

WORKIVA INC  
Form 10-Q  
November 05, 2015  
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, 2015

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)  
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)

47-2509828  
(I.R.S. Employer Identification Number)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

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As of November 2, 2015, there were approximately 28,679,763 shares of the registrant's Class A common stock and 12,107,784 shares of the registrant's Class B common stock outstanding.

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EXPLANATORY NOTE

On December 10, 2014, Workiva LLC was converted into a Delaware corporation and renamed Workiva Inc. For convenience, except as the context otherwise requires, all information included in this report on Form 10-Q is presented giving effect to the conversion of the company into a corporation.

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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, 2014, 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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## Part I. Financial Information

## Item 1. Financial Statements

## WORKIVA INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	As of September 30, 2015 (unaudited)	As of December 31, 2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$69,094	\$101,131
Marketable securities	12,659	—
Accounts receivable, net of allowance for doubtful accounts of \$616 and \$274 at September 30, 2015 and December 31, 2014, respectively	12,133	11,120
Deferred commissions	953	852
Other receivables	951	295
Prepaid expenses and other current assets	3,282	3,143
Total current assets	99,072	116,541
Restricted cash	—	401
Property and equipment, net	45,754	46,265
Intangible assets, net	868	549
Other assets	626	795
Total assets	\$146,320	\$164,551
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$4,730	\$3,011
Accrued expenses and other current liabilities	17,228	16,765
Deferred revenue	51,047	42,605
Deferred government grant obligation	2,637	2,324
Current portion of capital lease and financing obligations	1,985	1,941
Current portion of long-term debt	18	84
Total current liabilities	77,645	66,730
Deferred revenue	8,584	13,671
Deferred government grant obligation	3,151	3,424
Other long-term liabilities	3,208	2,069
Capital lease and financing obligations	21,505	22,747
Long-term debt	73	91
Total liabilities	114,166	108,732
Commitments and contingencies	—	—
Stockholders' equity		
Class A common stock, \$0.001 par value per share, 1,000,000,000 shares authorized, 28,652,272 and 27,213,791 shares issued and outstanding at September 30, 2015 and December 31, 2014,	29	27

respectively

Class B common stock, \$0.001 par value per share, 500,000,000 shares authorized, 12,107,784 and 12,426,947 shares issued and outstanding at 12 September 30, 2015 and December 31, 2014, respectively		12	
Preferred stock, \$0.001 par value per share, 100,000,000 shares authorized, no shares issued and outstanding	—	—	
Additional paid-in-capital	198,499	189,168	
Accumulated deficit	(166,641	) (133,535	)
Accumulated other comprehensive income	255	147	
Total stockholders' equity	32,154	55,819	
Total liabilities and stockholders' equity	\$146,320	\$164,551	
See accompanying notes.			

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## WORKIVA INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue				
Subscription and support	\$29,832	\$23,690	\$84,186	\$66,306
Professional services	6,436	4,229	21,204	16,259
Total revenue	36,268	27,919	105,390	82,565
Cost of revenue				
Subscription and support	5,319	5,387	16,768	15,085
Professional services	4,457	3,152	12,423	8,832
Total cost of revenue	9,776	8,539	29,191	23,917
Gross profit	26,492	19,380	76,199	58,648
Operating expenses				
Research and development	12,766	11,175	36,970	32,234
Sales and marketing	20,903	16,248	50,937	39,435
General and administrative	7,153	4,572	20,178	13,986
Total operating expenses	40,822	31,995	108,085	85,655
Loss from operations	(14,330)	(12,615)	(31,886)	(27,007)
Interest expense	(494)	(700)	(1,517)	(1,281)
Other income and (expense), net	163	(67)	288	(209)
Loss before income tax benefit	(14,661)	(13,382)	(33,115)	(28,497)
Income tax benefit	(31)	—	(9)	—
Net loss	\$(14,630)	\$(13,382)	\$(33,106)	\$(28,497)
Net loss per common share:				
Basic and diluted	\$(0.37)	\$(0.42)	\$(0.83)	\$(0.90)
Weighted average common shares outstanding - basic and diluted	39,980,308	31,889,795	39,735,393	31,836,479
See accompanying notes.				



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## WORKIVA INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net loss	\$ (14,630	) \$ (13,382	) \$ (33,106	) \$ (28,497
Other comprehensive income, net of tax				
Foreign currency translation adjustment, net of income tax expense of \$40 and \$0 for the three months ended September 30, 2015 and 2014, respectively, and net of income tax expense of \$84 and \$0 for the nine months ended September 30, 2015 and 2014, respectively	59	49	104	39
Unrealized gain on available-for-sale securities	4	—	4	59
Reclassification of realized net losses on available-for-sale securities to net loss	—	—	—	136
Available-for-sale securities	4	—	4	195
Other comprehensive income, net of tax	63	49	108	234
Comprehensive loss	\$ (14,567	) \$ (13,333	) \$ (32,998	) \$ (28,263
See accompanying notes.				

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## WORKIVA INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Cash flows from operating activities				
Net loss	\$(14,630	) \$(13,382	) \$(33,106	) \$(28,497
Adjustments to reconcile net loss to net cash (used in) provided by operating activities				
Depreciation and amortization	1,058	1,132	3,354	2,752
Stock-based compensation expense	3,082	1,413	7,876	5,539
Provision for doubtful accounts	222	104	348	128
Accretion of discount on convertible notes	—	133	—	133
Paid-in-kind interest on convertible note	—	58	—	58
Change in fair value of derivative liability	—	48	—	48
Realized (gain) loss on sale of available-for-sale securities	(7	) —	(7	) 136
Amortization (accretion) of premiums and discounts on marketable securities, net	32	—	32	—
Recognition of deferred government grant obligation	(236	) (39	) (508	) (51
Changes in assets and liabilities:				
Accounts receivable	47	(1,794	) (1,448	) 2,584
Deferred commissions	(217	) (201	) (104	) (411
Other receivables	(44	) 108	(656	) 240
Prepaid expenses and other	(218	) 231	(139	) (942
Other assets	72	(201	) 166	(165
Accounts payable	857	1,727	2,276	371
Deferred revenue	1,686	3,211	3,528	15,517
Accrued expenses and other liabilities	3,578	2,826	1,732	3,608
Change in restricted cash	—	—	101	54
Net cash (used in) provided by operating activities	(4,718	) (4,626	) (16,555	) 1,102
Cash flows from investing activities				
Purchase of property and equipment	(629	) (2,768	) (1,659	) (8,044
Purchase of marketable securities	(15,692	) —	(15,692	) —
Sale of marketable securities	3,012	—	3,012	4,864
Purchase of intangible assets	(66	) (121	) (344	) (237
Net cash used in investing activities	(13,375	) (2,889	) (14,683	) (3,417
Cash flows from financing activities				
Payment of equity issuance costs	—	(57	) (1,346	) (57
Proceeds from issuance of convertible notes	—	5,000	—	5,000
Proceeds from option exercises	1,062	158	1,495	363
Changes in restricted cash	—	—	300	(300
Repayment of other long-term debt	(17	) (96	) (84	) (198
Principal payments on capital lease and financing obligations	(522	) (316	) (1,683	) (781

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Distributions to members	—	(17	) (35	) (51	)
Proceeds from borrowings on line of credit	—	3,000	—	3,020	
Proceeds from government for training reimbursement	—	56	—	194	
Payments of issuance costs on line of credit	—	(99	) —	(99	)
Repayment of line of credit	—	—	—	(2,038	)
Government grant awards	235	—	548	2,000	
Net cash provided by (used in) financing activities	758	7,629	(805	) 7,053	
Effect of foreign exchange rates on cash	(3	) 26	6	22	
Net (decrease) increase in cash and cash equivalents	(17,338	) 140	(32,037	) 4,760	
Cash and cash equivalents at beginning of period	86,432	20,135	101,131	15,515	
Cash and cash equivalents at end of period	\$69,094	\$20,275	\$69,094	\$20,275	
Supplemental cash flow disclosure					
Cash paid for interest	\$488	\$499	\$1,407	\$1,010	
Supplemental disclosure of noncash investing and financing activities					
Fixed assets acquired through financing obligations	\$—	\$—	\$—	\$3,478	
Fixed assets acquired through capital lease arrangements	\$—	\$389	\$527	\$1,454	
Allowance for tenant improvements	\$—	\$—	\$698	\$—	
Accrued distributions to members	\$—	\$—	\$60	\$—	
Initial public offering cost accruals	\$—	\$1,248	\$—	\$1,248	
See accompanying notes.					

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WORKIVA INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Organization

Workiva Inc., a Delaware corporation, and its wholly-owned subsidiaries created Wdesk, a cloud-based platform for enterprises to collect, manage, report and analyze data in real time. Our secure software platform, Wdesk, allows users to integrate and control all of their business data, regardless of format or location, with innovative live-linking technology. We offer our customers solutions for compliance, risk, sustainability, management reporting, data collection, and enterprise risk management that are delivered through our Wdesk platform. Our operational headquarters are located in Ames, Iowa, with additional offices located in the United States, Europe and Canada.

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, 2014 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The condensed consolidated financial information should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 11, 2015. 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, 2015 are not necessarily indicative of the results expected for the full year ending December 31, 2015.

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.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 determination of the relative selling prices of our services, self-insurance liability for claims incurred but not yet reported, collectability of accounts receivable, valuation of available-for-sale marketable securities, useful lives of 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.

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## New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance codified in ASC 606, Revenue Recognition - Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. In August 2015, the FASB approved the deferral of the effective date of the standard by one year. The new guidance is effective for our fiscal year beginning January 1, 2018 instead of January 1, 2017. Entities are permitted to adopt the guidance in accordance with the original effective date if they choose. We are currently evaluating the impact the provisions of ASC 606 will have on our consolidated financial statements and whether we will adopt the guidance early.

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. The amendment is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. The implementation of this standard is not expected to have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The standard requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. The standard will become effective for interim and annual periods beginning after December 15, 2015. The implementation of this standard is not expected to have a significant impact on our consolidated financial statements.

## 2. Supplemental Consolidated Balance Sheet Information

## Accrued Expenses and Other Current Liabilities

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

	September 30, 2015	December 31, 2014
Accrued vacation	\$3,502	\$2,949
Accrued commissions	1,917	1,649
Accrued bonuses	6,858	6,336
Estimated health insurance claims	760	800
Accrued other liabilities	4,191	5,031
	\$17,228	\$16,765

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## 3. Marketable Securities

At September 30, 2015, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
U.S. corporate debt securities	\$12,655	\$15	\$(11)	) \$12,659
Money market funds	61,232	—	—	61,232
	\$73,887	\$15	\$(11)	) \$73,891
Included in cash and cash equivalents	\$61,232	\$—	\$—	\$61,232
Included in marketable securities	\$12,655	\$15	\$(11)	) \$12,659

At December 31, 2014, we reported money market funds with an amortized cost and aggregate fair value of \$97.1 million in cash and cash equivalents.

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, 2015, 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, 2015			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. corporate debt securities	\$4,911	\$(11)	) \$—	\$—
Total	\$4,911	\$(11)	) \$—	\$—

As of December 31, 2014, we did not have any marketable securities in an unrealized loss position.

We do not believe any of the unrealized losses represented an other-than-temporary impairment based on our evaluation of available evidence at September 30, 2015.

## 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.

Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the

Level 2 - 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.

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## 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, 2015, 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. Liabilities classified as Level 3 are described below. 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, 2015			Fair Value Measurements as of December 31, 2014		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Money market funds	\$61,232	\$61,232	\$—	\$97,085	\$97,085	\$—
U. S. corporate debt securities	12,659	—	12,659	—	—	—
	\$73,891	\$61,232	\$12,659	\$97,085	\$97,085	\$—
Included in cash and cash equivalents	\$61,232			\$97,085		
Included in marketable securities	\$12,659			\$—		

## Other Fair Value Measurements

At September 30, 2015, the fair value of our debt obligations approximated the carrying amount of \$91,000. The estimated fair value was based in part on our consideration of incremental borrowing rates for similar types of borrowing arrangements. We have generally classified the fair value of our debt obligations as Level 3 due to the lack of relevant observable market data over fair value inputs.

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5. Commitments and Contingencies

Lease Commitments

There have been no material changes in our future estimated minimum lease payments under non-cancelable operating, capital and financing leases, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Government Grants

In connection with a February 2011 grant agreement with the Iowa Economic Development Authority, we were awarded a grant that provides for reimbursement of costs we incurred in connection with the construction of the first phase of the Ames office building. In March 2015, we received in connection with this grant proceeds of \$313,000, which are included in “Deferred government grant obligation” on the consolidated balance sheet at September 30, 2015. At September 30, 2015, this amount is presented as a non-current liability as we anticipate offsetting it against the carrying value of our property and equipment in December 2015 once all contingencies are resolved and the grant is determined to be realized.

In connection with an October 2013 grant agreement with the Iowa Economic Development Authority, we were awarded a grant that provides for reimbursement of costs we incurred in connection with the construction of the second phase of the Ames office building. In August 2015, we received in connection with this grant proceeds of \$235,000, which are included in “Deferred government grant obligation” on the consolidated balance sheet at September 30, 2015. At September 30, 2015, this amount is presented as a non-current liability as we anticipate offsetting it against the carrying value of our property and equipment in October 2020 once all contingencies are resolved and the grant is determined to have been realized.

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.

6. 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. Prior to our corporate conversion in December 2014, awards were provided under the 2009 Unit Incentive Plan (the “2009 Plan”). We utilized equity-based compensation in the form of restricted participation units, appreciation units and options to purchase common units. We determined these forms of equity-based compensation were substantive classes of equity for accounting purposes. All outstanding options to purchase common units under the 2009 Plan automatically converted into options to purchase shares of Class A common stock following the corporate conversion. No other unvested award types were outstanding at the time of our corporate conversion.

Immediately prior to our initial public offering, the 2009 Plan was amended to provide that no further awards will be issued thereunder, and our Board of Directors and stockholders adopted and approved our 2014 Equity Incentive Plan (the “2014 Plan” and, together with the 2009 Plan, the “Plans”).



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Subsequent to our corporate conversion, we utilize stock-based compensation in the form of restricted stock and options to purchase Class A common stock. Options to purchase Class A common stock generally vest over a four-year period and are generally granted for a term of ten years.

As of September 30, 2015, awards outstanding under the 2009 Plan consisted of stock options, and awards outstanding under the 2014 Plan consisted of stock options and restricted stock awards.

As of September 30, 2015, 1,848,537 shares of Class A common stock were available for grant under the 2014 Plan. Stock-based compensation expense for the nine months ended September 30, 2015 was \$5.5 million and \$2.4 million for options to purchase Class A common stock and restricted stock, respectively. Stock-based compensation expense for the nine months ended September 30, 2014 was \$50,000 for restricted participation and appreciation units and \$5.5 million for options to purchase common units.

Stock-based compensation expense associated with restricted participation and appreciation units, stock options and restricted stock 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,	
	2015	2014	2015	2014
Cost of revenue				
Subscription and support	\$92	\$88	\$275	\$403
Professional services	90	47	251	264
Operating expenses				
Research and development	586	341	1,289	1,443
Sales and marketing	461	288	1,243	889
General and administrative	1,853	649	4,818	2,540
Total	\$3,082	\$1,413	\$7,876	\$5,539

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on historical volatilities for publicly traded stock options of comparable companies over the estimated expected life of the options. The expected term represents the period of time the options are expected to be outstanding and is based on the "simplified method." 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 risk-free interest rate is based on yields on U.S. Treasury STRIPS with a maturity similar to the estimated expected term of the options. The fair value of our participation and appreciation units and options was estimated assuming no expected dividends and the following weighted-average assumptions:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Expected term (in years)	6.1	6.1 - 10.0	6.1	5.0 - 10.0
Risk-free interest rate	1.70% - 1.93%	1.79% - 2.56%	1.35% - 1.93%	1.52% - 2.80%
Expected volatility	46.09% - 47.07%	47.18% - 48.48%	42.35% - 47.07%	45.84% - 52.50%
Forfeiture rate	4.89% - 5.02%	0% - 6.76%	4.89% - 5.21%	0% - 6.76%

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## Stock Options

The following table summarizes the option activity under the Plans for the nine months ended September 30, 2015:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	6,089,938	\$9.63	7.80	\$30,066
Granted	1,464,632	13.90		
Forfeited	89,815	13.42		
Exercised	518,898	2.88		
Outstanding at September 30, 2015	6,945,857	\$10.98	7.80	\$31,074
Exercisable at September 30, 2015	3,392,543	\$7.28	6.54	\$27,497

The total intrinsic value of options exercised during the nine months ended September 30, 2015 and 2014 was \$5.9 million and \$986,000, respectively.

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2015 and 2014 was \$6.31 and \$7.88, respectively. The total fair value of options vested during the nine months ended September 30, 2015 and 2014 was approximately \$6.8 million and \$4.3 million, respectively. Total unrecognized compensation expense of \$20.9 million related to options will be recognized over a weighted-average period of 2.96 years. Total compensation expense recognized during the nine months ended September 30, 2015 and 2014 for outstanding options granted to service providers was \$193,000 and \$1.6 million, respectively, based on the fair value on the vesting date or the fair value on the reporting date if unvested.

## Restricted Stock

We have granted restricted stock awards to our executive officers that vest in three equal annual installments from the date of grant and to non-employee members of our Board of Directors with one-year cliff vesting from the date of grant. During the nine months ended September 30, 2015, we granted 600,025 shares of restricted stock. The fair value for restricted stock awards is calculated based on the stock price on the date of grant. The weighted-average grant-date fair value of restricted stock granted during the nine months ended September 30, 2015 was \$13.38. Compensation expense associated with unvested restricted stock is recognized on a straight-line basis over the vesting period. The expense recognized each period is dependent upon our estimate of the number of shares that will ultimately be issued. At September 30, 2015, there was approximately \$6.3 million of total unrecognized compensation expense related to restricted stock, which is expected to be recognized over a weighted-average period of 2.13 years.

## Restricted participation and appreciation units

The total fair value of participation and appreciation units vested during the nine months ended September 30, 2014 was approximately \$77,000. At December 10, 2014, all participation and appreciation units converted into Class A common stock as part of the corporate conversion.

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## 7. Net Loss Per Share

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders 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 and stock related to unvested restricted stock awards to the extent dilutive. All historical share counts used in the calculation have been adjusted for the corporate conversion.

The net loss per share attributable to common stockholders is allocated based on the contractual participation rights of the Class A and Class B common stock as if the loss for the year has been distributed. As the liquidation and dividend rights are identical, the net loss attributable to common stockholders 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, 2014	
	September 30, 2015		September 30, 2014	
	Class A	Class B	Class A	Class B
Numerator				
Net loss	\$(10,199 )	\$(4,431 )	\$(8,167 )	\$(5,215 )
Denominator				
Weighted-average common shares outstanding - basic and diluted	27,870,414	12,109,894	19,462,848	12,426,947
Basic and diluted net loss per share	\$(0.37 )	\$(0.37 )	\$(0.42 )	\$(0.42 )
	Nine months ended		September 30, 2014	
	September 30, 2015		September 30, 2014	
	Class A	Class B	Class A	Class B
Numerator				
Net loss	\$(22,849 )	\$(10,257 )	\$(17,382 )	\$(11,115 )
Denominator				
Weighted-average common shares outstanding - basic and diluted	27,423,991	12,311,402	19,419,196	12,417,284
Basic and diluted net loss per share	\$(0.83 )	\$(0.83 )	\$(0.90 )	\$(0.90 )

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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 30, 2015	September 30, 2014
Shares subject to outstanding common stock options	6,945,857	5,978,181
Shares subject to unvested restricted stock awards	654,375	—

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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 March 11, 2015. 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, 2014, 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 created Wdesk, a cloud-based platform for enterprises to collect, manage, report and analyze business data in real time. Our secure software platform, Wdesk, allows users to integrate and control all of their business data, regardless of format or location, with innovative live-linking technology. Our proprietary word processing, spreadsheet and presentation applications are fully integrated and built upon the Workiva data management engine, allowing thousands of users to collaborate simultaneously on data-linked reports and documents. Wdesk empowers our customers to dynamically define their business processes and optimize workflows so that critical data can be reported and analyzed more efficiently. Our customers can gain insights based on their trusted data, which enables better real-time decision-making. Additionally, our customers deploy our solutions to serve as a single system of record for critical data, to reduce risk and operational costs, and to increase efficiency in business reporting. As of September 30, 2015, we provided our solutions to more than 2,400 enterprise customers, including 65% of the Fortune 100 and more than 65% of the Fortune 500.

Our Wdesk product platform allows multiple users to simultaneously create, review and publish data-linked documents and reports with greater control, accuracy and productivity than ever before. We offer our customers solutions for compliance, risk, sustainability and management reporting, and enterprise risk management. Underlying these solutions is our scalable, enterprise-grade data engine that collects, aggregates and manages our customers' unstructured and structured data.

We operate our business on a software-as-a-service (SaaS) model. Customers enter into quarterly, annual and multi-year subscription contracts to utilize Wdesk. Our subscription fee includes the use of our service 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, customer success and professional services teams.

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 96.4% for the twelve months ended September 30, 2015.

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 1,035 at September 30, 2015 from 949 at September 30, 2014, an increase of 9.1%.

We have achieved significant revenue growth in recent periods. Our revenue grew to \$36.3 million and \$105.4 million in the three and nine months ended September 30, 2015, respectively, from \$27.9 million and \$82.6 million in the three and nine months ended September 30, 2014, respectively. We incurred net losses of \$14.6 million and \$33.1 million during the three and nine months ended September 30, 2015, respectively, compared to \$13.4 million and \$28.5 million during the three and nine months ended September 30, 2014, respectively.

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We are an “emerging growth company,” as defined in the JOBS Act. We will cease to be an “emerging growth company” upon the earliest of (i) December 31, 2019, (ii) the last day of the first fiscal year in which our annual gross revenue are \$1 billion or more, (iii) the date on which we have, during the previous rolling three-year period, issued more than \$1 billion in nonconvertible debt securities or (iv) the date on which we qualify as a “large accelerated filer” with at least \$700 million of equity securities held by non-affiliates.

**Key Factors Affecting Our Performance**

**New customers.** We employ a “land-and-expand” sales strategy that focuses on acquiring new customers through our direct sales model and building our relationships with existing customers over time. Acquiring new customers is a key component of our continued success in the marketplace, growth opportunity and future revenue. We have aggressively invested in and intend to continue to invest in our direct sales force.

**Further penetration of existing customers.** Our account management teams seek to generate additional revenue from our customers by adding seats to existing subscriptions and by signing new subscriptions for additional business solutions on our platform. We believe a significant opportunity exists for us to sell additional subscriptions to current customers as they become more familiar with our platform and adopt our solutions to address additional business use cases.

**Investment in growth.** We are expanding our operations, increasing our headcount and developing software to both enhance our current offerings and build new features. We expect our total operating expenses to increase, particularly as we continue to expand our sales operations, marketing activities and development staff. We continue to invest in our sales, marketing and customer success organizations to drive additional revenue and support the growth of our 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. In the quarter ended September 30, 2015, we hired additional employees in sales and marketing and plan to continue to do so each of the next several quarters.

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## Key Performance Indicators

	Three months ended September 30,		Nine months ended September 30,		
	2015	2014	2015	2014	
	(dollars in thousands)				
Financial metrics					
Total revenue	\$36,268	\$27,919	\$105,390	\$82,565	
Percentage increase in total revenue	29.9	% 31.3	% 27.6	% 34.1	%
Subscription and support revenue	\$29,832	\$23,690	\$84,186	\$66,306	
Percentage increase in subscription and support revenue	25.9	% 36.7	% 27.0	% 44.1	%
Subscription and support as a percent of total revenue	82.3	% 84.9	% 79.9	% 80.3	%
		As of September 30,			
		2015	2014		
Operating metrics					
Number of customers		2,468	2,176		
Subscription and support revenue retention rate		96.4%	97.3%		
Subscription and support revenue retention rate including add-ons		107.7%	108.4%		

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 96.4% at the September 2015 measurement date, down slightly from September 2014. We believe that our success in maintaining a high rate of revenue retention is attributable primarily to our robust technology platform and strong 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 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.

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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, 2015 and 2014, no single customer represented more than 2% of our revenue, and our largest ten customers accounted for approximately 5% of our revenue in the aggregate.

We generate sales directly through our sales force. 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. Unpaid invoice amounts for services starting in future periods are excluded from accounts receivable and deferred revenue. Invoiced amounts are reflected as accounts receivable once we have initiated services with an offset to deferred revenue or revenue depending on whether the revenue recognition criteria have been met.

**Subscription and Support Revenue.** We recognize the aggregate minimum subscription and support fees ratably on a straight-line basis over the subscription term, provided that an enforceable contract has been signed by both parties, access to our SaaS solutions has been granted to the customer, the fee for the subscription and support is fixed or determinable, and collection is reasonably assured.

**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 related to SEC document set up and XBRL tagging, which are activities that we have undertaken hundreds of times. We are also providing professional services on our new solutions, including our risk reporting, data collection and Sarbanes-Oxley compliance solutions.

Our professional services are not required for customers to utilize our solution. Our pricing for professional services has been predominantly on a fixed-fee basis, and we recognize revenue after the services have been performed.

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 server usage by our customers; information technology costs and facility costs. Costs of server usage 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. We capitalize and amortize sales commissions that are directly attributable to a contract over the lesser of twelve months or the non-cancelable term of the customer contract based on the terms of our commission arrangements. We incur most of the expenses related to our annual user conference in the third quarter.



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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 server usage 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, 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.

Income Taxes

Prior to our conversion to a corporation on December 10, 2014, we were organized as a limited liability company, and therefore, as a pass-through entity for income tax purposes. Effective upon the corporate conversion, we became a corporation subject to federal, state and foreign income taxes.

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## 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,	
	2015	2014	2015	2014
	(in thousands)			
Revenue				
Subscription and support	\$29,832	\$23,690	\$84,186	\$66,306
Professional services	6,436	4,229	21,204	16,259
Total revenue	36,268	27,919	105,390	82,565
Cost of revenue				
Subscription and support <sup>(1)</sup>	5,319	5,387	16,768	15,085
Professional services <sup>(1)</sup>	4,457	3,152	12,423	8,832
Total cost of revenue	9,776	8,539	29,191	23,917
Gross profit	26,492	19,380	76,199	58,648
Operating expenses				
Research and development <sup>(1)</sup>	12,766	11,175	36,970	32,234
Sales and marketing <sup>(1)</sup>	20,903	16,248	50,937	39,435
General and administrative <sup>(1)</sup>	7,153	4,572	20,178	13,986
Total operating expenses	40,822	31,995	108,085	85,655
Loss from operations	(14,330	) (12,615	) (31,886	) (27,007
Interest expense	(494	) (700	) (1,517	) (1,281
Other income and (expense), net	163	(67	) 288	(209
Loss before income tax benefit	(14,661	) (13,382	) (33,115	) (28,497
Income tax benefit	(31	) —	(9	) —
Net loss	\$(14,630	) \$(13,382	) \$(33,106	) \$(28,497

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Cost of revenue				
Subscription and support	\$92	\$88	\$275	\$403
Professional services	90	47	251	264
Operating expenses				
Research and development	586	341	1,289	1,443
Sales and marketing	461	288	1,243	889
General and administrative	1,853	649	4,818	2,540
Total stock-based compensation expense	\$3,082	\$1,413	\$7,876	\$5,539

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,			
	2015	2014	2015	2014		
Revenue						
Subscription and support	82.3	% 84.9	% 79.9	% 80.3		%
Professional services	17.7	15.1	20.1	19.7		
Total revenue	100.0	100.0	100.0	100.0		
Cost of revenue						
Subscription and support	14.7	19.3	15.9	18.3		
Professional services	12.3	11.3	11.8	10.7		
Total cost of revenue	27.0	30.6	27.7	29.0		
Gross profit	73.0	69.4	72.3	71.0		
Operating expenses						
Research and development	35.2	40.0	35.1	39.0		
Sales and marketing	57.6	58.2	48.3	47.8		
General and administrative	19.7	16.4	19.1	16.9		
Total operating expenses	112.5	114.6	102.5	103.7		
Loss from operations	(39.5	) (45.2	) (30.2	) (32.7	)	)
Interest expense	(1.4	) (2.5	) (1.4	) (1.6	)	)
Other income and (expense), net	0.4	(0.2	) 0.3	(0.3	)	)
Loss before income tax benefit	(40.5	) (47.9	) (31.3	) (34.6	)	)
Income tax benefit	(0.1	) —	—	—		
Net loss	(40.4	)% (47.9	)% (31.3	)% (34.6	)%	)%

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## Comparison of Three and Nine Months Ended September 30, 2015 and 2014

## Revenue

	Three months ended			Nine months ended		
	September 30, 2015	2014	% Change	September 30, 2015	2014	% Change
(dollars in thousands)						
Revenue						
Subscription and support	\$29,832	\$23,690	25.9%	\$84,186	\$66,306	27.0%
Professional services	6,436	4,229	52.2%	21,204	16,259	30.4%
Total revenue	\$36,268	\$27,919	29.9%	\$105,390	\$82,565	27.6%

Total revenue increased \$8.3 million for the three months ended September 30, 2015 compared to the same quarter a year ago due primarily to a \$6.1 million increase in subscription and support revenue. Of the total gain in subscription and support revenue, 58.8% represented revenue from new customers acquired after September 30, 2014 and 41.2% represented revenue from existing customers at or prior to September 30, 2014. The total number of our customers expanded 13.4% from September 30, 2014 to September 30, 2015.

Total revenue rose \$22.8 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 due primarily to a \$17.9 million expansion in subscription and support revenue. Of the total increase in subscription and support revenue, 39.7% represented revenue from new customers acquired after September 30, 2014 and 60.3% represented revenue from existing customers at or prior to September 30, 2014.

## Cost of Revenue

	Three months ended			Nine months ended		
	September 30, 2015	2014	% Change	September 30, 2015	2014	% Change
(dollars in thousands)						
Cost of revenue						
Subscription and support	\$5,319	\$5,387	(1.3)%	\$16,768	\$15,085	11.2%
Professional services	4,457	3,152	41.4%	12,423	8,832	40.7%
Total cost of revenue	\$9,776	\$8,539	14.5%	\$29,191	\$23,917	22.1%

Expense related to subscription and support decreased \$0.1 million during the three months ended September 30, 2015 versus the same quarter a year ago. More efficient delivery of our support services resulted in a slightly reduced headcount in our customer success team in the latest period. Expenses related to professional services increased \$1.3 million versus the same quarter a year ago due to an increase in full-time equivalents and employee compensation to handle growing demand for services related to our newer use cases.

Cost of revenue rose \$5.3 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, which was attributable primarily to higher employee cash-based compensation, benefits and travel costs of \$3.8 million, offset partially by a decline in stock-based compensation of \$0.1 million. Headcount growth in the customer success and professional services teams

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was the primary driver of these support and personnel-related costs. The decline in stock-based compensation in the first nine months of 2015 was attributable primarily to a one-time grant of stock options with immediate vesting in January 2014. Expenses related to subscription and support rose 11.2% in the nine months ended September 30, 2015 compared to the same period a year ago, due in part to additional server usage of \$1.0 million, as customer usage of our platform grew. Professional services expense expanded 40.7% in the nine months ended September 30, 2015 versus the same period a year ago due to an increase in full-time equivalents and employee compensation to handle the growing demand for services related to our newer use cases.

## Operating Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(dollars in thousands)					
Operating expenses						
Research and development	\$12,766	\$11,175	14.2%	\$36,970	\$32,234	14.7%
Sales and marketing	20,903	16,248	28.6%	50,937	39,435	29.2%
General and administrative	7,153	4,572	56.5%	20,178	13,986	44.3%
Total operating expenses	\$40,822	\$31,995	27.6%	\$108,085	\$85,655	26.2%

## Research and Development

Research and development expenses rose \$1.6 million in the three months ended September 30, 2015 compared to the same quarter a year ago, as a result of higher employee compensation, benefits, and travel costs.

Research and development expenses increased \$4.7 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, due primarily to higher employee compensation, benefits, and travel costs of \$4.8 million. In addition, other support costs rose \$0.5 million, while consulting fees decreased \$0.8 million. The additional other support and personnel-related costs related primarily to an increase in research and development headcount. Consulting fees decreased, as we brought some previously outsourced consulting work in-house.

## Sales and Marketing

Sales and marketing expenses rose \$4.7 million during the three months ended September 30, 2015 compared to the three months ended September 30, 2014, due primarily to the expansion of our sales and marketing team as well as our marketing programs. Employee compensation, benefits, and travel costs rose \$4.0 million due primarily to higher headcount in sales and marketing. In addition, professional service fees rose approximately \$0.6 million due primarily to additional recruiting and training costs associated with increasing our salesforce and consulting fees.

Sales and marketing expenses increased \$11.5 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, due primarily to the expansion of our sales and marketing team as well as our marketing programs. Employee compensation, benefits, and travel costs rose \$9.5 million, and other support costs increased \$0.6 million, due primarily to higher headcount in sales and marketing. Advertising costs grew by \$0.6 million in connection with marketing our new solutions. Professional service fees increased \$1.2 million due primarily to additional recruiting and training costs associated with an increase in our salesforce and consulting fees. Sales and marketing expense is generally higher in the third quarter due to our annual user conference held in September.

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## General and Administrative

General and administrative expenses increased \$2.6 million during the three months ended September 30, 2015 compared to the same quarter a year ago, due principally to higher employee cash-based compensation, benefits, and travel costs of \$0.8 million and additional employee stock-based compensation of \$0.9 million. The increase in personnel-related costs was driven primarily by a rise in headcount to support the growth of our business and the higher costs of operating as a public company. Higher stock-based compensation expense was driven primarily by restricted stock grants to executive officers in February 2015 with a vesting term of three years. In addition, there was a rise in stock-based compensation of \$0.4 million from restricted stock grants made to our Board of Directors with a one-year vesting term.

General and administrative expenses rose \$6.2 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, due partially to higher employee cash-based compensation, benefits, and travel costs of \$1.8 million and additional employee stock-based compensation of \$2.8 million. Also, the cost of subscription-based software climbed \$0.6 million and other support costs rose \$0.8 million. The increase in software, support and personnel-related costs was driven primarily by additional headcount to support the growth of our business. In addition, outside service fees expanded \$0.6 million due primarily to increased accounting fees from operating as a public company. An increase in stock-based compensation of \$0.9 million from restricted stock grants made to our Board of Directors with a one-year vesting term was more than offset by a decline of \$1.1 million in stock-based compensation due primarily to a one-time grant with immediate vesting terms made to a consultant in 2014.

## Non-Operating Income (Expenses)

	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(dollars in thousands)					
Interest expense	\$ (494 )	\$ (700 )	(29.4)%	\$ (1,517 )	\$ (1,281 )	18.4%
Other income and (expense), net	163	(67 )	(343.3)%	288	(209 )	(237.8)%
Interest Expense and Other Income and (Expense), Net						

Interest expense decreased during the three months ended September 30, 2015 compared to the same quarter a year ago due to the absence in the most recent quarter of interest expense and accretion of the discount on convertible debt issued in August 2014 and converted in December 2014. Interest expense increased during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 due to interest accrued on our financing obligation incurred upon completion of the second phase of our Iowa office facility in June 2014 partially offset by the decrease in interest expense on our convertible debt.

Other income and (expense), net increased during the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 due to recognition of a portion of our deferred government grant obligation relating to our job training reimbursement program.

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## Liquidity and Capital Resources

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Cash flow (used in) provided by operating activities	\$(4,718	) \$(4,626	) \$(16,555	) \$1,102
Cash flow used in investing activities	(13,375	) (2,889	) (14,683	) (3,417
Cash flow provided by (used in) financing activities	758	7,629	(805	) 7,053
Net (decrease) increase in cash and equivalents, net of impact on exchange rates	\$(17,338	) \$140	\$(32,037	) \$4,760

As of September 30, 2015, our cash, cash equivalents and marketable securities totaled \$81.8 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 and have negative cash flows from operations in the future and may require additional capital resources to continue to grow our business. We believe that current cash and cash equivalents, cash to be received from existing and new customers, and availability under our existing credit facility 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 and matures in August 2016. The credit facility is secured by all of our assets, has first priority over our other debt obligations, and requires us to maintain certain financial covenants, including the maintenance of at least \$5.0 million of cash on hand or unused borrowing capacity. The credit facility contains 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, effect changes in management and enter into new businesses. We amended the credit facility in February 2015 to reduce the borrowing rate to prime. No amount was outstanding under the credit facility as of September 30, 2015.

Pursuant to the credit facility, letters of credit totaling \$2.3 million and \$4.3 million were outstanding at September 30, 2015 and December 31, 2014, respectively. These letters of credit, which do not reduce availability under the credit facility, were issued as security for a forgivable loan. A \$2.0 million letter of credit was canceled in the first quarter of 2015, as one of the forgivable loans was repaid in December 2014 with the proceeds of our initial public offering.

Operating Activities

For the three months ended September 30, 2015, cash used in operating activities was \$4.7 million. The primary factors affecting our operating cash flows during the period were our net loss of \$14.6 million, adjusted for non-cash charges of \$1.1 million for depreciation and amortization of our property and equipment and intangible assets, and \$3.1 million of stock-based compensation. The primary drivers of the changes in operating assets and liabilities were a \$1.7 million increase in deferred revenue, a \$3.6 million increase in accrued expenses and other liabilities and a \$0.9 million increase in accounts payable. Short-term deferred revenue from subscription and support contracts increased from \$42.3 million at June 30, 2015 to \$45.5 million at September 30, 2015, while long-term deferred revenue from these contracts decreased from \$10.1 million at June 30, 2015 to \$8.5 million at September 30, 2015. This rise in short-term deferred revenue was

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due primarily to new customers and a shift towards more annual contracts. In addition, short-term deferred revenue from professional services increased from \$5.5 million at June 30, 2015 to \$5.6 million at September 30, 2015. As anticipated, long-term deferred revenue declined following our implementation of reduced incentives for long-term prepayments. The increases in accounts receivable, accounts payable and accrued expenses and other liabilities were attributable primarily to the timing of our billings, cash collections, and cash payments.

For the three months ended September 30, 2014, cash used in operating activities was \$4.6 million. The primary factors affecting our operating cash flows during this period were our net loss of \$13.4 million, adjusted for non-cash charges of \$1.1 million for depreciation and amortization of our property and equipment and intangible assets, and \$1.4 million of stock-based compensation. The primary drivers of the changes in operating assets and liabilities were a \$3.2 million increase in deferred revenue, a \$2.8 million increase in accrued expenses and other liabilities, and a \$1.7 million increase in accounts payable partially offset by a \$1.8 million increase in accounts receivable. The increases in accounts receivable, accrued expenses and other liabilities and accounts payable were attributable primarily to the timing of our billings and cash collections. The increase in deferred revenue was due to an increase in annual and multi-year contracts.

For the nine months ended September 30, 2015, cash used in operating activities was \$16.6 million. The primary factors affecting our operating cash flows during the period were our net loss of \$33.1 million, adjusted for non-cash charges of \$3.4 million for depreciation and amortization of our property and equipment and intangible assets, and \$7.9 million of stock-based compensation. The primary drivers of the changes in operating assets and liabilities were a \$3.5 million increase in deferred revenue, a \$2.3 million increase in accounts payable, and a \$1.7 million increase in accrued expenses and other liabilities, partially offset by a \$1.4 million increase in accounts receivable and a \$0.7 million increase in other receivables. Short-term deferred revenue from subscription and support contracts increased from \$36.7 million at December 31, 2014 to \$45.5 million at September 30, 2015, while long-term deferred revenue from these contracts decreased from \$13.3 million at December 31, 2014 to \$8.5 million at September 30, 2015. This rise in short-term deferred revenue was due primarily to new customers and a shift towards more annual contracts. As anticipated, long-term deferred revenue declined following our implementation of reduced incentives for long-term prepayments. The increases in accounts receivable, accounts payable, and accrued expenses and other liabilities were attributable primarily to the timing of our billings, cash collections and cash payments. The increase in other receivables was attributable primarily to the timing of receipts in connection with the administration of our government job training program.

For the nine months ended September 30, 2014, cash provided by operating activities was \$1.1 million. The primary factors affecting our operating cash flows during this period were our net loss of \$28.5 million, adjusted for non-cash charges of \$2.8 million for depreciation and amortization of our property and equipment and intangible assets, and \$5.5 million of stock-based compensation. The primary drivers of the changes in operating assets and liabilities were a \$2.6 million decrease in accounts receivable and a \$15.5 million increase in deferred revenue and a \$3.6 million increase in accrued expenses and other current liabilities partially offset by a \$0.9 million increase in prepaid expenses and other assets. The decrease in accounts receivable was attributable primarily to the timing of our billings and cash collections. The increase in accrued expenses and other current liabilities was attributable primarily to the timing of our cash payments, and the increase in prepaid expenses and other current assets was attributable primarily to purchasing additional subscriptions to cloud-based software to support business growth. The increase in deferred revenue was due primarily to an increase in annual and multi-year contracts.

**Investing Activities**

Cash used in investing activities of \$13.4 million for the three months ended September 30, 2015 was due primarily to \$15.7 million for the purchase of marketable securities and \$0.6 million of capital



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expenditures partially offset by proceeds of \$3.0 million from the sale 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 \$2.9 million for the three months ended September 30, 2014 was due primarily to \$2.8 million of capital expenditures. Our capital expenditures were associated primarily with leasehold improvements, computer equipment, and furniture and fixtures in support of expanding our infrastructure and work force.

Cash used in investing activities of \$14.7 million for the nine months ended September 30, 2015 was due primarily to \$15.7 million for the purchase of marketable securities and \$1.7 million of capital expenditures partially offset by proceeds of \$3.0 million from the sale of marketable securities. Our capital expenditures were associated primarily with leasehold improvements, computer equipment and furniture and fixtures in support of expanding our infrastructure and work force.

Cash used in investing activities of \$3.4 million for the nine months ended September 30, 2014 was due primarily to \$8.0 million of capital expenditures partially offset by proceeds of \$4.9 million from the sale of marketable securities. Our capital expenditures were associated primarily with leasehold improvements, building costs under our build-to-suit lease arrangement, computer equipment, and furniture and fixtures in support of expanding our infrastructure and work force.

**Financing Activities**

Cash provided by financing activities of \$0.8 million for the three months ended September 30, 2015 was due primarily to \$1.1 million in proceeds from option exercises and \$0.2 million in proceeds from our government grant awards partially offset by \$0.5 million in repayments on long-term debt and payments on capital lease and financing obligations.

Cash provided by financing activities of \$7.6 million for the three months ended September 30, 2014 was due primarily to \$5.0 million in proceeds from the issuance of a convertible note and \$3.0 million in borrowings on our line of credit partially offset by \$0.4 million in payments on long-term debt, capital lease and financing obligations and a line of credit.

Cash used in financing activities of \$0.8 million for the nine months ended September 30, 2015 was due primarily to \$1.3 million in payments of issuance costs related to our initial public offering and \$1.8 million in repayments on long-term debt and payments on capital lease and financing obligations partially offset by \$1.5 million in proceeds from option exercises and \$0.5 million in proceeds from our government grant awards.

Cash provided by financing activities of \$7.1 million for the nine months ended September 30, 2014 was due primarily to \$2.0 million in proceeds from a government grant awarded in December 2013, \$5.0 million in proceeds from the issuance of a convertible note, and \$3.0 million in borrowings on our line of credit partially offset by \$3.0 million in payments on long-term debt, capital lease and financing obligations and a line of credit.

**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, 2014 filed with the SEC on March 11, 2015.

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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.

During the nine months ended September 30, 2015, there were no significant changes to our critical accounting policies and estimates as described in financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 11, 2015.

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, 2014. Other than the investment in marketable securities discussed below, our exposures to market risk have not changed materially since December 31, 2014.

We had cash, cash equivalents and marketable securities totaling \$81.8 million as of September 30, 2015. The cash, cash equivalents and marketable securities are held for working capital purposes. Our investments are made primarily for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash and cash equivalents primarily consist of cash and money market funds. Our exposure to market risk for changes in interest rates is limited because our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes.

Our portfolio of marketable securities was invested primarily in corporate debt securities and is subject to market risk due primarily to changes in interest rates. Fixed rate securities may have their market value adversely affected due to a rise in interest rates. Accordingly, our future investment income may fluctuate as a result of changes in interest rates, or we may suffer losses in principal if we are forced to sell securities that decline in market value as a result of changes in interest rates. However, because we classify our marketable securities as “available for sale,” no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary.

An immediate increase of 100-basis points in interest rates would have resulted in an \$0.2 million market value reduction in our investment portfolio as of September 30, 2015. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our investment securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities.

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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 2014 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Other than the item noted below, there have been no material changes during fiscal 2015 to the risk factors that were included in the Form 10-K.

Risks Related to Ownership of Our Class A Common Stock

We have previously identified material weaknesses in our internal control over financial reporting, and any inability to maintain effective internal control over financial reporting could have a material adverse effect on our business. During the course of preparing for our initial public offering, we determined that it was appropriate to restate our audited consolidated financial statements for the year ended December 31, 2013 to revise our method of accounting for a forgivable loan arrangement. In connection with this restatement, we, in conjunction with our independent registered public accounting firm, concluded that a lack of adequate controls surrounding the review and recognition of forgivable loan arrangements constituted a material weakness in our internal control over financial reporting. Subsequently, during the course of preparing our audited consolidated financial statements for the year ended December 31, 2014, we identified and corrected an immaterial error in our prior period accounting for reimbursements received pursuant to a government jobs training program. In connection with the correction of this immaterial error, we, in conjunction with our independent registered public accounting firm, concluded that a lack of adequate controls surrounding the review and evaluation of accounting for government grant arrangements constituted a material weakness in our internal control over financial reporting. As a result of the identification of these material weaknesses, we have implemented measures designed to improve our internal control over financial reporting. While we believe that these measures have remediated the previously identified material weaknesses and our management has concluded that our disclosure controls and procedures are effective as of September 30, 2015, we cannot be certain that these efforts will be sufficient to prevent future material weaknesses or significant deficiencies from occurring.

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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

On December 17, 2014, we closed our initial public offering of 7,200,000 shares of Class A common stock at a price to the public of \$14.00 per share. The offer and sale of all of the shares in the initial public offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-199459), which was declared effective by the SEC on December 11, 2014.

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. Pending the uses described in our prospectus, we have invested the net proceeds in money market funds and marketable securities. We have also repaid a \$2.0 million forgivable loan with proceeds from our initial public offering, allowing us to cancel letters of credit in the amount that served as security for the forgivable loan.

Item 6. Exhibits

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

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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 5th day of November, 2015.

WORKIVA INC.

By: /s/ Matthew M. Rizai, Ph.D.  
Name: Matthew M. Rizai, Ph.D.  
Title: Chairman and Chief Executive Officer

By: /s/ J. Stuart Miller  
Name: J. Stuart Miller  
Title: Executive Vice President, Treasurer and Chief Financial Officer

By: /s/ Jill Klindt  
Name: Jill Klindt  
Title: Vice President and Chief Accounting Officer

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EXHIBIT INDEX

Exhibit Number	Description
31.1	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.
31.2	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.
32.1	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.
32.2	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.
101.INS	XBRL Instance 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.