Tableau Software Inc
Form 10-Q
November 08, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from ____ to ____

Commission File Number: 001-35925

TABLEAU SOFTWARE, INC.
(Exact name of Registrant as specified in its charter)

Delaware	47-0945740
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1621 North 34th Street
Seattle, Washington 98103
(Address of principal executive offices and zip code)

(206) 633-3400
(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. x Yes o No
Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). x Yes o No
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

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As of November 6, 2018, there were approximately 71,551,528 shares of the Registrant's Class A common stock and 12,016,296 shares of the Registrant's Class B common stock outstanding.

TABLEAU SOFTWARE, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2018
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Tableau Software, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2018	December 31, 2017
	(in thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$639,254	$627,878
Short-term investments	317,505	226,787
Accounts receivable, net of allowance for doubtful accounts of $1,401 and $1,003	187,424	203,366
Prepaid expenses and other current assets	136,828	30,514
Income taxes receivable	1,363	673
Total current assets	1,282,374	1,089,218
Long-term investments	63,551	148,364
Property and equipment, net	91,265	106,753
Goodwill	42,530	35,083
Deferred income taxes	4,007	5,287
Other long-term assets	46,271	14,090
Total assets	$1,529,998	$1,398,795
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$3,817	$4,448
Accrued compensation and employee-related benefits	96,091	96,390
Other accrued liabilities	66,313	37,722
Income taxes payable	7,547	4,743
Deferred revenue	328,187	419,426
Total current liabilities	501,955	562,729
Deferred revenue	15,851	28,058
Other long-term liabilities	52,447	54,385
Total liabilities	570,253	645,172
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized; none issued	—	—
Class B common stock, $0.0001 par value, 75,000,000 shares authorized; 12,016,296 and 14,492,846 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	1	1
Class A common stock, $0.0001 par value, 750,000,000 shares authorized; 71,530,794 and 65,969,499 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	7	7
Additional paid-in capital	1,290,077	1,168,563
Accumulated other comprehensive loss	(11,914)	(11,991)
Accumulated deficit	(318,426)	(402,957)
Total stockholders' equity	959,745	753,623
Total liabilities and stockholders' equity	$1,529,998	$1,398,795

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tableau Software, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Revenues				
License	$138,127	$99,424	$384,768	$299,964
Maintenance and services	152,453	115,493	434,308	327,739
Total revenues	290,580	214,917	819,076	627,703
Cost of revenues				
License	5,230	3,265	13,810	9,474
Maintenance and services	29,549	26,664	88,619	73,775
Total cost of revenues (1)	34,779	29,929	102,429	83,249
Gross profit	255,801	184,988	716,647	544,454
Operating expenses				
Sales and marketing (1)	142,129	123,842	424,685	366,020
Research and development (1)	97,939	84,494	285,477	249,863
General and administrative (1)	30,959	25,697	93,055	76,017
Total operating expenses	271,027	234,033	803,217	691,900
Operating loss	(15,226)	(49,045)	(86,570)	(147,446)
Other income, net	4,381	3,677	12,709	8,931
Loss before income tax expense	(10,845)	(45,368)	(73,861)	(138,515)
Income tax expense	10,492	1,185	6,014	5,207
Net loss	$(21,337)	$(46,553)	$(79,875)	$(143,722)
Net loss per share:				
Basic	$(0.26)	$(0.59)	$(0.97)	$(1.83)
Diluted	$(0.26)	$(0.59)	$(0.97)	$(1.83)
Weighted average shares used to compute net loss per share:				
Basic	83,264	79,440	82,191	78,463
Diluted	83,264	79,440	82,191	78,463

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenues	$3,488	$2,885	$9,774	$8,252
Sales and marketing	22,357	18,603	64,522	55,221
Research and development	29,926	27,337	81,920	76,500
General and administrative	6,175	5,489	19,805	15,650

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tableau Software, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Net loss	$(21,337)	$(46,553)	$(79,875)	$(143,722)
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(282)	(3,455)	(1,010)	(10,663)
Net unrealized gain (loss) on available-for-sale securities	179	(119)	(596)	(119)
Comprehensive loss	$(21,440)	$(50,127)	$(81,481)	$(154,504)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tableau Software, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Operating activities		
Net loss	$(79,875)	$(143,722)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization expense	27,783	34,174
Amortization (accretion) on investments, net	(32)	162
Stock-based compensation expense	176,021	155,623
Deferred income taxes	(3,810)	(226)
Changes in operating assets and liabilities		
Accounts receivable, net	14,232	80,030
Prepaid expenses and other assets	(71,671)	(138)
Income taxes receivable	(728)	(297)
Deferred revenue	4,666	45,109
Accounts payable and accrued liabilities	38,477	9,452
Income taxes payable	2,866	26
Net cash provided by operating activities	107,929	180,193
Investing activities		
Purchases of property and equipment	(13,983)	(43,179)
Business combination, net of cash acquired	(10,947)	(23,966)
Purchases of investments	(206,454)	(198,144)
Maturities of investments	199,885	—
Sales of investments	99	—
Net cash used in investing activities	(31,400)	(265,289)
Financing activities		
Proceeds from issuance of common stock	26,864	24,305
Repurchases of common stock	(90,019)	(59,986)
Net cash used in financing activities	(63,155)	(35,681)
Effect of exchange rate changes on cash and cash equivalents	(1,998)	3,005
Net increase (decrease) in cash and cash equivalents	11,376	(117,772)
Cash and cash equivalents		
Beginning of period	627,878	908,717
End of period	$639,254	$790,945
Non-cash activities		
Accrued purchases of property and equipment	$3,589	$14,375
Asset retirement obligations recognized, net	—	983

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tableau Software, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Description of Business

Tableau Software, Inc., a Delaware corporation, and its wholly-owned subsidiaries (the "Company," "we," "us" or "our") are headquartered in Seattle, Washington. Our software products put the power of data into the hands of everyday people, allowing a broad population of business users to engage with their data, ask questions, solve problems and create value. Based on innovative core technologies originally developed at Stanford University, our products dramatically reduce the complexity, inflexibility and expense associated with traditional business intelligence applications. We currently offer five key products: Tableau Desktop, a self-service, powerful analytics product for anyone with data; Tableau Server, a business intelligence platform for organizations; Tableau Online, a hosted software-as-a-service ("SaaS") version of Tableau Server; Tableau Prep, a data preparation product for combining, shaping and cleaning data; and Tableau Public, a free cloud-based platform for analyzing and sharing public data.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial information has been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet data as of December 31, 2017 was derived from audited financial statements but does not include all disclosures required by 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 year ended December 31, 2017 filed with the SEC on February 26, 2018.

In the opinion of management, the accompanying unaudited condensed consolidated financial information includes all normal recurring adjustments necessary for a fair statement of the Company's financial position, results of operations, comprehensive loss and cash flows for the interim periods, but is not necessarily indicative of the results that may be expected for the year ending December 31, 2018. All intercompany accounts and transactions have been eliminated in consolidation.

We adopted the new revenue recognition accounting standard, codified as Accounting Standards Codification (“ASC”) 606, effective January 1, 2018 on a modified retrospective basis (see Recently Adopted Accounting Pronouncements). Financial results for reporting periods during 2018 are presented in compliance with the new revenue recognition standard. Historical financial results for reporting periods prior to 2018 are presented in conformity with amounts previously disclosed under the prior revenue recognition standard, ASC 605. These financial statements include additional information regarding the impacts from the adoption of the new revenue recognition standard on our financial results for the three and nine months ended September 30, 2018. This includes the presentation of financial results during 2018 under ASC 605 for comparison to the prior year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include but are not limited to: the collectability of our receivables; the useful lives of our property and equipment and other lease-related assets, liabilities and costs; the benefit period for deferred commissions; the valuation of investments and the determination of other-than-temporary impairments; and the reported amounts of accrued liabilities. For revenue, we make estimates and assumptions related to the standalone selling prices of our products and services and the nature and timing of the delivery of performance obligations from our contracts with customers. We also use estimates in stock-based compensation, income taxes and business combinations. Actual results could differ from those estimates.

Risks and Uncertainties

Inherent in our business are various risks and uncertainties, including our limited history of operating our business at its current scale and development of advanced technologies in a rapidly changing industry. These risks include our ability to manage our growth, to attract new customers, to expand sales to existing customers and to attract, integrate and retain qualified personnel, as well as other risks and uncertainties. In the event that we do not

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successfully implement our business plan, certain assets may not be recoverable, certain liabilities may not be paid and investments in our capital stock may not be recoverable. Our success depends upon the acceptance of our technology, development of sales and distribution channels and our ability to generate significant revenues from the sale of our technology.

Segments

We follow the authoritative literature that establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products and services, geographic regions and major customers. We operate our business as one operating segment. Our chief operating decision makers are our Chief Executive Officer and Chief Financial Officer, who review financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance and allocating resources.

Revenue Recognition - ASC 606

We generate revenues primarily in the form of software license fees and related maintenance and services fees. Software license revenues include fees from the sales of perpetual, term and subscription licenses. Maintenance and services revenues primarily consist of fees for maintenance services (including support and unspecified upgrades and enhancements if and when they are available), training and professional services.

We recognize revenues related to contracts with customers that meet the following criteria:

- the contract contains reasonable evidence of approval and of both parties' commitment to perform their respective obligations;
- the contract includes identifiable rights to goods and/or services to be transferred and payment terms related to the transfer of those goods and/or services;
- the contract has commercial substance; and
- collection of substantially all of the consideration we are entitled to under the contract is probable.

We identify performance obligations in our contracts with customers, which may include software licenses and/or related maintenance and services. We determine the transaction price based on the amount we expect to be entitled to in exchange for transferring the promised goods or services to the customer. We allocate the transaction price in the contract to each distinct performance obligation in an amount that depicts the relative amount of consideration we expect to receive in exchange for satisfying each performance obligation. Revenue is recognized when performance obligations are satisfied.

Our contract payment terms are typically net 30 days. We assess collectability based on a number of factors including collection history and creditworthiness of the customer, and we may mitigate exposures to credit risk by requiring payments in advance. If we determine that collectability related to a contract is not probable, we may not record revenue until collectability becomes probable at a later date.

Our revenues are recorded based on the transaction price excluding amounts collected on behalf of third parties. For example, indirect taxes which we collect and remit to governmental authorities are excluded from our revenues.

Nature of Products and Services

Our on-premises software licenses are sold through both perpetual and term-based license agreements. These licensing arrangements provide customers with the same product functionality and differ mainly in the duration over which the customer benefits from the software. We deliver our software licenses electronically. Electronic delivery occurs when we provide the customer with access to the software and license key via a secure portal. Revenue from on-premises software licenses is generally recognized upfront at the point in time when the software is made available to the customer.

Our contracts with customers for on-premises software licenses include maintenance services and may also include training and/or professional services. Maintenance services agreements consist of fees for providing software updates on an if and when available basis and for providing technical support for software products for a specified term. We believe that our software updates and technical support each have the same pattern of transfer to the customer and are substantially the same. Therefore, we consider these updates and technical support to be a single distinct performance obligation. Revenues allocated to maintenance services are recognized ratably as the maintenance services are provided. Revenues related to training services are billed on a fixed fee basis and are recognized as the services are delivered. Payments received in advance of services performed are deferred and recognized when the related services

are performed. Revenues related to professional services are billed on a time and materials basis and are recognized as the services are performed.

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We also provide cloud-based subscriptions, which allow customers to access our software during a contractual period without taking possession of the software. We recognize revenue related to these cloud-based subscriptions ratably over the life of the subscription agreement beginning when the customer first has access to the software. Revenues from our cloud-based subscriptions are included in license revenues.

Judgments and Estimates

Our contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately from one another sometimes requires judgment.

Judgment is also required to determine standalone selling prices ("SSP") for each distinct performance obligation. We typically have more than one SSP for each of our products and services based on customer stratification, which is based on the size of the customer, their geographic region and market segment. We use other comparable software license sales to determine SSPs for perpetual software licenses. For our cloud-based subscriptions and for maintenance services, training and professional services, SSPs are generally observable using standalone sales and/or renewals. Our on-premises term-based software licenses generally do not have directly observable inputs for determining SSP. Therefore, we determine SSP using other observable inputs including customer-buying patterns, renewal rates, cumulative spend comparisons and other industry data.

We evaluate contracts with customers that include options to purchase additional goods or services to determine whether the options give rise to a separate performance obligation that is material. If we determine the options give rise to a separate performance obligation that is material, the revenue allocated to such options is not recognized until the option is exercised or the option expires.

Our revenue recognition accounting policy for ASC 605 is included in our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 26, 2018. We applied the revenue recognition accounting policy for ASC 605 to our disclosures in Note 7, which include amounts presented for 2018. There were no changes to the ASC 605 policy during the nine months ended September 30, 2018.

Assets Recognized from the Costs to Obtain a Contract with a Customer

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain costs related to our sales incentive programs meet the requirements to be capitalized and deferred. Assets recorded are included in other current assets and other long-term assets. We amortize these deferred costs proportionate with related revenues over the benefit period, currently estimated to be four years. We consider the benefit period to exceed the initial contract term for certain costs because of anticipated renewals and because our sales commission rates for renewal contracts are not commensurate with sales commissions for initial contracts.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable.

Our investment portfolio consists of investment-grade securities diversified among security types, industries and issuers. Our cash and cash equivalents and investments are held and managed by recognized financial institutions that follow our investment policy. Our policy limits the amount of credit exposure to any one security issue or issuer.

We extend credit to customers based upon an evaluation of the customer's financial condition. As of September 30, 2018 and December 31, 2017, no individual customer accounted for 10% or more of total accounts receivable. For the three and nine months ended 2018 and 2017, no individual customer represented 10% or more of our total revenues.

Recently Adopted Accounting Pronouncements

We adopted the new revenue recognition accounting standard, ASC 606, effective January 1, 2018. The new revenue recognition standard changed the way we recognize revenue, including the identification of contractual performance obligations and the allocation of transaction price, to depict the transfer of promised goods or services to customers at the amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. We adopted the new revenue recognition standard on a modified retrospective basis and applied the new revenue recognition standard only to contracts that were not completed contracts prior to January 1, 2018. Upon adoption, we recorded an adjustment of $146.8 million to our accumulated deficit. The adjustment was offset by a $105.9 million

reduction to deferred revenue, which was primarily related to on-premises term licenses, and the addition of a $40.9 million contract asset.

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The new revenue recognition standard materially impacts the timing of revenue recognition related to our on-premises term license agreements. Prior to our adoption of the new revenue recognition standard, we historically recognized revenue related to on-premises term license agreements ratably over the term of the licensing agreement. Under the new revenue recognition standard, revenue allocable to the license portion of the arrangement is recognized upon delivery of the license. Maintenance revenues related to on-premises term license agreements continue to be recognized ratably over the term of the licensing agreement. Under the new revenue recognition standard, we allocate total transaction price to performance obligations based on estimated standalone selling prices, which impacts the timing of revenue recognition depending on when each performance obligation is recognized. These impacts to the timing of revenue recognition also affect our deferred revenue balances.

The new revenue recognition standard requires the capitalization of certain incremental costs of obtaining a contract, which impacts the periods in which we record our sales commissions expense. Prior to our adoption of the new revenue recognition standard, we recognized sales commissions expense as incurred. Under the new revenue recognition standard, we are required to recognize these expenses over the period of benefit associated with these costs. This results in a deferral of sales commissions expense each period and subsequent amortization of those costs over the estimated benefit period. Upon adoption of the new revenue recognition standard, we reduced our accumulated deficit by $25.5 million and recognized an offsetting asset for deferred sales commissions related to contracts that were not completed contracts prior to January 1, 2018.

For further discussion regarding the impacts of adopting the new revenue recognition standard, see Note 7.

In October 2016, the FASB issued ASU 2016-16 related to the accounting for income tax effects on intra-entity asset transfers of assets other than inventory. The new guidance requires reporting entities to recognize tax expense from the sale of assets when the transfer occurs, even though the pre-tax effects of the transaction are eliminated in consolidation. We adopted the new standard in the first quarter of 2018 on a modified retrospective basis. The adoption resulted in the recognition of a U.S. deferred tax asset, which was fully offset by a corresponding increase to the valuation allowance on our U.S. federal and state deferred income tax assets, and therefore did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02 related to lease accounting. The new guidance will require lessees to recognize right-of-use assets and lease liabilities on the balance sheet for operating leases that do not meet the definition of a short-term lease. ASU 2016-02 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We will adopt the new lease accounting standard using the modified retrospective transition method and apply a cumulative-effect balance sheet adjustment at the beginning of the first quarter of 2019. Under the new standard we anticipate that our current real estate leases will continue to be classified as operating leases and a significant amount of our currently outstanding operating lease commitments will be recorded to the balance sheet as right-of-use assets with corresponding lease liabilities. We expect the adoption of the new lease accounting standard to have a material impact on our balance sheet on the date of adoption. Our evaluation of the new standard will extend into future periods and we will update our disclosures as we progress towards the required adoption date.

In June 2016, the FASB issued ASU 2016-13, related to credit losses. The new guidance replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. ASU 2016-13 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

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Note 3. Short-Term and Long-Term Investments

The following tables represent our short-term and long-term investments in available-for-sale securities as of September 30, 2018 and December 31, 2017, based on remaining contractual years to maturity:

	September 30, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Short-term investments				
Commercial paper	$1,976	$ —	$ —	$1,976
U.S. treasury securities	171,643	—	(438)	171,205
U.S. agency securities	24,976	—	(109)	24,867
Corporate bonds	119,684	—	(227)	119,457
Total short-term investments	318,279	—	(774)	317,505
Long-term investments				
U.S. treasury securities	44,585	—	(376)	44,209
Corporate bonds	19,452	3	(113)	19,342
Total long-term investments	64,037	3	(489)	63,551
Total short-term and long-term investments	$382,316	$ 3	$ (1,263)	$381,056

	December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Short-term investments				
Commercial paper	$9,970	$ —	$ —	$9,970
U.S. treasury securities	160,206	—	(121)	160,085
U.S. agency securities	9,917	—	(24)	9,893
Corporate bonds	46,901	3	(65)	46,839
Total short-term investments	226,994	3	(210)	226,787
Long-term investments				
U.S. treasury securities	79,371	—	(202)	79,169
U.S. agency securities	18,570	—	(102)	18,468
Corporate bonds	50,880	—	(153)	50,727
Total long-term investments	148,821	—	(457)	148,364
Total short-term and long-term investments	$375,815	$ 3	$ (667)	$375,151

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The following table presents the fair values and the gross unrealized losses related to our investments in available-for-sale securities, summarized by the length of time that the investments have been in a continuous unrealized loss position:

	September 30, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Short-term investments						
U.S. treasury securities	$161,300	$ (351)	$9,905	$ (87)	$171,205	$ (438)
U.S. agency securities	5,042	(35)	19,825	(74)	24,867	(109)
Corporate bonds	93,716	(144)	15,470	(83)	109,186	(227)
Total short-term investments	260,058	(530)	45,200	(244)	305,258	(774)
Long-term investments						
U.S. treasury securities	44,209	(376)	—	—	44,209	(376)
Corporate bonds	15,345	(113)	—	—	15,345	(113)
Total long-term investments	59,554	(489)	—	—	59,554	(489)
Total short-term and long-term investments	$319,612	$ (1,019)	$45,200	$ (244)	$364,812	$ (1,263)

The unrealized losses on investments as of September 30, 2018 were primarily caused by increases in interest rates. None of the unrealized losses represent other than temporary impairments based on our evaluation of available evidence as of September 30, 2018. As of December 31, 2017, there were no investments that had been in a continuous net loss position for 12 months or greater.

Note 4. Fair Value Measurements

We categorize assets and liabilities recorded at fair value based upon the level of judgment associated with inputs used to measure their fair value. The levels of the fair value hierarchy are as follows:

- Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs are quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Inputs are unobservable inputs based on our own assumptions and valuation techniques used to measure assets and liabilities at fair value. The inputs require significant management judgment or estimation.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

We value our investments using quoted prices for identical instruments in active markets when available. If we are unable to obtain quoted prices for identical instruments in active markets, we value our investments using quoted market prices for comparable instruments. To date, all of our investments can be valued using one of these two methodologies.

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The following tables present the fair value of our financial assets using the fair value hierarchy as of September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash and cash equivalents				
Money market funds	$555,773	$—	$ —	$555,773
Short-term investments				
Commercial paper	—	1,976	—	1,976
U.S. treasury securities	—	171,205	—	171,205
U.S. agency securities	—	24,867	—	24,867
Corporate bonds	—	119,457	—	119,457
Long-term investments				
U.S. treasury securities	—	44,209	—	44,209
Corporate bonds	—	19,342	—	19,342
Total	$555,773	$381,056	$ —	$936,829

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash and cash equivalents				
Money market funds	$582,835	$—	$ —	$582,835
Commercial paper	—	8,984	—	8,984
Short-term investments				
Commercial paper	—	9,970	—	9,970
U.S. treasury securities	—	160,085	—	160,085
U.S. agency securities	—	9,893	—	9,893
Corporate bonds	—	46,839	—	46,839
Long-term investments				
U.S. treasury securities	—	79,169	—	79,169
U.S. agency securities	—	18,468	—	18,468
Corporate bonds	—	50,727	—	50,727
Total	$582,835	$384,135	$ —	$966,970

We did not have any investments in prime money market funds as of September 30, 2018 or December 31, 2017. We had no financial assets or liabilities measured using Level 3 inputs as of September 30, 2018 or December 31, 2017.

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Note 5. Stockholders' Equity

Common Stock

Our certificate of incorporation, as amended and restated, authorizes us to issue 75,000,000 shares of Class B common stock at $0.0001 par value per share, and 750,000,000 shares of Class A common stock at $0.0001 par value per share. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each holder of Class B common stock is entitled to ten votes per share and each holder of Class A common stock is entitled to one vote per share. Shares of Class B common stock may be converted into Class A common stock at any time at the option of the stockholder and are automatically converted upon sale or transfer to Class A common stock, subject to certain limited exceptions. At its discretion, the board of directors may declare dividends on shares of common stock, subject to the rights of our preferred stockholders, if any. Upon liquidation or dissolution, holders of common stock will receive distributions only after preferred stock preferences have been satisfied.

Preferred Stock

Our certificate of incorporation, as amended and restated, authorizes us to issue 10,000,000 shares of preferred stock at $0.0001 par value per share. Our board of directors has the authority to provide for the issuance of all the shares in one or more series. At its discretion, our board of directors may designate the voting rights and preferences of the preferred stock. As of September 30, 2018 and December 31, 2017, no shares of preferred stock were outstanding.

Stock Repurchase Program

On November 1, 2016, we announced that our board of directors approved a stock repurchase program, under which we were authorized to repurchase up to $200 million of our outstanding Class A common stock. On April 26, 2018, our board of directors authorized us to repurchase up to an additional $300 million of our outstanding Class A common stock under our previously announced stock repurchase program. The repurchase program has no expiration date and may be modified, suspended or discontinued at any time. Repurchases under the program may be made from time to time on the open market at prevailing market prices, in privately negotiated transactions, in transactions structured through investment banking institutions or a combination of the foregoing, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

During the nine months ended September 30, 2018, we repurchased 961,468 shares of our outstanding Class A common stock at an average price of $93.63 per share for $90.0 million. During the nine months ended September 30, 2017, we repurchased 979,577 shares of our outstanding Class A common stock at an average price of $61.24 per share for $60.0 million. All repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired. As of September 30, 2018, we were authorized to repurchase a remaining $310.0 million of our Class A common stock under our repurchase program.

Note 6. Business Combinations

Empirical Systems, Inc.

On June 7, 2018, we acquired all issued and outstanding stock of Empirical Systems, Inc., a privately-held Delaware corporation, for $11.0 million in cash. Empirical Systems, Inc. is a startup specializing in automated statistical analysis. As a result of this acquisition, we acquired all of the assets and assumed all of the liabilities of Empirical Systems, Inc., and we accounted for this transaction as a business combination. Pro forma results of operations for this acquisition have not been presented as the effects were not material to our financial results. The following table summarizes the purchase price allocation based on the estimated fair value of the net assets acquired:

	June 7, 2018 (in thousands)
Cash	$ 53
Technology asset	3,500
Goodwill	7,447
Net assets acquired	$ 11,000

The technology asset acquired in this business combination is being amortized on the straight-line method over a period of five years. Goodwill generated from this business combination is primarily attributable to expected

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synergies between the technology asset acquired and our key products. None of the goodwill recognized with this transaction is expected to be deductible for U.S. income tax purposes.

Certain employees hired in conjunction with the acquisition of Empirical Systems, Inc. received restricted stock units ("RSUs") that are subject to service conditions as well as the completion of certain technology milestones. We account for these awards as a post-business combination expense.

Additional information existing as of the acquisition date but unknown to us may become known at a later time, such as matters related to income taxes or other contingencies. In accordance with GAAP, if this occurs during the 12 month period subsequent to the acquisition date, we may update the amounts and allocations recorded as of the acquisition date, which are presented in the table above.

Argo Technologies Corp.

On August 1, 2017, we acquired all issued and outstanding stock of Argo Technologies Corp., a privately-held Delaware corporation doing business as ClearGraph ("ClearGraph"), for $24.1 million in cash. ClearGraph was a startup that enables smart data discovery and data analysis through natural language query technology. As a result of this acquisition, we acquired all of the assets and assumed all of the liabilities of ClearGraph, and we accounted for this transaction as a business combination. Pro forma results of operations for this acquisition were not presented as the effects were not material to our financial results. The following table summarizes the purchase price allocation based on the estimated fair value of the net assets acquired:

	August 1, 2017 (in thousands)
Cash	$ 161
Technology asset	5,000
Goodwill	19,552
Other liabilities, net	(586)
Net assets acquired	$ 24,127

The technology asset acquired in this business combination is being amortized on the straight-line method over a period of five years. Goodwill generated from this business combination was primarily attributable to expected synergies between the technology asset acquired and our key products. None of the goodwill recognized with this transaction is expected to be deductible for U.S. income tax purposes.

Note 7. Revenue

We adopted the new revenue recognition accounting standard, ASC 606, effective January 1, 2018 on a modified retrospective basis and applied the new standard only to contracts that were not completed contracts prior to January 1, 2018. See Note 2 for a description of our ASC 606 revenue recognition accounting policy. Financial results for reporting periods during 2018 are presented in compliance with the new revenue recognition standard. Historical financial results for reporting periods prior to 2018 have not been retroactively restated and are presented in conformity with amounts previously disclosed under ASC 605. This note includes additional information regarding the impacts from the adoption of the new revenue recognition standard on our financial results for the three and nine months ended September 30, 2018. This includes the presentation of financial results during 2018 under ASC 605 for comparison to the prior year. Our revenue recognition accounting policy for ASC 605 is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 26, 2018. There were no changes to our ASC 605 policy during the nine months ended September 30, 2018.

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Condensed Consolidated Balance Sheets (Unaudited) - Reconciliation of the Impacts from the Adoption of the New Revenue Recognition Standard

The following schedule summarizes the impacts from the adoption of the new revenue recognition standard on our condensed consolidated balance sheets as of September 30, 2018:

	September 30, 2018			December 31, 2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Assets				
Current assets				
Cash and cash equivalents	$639,254	$—	$639,254	$627,878
Short-term investments	317,505	—	317,505	226,787
Accounts receivable, net	187,424	—	187,424	203,366
Prepaid expenses and other current assets	136,828	(103,176)	33,652	30,514
Income taxes receivable	1,363	—	1,363	673
Total current assets	1,282,374	(103,176)	1,179,198	1,089,218
Long-term investments	63,551	—	63,551	148,364
Property and equipment, net	91,265	—	91,265	106,753
Goodwill	42,530	—	42,530	35,083
Deferred income taxes	4,007	1,485	5,492	5,287
Other long-term assets	46,271	(29,940)	16,331	14,090
Total assets	$1,529,998	$(131,631)	$1,398,367	$1,398,795
Liabilities and stockholders' equity				
Current liabilities				
Accounts payable	$3,817	$—	$3,817	$4,448
Accrued compensation and employee-related benefits	96,091	—	96,091	96,390
Other accrued liabilities	66,313	—	66,313	37,722
Income taxes payable	7,547	(4,381)	3,166	4,743
Deferred revenue	328,187	154,435	482,622	419,426
Total current liabilities	501,955	150,054	652,009	562,729
Deferred revenue	15,851	12,693	28,544	28,058
Other long-term liabilities	52,447	(833)	51,614	54,385
Total liabilities	570,253	161,914	732,167	645,172
Stockholders' equity				
Common stock	8	—	8	8
Additional paid-in capital	1,290,077	—	1,290,077	1,168,563
Accumulated other comprehensive loss	(11,914)	876	(11,038)	(11,991)
Accumulated deficit	(318,426)	(294,421)	(612,847)	(402,957)
Total stockholders' equity	959,745	(293,545)	666,200	753,623
Total liabilities and stockholders' equity	$1,529,998	$(131,631)	$1,398,367	$1,398,795

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Condensed Consolidated Statements of Operations (Unaudited) - Reconciliation of the Impacts from the Adoption of the New Revenue Recognition Standard

The following schedules summarize the impacts from the adoption of the new revenue recognition standard on our condensed consolidated statement of operations for the three and nine months ended September 30, 2018:

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Revenues				
License	$138,127	$(20,095)	$118,032	$99,424
Maintenance and services	152,453	(30,894)	121,559	115,493
Total revenues	290,580	(50,989)	239,591	214,917
Cost of revenues				
License	5,230	(121)	5,109	3,265
Maintenance and services	29,549	148	29,697	26,664
Total cost of revenues	34,779	27	34,806	29,929
Gross profit	255,801	(51,016)	204,785	184,988
Operating expenses				
Sales and marketing	142,129	7,828	149,957	123,842
Research and development	97,939	—	97,939	84,494
General and administrative	30,959	—	30,959	25,697
Total operating expenses	271,027	7,828	278,855	234,033
Operating loss	(15,226)	(58,844)	(74,070)	(49,045)
Other income, net	4,381	32	4,413	3,677
Loss before income tax expense	(10,845)	(58,812)	(69,657)	(45,368)
Income tax expense	10,492	(8,852)	1,640	1,185
Net loss	$(21,337)	$(49,960)	$(71,297)	$(46,553)

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	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Revenues				
License	$384,768	$(38,489)	$346,279	$299,964
Maintenance and services	434,308	(73,386)	360,922	327,739
Total revenues	819,076	(111,875)	707,201	627,703
Cost of revenues				
License	13,810	(264)	13,546	9,474
Maintenance and services	88,619	315	88,934	73,775
Total cost of revenues	102,429	51	102,480	83,249
Gross profit	716,647	(111,926)	604,721	544,454
Operating expenses				
Sales and marketing	424,685	18,787	443,472	366,020
Research and development	285,477	—	285,477	249,863
General and administrative	93,055	—	93,055	76,017
Total operating expenses	803,217	18,787	822,004	691,900
Operating loss	(86,570)	(130,713)	(217,283)	(147,446)
Other income, net	12,709	112	12,821	8,931
Loss before income tax expense	(73,861)	(130,601)	(204,462)	(138,515)
Income tax expense	6,014	(586)	5,428	5,207
Net loss	$(79,875)	$(130,015)	$(209,890)	$(143,722)

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Condensed Consolidated Statements of Comprehensive Loss (Unaudited) - Reconciliation of the Impacts from the Adoption of the New Revenue Recognition Standard

The following schedules summarize the impacts from the adoption of the new revenue recognition standard on our condensed consolidated statement of comprehensive loss for the three and nine months ended September 30, 2018:

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Net loss	$(21,337)	$(49,960)	$(71,297)	$(46,553)
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(282)	465	183	(3,455)
Net unrealized gain (loss) on available-for-sale securities	179	—	179	(119)
Comprehensive loss	$(21,440)	$(49,495)	$(70,935)	$(50,127)

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Net loss	$(79,875)	$(130,015)	$(209,890)	$(143,722)
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(1,010)	2,559	1,549	(10,663)
Net unrealized loss on available-for-sale securities	(596)	—	(596)	(119)
Comprehensive loss	$(81,481)	$(127,456)	$(208,937)	$(154,504)

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Condensed Consolidated Statements of Cash Flows (Unaudited) - Reconciliation of the Impacts from the Adoption of the New Revenue Recognition Standard

The following schedule summarizes the impacts from the adoption of the new revenue recognition standard on our condensed consolidated statement of cash flows for the nine months ended September 30, 2018:

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Operating activities				
Net loss	$(79,875)	$(130,015)	$(209,890)	$(143,722)
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation and amortization expense	27,783	—	27,783	34,174
Amortization (accretion) on investments, net	(32)	—	(32)	162
Stock-based compensation expense	176,021	—	176,021	155,623
Deferred income taxes	(3,810)	3,673	(137)	(226)
Changes in operating assets and liabilities				
Accounts receivable, net	14,232	—	14,232	80,030
Prepaid expenses and other assets	(71,671)	68,002	(3,669)	(138)
Income taxes receivable	(728)	—	(728)	(297)
Deferred revenue	4,666	62,974	67,640	45,109
Accounts payable and accrued liabilities	38,477	—	38,477	9,452
Income taxes payable	2,866	(4,381)	(1,515)	26
Net cash provided by operating activities	107,929	253	108,182	180,193
Investing activities				
Purchases of property and equipment	(13,983)	—	(13,983)	(43,179)
Business combination, net of cash acquired	(10,947)	—	(10,947)	(23,966)
Purchases of investments	(206,454)	—	(206,454)	(198,144)
Maturities of investments	199,885	—	199,885	—
Sales of investments	99	—	99	—
Net cash used in investing activities	(31,400)	—	(31,400)	(265,289)
Financing activities				
Proceeds from issuance of common stock	26,864	—	26,864	24,305
Repurchases of common stock	(90,019)	—	(90,019)	(59,986)
Net cash used in financing activities	(63,155)	—	(63,155)	(35,681)
Effect of exchange rate changes on cash and cash equivalents	(1,998)	(253)	(2,251)	3,005
Net increase (decrease) in cash and cash equivalents	11,376	—	11,376	(117,772)
Cash and cash equivalents				
Beginning of period	627,878	—	627,878	908,717
End of period	$639,254	$—	$639,254	$790,945

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Disclosures Related to our Contracts with Customers

Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to our contracts with customers. We record assets for amounts related to performance obligations that are satisfied but not yet billed and/or collected. These assets are recorded as contract assets rather than receivables when receipt of the consideration is conditional on something other than the passage of time. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations. These liabilities are classified as current and non-current deferred revenue.

Contract Assets and Contract Liabilities

A summary of the activity impacting our contract assets during the nine months ended September 30, 2018 is presented below:

	Contract Assets (in thousands)
Balances at December 31, 2017	$ —
Adoption of ASC 606	40,854
Contract assets transferred to receivables	(23,244)
Additions to contract assets	72,233
Balances at September 30, 2018	$ 89,843

As of September 30, 2018, our contract assets are expected to be transferred to receivables within the next 12 months and therefore are included in other current assets. There were no impairments of contract assets during the nine months ended September 30, 2018.

A summary of the activity impacting our deferred revenue balances during the nine months ended September 30, 2018 is presented below:

	Deferred Revenue (in thousands)
Balances at December 31, 2017	$ 447,484
Adoption of ASC 606	(105,933)
Deferred revenue recognized	(286,580)
Additional amounts deferred	289,067
Balances at September 30, 2018	$ 344,038

Assets Recognized from the Costs to Obtain our Contracts with Customers

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We amortize these deferred costs proportionate with related revenues over the benefit period, currently estimated to be four years.

A summary of the activity impacting our deferred contract costs during the nine months ended September 30, 2018 is presented below:

	Deferred Contract Costs (in thousands)
Balances at December 31, 2017	$ —
Adoption of ASC 606	25,489
Additional contract costs deferred	25,821
Amortization of deferred contract costs	(7,740)
Balances at September 30, 2018	$ 43,570

As of September 30, 2018, $13.6 million of our deferred contract costs are expected to be amortized within the next 12 months and therefore are included in other current assets. The remaining amount of our deferred contract costs are included in other long-term assets. There were no impairments of assets related to deferred

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contract costs during the nine months ended September 30, 2018. There were no assets recognized related to the costs to fulfill contracts during the nine months ended September 30, 2018 as these costs were not material.

Remaining Performance Obligations

Our contracts with customers include amounts allocated to performance obligations that will be satisfied at a later date. These amounts include additional performance obligations that are not yet recorded in the consolidated balance sheets. As of September 30, 2018, amounts allocated to these additional contractual obligations are $191.9 million, of which we expect to recognize $153.6 million as revenue over the next 24 months with the remaining amount thereafter.

Note 8. Stock-Based Compensation

Our 2004 Equity Incentive Plan (the "2004 Plan") authorized the granting of options to purchase shares of our Class B common stock, RSUs and other stock-based awards to our employees, consultants, officers and directors. Our 2013 Equity Incentive Plan, as amended, (the "2013 Plan" and, together with the 2004 Plan, the "Plans"), which is the successor to our 2004 Plan, authorizes the granting of options to purchase shares of our Class A common stock, RSUs and other stock-based awards to our employees, consultants, officers and directors. Options granted under the Plans may be incentive or nonstatutory stock options. Incentive stock options may only be granted to employees. The term of each option is stated in the award agreement but shall be no more than ten years from the date of grant. The board of directors determines the period over which options and RSUs become vested. Currently, the vesting period for our options and RSUs is typically four years.

Our 2013 Employee Stock Purchase Plan ("2013 ESPP") allows eligible employees to purchase shares of our Class A common stock, at a discount, through payroll deductions of up to 15% of their eligible compensation, subject to plan limitations. The 2013 ESPP currently includes purchase periods approximately six months in duration starting on the first trading date on or after June 1st and December 1st of each year. Participants are able to purchase shares of our common stock at 85% of the lower of its fair market value on (i) the first day of the purchase period or on (ii) the purchase date, which is the last day of the purchase period.

A summary of the option activity during the nine months ended September 30, 2018 follows:

	Options Outstanding			
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
			(in years)	(in thousands)
Balances at December 31, 2017	3,017,113	$ 10.13		
Options exercised	(999,451)	9.45		
Balances at September 30, 2018	2,017,662	$ 10.48	3.60	$ 204,318
Vested and expected to vest at September 30, 2018	2,017,662	$ 10.48	3.60	$ 204,318
Exercisable at September 30, 2018	1,980,162	$ 9.63	3.52	$ 202,185

The intrinsic value is the difference between the fair value of our Class A common stock as of September 30, 2018 and the exercise price of each of the respective stock options.

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A summary of the RSU activity, including RSU awards subject to technology milestones, during the nine months ended September 30, 2018 follows:

	Number of Shares Underlying Outstanding RSUs	Weighted Average Grant-Date Fair Value per RSU
Non-Vested outstanding at December 31, 2017	7,178,015	$ 62.79
RSUs granted	3,909,099	89.22
RSUs vested	(2,755,315)	67.20
RSUs forfeited	(579,741)	67.27
Non-Vested outstanding at September 30, 2018	7,752,058	$ 74.22

An RSU award entitles the holder to receive shares of our Class A common stock as the award vests, which is generally based on length of service. Our non-vested RSUs do not have nonforfeitable rights to dividends or dividend equivalents.

Stock-based compensation expense is amortized using the straight-line method over the requisite service period. We account for forfeitures as they occur. For RSU awards subject to technology milestones, we recognize compensation cost over the estimated requisite service period if we believe it is probable that the associated technology milestone will be met. If our assessment of the probability of the technology milestone being met changes, we recognize the impact of the change in estimate in the period of the change.

As of September 30, 2018, total unrecognized compensation expense related to stock options and non-vested RSUs was $525.4 million, which is expected to be recognized over a weighted average period of 2.9 years.

The summary of shares available for issuance of equity-based awards (including stock options, RSUs and shares issuable under our 2013 ESPP) during the nine months ended September 30, 2018 follows:

	Shares Available for Grant	
	2013 Plan	2013 ESPP
Balances at December 31, 2017	7,207,291	3,666,392
Authorized	4,023,117	804,623
Granted	(3,909,099)	(291,447)
Forfeited	579,741	—
Balances at September 30, 2018	7,901,050	4,179,568

Note 9. Income Taxes

The income tax provision for interim periods is generally determined using an estimate of our annual effective tax rate, excluding jurisdictions for which no benefit can be recognized due to valuation allowance, and adjusted for discrete items, if any, in the relevant period. The impact of adjustments to our effective tax rate for discrete items and non-deductible expenses is greater in periods close to break-even. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

Our effective tax rate is impacted by and differs from the federal statutory rate primarily due to the full valuation allowance on our U.S. federal and state deferred tax assets, the effect of income or losses incurred in foreign jurisdictions where the statutory tax rate differs from the federal statutory rate and non-deductible stock-based compensation.

We recognized income tax expense of $10.5 million and $6.0 million under ASC 606 for the three and nine months ended September 30, 2018, respectively, compared to income tax expense of $1.2 million and $5.2 million for three and nine months ended September 30, 2017, respectively. Our effective tax rate was (96.7)% and (8.1)% for the three and nine months ended September 30, 2018, respectively, compared to (2.6)% and (3.8)% for the three and nine months ended September 30, 2017, respectively. The difference in the effective tax rates for the three month periods is primarily attributable to the cumulative adjustment recorded during the three months ended September 30, 2018 for

the current estimated annual effective tax rate. The difference in the effective tax rates for

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the nine month periods is primarily attributable to additional income as a result of our adoption of ASC 606 partially offset by the recognition of excess tax benefits of stock-based compensation during the period.

We recognized income tax expense of $1.6 million and $5.4 million under ASC 605 for the three and nine months ended September 30, 2018, respectively, compared to income tax expense of $1.2 million and $5.2 million for the three and nine months ended September 30, 2017, respectively. Our effective tax rate under ASC 605 was (2.4)% and (2.7)% for the three and nine months ended September 30, 2018, respectively, compared to (2.6)% and (3.8)% for the three and nine months ended September 30, 2017, respectively. The difference in the effective tax rates was primarily attributable to an increase in taxes in foreign jurisdictions, offset by an income tax benefit from the recognition of excess tax benefits of stock-based compensation during the three and nine months ended September 30, 2018. The difference in effective tax rates between ASC 606 and ASC 605 is primarily attributable to the differences in the amount of revenue recognized under ASC 606 compared to ASC 605.

As a result of adopting ASC 606 in the first quarter of 2018, we recognized an immaterial amount of net deferred tax liabilities, which reduced our opening adjustment to stockholders' equity. During the first quarter of 2018, we also adopted ASU 2016-16 and recognized a U.S. deferred tax asset, which was fully offset by a corresponding increase to the valuation allowance on our U.S. federal and state deferred income tax assets.

We periodically evaluate the realizability of our net deferred tax assets based on all available evidence, both positive and negative such as historic results, future reversals of existing deferred tax liabilities, projected future taxable income, as well as prudent and feasible tax-planning strategies. Generally, more weight is given to objectively verifiable evidence, such as the cumulative loss in recent years. As of September 30, 2018, we maintain a full valuation allowance on our U.S. federal and state deferred tax assets.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed with an effective date of January 1, 2018. The Act, which significantly revised U.S. tax law, included many important changes. On the same day, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to assist in addressing uncertainty in applying GAAP to the accounting and reporting of tax reform changes related to the Act. We considered these changes, including all available guidance, in determining our income tax provision for the period ending December 31, 2017. As of September 30, 2018, we have not yet completed our analysis of historical foreign earnings as well as potential correlative adjustments. As we complete the analysis, any subsequent adjustment to these amounts may be recorded to current income tax expense in that period. We expect to complete our analysis within the measurement period in accordance with SAB 118. No adjustments to the provisional amount have been made.

Note 10. Commitments and Contingencies

Operating Lease Commitments and Expected Sublease Receipts

As of September 30, 2018, our principal obligations consisted of obligations outstanding under non-cancellable operating leases that expire at various dates through 2029. The following table represents our non-cancellable minimum lease payments, net of future expected sublease payments to be received under non-cancellable subleases, remaining as of September 30, 2018:

Period Ending	Operating Lease Commitments	Expected Sublease Receipts	Net
	(in thousands)		
Remainder of 2018	$11,796	$(1,972)	$9,824
2019	41,849	(10,606)	31,243
2020	43,051	(7,113)	35,938
2021	43,600	(1,180)	42,420
2022	42,987	(597)	42,390
Thereafter	175,493	(121)	175,372
Total	$358,776	$(21,589)	$337,187

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Contractual Commitments

Our contractual commitments are associated with agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included. The following table represents our contractual commitments as of September 30, 2018:

	Payments Due by Period						
	Total	Remainder of 2018	2019	2020	2021	2022	Thereafter
	(in thousands)						
Contractual commitments	$51,053	$ 10,543	$23,146	$10,092	$7,090	$168	$ 14

Legal Proceedings

We are subject to certain routine legal proceedings, as well as demands and claims that arise in the normal course of our business. We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter.

We are not aware of any pending legal proceedings that we believe, individually or in the aggregate, would be expected to have a material adverse effect on our business, operating results, or financial condition. We may, in the future, be party to litigation arising in the ordinary course of business, including claims that we allegedly infringe upon third party intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and management resources.

Note 11. Segments and Information about Revenues by Geographic Area

The following tables present our revenues by geographic region of end users who purchased products or services for the periods presented below:

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(dollars in thousands)			
United States and Canada	$207,166	$(37,614)	$169,552	$150,059
International	83,414	(13,375)	70,039	64,858
Total revenues	$290,580	$(50,989)	$239,591	$214,917

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(dollars in thousands)			
United States and Canada	$571,957	$(78,728)	$493,229	$437,657
International	247,119	(33,147)	213,972	190,046
Total revenues	$819,076	$(111,875)	$707,201	$627,703

For the three and nine months ended September 30, 2018 and 2017, no individual country other than the United States represented 10% or more of our total revenues.

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Note 12. Net Loss Per Share

The following tables present the computation of basic and diluted net loss per share for the three and nine months ended September 30, 2018 and 2017 and include additional information regarding the impacts from the adoption of the new revenue recognition standard for the three and nine months ended September 30, 2018:

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands, except per share amounts)			
Net loss per share - basic and diluted				
Net loss	$(21,337)	$(49,960)	$(71,297)	$(46,553)
Weighted average shares outstanding used to compute basic and diluted net loss per share	83,264		83,264	79,440
Net loss per share - basic and diluted	$(0.26)		$(0.86)	$(0.59)

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands, except per share amounts)			
Net loss per share - basic and diluted				
Net loss	$(79,875)	$(130,015)	$(209,890)	$(143,722)
Weighted average shares outstanding used to compute basic and diluted net loss per share	82,191		82,191	78,463
Net loss per share - basic and diluted	$(0.97)		$(2.55)	$(1.83)

The following shares were excluded from the computation of diluted net loss per share for the periods presented as their effect would have been antidilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Shares subject to outstanding common stock awards	9,887	11,083	9,887	11,083

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this report and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 26, 2018.

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "strategy," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included under Part II, Item 1A of this report. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Tableau and Tableau Software are trademarks of Tableau Software, Inc. All other company and product names may be trademarks of the respective companies with which they are associated.

Overview

Our mission is to help people see and understand data. Our software products put the power of data into the hands of everyday people, allowing a broad population of business users to engage with their data, ask questions, solve problems and create value. Based on innovative core technologies originally developed at Stanford University, our products dramatically reduce the complexity, inflexibility and expense associated with traditional business intelligence applications. We currently offer five key products: Tableau Desktop, a self-service, powerful analytics product for anyone with data; Tableau Server, a business intelligence platform for organizations; Tableau Online, a hosted software-as-a-service ("SaaS") version of Tableau Server; Tableau Prep, a data preparation product for combining, shaping and cleaning data; and Tableau Public, a free cloud-based platform for analyzing and sharing public data.

We were founded in January 2003, and we introduced Tableau Desktop in December 2003, our first version of Tableau Server in March 2007, our first version of Tableau Public in February 2010, our first version of Tableau Online in July 2013 and our first version of Tableau Prep in April 2018. Tableau Prep is a new data preparation product that integrates directly into the Tableau analytical workflow. Building on our foundational technology innovations, we continue to expand and improve our platform. Our most recent releases, Tableau 2018.2 and Tableau 2018.3, include a new Extensions API, which further opens our platform to developers, Tableau Services Manager, which gives customers a direct way to manage their Tableau Server deployments, heatmaps and multiple table storage for extracts. In April 2018, we also introduced role-based subscription offerings to help organizations scale analytics. Tableau Creator, Explorer and Viewer subscriptions each provide tailored combinations of new and existing analytical capabilities that are designed for different user needs, from sophisticated analysts to casual users.

Our products are used by people of diverse skill levels across all kinds of organizations, including Fortune 500 corporations, small and medium-sized businesses, government agencies, universities, research institutions and non-profits. As of September 30, 2018, we had over 82,000 customer accounts. We define a customer account as a single purchaser of our products. Customer accounts are typically organizations. In some cases, organizations will have multiple groups purchasing our software, which we count as discrete customer accounts.

Our distribution strategy is designed to capitalize on the ease of use, low up-front cost, flexible deployment and collaborative capabilities of our software. To facilitate rapid adoption of our products, we provide fully-functional free trial versions of our products on our website and offer a flexible pricing model. After an initial trial or purchase, an organization has the flexibility to expand adoption of our products at any scale.

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We generate revenues primarily in the form of software license fees and related maintenance and services fees. Software license revenues include fees from the sales of perpetual, term and subscription licenses to new and existing customers. Revenues from term and subscription licenses have been increasing in recent periods as we have been transitioning to a more subscription-based business model. Revenues from term and subscription licenses include license revenues from Tableau Online, enterprise license agreements, term license sales and original equipment manufacturer ("OEM") arrangements. We expect revenues from term and subscription licenses to continue to become a larger percentage of our total license revenues as demand from our customer base continues to shift to cloud-based and subscription products and as our customers enter into additional enterprise license agreements and renew their existing term and subscription license agreements.

Maintenance and services revenues primarily consist of revenues recognized from the sale of maintenance agreements (including support and unspecified upgrades and enhancements if and when they are available) and, to a lesser extent, for training and professional services that help our customers maximize the benefits from using our products. A substantial majority of our maintenance and services revenues to date have been attributable to revenues from maintenance agreements that are recognized ratably over the maintenance period. Our contracts with customers for on-premises software licenses include maintenance services, with the opportunity to renew maintenance service thereafter. Some customers provide purchase commitments upfront for multiple years of subscription-based software licenses and maintenance services. We expect that maintenance and services revenues will continue to increase as our customer base grows. We expect that this growth, combined with the shift to a more subscription-based business model, will result in a larger proportion of our total revenues that will be recognized from recurring sources and make our revenues more predictable.

We adopted the new revenue recognition accounting standard, Accounting Standards Codification (“ASC”) 606, effective January 1, 2018 on a modified retrospective basis. Our results of operations as presented within the following discussion and analysis includes financial results for reporting periods during 2018, which are disclosed in compliance with the new revenue recognition standard. Historical financial results for reporting periods prior to 2018 have not been retroactively restated and are presented in conformity with amounts previously disclosed under the prior revenue recognition standard ASC 605. We have included additional information regarding the impacts from the adoption of the new revenue recognition standard for the three and nine months ended September 30, 2018 and included financial results during 2018 under ASC 605 for comparison to the prior year. See Note 2 of the accompanying notes to the condensed consolidated financial statements for additional information related to our adoption of the new revenue recognition standard.

Our direct sales approach includes inside sales teams and field sales teams. We also sell our products through indirect sales channels including technology vendors, resellers, OEMs, independent software vendors ("ISV") and distributors. We view these partners as an extension of our team, playing an integral role in our growth. We plan to continue to invest in our partner programs to help us enter into and grow in new markets while complementing our direct sales efforts.

With approximately 29% and 30% of our total ASC 606 revenues generated from customers located outside the United States and Canada for the three and nine months ended September 30, 2018, respectively, we believe there is significant opportunity to expand our international business. Our products currently support eight languages, and we are expanding our direct sales force and indirect sales channels outside the United States.

Our quarterly results reflect seasonality in the sale of our products and services. Historically, we believe a pattern of increased software license sales in the fourth quarter, as a result of industry buying patterns, has positively impacted total revenues in that period, which has resulted in low or negative sequential revenue growth in the first quarter compared to the prior quarter. The impacts from our adoption of the new revenue recognition standard should be considered when comparing total ASC 606 revenues for the three and nine months ended September 30, 2018 to total ASC 605 revenues for the three and nine months ended September 30, 2017. We have presented total ASC 605 revenues for the three and nine months ended September 30, 2018 below for comparability against the prior period results.

We continue to expand our customer base. As of September 30, 2018, we had over 82,000 customer accounts compared to over 65,000 customer accounts as of September 30, 2017.

During the three and nine months ended September 30, 2018, we closed 378 and 1,115 sales transactions greater than $100,000, respectively, compared to 337 and 1,003 during the three and nine months ended September 30, 2017, respectively. We had 23 customer accounts that purchased greater than $1.0 million during the three months ended September 30, 2018, compared to 13 during the three months ended September 30, 2017. We anticipate that the quantity of sales transactions greater than $100,000 and quantity of customer accounts that purchase more than $1.0 million during the quarter will continue to fluctuate on a quarter by quarter basis. These

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metrics are impacted by our transition to a more subscription-based business model as the unit sales price of each term and subscription license is lower than a comparable perpetual license.

We use Subscription Annual Recurring Revenue (“Subscription ARR”) and Total Annual Recurring Revenue (“Total ARR”) to assess the results of our transition to a more subscription-based business model. Subscription ARR represents the annualized recurring value of all active subscription contracts at the end of a reporting period. Subscription ARR includes term licenses and renewals, subscription enterprise license agreements and Tableau Online subscriptions and renewals, and excludes distribution OEM license agreements and perpetual-style enterprise license agreements. As of September 30, 2018, Subscription ARR was $362.4 million, up from $139.2 million as of September 30, 2017. Total ARR represents the annualized recurring value of all active contracts at the end of a reporting period. Total ARR includes Subscription ARR and the annualized value of all maintenance contracts related to perpetual licenses active at the end of a reporting period. As of September 30, 2018, Total ARR was $762.6 million, up from $526.2 million as of September 30, 2017.

We measure renewal rates for our customers over a 12-month period of time, based on a dollar renewal rate for contracts expiring during that time period. Our renewal rate is measured three months after the 12-month period ends to account for late renewals. Our renewal rate for the 12-month period ended June 30, 2018 was over 90%.

Factors Affecting Our Performance

We believe that our performance and future success are dependent upon a number of factors, including our ability to continue to expand and further penetrate our customer base, including shifts in the mix of term and subscription license sales versus perpetual license sales; innovate and enhance our products; and invest in our infrastructure. While each of these areas presents significant opportunities for us, they also pose significant risks and challenges that we must successfully address. See the section of this report titled "Item 1A. Risk Factors."

Investment in Expansion and Further Penetration of Our Customer Base

Our performance depends on our ability to continue to attract new customers and to increase adoption of our products within our existing customer base, both domestically and internationally. Our ability to increase adoption among existing customers is important to our business model. We operate in a rapidly growing analytics and business intelligence software market. We believe that we are well-positioned in the market to expand our customer base and to increase adoption of our products within and across our existing customers, including further adoption of our term and subscription software licenses. Our term and subscription license pricing reduces initial investment costs, allowing customers to more easily deploy Tableau at scale. We recently introduced role-based subscription offerings to help organizations scale analytics. These offerings provide tailored combinations of new and existing analytical capabilities that are designed for different user needs from sophisticated analysts to casual users. We expect revenues from term and subscription licenses to continue to become a larger percentage of our total license revenues as demand from our customer base shifts to cloud-based and subscription products and as our customers enter into additional enterprise license agreements and renew their existing term and subscription license agreements.

In order to expand and further penetrate our customer base, we have made and plan to continue to make investments to grow our direct sales teams and indirect sales channels and to increase our brand awareness. We plan to continue to increase the size of our sales and marketing team domestically and internationally. We also intend to continue to expand our online and offline marketing efforts to increase our brand awareness.

Investment in Innovation and Advancement of Our Products

Our performance is also dependent on the investments we make in our research and development ("R&D") efforts and in our ability to continue to innovate, improve our platform, adapt to new technologies or changes to existing technologies and allow our customers to analyze data from a large and expanding range of data stores. We intend to continue to invest in product innovation and leadership, including hiring top technical talent, focusing on core technology innovation, integrating acquired technologies and maintaining an agile organization that supports rapid release cycles.

Investment in Infrastructure

We have made and expect to continue to make investments in our infrastructure in order to enhance and expand our operations. We expect to continue to open new offices internationally and domestically. Our international expansion efforts have resulted and will result in increased costs and are subject to a variety of risks including those associated

with communication and integration problems resulting from geographic dispersion and language and cultural differences as well as those associated with compliance with laws of multiple countries. Moreover, the investments we have made and will make in our international organization may not result in our

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expected benefits. We expect to rely on our current cash on hand and cash generated from our operations to fund these investments. These costs could adversely affect our operating results.

Mix and Timing of Sales

Our business model results in a wide variety of sales transaction sizes. The time it takes to close a transaction, defined as the time between the entering of a sales opportunity into our customer relationship management system and the signing of a related license agreement with the customer, generally varies based on the size of the transaction. Our enterprise license agreements generally have more extended sales cycles and take longer to close.

Components of Operating Results

Revenues

License revenues. License revenues consist of revenues recognized from the sale of perpetual, term and subscription licenses to new and existing customers. Our on-premises software licenses are sold through both perpetual and term-based license agreements. We also generate license revenues from the sale of software OEM arrangements and from sales of Tableau Online, a cloud-based subscription, which allows customers to access our software during a contractual period without taking possession of the software. Revenues from our cloud-based subscriptions are included in license revenues. We adopted the new revenue recognition accounting standard ASC 606 effective January 1, 2018 on a modified retrospective basis. The new revenue recognition standard materially impacts the way we recognize revenues related to our on-premises term-based software license agreements. See Note 2 of the accompanying notes to the condensed consolidated financial statements for additional information related to our adoption of the new revenue recognition standard.

Maintenance and services revenues. Maintenance and services revenues consist of revenues recognized from the sale of maintenance agreements (including support and unspecified upgrades and enhancements if and when they are available) and, to a lesser extent, for training and professional services. A substantial majority of our maintenance and services revenues to date have been attributable to revenues from maintenance agreements that are recognized ratably over the maintenance period. Our contracts with customers for on-premises software licenses include one year of maintenance services, with the opportunity to renew maintenance service thereafter. Some customers provide purchase commitments upfront for multiple years of subscription-based software licenses and maintenance services. We also have a professional services organization focused on both training and assisting our customers to fully leverage the use of our products. We recognize the revenues associated with these professional services on a time and materials basis as we deliver the services or provide the training.

Cost of Revenues

Cost of license revenues. Cost of license revenues primarily consists of referral fees paid to third parties, expenses related to hosting our SaaS-based Tableau Online service, amortization of acquired intangible assets and other costs including providing support and allocated overhead. Allocated overhead includes overhead costs for depreciation of equipment, facilities (consisting of leasehold improvements amortization and rent) and technical operations (including costs for compensation of our personnel and costs associated with our infrastructure). We expect that the cost of license revenues will increase as a percentage of license revenues as sales of subscriptions to Tableau Online increase.

Cost of maintenance and services revenues. Cost of maintenance and services revenues includes salaries, benefits and stock-based compensation expense associated with our technical support and services organization, as well as allocated overhead, which includes facilities-related costs. We recognize expenses related to our technical support and services organization as they are incurred.

Gross Profit and Gross Margin

Gross profit is total revenues less total cost of revenues. Total gross margin is gross profit expressed as a percentage of total revenues.

Operating Expenses

Our operating expenses are classified into three categories: sales and marketing, research and development, and general and administrative. For each category, the largest component is personnel costs, which include salaries, payroll taxes, employee benefit costs, bonuses and commissions, as applicable, and stock-based compensation.

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Sales and marketing. Sales and marketing expenses primarily consist of personnel-related costs attributable to our sales and marketing personnel, commissions earned by our sales personnel, including the amortization of deferred costs of obtaining contracts with customers, other marketing and travel-related costs and allocated overhead, which includes facilities-related costs. We expect sales and marketing expenses to continue to increase, in absolute dollars, primarily due to growth in our sales and marketing organization, both domestically and internationally. We expect sales and marketing expenses to be our largest category of operating expenses as we continue to expand our business.
Research and development. R&D expenses primarily consist of personnel-related costs attributable to our R&D personnel and contractors, as well as allocated overhead, which includes facilities-related costs. We have devoted our product development efforts primarily to incorporate additional features, improve our platform, develop new products and adapt to new technologies or changes to existing technologies. We expect that our R&D expenses will continue to increase, in absolute dollars, as we increase our R&D headcount to further enhance and develop our products.
General and administrative. General and administrative expenses primarily consist of personnel-related costs attributable to our executive, finance, legal, human resources and administrative personnel, allocated overhead, which includes facilities-related costs, as well as outsourced legal, accounting and other professional services fees. We expect that general and administrative expenses will continue to increase, in absolute dollars, as we further expand our operations both domestically and internationally.

Other Income (Expense), Net

Other income (expense), net consists primarily of gains and losses on foreign currency transactions and interest income on our cash and cash equivalents and investment balances. We expect interest income will continue to increase, in absolute dollars, due to rising interest rates and our investments in fixed income securities.

Income Tax Expense (Benefit)

Our income taxes are based on the amount of our taxable income and enacted federal, state and foreign tax rates, adjusted for allowable credits, deductions and the valuation allowance against deferred tax assets, as applicable. Our provision for income taxes consists of federal, state and foreign taxes.
We generally conduct our international operations through wholly-owned subsidiaries, branches and representative offices and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our corporate structure and intercompany arrangements align with the international expansion of our business activities. The application of the tax laws of various jurisdictions, including the United States, to our international business activities is subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine the manner in which we operate our business is not consistent with the manner in which we report our income to the jurisdictions. If such a disagreement were to occur, and our positions were not sustained, we could be required to pay additional taxes, interest and penalties, resulting in higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Additionally, our future worldwide tax rate and financial position may be affected by changes in the relevant tax laws, interpretation of such tax laws or the influence of certain tax policy efforts of the European Union and the Organization for Economic Co-operation and Development ("OECD").
Our income tax provision may be significantly affected by changes to our estimates for taxes in jurisdictions in which we operate and other estimates utilized in determining our global effective tax rate. Actual results may also differ from our estimates based on changes in tax laws and economic conditions. Such changes could have a substantial impact on the income tax provision and effective income tax rate.
We are subject to the continuous examinations of our income tax returns by the taxing authorities in various tax jurisdictions, where authorities may assess additional income tax liabilities against us. Although we believe our tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different from our historical income tax provisions. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). The preparation of condensed consolidated financial statements requires us

to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our

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estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows could be affected.

We adopted the new revenue recognition accounting standard ASC 606 effective January 1, 2018 on a modified retrospective basis. See Note 2 of the accompanying notes to the condensed consolidated financial statements for additional information related to our adoption of the new revenue recognition standard. There were no other material changes to our critical accounting policies and estimates compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K, filed with the SEC on February 26, 2018.

Recent Accounting Pronouncements

The anticipated impact of recent accounting pronouncements is discussed in Note 2 of the accompanying notes to the condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

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Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenues for those periods. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods. We adopted the new revenue recognition accounting standard ASC 606 effective January 1, 2018 on a modified retrospective basis. Our results of operations presented in the following tables include financial results for reporting periods during 2018, which are disclosed in compliance with the new revenue recognition standard. Historical financial results for reporting periods prior to 2018 have not been retroactively restated and are presented in conformity with amounts previously disclosed under the prior revenue recognition standard ASC 605. We have included additional information regarding the impacts from the adoption of the new revenue recognition standard for the three and nine months ended September 30, 2018 and included financial results during 2018 under ASC 605 for comparison to the prior year. See Note 2 of the accompanying notes to the condensed consolidated financial statements for additional information related to our adoption of the new revenue recognition standard.

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Condensed Consolidated Statements of Operations Data:				
Revenues				
License	$138,127	$(20,095)	$118,032	$99,424
Maintenance and services	152,453	(30,894)	121,559	115,493
Total revenues	290,580	(50,989)	239,591	214,917
Cost of revenues				
License	5,230	(121)	5,109	3,265
Maintenance and services	29,549	148	29,697	26,664
Total cost of revenues (1)	34,779	27	34,806	29,929
Gross profit	255,801	(51,016)	204,785	184,988
Operating expenses				
Sales and marketing (1)	142,129	7,828	149,957	123,842
Research and development (1)	97,939	—	97,939	84,494
General and administrative (1)	30,959	—	30,959	25,697
Total operating expenses	271,027	7,828	278,855	234,033
Operating loss	(15,226)	(58,844)	(74,070)	(49,045)
Other income, net	4,381	32	4,413	3,677
Loss before income tax expense	(10,845)	(58,812)	(69,657)	(45,368)
Income tax expense	10,492	(8,852)	1,640	1,185
Net loss	$(21,337)	$(49,960)	$(71,297)	$(46,553)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,	
	2018	2017
	(in thousands)	
Cost of revenues	$3,488	$2,885
Sales and marketing	22,357	18,603

Research and development	29,926	27,337
General and administrative	6,175	5,489

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	Three Months Ended September 30,		
	2018		2017
	As Reported (ASC 606)	Without Adoption (ASC 605)	As Reported (ASC 605)
	(as a percentage of total revenues)		
Condensed Consolidated Statements of Operations Data:			
Revenues			
License	47.5 %	49.3 %	46.3 %
Maintenance and services	52.5 %	50.7 %	53.7 %
Total revenues	100.0 %	100.0 %	100.0 %
Cost of revenues			
License	1.8 %	2.1 %	1.5 %
Maintenance and services	10.2 %	12.4 %	12.4 %
Total cost of revenues	12.0 %	14.5 %	13.9 %
Gross profit	88.0 %	85.5 %	86.1 %
Operating expenses			
Sales and marketing	48.9 %	62.6 %	57.6 %
Research and development	33.7 %	40.9 %	39.3 %
General and administrative	10.7 %	12.9 %	12.0 %
Total operating expenses	93.3 %	116.4 %	108.9 %
Operating loss	(5.2)%	(30.9)%	(22.8)%
Other income, net	1.5 %	1.8 %	1.7 %
Loss before income tax expense	(3.7)%	(29.1)%	(21.1)%
Income tax expense	3.6 %	0.7 %	0.6 %
Net loss	(7.3)%	(29.8)%	(21.7)%

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	Nine Months Ended September 30, 2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Condensed Consolidated Statements of Operations Data:				
Revenues				
License	$384,768	$(38,489)	$346,279	$299,964
Maintenance and services	434,308	(73,386)	360,922	327,739
Total revenues	819,076	(111,875)	707,201	627,703
Cost of revenues				
License	13,810	(264)	13,546	9,474
Maintenance and services	88,619	315	88,934	73,775
Total cost of revenues (1)	102,429	51	102,480	83,249
Gross profit	716,647	(111,926)	604,721	544,454
Operating expenses				
Sales and marketing (1)	424,685	18,787	443,472	366,020
Research and development (1)	285,477	—	285,477	249,863
General and administrative (1)	93,055	—	93,055	76,017
Total operating expenses	803,217	18,787	822,004	691,900
Operating loss	(86,570)	(130,713)	(217,283)	(147,446)
Other income, net	12,709	112	12,821	8,931
Loss before income tax expense	(73,861)	(130,601)	(204,462)	(138,515)
Income tax expense	6,014	(586)	5,428	5,207
Net loss	$(79,875)	$(130,015)	$(209,890)	$(143,722)

(1) Includes stock-based compensation expense as follows:

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Cost of revenues	$9,774	$8,252
Sales and marketing	64,522	55,221
Research and development	81,920	76,500
General and administrative	19,805	15,650

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	Nine Months Ended September 30,		
	2018		2017
	As Reported (ASC 606)	Without Adoption (ASC 605)	As Reported (ASC 605)
	(as a percentage of total revenues)		
Condensed Consolidated Statements of Operations Data:			
Revenues			
License	47.0 %	49.0 %	47.8 %
Maintenance and services	53.0 %	51.0 %	52.2 %
Total revenues	100.0 %	100.0 %	100.0 %
Cost of revenues			
License	1.7 %	1.9 %	1.5 %
Maintenance and services	10.8 %	12.6 %	11.8 %
Total cost of revenues	12.5 %	14.5 %	13.3 %
Gross profit	87.5 %	85.5 %	86.7 %
Operating expenses			
Sales and marketing	51.8 %	62.7 %	58.3 %
Research and development	34.9 %	40.4 %	39.8 %
General and administrative	11.4 %	13.2 %	12.1 %
Total operating expenses	98.1 %	116.2 %	110.2 %
Operating loss	(10.6)%	(30.7)%	(23.5)%
Other income, net	1.6 %	1.8 %	1.4 %
Loss before income tax expense	(9.0)%	(28.9)%	(22.1)%
Income tax expense	0.7 %	0.8 %	0.8 %
Net loss	(9.8)%	(29.7)%	(22.9)%

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

Revenues

	Three Months Ended September 30,					
	2018			2017	% Change	
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Without Adoption
	(dollars in thousands)					
Revenues						
License	$138,127	$(20,095)	$118,032	$99,424	38.9%	18.7 %
Maintenance and services	152,453	(30,894)	121,559	115,493	32.0%	5.3 %
Total revenues	$290,580	$(50,989)	$239,591	$214,917	35.2%	11.5 %

Total ASC 605 revenues increased $24.7 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to increased demand for our products and services from new and existing customers both domestically and internationally. For example, as of September 30, 2018, we had over 82,000 customer accounts compared to over 65,000 customer accounts as of September 30, 2017.

ASC 605 license revenues increased $18.6 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The increase in ASC 605 license revenues was impacted by the continued growth in customer demand for our term and subscription licenses. Revenues from term and subscription licenses represented approximately 72% of total ASC 605 license revenues during the three months ended September 30, 2018 compared to approximately 34% during the three months ended September 30, 2017. Our term and subscription licenses have lower unit sales prices and were generally recognized ratably under ASC 605 compared to our perpetual licenses, which have comparably higher unit sales prices and were recognized upfront under ASC 605. The growth in customer demand for our term and subscription licenses also increased the amount of amortized license revenues under ASC 605 for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. ASC 605 maintenance and services revenues increased $6.1 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 driven by our growing customer base.

Total ASC 606 revenues were $290.6 million for the three months ended September 30, 2018 compared to total ASC 605 revenues of $239.6 million. The new revenue recognition standard materially impacts the timing of revenue recognition related to our on-premises term license agreements. Prior to our adoption of the new revenue recognition standard, we historically recognized revenue under ASC 605 related to on-premises term license agreements ratably over the term of the licensing agreement. Term license revenues were then included in license revenues. Under the new revenue recognition standard, revenue allocable to the license portion of the arrangement is recognized in license revenues upon delivery of the license. Maintenance and services revenues continue to be recognized ratably.

	Nine Months Ended September 30,					
	2018			2017	% Change	
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Without Adoption
	(dollars in thousands)					
Revenues						
License	$384,768	$(38,489)	$346,279	$299,964	28.3%	15.4 %
Maintenance and services	434,308	(73,386)	360,922	327,739	32.5%	10.1 %
Total revenues	$819,076	$(111,875)	$707,201	$627,703	30.5%	12.7 %

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The fluctuations in revenues for the nine-month periods were attributable to the same factors described in the three-month section shown above.

Cost of Revenues and Gross Margin

	Three Months Ended September 30,						
	2018			2017	% Change		
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Without Adoption	
	(dollars in thousands)						
Cost of revenues							
License	$5,230	$ (121)	$ 5,109	$ 3,265	60.2%	56.5	%
Maintenance and services	29,549	148	29,697	26,664	10.8%	11.4	%
Total cost of revenues	$34,779	$ 27	$ 34,806	$ 29,929	16.2%	16.3	%

	Three Months Ended September 30,				
	2018			2017	
	As Reported (ASC 606)	Without Adoption (ASC 605)		As Reported (ASC 605)	
Gross Margin					
License	96.2%	95.7	%	96.7	%
Maintenance and services	80.6%	75.6	%	76.9	%
Total gross margin	88.0%	85.5	%	86.1	%

Total ASC 605 cost of revenues increased $4.9 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The increase was largely related to an increase in compensation expense of $4.0 million, which includes a $0.6 million increase in stock-based compensation expense, primarily resulting from headcount growth to support the delivery of our maintenance and services and to support Tableau Online. The remainder of the increase was primarily attributable to a $1.0 million increase in allocated overhead, which includes facilities related costs. Cost of revenues under ASC 605 did not differ materially from cost of revenues under ASC 606 during the three months ended September 30, 2018.

	Nine Months Ended September 30,						
	2018			2017	% Change		
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Without Adoption	
	(dollars in thousands)						
Cost of revenues							
License	$13,810	$ (264)	$13,546	$ 9,474	45.8%	43.0	%
Maintenance and services	88,619	315	88,934	73,775	20.1%	20.5	%
Total cost of revenues	$102,429	$ 51	$102,480	$ 83,249	23.0%	23.1	%

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	Nine Months Ended September 30,		
	2018		2017
	As Reported (ASC 606)	Without Adoption (ASC 605)	As Reported (ASC 605)
Gross Margin			
License	96.4%	96.1 %	96.8 %
Maintenance and services	79.6%	75.4 %	77.5 %
Total gross margin	87.5%	85.5 %	86.7 %

Total ASC 605 cost of revenues increased $19.2 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increase was largely related to an increase in compensation expense of $13.4 million, which includes a $1.5 million increase in stock-based compensation expense, primarily resulting from headcount growth to support the delivery of our maintenance and services and to support Tableau Online. The remainder of the increase was primarily attributable to a $2.9 million increase in allocated overhead, which includes facilities related costs. Cost of revenues under ASC 605 did not differ materially from cost of revenues under ASC 606 during the nine months ended September 30, 2018.

Operating Expenses

	Three Months Ended September 30,					
	2018			2017	% Change	
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Without Adoption
	(dollars in thousands)					
Operating expenses						
Sales and marketing	$142,129	$ 7,828	$149,957	$123,842	14.8%	21.1 %
Research and development	97,939	—	97,939	84,494	15.9%	15.9 %
General and administrative	30,959	—	30,959	25,697	20.5%	20.5 %
Total operating expenses	$271,027	$ 7,828	$278,855	$234,033	15.8%	19.2 %

Sales and Marketing

ASC 605 sales and marketing expenses increased $26.1 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The increase was largely related to an increase in compensation expense of $20.0 million, which includes a $3.8 million increase in stock-based compensation expense, primarily resulting from headcount growth as we expanded our sales organization both domestically and internationally. The remainder of the increase was primarily attributable to a $4.7 million increase in marketing and travel-related costs for marketing promotions, customer events and advertising that promoted our brand and created market awareness for our technology offerings both domestically and internationally.

ASC 606 sales and marketing expenses were $142.1 million for the three months ended September 30, 2018 compared to ASC 605 sales and marketing expenses of $150.0 million. The difference of $7.8 million relates to the net impacts from the deferral of sales compensation expense under ASC 606. All of our sales compensation costs are expensed as incurred under ASC 605.

Research and Development

Research and development expenses increased $13.4 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The increase was largely related to an increase in compensation expense of $12.4 million, which includes a $2.6 million increase in stock-based compensation expense, primarily resulting from headcount growth as part of our focus on further developing and enhancing our products.

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General and Administrative

General and administrative expenses increased $5.3 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The increase was largely related to an increase in compensation expense of $3.1 million, which includes a $0.7 million increase in stock-based compensation expense, primarily resulting from headcount growth to support our expansion both domestically and internationally.

	Nine Months Ended September 30,					
	2018			2017	% Change	
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Without Adoption
	(dollars in thousands)					
Operating expenses						
Sales and marketing	$424,685	$ 18,787	$443,472	$366,020	16.0%	21.2 %
Research and development	285,477	—	285,477	249,863	14.3%	14.3 %
General and administrative	93,055	—	93,055	76,017	22.4%	22.4 %
Total operating expenses	$803,217	$ 18,787	$822,004	$691,900	16.1%	18.8 %

Sales and Marketing

ASC 605 sales and marketing expenses increased $77.5 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increase was largely related to an increase in compensation expense of $60.4 million, which includes a $9.3 million increase in stock-based compensation expense, primarily resulting from headcount growth as we expanded our sales organization both domestically and internationally. The remainder of the increase was primarily attributable to a $13.1 million increase in marketing and travel-related costs for marketing promotions, customer events and advertising that promoted our brand and created market awareness for our technology offerings both domestically and internationally.

ASC 606 sales and marketing expenses were $424.7 million for the nine months ended September 30, 2018 compared to ASC 605 sales and marketing expenses of $443.5 million for the nine months ended September 30, 2018. The difference of $18.8 million relates to the net impacts from the deferral of sales compensation expense under ASC 606. All of our sales compensation costs are expensed as incurred under ASC 605.

Research and Development

Research and development expenses increased $35.6 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increase was largely related to an increase in compensation expense of $33.1 million, which includes a $5.4 million increase in stock-based compensation expense, primarily resulting from headcount growth as part of our focus on further developing and enhancing our products.

General and Administrative

General and administrative expenses increased $17.0 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increase was largely related to an increase in compensation expense of $11.0 million, which includes a $4.2 million increase in stock-based compensation expense, primarily resulting from headcount growth to support our expansion both domestically and internationally. The remainder of the increase was primarily attributable to a $3.0 million increase in outsourced professional service fees related to the growth of our business as we expand our operations and infrastructure both domestically and internationally.

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Other Income, Net

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Other income, net	$4,381	$ 32	$ 4,413	$ 3,677

Other income, net increased during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to an increase in interest income earned on our cash equivalent and investment balances.

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Other income, net	$12,709	$ 112	$ 12,821	$ 8,931

Other income, net increased for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to an increase in interest income earned on our cash equivalent and investment balances.

Income Tax Expense

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(dollars in thousands)			
Income tax expense	$10,492	$(8,852)	$1,640	$1,185
Effective tax rate	(96.7)%		(2.4)%	(2.6)%

Our ASC 605 effective tax rate for the three months ended September 30, 2018 was (2.4)% compared to (2.6)% for the three months ended September 30, 2017. The difference in the effective tax rates between the three month periods is primarily attributable to an increase in taxes in foreign jurisdictions, offset by an income tax benefit from the recognition of excess tax benefits of stock-based compensation during the three months ended September 30, 2018.
Our ASC 606 effective tax rate for the three months ended September 30, 2018 was (96.7)% compared to (2.6)% for the three months ended September 30, 2017. The difference in the effective tax rates between the three month periods is primarily attributable to the cumulative adjustment recorded during the three months ended September 30, 2018 for the current estimated annual effective tax rate. The difference in effective tax rates between ASC 606 and ASC 605 is primarily attributable to the differences in the amount of revenue recognized under ASC 606 compared to ASC 605.

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	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(dollars in thousands)			
Income tax expense	$6,014	$ (586)	$5,428	$5,207
Effective tax rate	(8.1)%		(2.7)%	(3.8)%

Our ASC 605 effective tax rate for the nine months ended September 30, 2018 was (2.7)% compared to (3.8)% for the nine months ended September 30, 2017. The difference in the effective tax rates between the nine month periods is primarily attributable to an increase in taxes in foreign jurisdictions, offset by an income tax benefit from the recognition of excess tax benefits of stock-based compensation during the nine months ended September 30, 2018.

Our ASC 606 effective tax rate for the nine months ended September 30, 2018 was (8.1)% compared to (3.8)% for the nine months ended September 30, 2017. The difference in the effective tax rates between the nine month periods is primarily attributable to additional income as a result of our adoption of ASC 606 partially offset by the recognition of excess tax benefits of stock-based compensation during the period. The difference in effective tax rates between ASC 606 and ASC 605 is primarily attributable to the differences in the amount of revenue recognized under ASC 606 compared to ASC 605.

See Note 9 of the accompanying notes to the condensed consolidated financial statements for additional information.

Non-GAAP Financial Measures

We believe that the use of non-GAAP gross profit and gross margin, non-GAAP operating income (loss) and operating margin, non-GAAP net income (loss), non-GAAP net income (loss) per basic and diluted common share and free cash flow is helpful to our investors. These measures, which we refer to as our non-GAAP financial measures, are not prepared in accordance with GAAP. Non-GAAP gross profit is calculated by excluding stock-based compensation expense and expense related to amortization of acquired intangible assets, each to the extent attributable to the cost of revenues, from gross profit. Non-GAAP gross margin is the ratio calculated by dividing non-GAAP gross profit by total revenues. Non-GAAP operating income (loss) is calculated by excluding stock-based compensation expense and expense related to amortization of acquired intangible assets from operating income (loss). Non-GAAP operating margin is the ratio calculated by dividing non-GAAP operating income (loss) by total revenues. Non-GAAP net income (loss) is calculated by excluding stock-based compensation expense, expense related to amortization of acquired intangible assets and non-GAAP income tax adjustments from net income (loss). Non-GAAP net income (loss) per basic and diluted common share is calculated by dividing non-GAAP net income (loss) by the basic and diluted weighted average shares outstanding. Non-GAAP diluted weighted average shares outstanding includes the effect of dilutive shares in periods of non-GAAP net income.

Non-GAAP financial information is adjusted for a tax rate equal to our estimated tax rate on non-GAAP income over a three-year financial projection. This long-term rate is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures. To determine this long-term non-GAAP tax rate, we evaluate a three-year financial projection that excludes the impact of non-cash stock-based compensation expense and expense related to amortization of acquired intangible assets. The long-term non-GAAP tax rate takes into account other factors including our current operating structure, our existing tax positions in various jurisdictions and key legislation in major jurisdictions where we operate. The long-term non-GAAP tax rate applied to the three and nine months ended September 30, 2018 was 20%. The long-term non-GAAP tax rate applied to the three and nine months ended September 30, 2017 was 30%. We applied these same non-GAAP tax rates to our financial results presented in accordance with ASC 606 and ASC 605. The long-term non-GAAP tax rates assume our deferred income tax assets will be realized based upon projected future taxable income excluding stock-based compensation expense. We anticipate using the long-term non-GAAP tax rate of 20% applied to the three and nine months ended September 30, 2018 in future periods and may provide updates to this rate on an annual basis, or more frequently if material changes occur.

Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash expenses, we believe that providing non-GAAP financial measures that exclude stock-based compensation expense allow for meaningful comparisons between our operating results from period to period. The expense related to amortization of acquired intangible assets is

dependent upon estimates and assumptions, which can vary significantly and are unique to each asset acquired; therefore, we believe non-GAAP measures that adjust for the amortization of acquired intangible assets provides investors a consistent basis for comparison across accounting periods. All of these non-GAAP financial measures are important tools for financial and operational decision-making and for evaluating our operating results over different periods of time.

We calculate free cash flow as net cash provided by operating activities less net cash used in investing activities for purchases of property and equipment. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our business that can be used for strategic opportunities, including investing in our business, making strategic acquisitions, repurchasing our common stock and strengthening our balance sheet. All of our non-GAAP financial measures are important tools for financial and operational decision-making and for evaluating our own operating results over different periods of time.

Our non-GAAP financial measures may not provide information that is directly comparable to information provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial measures differently. In addition, there are limitations in using non-GAAP financial measures because non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact on our reported financial results. Further, stock-based compensation expense has been and will continue to be for the foreseeable future a significant recurring expense in our business and an important part of the compensation provided to our employees. Because of the significant impact of the adoption of ASC 606 on our results of operations, non-GAAP financial measures for the three and nine months ended September 30, 2018 (computed in accordance with ASC 606) are not as comparable to non-GAAP financial measures for the three and nine months ended September 30, 2017 (computed in accordance with ASC 605). The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. We urge our investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below and not to rely on any single financial measure to evaluate our business.

The following tables summarize our non-GAAP financial measures:

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(dollars in thousands)			
Non-GAAP gross profit	$259,805	$(51,016)	$208,789	$188,137
Non-GAAP gross margin	89.4 %		87.1 %	87.5 %
Non-GAAP operating income (loss)	$47,236	$(58,844)	$(11,608)	$5,533
Non-GAAP operating margin	16.3 %		(4.8)%	2.6 %
Non-GAAP net income (loss)	$41,293	$(47,049)	$(5,756)	$6,447

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(dollars in thousands)			
Non-GAAP gross profit	$727,690	$(111,926)	$615,764	$553,160
Non-GAAP gross margin	88.8 %		87.1 %	88.1 %
Non-GAAP operating income (loss)	$90,720	$(130,713)	$(39,993)	$8,631
Non-GAAP operating margin	11.1 %		(5.7)%	1.4 %
Non-GAAP net income (loss)	$82,743	$(104,481)	$(21,738)	$12,293
Free cash flow (1)	$93,946	$253	$94,199	$137,014

(1) Free cash flow is presented on a year-to-date basis only.

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The following tables present the reconciliation of gross profit to non-GAAP gross profit:

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Gross profit	$255,801	$(51,016)	$204,785	$184,988
Excluding: Stock-based compensation expense attributable to cost of revenues	3,488	—	3,488	2,885
Excluding: Amortization of acquired intangible assets	516	—	516	264
Non-GAAP gross profit	$259,805	$(51,016)	$208,789	$188,137

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Gross profit	$716,647	$(111,926)	$604,721	$544,454
Excluding: Stock-based compensation expense attributable to cost of revenues	9,774	—	9,774	8,252
Excluding: Amortization of acquired intangible assets	1,269	—	1,269	454
Non-GAAP gross profit	$727,690	$(111,926)	$615,764	$553,160

The following tables present the reconciliation of gross margin to non-GAAP gross margin:

	Three Months Ended September 30,		
	2018		2017
	As Reported (ASC 606)	Without Adoption (ASC 605)	As Reported (ASC 605)
Gross margin	88.0%	85.5 %	86.1 %
Excluding: Stock-based compensation expense attributable to cost of revenues	1.2 %	1.5 %	1.3 %
Excluding: Amortization of acquired intangible assets	0.2 %	0.2 %	0.1 %
Non-GAAP gross margin	89.4%	87.1 %	87.5 %

	Nine Months Ended September 30,		
	2018		2017
	As Reported (ASC 606)	Without Adoption (ASC 605)	As Reported (ASC 605)
Gross margin	87.5%	85.5 %	86.7 %
Excluding: Stock-based compensation expense attributable to cost of revenues	1.2 %	1.4 %	1.3 %
Excluding: Amortization of acquired intangible assets	0.2 %	0.2 %	0.1 %

Non-GAAP gross margin	88.8%	87.1 %	88.1 %

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The following tables present the reconciliation of operating loss to non-GAAP operating income (loss):

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Operating loss	$(15,226)	$(58,844)	$(74,070)	$(49,045)
Excluding: Stock-based compensation expense	61,946	—	61,946	54,314
Excluding: Amortization of acquired intangible assets	516	—	516	264
Non-GAAP operating income (loss)	$47,236	$(58,844)	$(11,608)	$5,533

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Operating loss	$(86,570)	$(130,713)	$(217,283)	$(147,446)
Excluding: Stock-based compensation expense	176,021	—	176,021	155,623
Excluding: Amortization of acquired intangible assets	1,269	—	1,269	454
Non-GAAP operating income (loss)	$90,720	$(130,713)	$(39,993)	$8,631

The following tables present the reconciliation of operating margin to non-GAAP operating margin:

	Three Months Ended September 30,		
	2018		2017
	As Reported (ASC 606)	Without Adoption (ASC 605)	As Reported (ASC 605)
Operating margin	(5.2)%	(30.9)%	(22.8)%
Excluding: Stock-based compensation expense	21.3%	25.9%	25.3%
Excluding: Amortization of acquired intangible assets	0.2%	0.2%	0.1%
Non-GAAP operating margin	16.3%	(4.8)%	2.6%

	Nine Months Ended September 30,		
	2018		2017
	As Reported (ASC 606)	Without Adoption (ASC 605)	As Reported (ASC 605)
Operating margin	(10.6)%	(30.7)%	(23.5)%
Excluding: Stock-based compensation expense	21.5%	24.9%	24.8%
Excluding: Amortization of acquired intangible assets	0.2%	0.2%	0.1%
Non-GAAP operating margin	11.1%	(5.7)%	1.4%

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The following tables present the reconciliation of net loss to non-GAAP net income (loss) and non-GAAP net income (loss) per basic and diluted common share:

	Three Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands, except per share amounts)			
Net loss	$(21,337)	$(49,960)	$(71,297)	$(46,553)
Excluding: Stock-based compensation expense	61,946	—	61,946	54,314
Excluding: Amortization of acquired intangible assets	516	—	516	264
Income tax adjustments	168	2,911	3,079	(1,578)
Non-GAAP net income (loss)	$41,293	$(47,049)	$(5,756)	$6,447
Weighted average shares used to compute non-GAAP basic net income (loss) per share	83,264		83,264	79,440
Effect of potentially dilutive shares: stock awards	4,376		—	4,398
Weighted average shares used to compute non-GAAP diluted net income (loss) per share	87,640		83,264	83,838
Non-GAAP net income (loss) per share:				
Basic	$0.50		$(0.07)	$0.08
Diluted	$0.47		$(0.07)	$0.08

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands, except per share amounts)			
Net loss	$(79,875)	$(130,015)	$(209,890)	$(143,722)
Excluding: Stock-based compensation expense	176,021	—	176,021	155,623
Excluding: Amortization of acquired intangible assets	1,269	—	1,269	454
Income tax adjustments	(14,672)	25,534	10,862	(62)
Non-GAAP net income (loss)	$82,743	$(104,481)	$(21,738)	$12,293
Weighted average shares used to compute non-GAAP basic net income (loss) per share	82,191		82,191	78,463
Effect of potentially dilutive shares: stock awards	4,092		—	3,981
Weighted average shares used to compute non-GAAP diluted net income (loss) per share	86,283		82,191	82,444
Non-GAAP net income (loss) per share:				
Basic	$1.01		$(0.26)	$0.16
Diluted	$0.96		$(0.26)	$0.15

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The following table presents the reconciliation of net cash provided by operating activities to free cash flow:

	Nine Months Ended September 30,			
	2018			2017
	As Reported (ASC 606)	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
	(in thousands)			
Net cash provided by operating activities	$107,929	$ 253	$108,182	$180,193
Less: Purchases of property and equipment	(13,983)	—	(13,983)	(43,179)
Free cash flow	$93,946	$ 253	$94,199	$137,014
Net cash used in investing activities	$(31,400)	$ —	$(31,400)	$(265,289)
Net cash used in financing activities	$(63,155)	$ —	$(63,155)	$(35,681)
Effect of exchange rate changes on cash and cash equivalents	$(1,998)	$ (253)	$(2,251)	$3,005

Non-GAAP Operating Income (Loss)

ASC 605 non-GAAP operating loss for the three months ended September 30, 2018 was $11.6 million compared to a non-GAAP operating income of $5.5 million for the three months ended September 30, 2017. The difference was primarily due to increases in our operating expenses relative to our total ASC 605 revenues. Increases in operating expenses were largely related to additional compensation expense, primarily resulting from headcount growth. Our ASC 605 revenue growth was impacted by changes in the mix of our sales of term and subscription licenses relative to sales of our perpetual licenses.

ASC 606 non-GAAP operating income for the three months ended September 30, 2018 was $47.2 million compared to a ASC 605 non-GAAP operating loss of $11.6 million. The difference in the amount of non-GAAP operating income (loss) under ASC 606 compared to ASC 605 relates to differences in the amount of revenue recognized under ASC 606 compared to ASC 605 and the net impacts from the deferral of certain sales commission costs under ASC 606.

ASC 605 non-GAAP operating loss for the nine months ended September 30, 2018 was $40.0 million compared to a non-GAAP operating income of $8.6 million for the nine months ended September 30, 2017. The difference was primarily due to increases in our operating expenses relative to our total ASC 605 revenues. Increases in operating expenses were largely related to additional compensation expense, primarily resulting from headcount growth. Our ASC 605 revenue growth was impacted by changes in the mix of our sales of term and subscription licenses relative to sales of our perpetual licenses.

ASC 606 non-GAAP operating income for the nine months ended September 30, 2018 was $90.7 million compared to a ASC 605 non-GAAP operating loss of $40.0 million. The difference in the amount of non-GAAP operating income (loss) under ASC 606 compared to ASC 605 relates to differences in the amount of revenue recognized under ASC 606 compared to ASC 605 and the net impacts from the deferral of certain sales commission costs under ASC 606.

Non-GAAP Net Income (Loss)

ASC 605 non-GAAP net loss for the three months ended September 30, 2018 was $5.8 million compared to a non-GAAP net income of $6.4 million for the three months ended September 30, 2017. The difference was primarily attributable to the increase in non-GAAP operating loss.

ASC 606 non-GAAP net income for the three months ended September 30, 2018 was $41.3 million compared to ASC 605 non-GAAP net loss of $5.8 million. The difference in the amount of non-GAAP net income (loss) under ASC 606 compared to ASC 605 relates to differences in the amount of revenue recognized under ASC 606 compared to ASC 605 and the net impacts from the deferral of certain sales commission costs under ASC 606.

ASC 605 non-GAAP net loss for the nine months ended September 30, 2018 was $21.7 million compared to a non-GAAP net income of $12.3 million for the nine months ended September 30, 2017. The difference was primarily attributable to the increase in non-GAAP operating loss.

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ASC 606 non-GAAP net income for the nine months ended September 30, 2018 was $82.7 million compared to ASC 605 non-GAAP net loss of $21.7 million. The difference in the amount of non-GAAP net income (loss) under ASC 606 compared to ASC 605 relates to differences in the amount of revenue recognized under ASC 606 compared to ASC 605 and the net impacts from the deferral of certain sales commission costs under ASC 606.

Free Cash Flow

ASC 606 free cash flow for the nine months ended September 30, 2018 was $93.9 million compared to free cash flow of $137.0 million for the nine months ended September 30, 2017. The decrease of $43.1 million was primarily attributable to the decrease in net cash provided by operating activities, partially offset by the decrease in cash used for capital expenditures to support the growth of our business. ASC 606 free cash flow did not differ materially from ASC 605 free cash flow.

Liquidity and Capital Resources

As of September 30, 2018, we had cash and cash equivalents totaling $639.3 million, investments of $381.1 million, accounts receivable, net of $187.4 million and $780.4 million of working capital.

The following tables show our cash and cash equivalents, investments and our cash flows from operating activities, investing activities and financing activities for the stated periods:

	September 30, 2018	December 31, 2017
	(in thousands)	
Cash and cash equivalents	$639,254	$ 627,878
Short-term investments	317,505	226,787
Long-term investments	63,551	148,364

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Net cash provided by operating activities	$107,929	$180,193
Net cash used in investing activities	(31,400)	(265,289)
Net cash used in financing activities	(63,155)	(35,681)
Effect of exchange rate changes	(1,998)	3,005
Net increase (decrease) in cash and cash equivalents	$11,376	$(117,772)

As of September 30, 2018, our cash and cash equivalents and short-term investments were held for working capital purposes and were held in cash deposits, money market funds, commercial paper, U.S. treasury securities, U.S. agency securities and corporate bonds. We intend to continue making capital expenditures to support the growth in our business and operations. We believe that our existing cash and cash equivalents and short-term investments, together with cash generated from operations, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support R&D efforts, the continued expansion of sales and marketing activities, the introduction of new and enhanced product and services offerings and the continued market acceptance of our products.

Operating Activities

Net cash provided by operating activities was $107.9 million for the nine months ended September 30, 2018 as a result of a net loss of $79.9 million, adjusted for stock-based compensation expense of $176.0 million and non-cash depreciation and amortization expense of $27.8 million related to capital assets. Net cash provided by operating activities was also impacted by a $14.2 million decrease in accounts receivable, net, a $38.5 million increase in accounts payable and accrued liabilities and a $71.7 million increase in prepaid expenses and other assets. Accounts receivable, net, was impacted by the seasonality of license and maintenance agreement sales, which are typically highest in the fourth quarter, as well as our transition to a more subscription-based business model. Fluctuations in accounts receivable, net is also impacted by purchase commitments from customers upfront for multiple years of subscription-based software licenses and maintenance services, which may be invoiced over multiple reporting

periods. The increase in accounts payable and accrued liabilities was primarily due to deferred conference registrations associated with our global customer conference and employee contributions under our

2013 ESPP. The increase in prepaid expenses and other assets was primarily due to an increase in our contract assets balance resulting from revenue recorded during the period under ASC 606 that was not yet billed. The increase in prepaid expenses and other assets was also impacted by the deferral of sales commission costs under ASC 606.
Net cash provided by operating activities was $180.2 million for the nine months ended September 30, 2017 as a result of a net loss of $143.7 million, adjusted for stock-based compensation expense of $155.6 million and non-cash depreciation and amortization expense of $34.2 million related to capital assets. Net cash provided by operating activities was also impacted by a $80.0 million decrease in accounts receivable, net, a $45.1 million increase in deferred revenue and a $9.5 million increase in accounts payable and accrued liabilities. The decrease in accounts receivable, net, was primarily due to seasonality of license and maintenance agreement sales, which are typically highest in the fourth quarter. The increase in deferred revenue was primarily due to increased sales of maintenance agreements and an increase in term and subscription license sales which had ratable revenue recognition in 2017 under our historical accounting policy. The increase in accounts payable and accrued liabilities was primarily due to the timing of payments and employee contributions under our 2013 ESPP.

Investing Activities

Cash used in investing activities was $31.4 million for the nine months ended September 30, 2018. The cash used for this period was attributable to purchases of investments of $206.5 million, offset by maturities of investments of $199.9 million. Cash used in investing activities was also impacted by capital expenditures to support the growth of our business of $14.0 million, and $10.9 million, net of cash acquired, used to purchase Empirical Systems, Inc., a privately-held Delaware corporation.
Cash used in investing activities was $265.3 million for the nine months ended September 30, 2017. The cash used for this period was attributable to purchases of investments of $198.1 million and capital expenditures to support the growth of our business of $43.2 million. Cash used in investing activities was also impacted by the $24.0 million, net of cash acquired, used to purchase ClearGraph, a privately-held Delaware corporation.

Financing Activities

Net cash used in financing activities was $63.2 million for the nine months ended September 30, 2018 as a result of repurchases of common stock under our stock repurchase program of $90.0 million, partially offset by proceeds of $9.5 million from the exercise of stock options and $17.4 million from the purchases of stock under our 2013 Employee Stock Purchase Plan ("2013 ESPP").
Net cash used in financing activities was $35.7 million for the nine months ended September 30, 2017 as a result of repurchases of common stock under our stock repurchase program of $60.0 million, partially offset by proceeds of $10.7 million from the exercise of stock options and $13.6 million from the purchases of stock under our 2013 ESPP.

Stock Repurchase Program

On November 1, 2016, we announced that our board of directors approved a stock repurchase program, under which we were authorized to repurchase up to $200 million of our outstanding Class A common stock. On April 26, 2018, our board of directors authorized us to repurchase up to an additional $300 million of our outstanding Class A common stock under our previously announced stock repurchase program. The repurchase program has no expiration date and may be modified, suspended or discontinued at any time. Repurchases under the program may be made from time to time on the open market at prevailing market prices, in privately negotiated transactions, in transactions structured through investment banking institutions or a combination of the foregoing, in compliance with Rule 10b-18 under the Exchange Act.
During the nine months ended September 30, 2018, we repurchased 961,468 shares of our outstanding Class A common stock at an average price of $93.63 per share for $90.0 million. During the nine months ended September 30, 2017, we repurchased 979,577 shares of our outstanding Class A common stock at an average price of $61.24 per share for $60.0 million. All repurchases were made in open market transactions using cash on hand, and all of the shares repurchased were retired. As of September 30, 2018, we were authorized to repurchase a remaining $310.0 million of our Class A common stock under our repurchase program.

Obligations and Commitments

As of September 30, 2018, our principal obligations consisted of obligations outstanding under non-cancellable operating leases that expire at various dates through 2029. See Note 10 to the accompanying notes to the condensed

consolidated financial statements for additional information on our operating leases including changes to our principal lease commitments compared to those discussed in Management's Discussion and

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Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Our contractual commitments are associated with agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included. See Note 10 of the accompanying notes to the condensed consolidated financial statements for additional information on our contractual commitments including changes compared to those discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management believes there have been no material changes to our quantitative and qualitative disclosures about market risks during the nine months ended September 30, 2018, compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 26, 2018.

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.

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, as of September 30, 2018, 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 Securities and Exchange Commission 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

We adopted the new revenue recognition standard effective during the first quarter of 2018 on a modified retrospective basis. As a result, we implemented changes to our internal control over financial reporting, including changes to our business systems. There were no other changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the nine months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we may be involved in various legal proceedings and claims related to intellectual property rights, commercial disputes, employment and wage and hour laws, alleged securities laws violations or other investor claims and other matters. For example, we have been, and may in the future be, put on notice and sued by third parties for alleged infringement of their proprietary rights, including patent infringement. We evaluate these claims and lawsuits with respect to their potential merits, our potential defenses and counter claims, and the expected effect on us of defending the claims and a potential adverse result. 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 or operating results.

The outcome of any litigation, regardless of its merits, is inherently uncertain. Any claims and lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, lead to attempts on the part of other parties to make similar claims and require us to change our technology, change our business practices and pay monetary damages or enter into royalty or licensing agreements, which could materially adversely affect our financial condition or operating results.

We make a provision for a liability relating to a claim when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. When we make such provisions, they are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. In management's opinion, resolution of currently outstanding matters is not expected to have a material adverse impact on our consolidated results of operations, cash flows or financial position. However, depending on the nature and timing of any such dispute, an unfavorable resolution of the matter could materially affect our future results of operations or cash flows, or both, of a particular quarter.

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ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below. You should carefully consider the following risks and all of the other information contained in this report, including our condensed consolidated financial statements and related notes, before making an investment decision. While we believe that the risks and uncertainties described below are the material risks currently facing us, additional risks that we do not yet know of or that we currently think are immaterial may also arise and materially affect our business. If any of the following risks materialize, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our Class A common stock could decline, and you may lose some or all of your investment.

Risks Related to Our Business and Industry

Due to our growth, we have a limited operating history at our current scale, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.

We have a relatively short history operating our business at its current scale. We continue to increase the number of our employees and expand our operations worldwide. Furthermore, we operate in an industry that is characterized by rapid technological innovation, intense competition, changing customer needs and frequent introductions of new products, technologies and services. We have encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in evolving industries. If our assumptions regarding these risks and uncertainties, which we use to plan our business, are incorrect or change in reaction to changes in the market, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, and our business could suffer.

Our future success will depend in large part on our ability to, among other things:

- hire, integrate, train and retain skilled talent, including members of our direct sales force and software engineers;
- maintain and expand our business, including our operations and infrastructure to support our growth, both domestically and internationally;
- increase the number and value of enterprise sales transactions;
- manage the transition to a subscription-based business model successfully;
- compete with other companies, custom development efforts and open source initiatives that are currently in, or may in the future enter, the market for our software;
- maintain and improve the security of our technology and infrastructure;
- expand our customer base, both domestically and internationally;
- renew maintenance and subscription agreements with, and sell additional products to, existing customers;
- improve the performance and capabilities of our software;
- price and package our product and service offerings successfully;
- maintain high customer satisfaction and ensure quality and timely releases of our products and product enhancements;
- maintain, expand and support our indirect sales channels and strategic partner network;
- maintain the quality of our website infrastructure to minimize latency when downloading or utilizing our software;
- make our software available on public cloud service providers;
- increase market awareness of our products and enhance our brand; and
- maintain compliance with applicable governmental regulations and other legal obligations, including those related to intellectual property, data protection and privacy, security, international sales and taxation.

If we fail to address the risks and difficulties that we face, including those associated with the challenges listed above as well as those described elsewhere in this "Risk Factors" section, our business will be adversely affected and our results of operations will suffer.

We may not be able to sustain our revenue growth rate or achieve profitability in the future.

We incurred a net loss in each quarter and for the full year of 2017, as well as in the first three quarters of 2018. We expect expenses to continue to increase as we make investments in our sales and marketing and research and development organizations, expand our operations and infrastructure both domestically and internationally and develop new products and new features for, and enhancements of, our existing products.

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Moreover, as we grow our business, we expect our revenue growth rates to continue to slow in future periods due to a number of reasons, which may include slowing demand for our products, shifts in customer demand and spending on licenses for our products, shifts in sales of subscription-based versus perpetual licenses, increasing competition, a decrease in the growth of our overall market, our failure, for any reason, to continue to capitalize on growth opportunities, the maturation of our business or the decline in the number of organizations into which we have not already expanded. Additionally, our revenue growth rates for the three and nine months ended September 30, 2018 computed in accordance with ASC 606 as compared to our financial results for the three and nine months ended September 30, 2017 computed in accordance with ASC 605 were positively impacted by our adoption of the new revenue recognition standard effective January 1, 2018. For example, prior to our adoption of the new revenue recognition standard, we historically recognized revenue related to on-premises term license agreements ratably over the term of the licensing agreement. Under the new revenue recognition standard, revenue allocable to the license portion of the arrangement is recognized upon delivery of the license. Accordingly, our historical results or revenue growth should not be considered indicative of our future performance.

If we fail to successfully manage the transition to a subscription-based business model, our results of operations could be negatively impacted.

We are currently transitioning to a more subscription-based business model. In April 2018, we introduced role-based subscription offerings to help organizations scale analytics. Tableau Creator, Explorer and Viewer subscriptions each provide tailored combinations of new and existing analytical capabilities that are designed for different user needs, from sophisticated analysts to casual users. It is uncertain whether this transition will prove successful or whether we will be able to develop this business model more quickly than our competitors. Market acceptance of our product and service offerings will be dependent on our ability (1) to include functionality and usability that address our customers' requirements, and (2) to optimally price our products in light of marketplace conditions, our costs and customer demand. This transition may have negative revenue implications. If we are unable to respond to these competitive factors, our business could be harmed.

This subscription strategy may give rise to a number of risks, including the following:

- our revenues and cash flows may fluctuate more than anticipated over the short-term as a result of this strategy;
- if new or current customers desire only perpetual licenses, our subscription sales may lag behind our expectations;
- the shift to a subscription strategy may raise concerns among our customer base, including concerns regarding changes to pricing over time and access to files once a subscription has expired;
- we may be unsuccessful in maintaining or implementing our target pricing or new pricing models, product adoption and projected renewal rates, or we may select a target price or new pricing model that is not optimal and could negatively affect our sales or earnings;
- our customers have and may continue to shift purchases to our lower priced subscription offerings, which could negatively affect our financial results;
- our shift to a subscription licensing model may result in confusion among new or existing customers (which can slow adoption rates), partners, resellers and investors;
- if our customers do not renew their subscriptions, our revenue may decline and our business may suffer;
- our relationships with existing partners that resell perpetual license products may be damaged; and