

WORKIVA INC
Form 10-Q
May 04, 2016
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
March 31,
2016

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)

~~07-2509828~~
(SEC. Employer Identification Number)
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)

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

As of May 2, 2016, there were approximately 29,059,228 shares of the registrant's Class A common stock and 11,909,784 shares of the registrant's Class B common stock outstanding.

WORKIVA INC.
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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, 2015, 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.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	As of March 31, 2016 (unaudited)	As of December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 43,226	\$ 58,750
Marketable securities	12,665	17,420
Accounts receivable, net of allowance for doubtful accounts of \$837 and \$713 at March 31, 2016 and December 31, 2015, respectively	16,470	15,647
Deferred commissions	1,383	1,368
Other receivables	1,042	818
Prepaid expenses and other current assets	4,063	3,875
Total current assets	78,849	97,878
Property and equipment, net	43,747	44,410
Intangible assets, net	936	896
Other assets	774	711
Total assets	\$ 124,306	\$ 143,895
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,156	\$ 5,138
Accrued expenses and other current liabilities	14,578	20,394
Deferred revenue	53,101	55,741
Deferred government grant obligation	1,023	985
Current portion of capital lease and financing obligations	1,732	1,808
Current portion of long-term debt	18	18
Total current liabilities	74,608	84,084
Deferred revenue	7,138	7,597
Deferred government grant obligation	1,708	1,996
Other long-term liabilities	3,491	3,343
Capital lease and financing obligations	20,727	21,083
Long-term debt	73	73
Total liabilities	107,745	118,176
Stockholders' equity		
Class A common stock, \$0.001 par value per share, 1,000,000,000 shares authorized, 29,051,970 and 29,014,665 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	29	29
Class B common stock, \$0.001 par value per share, 500,000,000 shares authorized, 11,909,784 and 11,933,784 shares issued and outstanding at March 31, 2016 and	12	12

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December 31, 2015, respectively

Preferred stock, \$0.001 par value per share, 100,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in-capital	205,284	202,371
Accumulated deficit	(188,979)	(176,934)
Accumulated other comprehensive income	215	241
Total stockholders' equity	16,561	25,719
Total liabilities and stockholders' equity	\$ 124,306	\$ 143,895

See accompanying notes.

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WORKIVA INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

(unaudited)

	Three months ended	
	March 31,	
	2016	2015
Revenue		
Subscription and support	\$33,585	\$ 26,269
Professional services	10,966	8,885
Total revenue	44,551	35,154
Cost of revenue		
Subscription and support	6,918	5,885
Professional services	6,188	3,777
Total cost of revenue	13,106	9,662
Gross profit	31,445	25,492
Operating expenses		
Research and development	14,516	12,008
Sales and marketing	20,088	13,705
General and administrative	8,953	6,734
Total operating expenses	43,557	32,447
Loss from operations	(12,112)	(6,955)
Interest expense	(490)	(510)
Other income and (expense), net	576	(66)
Loss before provision for income taxes	(12,026)	(7,531)
Provision (benefit) for income taxes	19	(84)
Net loss	\$(12,045)	\$(7,447)
Net loss per common share:		
Basic and diluted	\$(0.30)	\$(0.19)
Weighted average common shares outstanding - basic and diluted	40,451,668	39,593,700
See accompanying notes.		

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WORKIVA INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three months ended March 31,	
	2016	2015
Net loss	\$(12,045)	\$(7,447)
Other comprehensive (loss) income, net of tax		
Foreign currency translation adjustment, net of income tax expense of \$0 and \$60 for the three months ended March 31, 2016 and 2015, respectively	(101	) 69
Unrealized gain on available-for-sale securities, net of income tax expense of \$0 for both of the three months ended March 31, 2016 and 2015	75	—
Other comprehensive (loss) income, net of tax	(26) 69
Comprehensive loss	\$(12,071)	\$(7,378)
See accompanying notes.		

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WORKIVA INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three months ended March 31,	
	2016	2015
Cash flows from operating activities		
Net loss	\$(12,045)	\$(7,447)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	997	1,169
Stock-based compensation expense	3,390	2,174
Provision for doubtful accounts	122	74
Realized gain on sale of available-for-sale securities	(2)) —
Amortization (accretion) of premiums and discounts on marketable securities, net	39	—
Recognition of deferred government grant obligation	(433)	) (66)
Changes in assets and liabilities:		
Accounts receivable	(881)	) (911)
Deferred commissions	(12)	) 145
Other receivables	(224)	) (188)
Prepaid expenses and other	(186)	) 144
Other assets	(63)	) 56
Accounts payable	(696)	) 157
Deferred revenue	(3,215)	) (672)
Accrued expenses and other liabilities	(5,869)	) (3,892)
Change in restricted cash	—	28
Net cash used in operating activities	(19,078)	) (9,229)
Cash flows from investing activities		
Purchase of property and equipment	(412)	) (871)
Sale of marketable securities	4,793	—
Purchase of intangible assets	(55)	) (83)
Net cash provided by (used in) investing activities	4,326	) (954)
Cash flows from financing activities		
Payment of equity issuance costs	—	) (1,073)
Proceeds from option exercises	284	80
Taxes paid related to net share settlements of stock-based compensation awards	(761)) —
Changes in restricted cash	—	300
Repayment of other long-term debt	—	) (25)
Principal payments on capital lease and financing obligations	(432)	) (678)
Proceeds from government grants	183	313
Net cash used in financing activities	(726)	) (1,083)
Effect of foreign exchange rates on cash	(46)	) 28
Net decrease in cash and cash equivalents	(15,524)	) (11,238)
Cash and cash equivalents at beginning of period	58,750	101,131
Cash and cash equivalents at end of period	\$43,226	\$89,893

Supplemental cash flow disclosure		
Cash paid for interest	\$322	\$423
Cash paid for income taxes, net of refunds	\$8	\$—
Supplemental disclosure of noncash investing and financing activities		
Fixed assets acquired through capital lease arrangements	\$—	\$184
Allowance for tenant improvements	\$186	\$698
Accrued distributions to members	\$—	\$60
Purchases of property and equipment, accrued but not paid	\$65	\$—
See accompanying notes.		

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WORKIVA INC.

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, link, report and analyze business data with control and accountability. The Wdesk proprietary word processing, spreadsheet and presentation applications are integrated and built upon a data management engine, offering synchronized data, controlled collaboration, granular permissions and a full audit trail. We offer our customers solutions in the areas of compliance, risk, finance, accounting, and audit management. 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, 2015 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, 2015 filed with the SEC on March 1, 2016. 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 months ended March 31, 2016 are not necessarily indicative of the results expected for the full year ending December 31, 2016.

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, health insurance 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 and permits the use of either a full retrospective or modified retrospective transition method. Entities are permitted to adopt the guidance in accordance with the original effective date if they choose. We have not determined our transition method, and 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 was effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. Effective January 1, 2016, we adopted this standard prospectively. The adoption did not have a material 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 became effective for interim and annual periods beginning after December 15, 2015. Effective January 1, 2016, we adopted this standard. The adoption did not have a material impact on our consolidated financial statements.

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 lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. The standard will become effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The guidance is required to be adopted at the earliest period presented using a modified retrospective approach. We are currently evaluating the impact the provisions will have on our consolidated financial statements and whether we will adopt the guidance early.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Under this ASU, entities are permitted to make an accounting policy election to either estimate forfeitures on share-based payment awards, as required by current guidance, or to recognize forfeitures as they occur. We will be required to make this election at the entity level using a modified retrospective transition method, with a cumulative-effect adjustment to the accumulated deficit. The guidance will be effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact this provision will have on our consolidated financial statements and whether we will adopt the guidance early. The remaining provisions of ASU 2016-09 are not expected to have a material impact on our consolidated financial statements.

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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):

	March 31, December 31,	
	2016	2015
Accrued vacation	\$ 4,161	\$ 3,604
Accrued commissions	2,497	2,470
Accrued bonuses	2,900	9,598
Estimated health insurance claims	1,492	900
Accrued other liabilities	3,528	3,822
	\$ 14,578	\$ 20,394

Other Income and (Expense), net

Other income and (expense), net for the three months ended March 31, 2016 and 2015 consisted of (in thousands):

	Three months ended March 31,	
	2016	2015
Interest income	\$83	\$15
Income from training reimbursement program	433	66
Other	60	(147)
	\$576	\$(66)

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3. Marketable Securities

At March 31, 2016, marketable securities consisted of the following (in thousands):