur in advance of experiencing any benefits from such investments. As a result, we expect our total operating expenses to continue to increase.

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Seasonality. Our revenue from professional services has some degree of seasonality. Many of our customers employ our professional services just before they file their Form 10-K, often in the first calendar quarter. As our non-SEC offerings continue to grow, we expect our professional services revenue to continue to become less seasonal. Our sales and marketing expense also has some degree of seasonality. Sales and marketing expense is generally higher in the third quarter since we hold our annual user conference in September. In addition, the timing of the payments of cash bonuses to employees during the first and fourth calendar quarters may result in some seasonality in operating cash flow.

Key Performance Indicators

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
<i>Financial metrics</i>				
Total revenue	\$ 60,873	\$ 52,068	\$ 179,909	\$ 153,363
Percentage increase in total revenue	16.%	16.5%	17.3%	15.9 %
Subscription and support revenue	\$ 51,306	\$ 43,214	\$ 146,613	\$ 123,734
Percentage increase in subscription and support revenue	18.%	19.3%	18.5%	18.1 %
Subscription and support as a percent of total revenue	84.2%	83.0%	81.5%	80.7 %
	As of September 30,			
	2018	2017		
<i>Operating metrics</i>				
Number of customers	3,289	2,991		
Subscription and support revenue retention rate	95.9%	96.5%		
Subscription and support revenue	104.7%	108.6%		

retention rate including add-ons		
Annual contract value \$100k+	398	302
Annual contract value \$150k+	173	131

Total customers. We believe total number of customers is a key indicator of our financial success and future revenue potential. We define a customer as an entity with an active subscription contract as of the measurement date. Our customer is typically a parent company or, in a few cases, a significant subsidiary that works with us directly. Companies with publicly listed securities account for a substantial majority of our customers.

Subscription and support revenue retention rate. We calculate our subscription and support revenue retention rate by annualizing the subscription and support revenue recorded in the first month of the measurement period for only those customers in place throughout the entire measurement period, thereby excluding any attrition. We divide the result by the annualized subscription and support revenue in the first month of the measurement period for all customers in place at the beginning of the measurement period. The measurement period is based on the trailing twelve months. Our subscription and support revenue retention rate was 95.9% at the September 2018 measurement date, from 96.5% as of September 2017. We believe that our success in maintaining a high rate of revenue retention is attributable primarily to our robust technology platform and strong

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customer service. Customers being acquired or ceasing to file SEC reports has been the largest contributing factor to our revenue attrition.

Subscription and support revenue retention rate including add-ons. Add-on revenue includes the change in both seats and solutions purchased and seat pricing for existing customers. We calculate our subscription and support revenue retention rate including add-ons by annualizing the subscription and support revenue recorded in the last month of the measurement period for only those customers in place throughout the entire measurement period. We divide the result by the annualized subscription and support revenue in the first month of the measurement period for all customers in place at the beginning of the measurement period. The measurement period is based on the trailing twelve months. Our subscription and support revenue retention rate including add-ons was 104.7% at the September 2018 measurement date, down from 108.6% as of September 2017. The timing of normal course adjustments to existing customer contracts can result in fluctuations in this calculation.

Revenue retention rates are calculated using ASC 605 revenue in the last month of the measurement period. See Note 1 to our condensed consolidated financial statements for additional information. In 2019, we plan to begin using quarterly ASC 606 revenue to calculate this metric. We expect quarterly measurements will be less variable than the single month measurements we currently report.

Annual contract value. Our annual contract value (“ACV”) for each customer is calculated by annualizing the subscription and support revenue recognized during each quarter.

Components of Results of Operations

Revenue

We generate revenue through the sale of subscriptions to our cloud-based software and the delivery of professional services. We serve a wide range of customers in many industries, and our revenue is not concentrated with any single customer or small group of customers. For the nine months ended September 30, 2018 and 2017, no single customer represented more than 1% of our revenue, and our largest ten customers accounted for less than 5% of our revenue in the aggregate.

We generate sales directly through our sales force and partners. We also identify some sales opportunities with existing customers through our customer success and professional services teams.

Our customer contracts typically range in length from three to 36 months. Our arrangements do not contain general rights of return. We typically invoice our customers for subscription fees in advance on a quarterly, annual, two-year or three-year basis, with payment due at the start of the subscription term. We continue to offer limited incentives for customers to enter into contract terms of more than one year, typically for terms of two or three years.

Subscription and Support Revenue. We recognize subscription and support revenue on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Amounts that are invoiced are initially recorded as deferred revenue.

Professional Services Revenue. We believe our professional services facilitate the sale of our subscription service to certain customers. To date, most of our professional services have consisted of document set up, XBRL tagging, and consulting with our customers on business processes and best practices for using Wdesk. Our professional services are not required for customers to utilize our solution. We recognize revenue for document set ups when the service is complete and control has transferred to the customer. Revenues from XBRL tagging and consulting services are recognized as the services are performed.

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Cost of Revenue

Cost of revenue consists primarily of personnel and related costs directly associated with our professional services, customer success teams and training personnel, including salaries, benefits, bonuses and stock-based compensation; the costs of contracted third-party vendors; the costs of cloud infrastructure services by our customers; and information technology costs and facility costs. Costs of cloud infrastructure services are comprised primarily of fees paid to Google Cloud Platform and Amazon Web Services.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of personnel and related costs, including salaries, benefits, bonuses, commissions, travel, and stock-based compensation. Other costs included in this expense are marketing and promotional events, our annual user conference, online marketing, product marketing, information technology costs and facility costs. Sales commissions paid where the amortization period is one year or less are expensed as incurred. All other sales commissions are considered incremental costs of obtaining a contract with a customer and are deferred and amortized on a straight-line basis over a period of benefit that we have determined to be three years.

Research and Development Expenses

Research and development expenses consist primarily of personnel and related costs, including salaries, benefits, bonuses, and stock-based compensation; costs of cloud infrastructure services by our developers; information technology costs; and facility costs.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel and related costs for our executive, finance and accounting, legal, human resources, and administrative personnel, including salaries, benefits, bonuses, and stock-based compensation; legal, accounting, and other professional service fees; other corporate expenses; information technology costs; and facility costs.

Table of Contents**Results of Operations**

The following table sets forth selected consolidated statement of operations data for each of the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenue				
Subscription and support	\$ 51,306	\$ 43,214	\$ 146,613	\$ 123,734
Professional services	9,567	8,854	33,296	29,629
Total revenue	60,873	52,068	179,909	153,363
Cost of revenue				
Subscription and support ⁽¹⁾	8,139	8,472	25,578	23,867
Professional services ⁽¹⁾	7,520	7,180	22,888	20,289
Total cost of revenue	15,659	15,652	48,466	44,156
Gross profit	45,214	36,416	131,443	109,207
Operating expenses				
Research and development ⁽¹⁾	19,984	17,527	60,829	49,302
Sales and marketing ⁽¹⁾	24,068	23,712	67,326	62,212
General and administrative ⁽¹⁾	11,864	8,959	45,286	27,323
Total operating expenses	55,916	50,198	173,441	138,837
Loss from operations	(10,702)	(13,782)	(41,998)	(29,630)
Interest expense	(448)	(464)	(1,347)	(1,394)
Other income, net	203	198	1,038	986
Loss before provision for income taxes	(10,947)	(14,048)	(42,307)	(30,038)
Provision for income taxes	17	25	43	67
Net loss	\$ (10,964)	\$ (14,073)	\$ (42,350)	\$ (30,105)

(1) Stock-based compensation expense included in these line items was as follows:

	Three months ended September 30,	Nine months ended September 30,
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	2018	2017	2018	2017
	(in thousands)			
Cost of revenue				
Subscription and support	\$ 161	\$ 204	\$ 560	\$ 522
Professional services	153	129	449	329
Operating expenses				
Research and development	1,624	601	4,140	1,566
Sales and marketing	1,397	788	3,950	2,141
General and administrative	3,614	2,942	14,220	8,642
Total stock-based compensation expense	\$ 6,949	\$ 4,664	\$ 23,319	\$ 13,200

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The following table sets forth our consolidated statement of operations data as a percentage of revenue for each of the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue				
Subscription and support	84% 3	83% 0	84% 5	80% 7
Professional services	15.7	17.0	18.5	19.3
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue				
Subscription and support	13.4	16.3	14.2	15.6
Professional services	12.4	13.8	12.7	13.2
Total cost of revenue	25.8	30.1	26.9	28.8
Gross profit	74.2	69.9	73.1	71.2
Operating expenses				
Research and development	32.8	33.7	33.8	32.1
Sales and marketing	39.5	45.5	37.4	40.6
General and administrative	19.5	17.2	25.2	17.8
Total operating expenses	91.8	96.4	96.4	90.5
Loss from operations	(17.6)	(26.5)	(23.3)	(19.3)
Interest expense	(0.7)	(0.9)	(0.7)	(0.9)
Other income, net	0.3	0.4	0.6	0.6
Loss before provision for income taxes	(18.0)	(27.0)	(23.4)	(19.6)
Provision (benefit) for income taxes	—	—	—	—
Net loss	(18.0)	(27.0)	(23.4)	(19.6)

***Comparison of Three and Nine Months Ended September 30, 2018 and 2017
Revenue***

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
(dollars in thousands)						
Revenue						
Subscription and support	\$ 51,306	\$ 43,214	18.7%	\$ 146,613	\$ 123,734	18.5%
Professional services	9,567	8,854	8.1%	33,296	29,629	12.4%
Total revenue	\$ 60,873	\$ 52,068	16.9%	\$ 179,909	\$ 153,363	17.3%

Total revenue increased \$8.8 million for the three months ended September 30, 2018 compared to the same quarter a year ago due primarily to a \$8.1 million increase in subscription and support revenue. Of the total gain in subscription and support revenue, 48.3% represented revenue from new customers acquired after September 30, 2017 and 51.7% represented revenue from existing customers at or prior to September 30, 2017. The total number of our customers expanded 10.0% from September 30, 2017 to September 30, 2018. Growth in professional services revenue was attributable primarily to an increase in XBRL tagging services for both new and existing customers.

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Total revenue increased \$26.5 million for the nine months ended September 30, 2018 compared to the same period a year ago due primarily to a \$22.9 million increase in subscription and support revenue. Of the total gain in subscription and support revenue, represented revenue from new customers acquired after September 30, 2017 and represented revenue from existing customers at or prior to September 30, 2017. Growth in professional services revenue was attributable primarily to an increase in XBRL tagging services. Professional services revenue increased at a slower rate than subscription and support revenue for the nine months ended September 30, 2018 compared to the same period a year ago. As our customers become familiar with our platform, they typically become more self sufficient and require fewer professional services. We expect the revenue growth rate from subscription and support to continue to outpace revenue growth from professional services on an annual basis.

Adoption of ASC 606 did not have a significant impact on revenue recognized during the quarter ended September 30, 2018. For the first nine months of 2018, adoption of ASC 606 caused recognition of professional services revenue to be \$2.3 million higher than what would have been recognized under the legacy standard. Under ASC 605, revenue from subscription and support and professional services for the first nine months of 2018 would have been \$145.9 million and \$35.6 million, respectively, which represents increases of 17.9% and 20.1%, respectively, over the same period a year ago. See Note 1 to our condensed consolidated financial statements for a breakdown of revenue for the current period under ASC 605.

Cost of Revenue

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(dollars in thousands)					
Cost of revenue						
Subscription and support	\$ 8,139	\$ 8,472	(3.9)%	\$ 25,578	\$ 23,867	7.2%
Professional services	7,520	7,180	4.7%	22,888	20,289	12.8%
Total cost of revenue	\$ 15,659	\$ 15,652	—%	\$ 48,466	\$ 44,156	9.8%

Cost of revenue remained relatively flat in the three months ended September 30, 2018 compared to the same quarter a year ago, reflecting tight control on headcount growth and resulting in an improvement in gross margin to 74.2% in the most recent quarter from 69.9% in the same quarter a year ago.

Cost of revenue increased \$4.3 million during the nine months ended September 30, 2018 compared to the same period a year ago, due primarily to an increase in employee compensation and benefits of \$3.1 million and a \$1.2 million rise in the cost of cloud infrastructure services to support our expanding customer base.

Table of Contents**Operating Expenses**

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(dollars in thousands)					
Operating expenses						
Research and development	\$ 19,984	\$ 17,527	14.0%	\$ 60,829	\$ 49,302	23.4%
Sales and marketing	24,068	23,712	1.5%	67,326	62,212	8.2%
General and administrative	11,864	8,959	32.4%	45,286	27,323	65.7%
Total operating expenses	\$ 55,916	\$ 50,198	11.4%	\$ 173,441	\$ 138,837	24.9%

Research and Development

Research and development expenses increased \$2.5 million in the three months ended September 30, 2018 compared to the same quarter a year ago due primarily to \$2.3 million in higher cash-based compensation and benefits and additional stock-based compensation of \$1.0 million, partially offset by a \$0.8 million decrease in consulting fees. Transitioning certain projects to internal teams allowed us to reduce consulting fees. We continue to dedicate resources to developing the next generation of Wdesk, which has resulted in increased investment in research and development.

Research and development expenses increased \$11.5 million in the nine months ended September 30, 2018 compared to the same period a year ago due partially to higher cash-based compensation, benefits, and travel costs of \$9.1 million, additional stock-based compensation of \$2.6 million, and a \$0.4 million increase in the cost of server usage, partially offset by a \$0.9 million decrease in consulting fees. The decrease in consulting fees was due to bringing some previously outsourced work in-house.

Sales and Marketing

Sales and marketing expenses increased \$0.4 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 due primarily to \$0.7 million in higher cash-based compensation, benefits, and travel costs and additional stock-based compensation of \$0.6 million, partially offset by \$0.8 million in cost savings related to our annual user conference. Sales and marketing expense as a percentage of revenue improved to 39.5% in the most recent quarter from 45.5% in the same quarter a year ago due to both the capitalization of sales commissions required by ASC 606 and reduced marketing spend.

Sales and marketing expenses increased \$5.1 million during the nine months ended September 30, 2018 compared to the same period a year ago due partially to higher cash-based compensation, benefits, and travel costs of \$3.9 million and additional stock-based compensation of \$1.8 million, partially offset by \$0.8 million in cost savings related to our annual user conference.

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General and administrative expenses increased \$2.9 million during the three months ended September 30, 2018 compared to the same quarter a year ago due primarily to higher cash-based compensation, benefits, and travel costs of \$1.4 million and additional stock-based compensation of \$0.7 million. The increase in stock-based compensation was driven primarily by restricted stock grants to certain executive officers in February 2018 that vest after three years. In addition, bad debt expense increased by \$0.7 million due primarily to a reduction in bad debt during the third quarter of 2017. General and administrative expense as a percentage of revenue increased to 19.5% in the latest quarter from 17.2% the same quarter last year due to higher compensation and the addition of senior executives to manage international operations.

General and administrative expenses increased \$18.0 million during the nine months ended September 30, 2018 compared to the same period a year ago. This increase was due primarily to \$11.6 million in higher cash-based compensation, benefits, and travel costs and \$5.6 million in additional stock-based compensation. In the second quarter of 2018, we recorded an additional \$5.9 million and \$3.6 million of cash-based and equity-based compensation, respectively, pursuant to a separation agreement with our former CEO. The remaining increase in stock-based compensation was driven primarily by restricted stock grants to certain executive officers in February 2018 that vest after three years. In addition, bad debt expense increased by \$0.5 million due primarily to a reduction in bad debt during the third quarter of 2017.

Non-Operating Income (Expenses)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Interest expense	\$ (448)	\$ (464)	\$ (1,347)	\$ (1,394)
Other income, net	203	198	1,038	986

Interest Expense and Other Income, Net

Interest expense remained relatively flat during the three and nine months ended September 30, 2018 compared to the same period a year ago.

Other income, net remained relatively flat during the three months ended September 30, 2018 compared to the same period a year ago.

Other income, net increased during the nine months ended September 30, 2018 compared to the same period a year ago due primarily to increases in interest income and gains on foreign currency transactions partially offset by a reduction of government grant income from a training reimbursement program.

Table of Contents**Liquidity and Capital Resources**

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cash flow provided by operating activities	\$ 7,582	\$ 5,186	\$ 6,819	\$ 11,748
Cash flow used in investing activities	(2,410)	(3,229)	(9,640)	(4,964)
Cash flow provided by financing activities	9,093	682	14,425	4,466
Net increase in cash and cash equivalents, net of impact of exchange rates	\$ 14,348	\$ 2,732	\$ 11,510	\$ 11,437

As of September 30, 2018, our cash, cash equivalents and marketable securities totaled \$97.0 million. To date, we have financed our operations primarily through the proceeds of our initial public offering, private placements of equity, debt that was settled in equity and cash from operating activities. We have generated significant operating losses and negative cash flows from operating activities as reflected in our accumulated deficit and consolidated statements of cash flows. We expect to continue to incur operating losses in the future. As a result, we may require additional capital resources to continue to grow our business. We believe that current cash and cash equivalents, cash flows from operating activities, availability under our existing credit facility and the ability to offer and sell securities pursuant to our shelf registration statement will be sufficient to fund our operations for at least the next twelve months.

In August 2014, we entered into a \$15.0 million credit facility with Silicon Valley Bank. Borrowing capacity is equal to the most recent month's subscription and support revenue multiplied by a percentage that adjusts based on the prior quarter's customer retention rate. The credit facility can be used to fund working capital and general business requirements. The credit facility is secured by all of our assets and has first priority over our other debt obligations. The credit facility contains financial and other covenants, including certain restrictive covenants that limit our ability to transfer or dispose of assets, merge with other companies or consummate certain changes of control, acquire other companies, pay dividends, incur additional indebtedness and liens, experience changes in management and enter into new businesses. The credit facility has a variable interest rate equal to the bank's prime lending rate with interest payable monthly and the principal balance due at maturity. The credit facility matures in August 2020, and no amount was outstanding under the credit facility as of September 30, 2018.

We have filed a universal shelf registration statement on Form S-3 with the SEC, which became effective August 10, 2017. Under the shelf registration statement, we may offer and sell, from time to time in the future in one or more public offerings, our Class A common stock, preferred stock, debt securities, warrants, rights and units. The aggregate initial offering price of all securities sold by us under the shelf registration statement will not exceed \$250.0 million.

Operating Activities

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For the three months ended September 30, 2018, cash provided by operating activities was \$7.6 million. The primary factors affecting our operating cash flows during the period were our net loss of \$11.0 million, adjusted for non-cash charges of \$1.1 million for depreciation and amortization of our property and equipment and intangible assets, \$6.9 million of stock-based compensation expense, and a \$10.4 million net change in operating assets and liabilities. The primary drivers of the changes in operating assets and liabilities were a \$8.6 million increase in deferred revenue, a \$3.3 million increase in accrued expenses and other liabilities, a \$0.6 million increase in accounts payable, and a \$2.5 million decrease in prepaid expenses partially offset by a \$1.9 million increase in deferred commissions and a \$1.7 million increase in accounts receivable. Customer growth accounted for most of the increase in deferred revenue. We offer limited incentives for customers to enter into contract terms for more than one

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year. Deferred commissions increased primarily due to additional payments made to our sales force related to the direct and incremental costs of obtaining a customer contract. The increases in accounts receivable and accounts payable were primarily attributable to the timing of our billings, cash collections, and cash payments. The increase in accrued expenses and other liabilities was attributable primarily to the timing of our payment of annual bonuses. The decrease in prepaid expenses was attributable primarily to the timing of payments for our annual user conference. For the three months ended September 30, 2017, cash provided by operating activities was \$5.2 million. The primary factors affecting our operating cash flows during the period were our net loss of \$14.1 million, adjusted for non-cash charges of \$0.9 million for depreciation and amortization of our property and equipment and intangible assets and \$4.7 million of stock-based compensation. The primary drivers of the changes in operating assets and liabilities were a \$5.9 million increase in deferred revenue, a \$3.5 million increase in accrued expenses and other liabilities, a \$0.7 million increase in accounts payable and a \$5.1 million decrease in prepaid expenses and other, partially offset by a \$0.8 million increase in accounts receivable. Short-term deferred revenue from subscription and support contracts increased \$7.2 million from June 30, 2017 to September 30, 2017. Long-term deferred revenue from subscription and support contracts decreased by \$1.1 million from June 30, 2017 to September 30, 2017. New and existing customer sales along with contract renewals for longer terms accounted for most of the increase in deferred revenue. The conversion of quarterly contracts to annual terms positively impacts our operating cash flow. The increase in accrued expenses and other liabilities was attributable primarily to the timing of our cash payments, including payment of annual bonuses. The increases in accounts receivable and accounts payable were primarily attributable to the timing of our billings, cash collections, and cash payments. The decrease in prepaid expenses was attributable primarily to the timing of payments for our annual user conference.

For the nine months ended September 30, 2018, cash provided by operating activities was \$6.8 million. The primary factors affecting our operating cash flows during the period were our net loss of \$42.4 million, adjusted for non-cash charges of \$2.9 million for depreciation and amortization of our property and equipment and intangible assets, \$23.3 million of stock-based compensation expense (including \$3.6 million pursuant to a separation agreement with our former CEO), and a \$22.9 million net change in operating assets and liabilities. Included in our net loss during the nine months ended September 30, 2018 was a \$6.6 million cash payment made to our former CEO pursuant to a separation agreement. The primary drivers of the changes in operating assets and liabilities were a \$15.0 million increase in deferred revenue, a \$7.2 million increase in accrued expenses and other liabilities, a \$2.0 million increase in accounts payable, a \$4.6 million decrease in accounts receivable, and a \$0.7 million decrease in prepaid expenses partially offset by a \$5.6 million increase in deferred commissions. Customer growth accounted for most of the increase in deferred revenue. The increase in deferred commissions was primarily due to additional payments made to our sales force related to the direct and incremental costs of obtaining a customer contract. The increases in accounts payable and decrease in accounts receivable were primarily attributable to the timing of our billings, cash collections, and cash payments. The increase in accrued expenses and other liabilities was attributable primarily to the timing of our payment of annual bonuses. The decrease in prepaid expenses was attributable primarily to timing of payments for our annual user conference.

For the nine months ended September 30, 2017, cash provided by operating activities was \$11.7 million. The primary factors affecting our operating cash flows during the period were our net loss of \$30.1 million, adjusted for non-cash charges of \$2.6 million for depreciation and amortization of our property and equipment and intangible assets, \$13.2 million of stock-based compensation, and \$0.9 million for recognition of other income from government grants. The primary drivers of the changes in operating assets and liabilities were a \$24.4 million increase in deferred revenue, a \$3.1 million decrease in prepaid expenses and other and a \$1.0 million increase in accounts payable, partially offset by a \$1.3 million increase in accounts receivable. Short-term deferred revenue from subscription and support contracts increased \$23.9 million from December 31, 2016 to September 30, 2017. Long-term deferred

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revenue from subscription and support contracts increased by \$1.5 million from December 31, 2016 to September 30, 2017. Deferred revenue from short-term professional services decreased by \$0.8 million from December 31, 2016 to September 30, 2017. The decrease in prepaid expenses was attributable primarily to the timing of payments for our annual user conference. The increases in accounts receivable and accounts payable were attributable primarily to the timing of our billings, cash collections and cash payments.

Investing Activities

Cash used in investing activities of \$2.4 million for the three months ended September 30, 2018 was due primarily to \$6.4 million in purchases of marketable securities and \$0.5 million of capital expenditures partially offset by proceeds of \$4.6 million from maturities of marketable securities. Our capital expenditures were associated primarily with computer equipment in support of expanding our infrastructure and work force.

Cash used in investing activities of \$3.2 million for the three months ended September 30, 2017 was due primarily to \$5.0 million for the purchase of marketable securities and \$1.0 million of capital expenditures partially offset by proceeds of \$2.8 million from maturities of marketable securities. Our capital expenditures were associated primarily with computer equipment and furniture and fixtures in support of expanding our infrastructure and work force.

Cash used in investing activities of \$9.6 million for the nine months ended September 30, 2018 was due primarily to \$17.7 million in purchases of marketable securities and \$0.7 million of capital expenditures partially offset by proceeds of \$9.0 million from maturities of marketable securities. Our capital expenditures were associated primarily with computer equipment in support of expanding our infrastructure and work force.

Cash used in investing activities of \$5.0 million for the nine months ended September 30, 2017 was due primarily to \$11.4 million for the purchase of marketable securities and \$1.1 million of capital expenditures partially offset by proceeds of \$7.7 million from maturities of marketable securities. Our capital expenditures were associated primarily with computer equipment and furniture and fixtures in support of expanding our infrastructure and work force.

Financing Activities

Cash provided by financing activities of \$9.1 million for the three months ended September 30, 2018 was due primarily to \$7.5 million in proceeds from option exercises and \$1.8 million in proceeds from shares issued in connection with our employee stock purchase plan.

Cash provided by financing activities of \$0.7 million for the three months ended September 30, 2017 was due primarily to \$1.2 million in proceeds from option exercises partially offset by an aggregate \$0.4 million in repayments on long-term debt and payments on capital lease and financing obligations.

Cash provided by financing activities of \$14.4 million for the nine months ended September 30, 2018 was due primarily to \$13.9 million in proceeds from option exercises and \$3.2 million in proceeds from shares issued in connection with our employee stock purchase plan partially offset by \$1.9 million in taxes paid related to the net share settlements of stock-based compensation awards and \$0.9 million in payments on capital lease and financing obligations.

Cash provided by financing activities of \$4.5 million for the nine months ended September 30, 2017 was due primarily to \$6.7 million in proceeds from option exercises, partially offset by \$0.9 million in taxes paid related to the net share settlements of stock-based compensation awards and an aggregate \$1.2 million in repayments on long-term debt and payments on capital lease and financing obligations.

Table of Contents**Contractual Obligations and Commitments**

There were no material changes in our contractual obligations and commitments from those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 22, 2018 except those related to operating lease obligations.

The following table represents our contractual obligations as of September 30, 2018 for operating lease obligations:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	
	(in thousands)				
Operating lease obligations relating to office facilities	\$ 27,546	\$ 1,047	\$ 6,960	\$ 6,221	\$ 13,318

Off-Balance Sheet Arrangements

During all periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As a result, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, income taxes and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

Except for the accounting policies for revenue recognition, deferred revenue, customer deposits and deferred commissions that were updated as a result of adopting ASU 2014-09, there have been no significant changes to our critical accounting policies and estimates as described in the financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 22, 2018 that have had a material impact on our condensed consolidated financial statements and related notes.

Revenue Recognition

We generate revenue through the sale of subscriptions to our cloud-based software and the delivery of professional services. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

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We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

Revenue is reported net of sales and other taxes collected from customers to be remitted to government authorities.

Subscription and Support Revenue

We recognize subscription and support revenue on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our subscription contracts are generally three to 36 months in duration, are billed in advance and are non-cancelable. We consider the access to Wdesk and related support services in a customer contract to be a series of distinct services which comprise a single performance obligation because they are substantially the same and have the same pattern of transfer.

Professional Services Revenue and Customer Options

Professional services revenues primarily consist of fees for document set up, XBRL tagging, and consulting with our customers on business processes and best practices for using Wdesk. We have determined that an agreement to purchase these professional services constitutes an option to purchase services in accordance with ASC 606 rather than an agreement that creates enforceable rights and obligations because of the customer's contractual right to cancel services that have not yet been used. In the limited case of agreements where we determined that the option provides the customer with a material right, we allocate a portion of the transaction price to the material right. Professional service agreements that do not contain a material right are accounted for when the customer exercises its option to purchase additional services.

Revenue is recognized for document set ups when the service is complete and control has transferred to the customer. Revenues from XBRL tagging and consulting services are recognized as the services are performed.

Contracts with Multiple Performance Obligations

Some of our contracts with customers contain multiple performance obligations in the event that we determine a material right exists. For these contracts, we account for the individual performance obligations separately when they are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. If these criteria are not met, the promised services are accounted for as a combined performance obligation. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and entity-specific factors, including the size of our arrangements, length of term, customer demographics and the numbers and types of users within our arrangements.

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Deferred Revenue

We typically invoice our customers for subscription and support fees in advance on a quarterly, annual, two- or three-year basis, with payment due at the start of the subscription term. Unpaid invoice amounts for non-cancelable services starting in future periods are included in accounts receivable and deferred revenue. The portion of deferred revenue that we anticipate will be recognized after the succeeding twelve-month period is recorded as non-current deferred revenue, and the remaining portion is recorded as current deferred revenue.

Customer Deposits

As an agreement to purchase professional services constitutes a customer option, fees received in advance of these services being performed are considered customer deposits and are included in accrued expenses and other current liabilities on the condensed consolidated balance sheet. Unpaid invoice amounts for these professional services starting in future periods are excluded from accounts receivable and accrued expenses and other current liabilities.

Deferred Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions paid where the amortization period is one year or less are expensed as incurred. All other sales commissions are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be three years. We determined the period of benefit by taking into consideration our standard contract terms and conditions, rate of technological change and other factors. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk, see “Item 7A., Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K for the year ended December 31, 2017. Our exposures to market risk have not changed materially since December 31, 2017.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. Our disclosure controls and procedures are intended to provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management's evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there has not been any material change in our internal control over financial reporting during the quarter covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that in the opinion of our management, if determined adversely to us, would have a material adverse effect on our business, financial condition, operating results or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2017 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Other than the items noted below, there have been no material changes during fiscal 2018 to the risk factors that were included in the Form 10-K.

Risks Related to Our Business and Industry

If we do not keep pace with technological changes, our solutions may become less competitive and our business may suffer.

Our market is characterized by rapid technological change, frequent product and service innovation and evolving industry standards. If we are unable to provide enhancements and new features for our existing solutions or new solutions that achieve market acceptance or that keep pace with these technological developments, our business could be adversely affected. For example, we have begun the process of transitioning customers to the next generation of Wdesk. In addition, we focus on enhancing the features of our Wdesk platform to improve its utility for larger customers with complex, dynamic and global operations. The success of enhancements, new features and solutions depends on several factors, including the timely completion, introduction and market acceptance of the enhancements, new features or solutions. If we fail to successfully complete the transition to the next generation of Wdesk or to complete and introduce platform enhancements, or if our customers experience difficulties using our platform as a result of the transition or of the implementation of these enhancements, our revenue retention and revenue growth may be adversely affected. In addition, because our solutions are designed to operate on a variety of systems, we will need to continuously modify and enhance our solutions to keep pace with changes in internet-related hardware, software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements or in bringing them to market in a timely fashion. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development expenses. Any failure of our solutions to keep pace with technological changes or operate effectively with future network platforms and technologies could reduce the demand for our solutions, result in customer dissatisfaction and adversely affect our business.

Any failure to offer high-quality technical support services may adversely affect our relationships with our customers and our financial results.

Once our solutions are deployed, our customers depend on our customer success organization to resolve technical issues relating to our solutions. In addition, in order to maintain our high levels of customer satisfaction and retention, we may need to provide additional support to customers as they transition to the next generation of Wdesk. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services without incurring additional expenses or at

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all. We also may be unable to modify the format of our support services to compete with changes in support services provided by our competitors. Increased customer demand for these services, without corresponding revenue, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on our solutions and business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our solutions to existing and prospective customers, and our business, operating results and financial position.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States, including those related to revenue recognition.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change.

In May 2014, the FASB issued guidance codified in ASC 606, *Revenue Recognition - Revenue from Contracts with Customers* (ASU 2014-09), which amends the guidance in former ASC 605, *Revenue Recognition*. We adopted this new standard on the effective date of January 1, 2018, utilizing the modified retrospective method. The application of this guidance resulted in timing and presentation changes affecting our consolidated balance sheet and statement of operations, including acceleration of our professional services revenue for certain contracts; longer deferral of the incremental costs of obtaining a contract; and increases in accounts receivable, deferred revenue and accrued expenses and other current liabilities. We have implemented changes to our accounting processes, internal controls and disclosures to support the new standard. See Note 1 to our accompanying condensed consolidated financial statements for information about ASU 2014-09.

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Item 2. Unregistered Sales of Securities and Use of Proceeds

Sales of Unregistered Securities

Not applicable.

Use of Proceeds from Public Offerings of Common Stock

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on December 12, 2014.

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Table of Contents**Item 6. Exhibits**

The following exhibits are being filed herewith or incorporated by reference herein:

<u>Exhibit Number</u>	<u>Description</u>
31.1	<u>Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 7th day of November, 2018.

WORKIVA INC.

By: /s/ Martin J.
Vanderploeg,
Ph.D.

Name: Martin J.
Vanderploeg,
Ph.D.

Title: President and
Chief
Executive
Officer

By: /s/ J. Stuart
Miller

Name: J. Stuart Miller
Executive Vice

Title: President and
Chief Financial
Officer

By: /s/ Jill Klindt

Name: Jill Klindt
Senior Vice
President,

Title: Treasurer and
Chief
Accounting
Officer

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