

Guidewire Software, Inc.  
 Form 10-Q  
 June 03, 2015  
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UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended April 30, 2015

OR

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: 001-35394

Guidewire Software, Inc.  
 (Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	36-4468504 (I.R.S. Employer Identification No.)
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1001 E. Hillsdale Blvd., Suite 800 Foster City, California (Address of principal executive offices)	94404 (Zip Code)
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(650) 357-9100  
 (Registrant's telephone number, including area code)

N/A  
 (Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(do not check if a smaller reporting company)

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

On April 30, 2015, the registrant had 70,548,368 shares of common stock issued and outstanding.

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FORWARD-LOOKING STATEMENTS

The “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and other parts of this Quarterly Report on Form 10-Q and certain information incorporated herein by reference contain forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, which are subject to risks and uncertainties. The forward-looking statements include statements concerning, among other things, our business strategy (including anticipated trends and developments in, and management plans for, our business and the markets in which we operate), financial results, operating results, revenues, gross margins, operating expenses, products, projected costs and capital expenditures, research and development programs, sales and marketing initiatives and competition. In some cases, you can identify these statements by forward-looking words, such as “will,” “may,” “might,” “should,” “could,” “estimate,” “expect,” “suggest,” “believe,” “anticipate,” “intend,” “plan” and the negative or plural of these words and other comparable terminology. Actual events or results may differ materially from those expressed or implied by these statements due to various factors, including but not limited to the matters discussed below, in the section titled “Item 1A. Risk Factors,” and elsewhere in this Quarterly Report on Form 10-Q. Many of the forward-looking statements are located in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Examples of forward-looking statements include statements regarding:

- growth prospects of the Property & Casualty (“P&C”) insurance industry and our company;
- trends in our future sales, including seasonality;
- opportunities for growth by technology leadership;
- competitive advantages of our platform of software application solutions;
- our market strategy in relation to our competitors;
- competitive attributes of our software application solutions;
- opportunities to further expand our position outside of the United States;
- our research and development investment and efforts;
- our gross margins and factors that affect gross margins;
- our provision for tax liabilities and other critical accounting estimates;
- our exposure to market risks, and;
- our ability to satisfy future liquidity requirements.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on information available to us as of the filing date of this Quarterly Report on Form 10-Q and our current expectations about future events, which are inherently subject to change and involve risks and uncertainties. You should not place undue reliance on these forward-looking statements.

We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

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Unless the context requires otherwise, we are referring to Guidewire Software, Inc. when we use the terms “Guidewire,” the “Company,” “we,” “our” or “us.”



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## PART I – Financial Information

ITEM 1. Financial Statements (unaudited)  
**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited, in thousands)

	April 30, 2015	July 31, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$156,942	\$148,101
Short-term investments	393,051	296,231
Accounts receivable	59,554	49,839
Deferred tax assets, current	12,015	11,431
Prepaid expenses and other current assets	12,770	10,828
Total current assets	634,332	516,430
Long-term investments	93,824	203,449
Property and equipment, net	12,427	12,607
Intangible assets, net	4,359	5,439
Deferred tax assets, noncurrent	15,936	8,681
Goodwill	9,205	9,205
Other assets	817	1,416
<b>TOTAL ASSETS</b>	<b>\$770,900</b>	<b>\$757,227</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$10,205	\$7,030
Accrued employee compensation	25,409	34,912
Deferred revenues, current	62,016	48,937
Other current liabilities	5,730	4,507
Total current liabilities	103,360	95,386
Deferred revenues, noncurrent	1,812	6,395
Other liabilities	4,381	4,760
Total liabilities	109,553	106,541
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock	7	7
Additional paid-in capital	645,349	629,076
Accumulated other comprehensive loss	(4,971)	(1,367)
Retained earnings	20,962	22,970
Total stockholders' equity	661,347	650,686
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$770,900</b>	<b>\$757,227</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited, in thousands except share and per share amounts)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2015	2014	2015	2014
Revenues:				
License	\$33,302	\$31,927	\$105,777	\$86,012
Maintenance	12,183	10,440	36,866	29,969
Services	39,955	39,668	111,977	116,058
Total revenues	85,440	82,035	254,620	232,039
Cost of revenues: <sup>(1)</sup>				
License	1,184	849	3,411	3,288
Maintenance	2,299	2,133	6,812	5,817
Services	34,421	33,293	97,532	101,194
Total cost of revenues	37,904	36,275	107,755	110,299
Gross profit: <sup>(1)</sup>				
License	32,118	31,078	102,366	82,724
Maintenance	9,884	8,307	30,054	24,152
Services	5,534	6,375	14,445	14,864
Total gross profit	47,536	45,760	146,865	121,740
Operating expenses: <sup>(1)</sup>				
Research and development	24,575	19,761	67,167	54,813
Sales and marketing	18,801	16,735	56,506	49,686
General and administrative	10,860	9,117	30,195	25,240
Total operating expenses	54,236	45,613	153,868	129,739
Income (loss) from operations	(6,700	) 147	(7,003	) (7,999
Interest income, net	636	415	1,643	919
Other income (expense), net	77	115	(1,267	) 172
Income (loss) before income taxes <sup>(1)</sup>	(5,987	) 677	(6,627	) (6,908
Provision for (benefit from) income taxes <sup>(1)</sup>	(3,000	) 2,590	(4,619	) (1,872
Net loss <sup>(1)</sup>	\$(2,987	) \$(1,913	) \$(2,008	) \$(5,036
Net loss per share: <sup>(1)</sup>				
Basic	\$(0.04	) \$(0.03	) \$(0.03	) \$(0.08
Diluted	\$(0.04	) \$(0.03	) \$(0.03	) \$(0.08
Shares used in computing net loss per share: <sup>(1)</sup>				
Basic	70,348,356	68,261,964	69,844,077	64,718,852
Diluted	70,348,356	68,261,964	69,844,077	64,718,852

(1) See Note 2 "Change in Accounting Policy - Stock-Based Compensation" of Notes to Consolidated Financial Statements for the fiscal year ended July 31, 2014 included in the Company's Annual Report on Form 10-K.

See accompanying Notes to Condensed Consolidated Financial Statements.

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GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (unaudited, in thousands)

	Three Months Ended April 30, 2015		2014		Nine Months Ended April 30, 2015		2014					
	(in thousands)											
Net loss <sup>(1)</sup>	\$	(2,987	)	\$	(1,913	)	\$	(2,008	)	\$	(5,036	)
Other comprehensive income (loss):												
Foreign currency translation adjustments <sup>(1)</sup>	541			621			(3,677			309		
Unrealized gains (losses) on available-for-sale securities, net of tax of \$37, \$10, \$35 and \$42	(54		)	58			80			102		
Reclassification adjustment for gains included in net loss	—			(19		)	(7		)	(39		)
Other comprehensive income (loss)	487			660			(3,604		)	372		
Comprehensive loss	\$	(2,500	)	\$	(1,253	)	\$	(5,612	)	\$	(4,664	)

(1) See Note 2 “Change in Accounting Policy - Stock-Based Compensation” of Notes to Consolidated Financial Statements for the fiscal year ended July 31, 2014 included in the Company’s Annual Report on Form 10-K. See accompanying Notes to Condensed Consolidated Financial Statements



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GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited, in thousands)

	Nine Months Ended April 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss <sup>(1)</sup>	\$(2,008	) \$(5,036
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,550	4,978
Stock-based compensation <sup>(1)</sup>	37,880	31,692
Excess tax benefit from exercise of stock options and vesting of RSUs	—	(498
Deferred taxes <sup>(1)</sup>	(7,856	) (3,353
Other noncash items affecting net loss	3,989	2,227
Changes in operating assets and liabilities:		
Accounts receivable	(10,057	) (17,820
Prepaid expenses and other assets	(1,656	) (2,187
Accounts payable	3,763	135
Accrued employee compensation	(8,742	) (2,079
Other liabilities	991	822
Deferred revenues	8,810	17,172
Net cash provided by operating activities	30,664	26,053
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of available-for-sale securities	(361,141	) (521,005
Sales and maturities of available-for-sale securities	370,065	206,046
Purchase of property and equipment	(5,076	) (3,669
Acquisition of business, net of cash acquired	—	(157
Net cash provided by (used in) investing activities	3,848	(318,785
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock upon exercise of stock options	4,795	7,354
Taxes remitted on RSU awards vested	(26,402	) (25,654
Proceeds from issuance of common stock in connection with public offering, net of underwriting discounts and commissions	—	389,949
Costs paid in connection with public offerings	—	(408
Excess tax benefit from exercise of stock options and vesting of RSUs	—	498
Net cash provided by (used in) financing activities	(21,607	) 371,739
Effect of foreign exchange rate changes on cash and cash equivalents	(4,064	) 562
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>8,841</b>	<b>79,569</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of period</b>	<b>148,101</b>	<b>79,767</b>
<b>CASH AND CASH EQUIVALENTS—End of period</b>	<b>\$156,942</b>	<b>\$159,336</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$2,458	\$2,036
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Accruals for purchase of property and equipment	\$378	\$409

(1) See Note 2 “Change in Accounting Policy - Stock-Based Compensation” of Notes to Consolidated Financial Statements for the fiscal year ended July 31, 2014 included in the Company’s Annual Report on Form 10-K.

See accompanying Notes to Condensed Consolidated Financial Statements.

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GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. The Company and Summary of Significant Accounting Policies and Estimates

Business

Guidewire Software, Inc., a Delaware corporation, was incorporated on September 20, 2001. Guidewire Software, Inc., together with its subsidiaries (the “Company”), provides Internet-based software platforms for core insurance operations, including underwriting and policy administration, claim management and billing. The Company’s customers include insurance carriers for property and casualty and workers’ compensation insurance. The Company has wholly-owned subsidiaries in Australia, Brazil, Canada, China, France, Germany, Hong Kong, Ireland, Italy, Japan, Poland, Spain, Switzerland and the United Kingdom.

The Company offers a suite of applications to enable core property and casualty (“P&C”) insurance operations comprised of the following products: PolicyCenter, ClaimCenter and BillingCenter. The Company also markets and sells additional products in the areas of data management, mobile and portals, and hosted analytic applications which complement its core products. Additionally, the Company provides maintenance support and professional services to the extent requested by its customers.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and accompanying notes include the Company and its wholly-owned subsidiaries, and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. All inter-company balances and transactions have been eliminated in consolidation. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission (“SEC”).

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s financial statements and related notes, together with management’s discussion and analysis of financial condition and results of operations, presented in the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2014. There have been no changes in the Company’s significant accounting policies from those that were disclosed in the Company’s consolidated financial statements for the fiscal year ended July 31, 2014 included in the Company’s Annual Report on Form 10-K.

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Significant items subject to such estimates include revenue recognition, the useful lives of property and equipment and intangible assets, allowance for doubtful accounts, valuation allowance for deferred tax assets, stock-based compensation, annual bonus attainment, income tax uncertainties, valuation of goodwill and intangible assets, and contingencies. These estimates and assumptions are based on management’s best estimates and judgment. Management regularly evaluates its estimates and assumptions using historical experience and other factors; however, actual results could differ significantly from these estimates.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are comprised of cash and highly liquid investments with remaining maturities of 90 days or less at the date of purchase. Cash equivalents consist of commercial paper and money market funds. The Company classifies investments as short-term when they have remaining contractual maturities of less than one year from the balance sheet date, and as long-term when the investments have remaining contractual maturities of more than one year from the balance sheet date. The Company’s investment policy is consistent with the definition of available-for-sale securities. From time to time, the Company may sell certain securities but the objectives are

generally not to generate profits on short-term differences in price.

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### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, investments and accounts receivable. The Company maintains its cash and cash equivalents with high quality financial institutions. The Company is exposed to credit risk for cash held in financial institutions in the event of a default to the extent that such amounts recorded on the balance sheet are in excess of amounts that are insured by the Federal Deposit Insurance Corporation (“FDIC”).

No customer accounted for 10% or more of the Company’s revenues for the three and nine months ended April 30, 2015 or 2014. Two customers accounted for 10% or more of the Company’s total accounts receivable as of April 30, 2015 and one customer accounted for 10% or more of the Company’s total accounts receivable as of July 31, 2014.

### Revenue Recognition

The Company enters into arrangements to deliver multiple products or services (multiple-elements). The Company applies software revenue recognition rules and allocates the total revenues among elements based on vendor-specific objective evidence (“VSOE”) of fair value of each element. The Company recognizes revenue on a net basis excluding taxes collected from customers and remitted to government authorities.

Revenues are derived from three sources:

- (i) License fees, related to term (or time-based) licenses, perpetual software licenses, and other;
- (ii) Maintenance fees, related to email and phone support, bug fixes and unspecified software updates and upgrades released when, and if, available during the maintenance term; and
- (iii) Services fees, related to professional services related to implementation of our software, reimbursable travel and training.

Revenues are recognized when all of the following criteria are met:

• Persuasive evidence of an arrangement exists. Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period.

• Delivery or performance has occurred. The Company’s software is delivered electronically to the customer. Delivery is considered to have occurred when the Company provides the customer access to the software along with login credentials.

• Fees are fixed or determinable. Arrangements where a significant portion of the fee is due beyond 90 days from delivery are not considered to be fixed or determinable. Revenues from such arrangements are recognized as payments become due, assuming all other revenue recognition criteria have been met. Fees from term licenses are generally due in annual or, in certain cases, quarterly, installments over the term of the agreement beginning on the effective date of the license. Accordingly, fees from term licenses are not considered to be fixed or determinable until they become due.

• Collectability is probable. Collectability is assessed on a customer-by-customer basis, based primarily on creditworthiness as determined by credit checks and analysis, as well as customer payment history. Payment terms generally range from 30 to 90 days from invoice date. If it is determined prior to revenue recognition that collection of an arrangement fee is not probable, revenues are deferred until collection becomes probable or cash is collected, assuming all other revenue recognition criteria are satisfied.

VSOE of fair value does not exist for the Company’s software licenses; therefore, the Company allocates revenues to software licenses using the residual method. Under the residual method, the amount recognized for license fees is the difference between the total fixed and determinable fees and the VSOE of fair value for the undelivered elements under the arrangement.

The VSOE of fair value for elements of an arrangement is based upon the normal pricing and discounting practices for those elements when sold separately. VSOE of fair value for maintenance is established using the stated maintenance renewal rate in the customer’s contract. The Company generally enters into term licenses ranging from 3 to 7 years. For term licenses with duration of one year or less, no VSOE of fair value for maintenance exists. VSOE of fair value for services is established if a substantial majority of historical stand-alone selling prices for a service fall within a reasonably narrow price range.

If the undelivered elements are all service elements and VSOE of fair value does not exist for one or more service element, the total arrangement fee is recognized ratably over the longest service period starting at software delivery,

assuming all the related services have been made available to the customer.

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In certain offerings sold as fixed fee arrangements, the Company recognizes services revenues on a proportional performance basis as performance obligations are completed by using the ratio of labor hours to date as an input measure compared to total estimated labor hours for the consulting services.

In cases where professional services are deemed to be essential to the functionality of the software, the arrangement is accounted for using contract accounting until the essential services are complete. If reliable estimates of total project costs can be made, the Company applies the percentage-of-completion method whereby percentage toward completion is measured by using the ratio of service billings to date compared to total estimated service billings for the consulting services. Service billings approximate labor hours as an input measure since they are generally billed monthly on a time and material basis. The fees related to the maintenance are recognized over the period the maintenance is provided.

If reliable estimates of total project costs cannot be made or VSOE for maintenance has not been established and it is reasonably assured that no loss will be incurred under the arrangement, revenues are recognized pursuant to the zero gross margin method. Under this method, revenues recognized are limited to the costs incurred for the implementation services. When the zero gross margin method is applied for lack of reliable project estimates and subsequently project estimates become reliable, the Company switches to the percentage-of-completion method; resulting in a cumulative effect adjustment for deferred license revenues to the extent of progress toward completion, and the related deferred professional service margin is recognized in full as revenues. There were no such cumulative effect adjustments for revenues for the three and nine months ended April 30, 2015 or 2014.

### Deferred Revenues

Deferred revenues represent license, maintenance and professional services amounts, which are billed to or collected from customers for which the related revenues have not been recognized. The revenues are deferred when one or more of the revenue recognition criteria have not been met. The current portion of deferred revenues represents the amount that is expected to be recognized as revenues within one year from the balance sheet date. The Company generally invoices fees for licenses and maintenance to its customers in annual or, in certain cases, quarterly installments payable in advance. Accordingly, the deferred revenues balance does not represent the total contract value of annual or multi-year, non-cancellable arrangements.

### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets related to excess tax benefits are recorded when utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance to reduce deferred tax assets to an amount of which realization is more likely than not.

Accounting guidance related to accounting for uncertainties in income taxes provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company records interest and penalties related to unrecognized tax benefits as income tax expense in its condensed consolidated statement of operations.

### Stock-Based Compensation

The Company recognizes compensation expense related to its stock options and restricted stock units ("RSUs") granted to employees based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. The RSUs are subject to time-based vesting, which generally occurs over a period of 4 years. The awards expire 10 years from the grant date. The Company estimates the grant date fair value, and the resulting stock-based compensation

expense, of the Company's stock options using the Black-Scholes option-pricing model. The Company determines the grant date fair value of its RSUs based on the closing market price of the Company's common stock on the date of grant. The Company recognizes the fair value of stock-based compensation for awards which contain only service conditions on a straight-line basis over the requisite service period, which is generally the vesting period of the respective awards. The Company recognizes the compensation cost for awards which contain performance conditions based upon the probability of that performance condition being met, net of estimated forfeitures, using the graded method.



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In the fourth quarter of fiscal 2014, the Company changed its policy for recognizing stock-based compensation expense from the accelerated attribution method of accounting to the straight-line method of accounting for certain share-based compensation awards. Comparative financial statements for prior periods have been adjusted to apply the straight-line method retrospectively. See Note 2 “Change in Accounting Policy - Stock-based Compensation” of Notes to Consolidated Financial Statements for the fiscal year ended July 31, 2014 included in the Company’s Annual Report on Form 10-K filed with the SEC on September 17, 2014.

Recent Accounting Pronouncement  
Stock-Based Compensation

In June 2014, the FASB issued Accounting Standard Update (“ASU”) No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (Topic 718). This ASU provides authoritative guidance for share-based payments with a performance condition that could be achieved after the requisite service period is achieved. The standard will be effective for the Company beginning August 1, 2016. The Company currently does not have such share-based arrangements and does not expect the adoption of this standard will have material impact on its condensed consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The standard may become effective for the Company beginning August 1, 2017. In April 2015, the FASB proposed a one-year deferral of the effective date and to permit the Company to adopt the standard as early as August 1, 2017. The tentative decisions are currently being exposed for public comments with a 30-day comment period ending May 31, 2015. The Company is currently evaluating the impact of the adoption of this accounting standard update on its condensed consolidated financial statements.

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## 2. Fair Value of Financial Instruments

Available-for-sale investments within cash equivalents and investments consist of the following:

	April 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. agency securities	\$91,516	\$47	\$—	\$91,563
Commercial paper	109,653	14	(13	) 109,654
Corporate bonds	306,382	72	(86	) 306,368
U.S. government bonds	23,774	16	(1	) 23,789
Foreign government bonds	5,611	10	—	5,621
Certificates of deposit	2,700	—	—	2,700
Money market funds	68,002	—	—	68,002
Municipal debt securities	2,512	1	—	2,513
Total	\$610,150	\$160	\$(100	) \$610,210
	July 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. agency securities	\$94,048	\$30	\$(21	) \$94,057
Asset-backed securities	1,363	—	(2	) 1,361
Commercial paper	132,442	14	(4	) 132,452
Corporate bonds	297,731	104	(182	) 297,653
U.S. government bonds	17,991	3	(3	) 17,991
Foreign government bonds	2,755	—	(1	) 2,754
Certificates of deposit	6,709	—	(1	) 6,708
Money market funds	53,959	—	—	53,959
Municipal debt securities	12,985	13	(1	) 12,997
Total	\$619,983	\$164	\$(215	) \$619,932

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	April 30, 2015						
	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)						
Commercial paper	\$33,353	\$(13	) \$—	\$—	\$33,353	\$(13	)
U.S. agency securities	4,002	—	—	—	4,002	—	
Corporate bonds	150,498	(86	) —	—	150,498	(86	)
U.S. government bonds	4,994	(1	) —	—	4,994	(1	)
Total	\$192,847	\$(100	) \$—	\$—	\$192,847	\$(100	)

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As of April 30, 2015, the Company had 76 investments in an unrealized loss position. The unrealized losses on its available-for-sale securities were primarily a result of changes in interest rates subsequent to the initial purchase of these securities. The Company does not intend to sell, nor believe it will need to sell, these securities before recovering the associated unrealized losses. The Company does not consider any portion of the unrealized losses at April 30, 2015 to be an other-than-temporary impairment, nor are any unrealized losses considered to be credit losses. The Company has recorded the securities at fair value in its condensed consolidated balance sheets, with unrealized gains and losses reported as a component of accumulated other comprehensive loss. The amounts of realized gains and losses reclassified into earnings are based on the specific identification of the securities sold. The realized gains and losses from sales of securities in the periods presented were immaterial.

The following table summarizes the contractual maturities of the Company's available-for-sale securities as of April 30, 2015:

	Less Than 12 Months (in thousands)	12 Months or Greater	Total
U.S. agency securities	\$68,391	\$23,172	\$91,563
Commercial paper	109,654	—	109,654
Corporate bonds	247,414	58,954	306,368
U.S. government bonds	14,993	8,796	23,789
Foreign government bonds	2,719	2,902	5,621
Money market funds	68,002	—	68,002
Certificates of deposit	2,700	—	2,700
Municipal debt securities	2,513	—	2,513
Total	\$516,386	\$93,824	\$610,210

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The current accounting guidance for fair value measurements defines a three-level valuation hierarchy for disclosures as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2—Inputs other than quoted prices included within Level I that are observable, unadjusted quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and

Level 3—Unobservable inputs that are supported by little or no market activity, which require the Company to develop its own assumptions.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The carrying value of the Company's accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments.

The Company bases the fair value of its Level 1 financial instruments, which are in active markets, using quoted market prices for identical instruments.

The Company obtains the fair value of its Level 2 financial instruments, which are not in active markets, from a third-party professional pricing service using quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets. The Company's professional pricing service gathers observable inputs for all of its fixed income securities from a variety of industry data providers (e.g. large custodial institutions) and other third-party sources. Once the observable inputs are gathered, all data points are considered and an average price is determined.

The Company validates the quoted market prices provided by its primary pricing service by comparing their assessment of the fair values of its Level 2 investment portfolio balance against the fair values of its Level 2 investment portfolio balance provided by its investment managers. Its investment managers use similar techniques to

its professional pricing service to derive pricing as described above.

The Company did not have any Level 3 financial assets or liabilities as of April 30, 2015 or July 31, 2014.

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The following tables summarize the Company's financial assets measured at fair value on a recurring basis, by level within the fair value hierarchy as of April 30, 2015 and July 31, 2014:

	April 30, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Cash and cash equivalents:				
Commercial paper	\$—	\$55,333	\$—	\$55,333
Money market funds	68,002	—	—	68,002
Short-term investments:				
U.S. agency securities	—	68,391	—	68,391
Commercial paper	—	54,321	—	54,321
Corporate bonds	—	247,414	—	247,414
U.S. government bonds	—	14,993	—	14,993
Foreign government bonds	—	2,719	—	2,719
Municipal debt securities	—	2,513	—	2,513
Certificates of deposit	—	2,700	—	2,700
Long-term investments:				
U.S. agency securities	—	23,172	—	23,172
U.S. government bonds	—	8,796	—	8,796
Corporate bonds	—	58,954	—	58,954
Foreign government bonds	—	2,902	—	2,902
Total assets	\$68,002	\$542,208	\$—	\$610,210

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	July 31, 2014			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Cash and cash equivalents:				
Commercial paper	\$—	\$66,293	\$—	\$66,293
Money market funds	53,959	—	—	53,959
Short-term investments:				
U.S. agency securities	—	29,062	—	29,062
Asset-backed securities	—	1,361	—	1,361
Commercial paper	—	66,159	—	66,159
U. S. government bonds	—	9,995	—	9,995
Corporate bonds	—	172,648	—	172,648
Certificate of deposit	—	4,009	—	4,009
Municipal debt securities	—	12,997	—	12,997
Long-term investments:				
U.S. agency securities	—	64,995	—	64,995
Certificate of deposit	—	2,699	—	2,699
Corporate bonds	—	125,005	—	125,005
U.S. government bonds	—	7,996	—	7,996
Foreign government bonds	—	2,754	—	2,754
Total assets	\$53,959	\$565,973	\$—	\$619,932

## 3. Balance Sheet Components

## Property and Equipment, Net

Property and equipment consist of the following:

	April 30, 2015	July 31, 2014
	(in thousands)	
Computer hardware	\$13,964	\$11,882
Software	4,739	4,605
Furniture and fixtures	3,015	2,732
Leasehold improvements	8,076	7,069
Total property and equipment	29,794	26,288
Less accumulated depreciation	(17,367)	(13,681)
Property and equipment, net	\$12,427	\$12,607

As of April 30, 2015 and July 31, 2014, no property and equipment was pledged as collateral against borrowings.

Depreciation expense was \$1.6 million and \$4.5 million for the three and nine months ended April 30, 2015, respectively, and \$1.4 million and \$3.9 million for the three and nine months ended April 30, 2014, respectively.

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## Goodwill and Intangible Assets

The following table presents changes in the carrying amount of goodwill:

	Total (in thousands)
Goodwill, July 31, 2014	\$9,205
Changes in carrying value	—
Goodwill, April 30, 2015	\$9,205

Intangible assets consist of the following:

	April 30, 2015 (in thousands)	July 31, 2014
Acquired technology:		
Cost	\$7,200	\$7,200
Accumulated amortization	(2,841	) (1,761
Intangible assets, net	\$4,359	\$5,439

Amortization expense was \$0.4 million and \$1.1 million for the three and nine months ended April 30, 2015, respectively, and \$0.4 million and \$1.1 million for the three and nine months ended April 30, 2014, respectively.

Estimated aggregate amortization expense for each of the next four fiscal years is as follows:

	Future Amortization (in thousands)
Fiscal year ending July 31, 2015 (remainder of fiscal year)	360
2016	1,440
2017	1,440
2018	1,119
Total	\$4,359

## Accrued Employee Compensation

Accrued employee compensation consists of the following:

	April 30, 2015 (in thousands)	July 31, 2014
Accrued bonuses	\$12,236	\$19,213
Accrued commission	1,104	3,593
Accrued vacation	8,186	8,100
Accrued salaries, payroll taxes and benefits	3,883	4,006
Total	\$25,409	\$34,912

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## Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component during the nine months ended April 30, 2015 were as follows:

	Foreign Currency Items	Unrealized gain (loss) on available-for-sale securities	Total
	(in thousands)		
Balance as of July 31, 2014	\$(1,310	) \$(57	) \$(1,367 )
Other comprehensive gain (loss) before reclassification	(3,677	) 115	(3,562 )
Amounts reclassified from accumulated other comprehensive loss to earnings	—	(7	) (7 )
Tax effect	—	(35	) (35 )
Balance as of April 30, 2015	\$(4,987	) \$16	\$(4,971 )

## 4. Net Loss Per Share

The following table sets forth the computation of the Company's basic and diluted net loss per share for the three and nine months ended April 30, 2015 and 2014:

	Three Months Ended April 30, 2015		Nine Months Ended April 30, 2014	
	2015	2014	2015	2014
	(in thousands, except share and per share amounts)			
Numerator:				
Net loss	\$(2,987	) \$(1,913	) \$(2,008	) \$(5,036 )
Net loss per share:				
Basic	\$(0.04	) \$(0.03	) \$(0.03	) \$(0.08 )
Diluted	\$(0.04	) \$(0.03	) \$(0.03	) \$(0.08 )
Denominator:				
Weighted average shares used in computing net loss per share:				
Basic	70,348,356	68,261,964	69,844,077	64,718,852
Diluted	70,348,356	68,261,964	69,844,077	64,718,852

The following outstanding shares of common stock equivalents were excluded from the computation of diluted loss per share for the periods presented because including them would have been antidilutive:

	Three Months Ended April 30, 2015		Nine Months Ended April 30, 2014	
	2015	2014	2015	2014
Stock options to purchase common stock	2,019,320	2,734,450	2,197,389	3,205,629
Restricted stock units	3,193,444	4,089,004	3,491,327	4,407,691



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5. Commitments and Contingencies

There has been no material change in the Company's contractual obligations and commitments other than in the ordinary course of business since the Company's fiscal year ended July 31, 2014. See the Annual Report on Form 10-K for the fiscal year ended July 31, 2014 for additional information regarding the Company's contractual obligations.

Leases

The Company leases certain facilities and equipment under operating leases. On December 5, 2011, the Company entered into a seven-year lease for a facility to serve as its corporate headquarters, located in Foster City, California, for approximately 97,674 square feet of space which commenced on August 1, 2012. In connection with this lease, the Company opened an unsecured letter of credit with Silicon Valley Bank for \$1.2 million. On August 1, 2014, the Company amended its operating lease agreement to reduce the unsecured letter of credit to \$0.8 million.

Lease expense for all worldwide facilities and equipment, which is being recognized on a straight-line basis over terms of the various leases, was \$1.3 million and \$4.1 million for the three and nine months ended April 30, 2015, respectively, and \$1.5 million and \$4.4 million for the three and nine months ended April 30, 2014, respectively.

Letters of Credit

The Company had two outstanding letters of credit required to secure contractual commitments and prepayments as of April 30, 2015 and July 31, 2014, respectively. In addition to the unsecured letter of credit for the building lease, the Company had an unsecured letter of credit agreement related to a customer arrangement for Polish Zloty 10.0 million (approximately \$2.8 million as of April 30, 2015) to secure contractual commitments and prepayments. No amounts were outstanding under the Company's unsecured letters of credit as of April 30, 2015 or July 31, 2014.

Legal Proceedings

From time to time, the Company is involved in various legal proceedings and receives claims, arising from the normal course of business activities. The Company accrues for estimated losses in the accompanying condensed consolidated financial statements for matters with respect to which the Company believes the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable.

Indemnification

The Company sells software licenses and services to its customers under contracts ("Software License"). Each Software License contains the terms of the contractual arrangement with the customer and generally includes certain provisions for defending the customer against any claims that the Company's software infringes upon a patent, copyright, trademark, or other proprietary right of a third party. Software Licenses also indemnify the customer against losses, expenses, and liabilities from damages that may be assessed against the customer in the event the Company's software is found to infringe upon such third party rights.

The Company has not had to reimburse any of its customers for losses related to indemnification provisions and no material claims against the Company are outstanding as of April 30, 2015 or July 31, 2014. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under various Software Licenses, the Company cannot estimate the amount of potential future payments, if any, related to indemnification provisions.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of these persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as the Company's director or officer or that person's services provided to any other company or enterprise at the Company's request. The Company maintains director and officer insurance coverage that may enable the Company to recover a portion of any future amounts paid.

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## 6. Stockholders' Equity and Stock-Based Compensation

## Stock-Based Compensation Expense

Stock-based compensation expense related to all employee and non-employee stock-based awards is as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2015	2014	2015	2014
Stock-based compensation expenses:	(in thousands)			
Cost of license	\$54	\$45	\$158	\$141
Cost of maintenance revenues	293	211	879	572
Cost of services revenues	3,774	3,028	11,165	8,862
Research and development	2,813	2,260	7,618	6,657
Sales and marketing	2,620	2,291	9,049	8,140
General and administrative	2,840	2,532	9,011	7,320
Total stock-based compensation expenses	\$12,394	\$10,367	\$37,880	\$31,692

As of April 30, 2015, total unrecognized compensation cost, adjusted for estimated forfeitures, was as follows:

	As of April 30, 2015	
	Unrecognized Expense	Weighted Average Expected Recognition Period
	(in thousands)	(in years)
Restricted stock units	\$101,479	2.5
Stock options	5,962	2.2
	\$107,441	

## RSUs

RSU activity under the Company's equity incentive plans is as follows:

	RSUs Outstanding	Weighted Average Grant Date Fair Value
	Number of RSUs Outstanding	
Balance as of July 31, 2014	3,384,221	\$30.70
Granted	1,433,667	46.92
Released	(1,464,099)	) 24.61
Canceled	(285,165)	) 35.35
Balance as of April 30, 2015	3,068,624	\$40.75

The fair value of RSUs released was \$21.4 million and \$70.6 million during the three and nine months ended April 30, 2015, respectively, and \$28.0 million and \$71.6 million during the three and nine months ended April 30, 2014, respectively.

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## Stock Options

Stock option activity under the Company's equity incentive plans is as follows:

	Stock Options Outstanding		Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value <sup>(1)</sup>  (in thousands)
	Number of Stock Options Outstanding	Weighted Average Exercise Price		
Balance as of July 31, 2014	2,400,253	\$11.24	5.5	\$71,640
Granted	138,643	47.23		
Exercised	(548,615)	) 8.74		
Canceled	(45,544)	) 24.96		
Balance as of April 30, 2015	1,944,737	\$14.18	5.1	\$69,670
Vested and expected to vest as of April 30, 2015	1,924,277	\$13.86	5.1	\$69,560
Exercisable as of April 30, 2015	1,601,345	\$8.09	5.1	\$67,039

Aggregate intrinsic value represents the difference between the Company's closing stock prices of \$49.95 and <sup>(1)</sup> \$40.50 on April 30, 2015 and July 31, 2014, respectively, and the exercise price of outstanding, in-the-money options.

The options exercisable as of April 30, 2015 include options that are exercisable prior to vesting. The total intrinsic value of options exercised was approximately \$6.5 million and \$22.5 million for the three and nine months ended April 30, 2015, respectively, and \$9.9 million and \$58.8 million for the three and nine months ended April 30, 2014, respectively. The weighted average grant date fair value of options granted was \$21.52 and \$20.78 for the three and nine months ended April 30, 2015, and \$20.96 and \$21.25 for the three and nine months ended April 30, 2014, respectively.

## Valuation of Awards

The per share fair value of each stock option was determined on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2015	2014	2015	2014
Expected life (in years)	6.1	5.3	6.0 - 6.1	5.0 - 6.1
Risk-free interest rate	1.7%	1.7%	1.7% - 1.9%	1.5% - 2.0%
Expected volatility	39.4%	42.3%	39.4% - 45.1%	41.3% - 46.2%
Expected dividend yield	—%	—%	—%	—%

## Common Stock Reserved for Issuance

As of April 30, 2015 and July 31, 2014, the Company was authorized to issue 500,000,000 shares of common stock with a par value of \$0.0001 per share, and 70,548,368 and 69,082,261 shares of common stock were issued and outstanding, respectively. As of April 30, 2015 and July 31, 2014, the Company had reserved shares of common stock for future issuance as follows:

	April 30, 2015	July 31, 2014
Exercise of stock options to purchase common stock	1,944,737	2,400,253
Vesting of restricted stock units	3,068,624	3,384,221
Shares available under stock plans	14,512,651	11,703,962
Total common stock reserved for issuance	19,526,012	17,488,436

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## 7. Income Taxes

The Company recognized income tax benefits of \$3.0 million and \$4.6 million for the three and nine months ended April 30, 2015, respectively, and recognized an income tax provision of \$2.6 million for the three months ended April 30, 2014 and an income tax benefit of \$1.9 million for the nine months ended April 30, 2014. The changes for the three and nine months ended April 30, 2015, as compared to the same periods a year ago, were primarily due to a decrease in profitability and tax benefit related to research and development ("R&D") credits. On December 19, 2014, President Obama signed H.R.5771, The Tax Increase Prevention Act, extending the federal R&D credits through December 31, 2014. For the three and nine months ended April 30, 2015, income tax provisions of \$1.6 million and \$0.4 million were recorded as a result of an updated R&D credit study for the period from August 1, 2013 through July 31, 2014. The effective tax rate of 50.1% and 69.7% for the three and nine months ended April 30, 2015 differs from the statutory U.S. federal income tax rate of 35% mainly due to incentive stock option tax deductions, permanent differences for foreign stock-based compensation, the impact of state income taxes, R&D credits, and the tax rate differences between the United States and foreign countries.

The Company provides U.S. income taxes on the earnings of foreign subsidiaries, unless the subsidiaries' earnings are considered indefinitely reinvested outside the United States. As of April 30, 2015, U.S. income taxes were not provided for on the cumulative total of \$28.4 million undistributed earnings from certain foreign subsidiaries. As of April 30, 2015, the unrecognized deferred tax liability for these earnings was approximately \$8.1 million.

During the nine months ended April 30, 2015, the change in unrecognized tax benefits from the beginning of the period was \$0.6 million. Accordingly, as of April 30, 2015, the Company had unrecognized tax benefits of \$4.2 million that, if recognized, would affect the Company's effective tax rate.

## 8. Segment Information

The Company operates in one segment. The Company's chief operating decision maker (the "CODM"), its Chief Executive Officer, manages the Company's operations on a consolidated basis for purposes of allocating resources. When evaluating the Company's financial performance, the CODM reviews separate revenues information for the Company's license, maintenance and professional services offerings, while all other financial information is reviewed on a consolidated basis. All of the Company's principal operations and decision-making functions are located in the United States.

The following table sets forth revenues by country and region based on the billing address of the customer:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2015	2014	2015	2014
	(in thousands)			
United States	\$51,150	\$48,640	\$134,026	\$126,573
Canada	9,725	9,084	28,942	30,039
Other Americas	1,311	1,391	5,924	6,630
Total Americas	62,186	59,115	168,892	163,242
United Kingdom	7,777	7,662	31,790	28,316
Other EMEA	11,008	9,624	31,635	25,649
Total EMEA	18,785	17,286	63,425	53,965
Total APAC	4,469	5,634	22,303	14,832
Total revenues	\$85,440	\$82,035	\$254,620	\$232,039

No country, other than those presented above, accounted for more than 10% of revenues during the three and nine months ended April 30, 2015 and 2014.

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The following table sets forth the Company's long-lived assets, including intangibles and goodwill, net by geographic region:

	April 30, 2015 (in thousands)	July 31, 2014
Americas	\$23,312	\$25,573
EMEA	2,173	950
APAC	506	728
Total	\$25,991	\$27,251

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

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this document and the Risk Factors included in Item 1A of Part II of this Quarterly Report on Form 10-Q. All information presented herein is based on our fiscal calendar. Unless otherwise stated, references in this report to particular years or quarters refer to our fiscal years ended in July and the associated quarters of those fiscal years. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

Overview

We are a leading provider of software products that help Property & Casualty (“P&C”) insurers replace their legacy core systems and transform their business. Designed to be flexible and scalable, Guidewire InsuranceSuite™ enables insurers to deliver excellent service, increase market share and lower operating costs. We also sell additional products in the areas of data management, mobile and portals, and hosted analytic applications which complement Guidewire InsuranceSuite and align with our mission to build software products that transform the P&C industry.

We sell our products to a wide variety of global P&C insurance carriers ranging from some of the largest global insurance carriers or their subsidiaries to national carriers to regional carriers. We continue to expand our global reach with sales and marketing growth in Europe and Asia Pacific, geographies in which we are building pipeline and strengthening our presence. Our customer engagement is led by our direct sales model and supported by our System Integrator (“SI”) partners. Customers can buy our software applications, PolicyCenter, ClaimCenter and BillingCenter, either separately or in combination as a suite. Strong customer relationships are a key driver of our success given the long-term nature of our contracts and the importance of customer references for new sales. We continue to focus on developing and maintaining our customer relationships through customer service and account management.

We see opportunities for orders from new customers, but our sales cycles remain long as customers are deliberate and the decision making process is long. We must also earn credibility as we expand our sales operations and enter new markets which involves extensive customer due diligence and reference checks. Finally, our new products are sold as complementary or adjacent to our InsuranceSuite which naturally limits the quantity of potential customers. We also see upsell opportunities with our existing customers for both InsuranceSuite and our newer products in data management, mobile and portals, and hosted analytic applications. We continue to invest in sales and marketing as well as our SI partnerships and we work to align with each insurer’s strategic goals in order to address any sales cycle risk.

We primarily enter into term based licenses ranging from 3 to 7 years. These contracts are renewable on an annual or multi-year basis. We generally price our licenses based on the amount of direct written premiums (“DWP”) that will be managed by our solutions. We typically invoice our customers annually in advance or, in certain cases, quarterly for both recurring term license and maintenance fees. Our sales and marketing efforts are affected by seasonal variations in which our customer orders are higher in the second and fourth quarters of our fiscal year. We primarily derive our services revenues from implementation, integration and training services. Guidewire implementation teams assist customers in building implementation plans, integrating our software with their existing systems, and defining business rules and specific requirements unique to each customer and installation.

To extend our technology leadership position in the global market, we continue to focus on product innovation through our investment in research and development. We continue to invest in Guidewire InsuranceSuite - PolicyCenter, ClaimCenter and BillingCenter. Further, we are also investing in new technologies and offerings, such as data management, mobile and portals, and hosted analytic applications. These investments complement Guidewire InsuranceSuite and enable our customers to accelerate the pace and impact of their transformational initiatives. New technology and product development is central to our core strategy and our commitment to our customers. Our product innovation strategy is critical to our growth and global expansion or otherwise responding to competitive pressures which could limit our ability to capture the global P&C market share. Our success depends on our continued ability to develop new or enhanced versions of our existing products to meet evolving customer requirements and enable successful transformations.

We also partner with leading SI consulting firms to achieve scalable, cost-effective implementations for our customers. Our extensive relationships with SIs and industry partners have strengthened and expanded in line with the interest in and adoption of our products. We encourage our partners to co-market, pursue joint sales initiatives and drive broader adoption of our technology, helping us grow our business more efficiently and enabling us to focus our engineering resources on continued innovation and further enhancement of our solutions. Our track record of success with customers and their implementations is central to our strategy. We continue to focus and invest time and resources recruiting SI partners in new markets and ensuring that all partners are ready to assist with implementing our new products.

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We face a number of risks in the execution of our strategy including expanding to new markets, lengthy sales cycles, intense competition in the global market, reliance on sales to a relatively small number of large customers, product development, customer buying patterns, and the overall adoption of our products. In response to these risks and factors as well as others we might face, we continue to invest in many areas of our business. Our investments in sales and marketing align with our goal of winning new customers in both existing markets and new markets. Further, our sales investments also enable us to maintain a persistent, consultative relationship with our existing customers in order to sell new products and solutions. Our investments in technology and product development allow us to sell in more markets and address a broader spectrum of customer needs as they embark on transformational initiatives. We will also continue to invest in our consulting services and our SI partner ecosystem with a goal of ensuring that all customers are successful in their transformation journey.

**Key Business Metrics**

We use certain key metrics to evaluate and manage our business, including rolling four-quarter recurring revenues from term licenses and total maintenance. In addition, we present select GAAP and non-GAAP financial metrics that we use internally to manage the business and that we believe are useful for investors. These metrics include Adjusted EBITDA and operating cash flow.

**Four-Quarter Recurring Revenues**

We measure four-quarter recurring revenues by adding the total term license revenues and total maintenance revenues recognized in the preceding four quarters ended in the stated period and excluding perpetual license revenues, revenues from perpetual buyout rights and services revenues. This metric allows us to better understand the trends in our recurring revenues because it typically reduces the variations in any particular quarter caused by seasonality, the effects of the annual invoicing of our term licenses and certain effects of contractual provisions that may accelerate or delay revenue recognition in some cases. Our four-quarter recurring revenues for each of the nine periods presented were:

	Four quarters ended								
	April 30, 2015	January 31, 2015	October 31, 2014	July 31, 2014	April 30, 2014	January 31, 2014	October 31, 2013	July 31, 2013	April 30, 2013
	(in thousands)								
Term license revenues	\$160,114	\$157,542	\$150,309	\$139,902	\$125,485	\$115,144	\$110,640	\$112,863	\$95,303
Maintenance revenues	48,785	47,041	44,768	41,888	39,836	38,510	37,830	37,561	35,548
Total four-quarter recurring revenues	\$208,899	\$204,583	\$195,077	\$181,790	\$165,321	\$153,654	\$148,470	\$150,424	\$130,851

**Adjusted EBITDA**

We believe Adjusted EBITDA, a non-GAAP measure, is useful, in addition to other financial measures presented in accordance with GAAP, in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance. We believe that:

Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and it is useful to exclude non-cash charges, such as depreciation and amortization, stock-based compensation and one-time cash or non-cash charges because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between periods.



We use Adjusted EBITDA in conjunction with traditional GAAP measures as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies and to communicate with our board of directors regarding our financial performance.

Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do. We compensate for the inherent limitations associated with using Adjusted

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EBITDA through disclosure of these limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net income.

The following table provides a reconciliation of net loss to Adjusted EBITDA:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2015	2014	2015	2014
	(in thousands)			
Reconciliation of Adjusted EBITDA:				
Net loss	\$ (2,987	) \$ (1,913	) \$ (2,008	) \$ (5,036
Non-GAAP adjustments:				
Provision for (benefit from) income taxes	(3,000	) 2,590	(4,619	) (1,872
Interest income	(636	) (415	) (1,643	) (919
Other expense (income), net	(77	) (115	) 1,267	(172
Depreciation and amortization	1,929	1,770	5,550	4,978
Stock-based compensation	12,394	10,367	37,880	31,692
Adjusted EBITDA	\$ 7,623	\$ 12,284	\$ 36,427	\$ 28,671

## Operating Cash Flows

We monitor our cash flows from operating activities, or operating cash flows, as a key measure of our overall business performance, which enables us to analyze our financial performance without the effects of certain non-cash items such as stock-based compensation expenses, deferred taxes, depreciation and amortization. Additionally, operating cash flows takes into account the impact of changes in deferred revenues, which reflects the receipt of cash payment for products before they are recognized as revenues. Our operating cash flows are significantly impacted by changes in deferred revenues, timing of bonus payments and collections of accounts receivable. As a result, our operating cash flows fluctuate significantly on a quarterly basis. Cash provided by operations was \$30.7 million and \$26.1 million for the nine months ended April 30, 2015 and 2014, respectively. For a further discussion of our operating cash flows, see “Liquidity and Capital Resources—Cash Flows from Operating Activities.”

## Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). Accounting policies, methods and estimates are an integral part of the preparation of consolidated financial statements in accordance with U.S. GAAP and, in part, are based upon management’s current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments. While there are a number of accounting policies, methods and estimates affecting our consolidated financial statements, areas that are particularly significant include:

- Revenue recognition policies;
- Deferred revenues;
- Stock-based compensation; and
- Income taxes.

There were no significant changes in our critical accounting policies and estimates during the nine months ended April 30, 2015. Please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K filed on September 17, 2014 for a more complete discussion of our critical accounting policies and estimates.

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## Results of Operations

The following tables set forth our results of operations for the periods presented. The data has been derived from the unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q which, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the interim periods presented. The operating results for any period should not be considered indicative of results for any future period. This information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K filed with the SEC on September 17, 2014.

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2015	2014	2015	2014
	(in thousands)			
Revenues:				
License	\$33,302	\$31,927	\$105,777	\$86,012
Maintenance	12,183	10,440	36,866	29,969
Services	39,955	39,668	111,977	116,058
Total revenues	85,440	82,035	254,620	232,039
Cost of revenues:				
License	1,184	849	3,411	3,288
Maintenance	2,299	2,133	6,812	5,817
Services	34,421	33,293	97,532	101,194
Total cost of revenues	37,904	36,275	107,755	110,299
Gross profit:				
License	32,118	31,078	102,366	82,724
Maintenance	9,884	8,307	30,054	24,152
Services	5,534	6,375	14,445	14,864
Total gross profit	47,536	45,760	146,865	121,740
Operating expenses:				
Research and development	24,575	19,761	67,167	54,813
Sales and marketing	18,801	16,735	56,506	49,686
General and administrative	10,860	9,117	30,195	25,240
Total operating expenses	54,236	45,613	153,868	129,739
Income (loss) from operations	(6,700)	) 147	(7,003)	) (7,999)
Interest income, net	636	415	1,643	919
Other income (expense), net	77	115	(1,267)	) 172
Income (loss) before income taxes	(5,987)	) 677	(6,627)	) (6,908)
Provision for (benefit from) income taxes	(3,000)	) 2,590	(4,619)	) (1,872)
Net loss	\$(2,987)	) \$(1,913)	) \$(2,008)	) \$(5,036)

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	Three Months Ended April 30,		Nine Months Ended April 30,		
	2015	2014	2015	2014	
	(percentage of total revenues)				
Revenues:					
License	39	% 39	% 42	% 37	%
Maintenance	14	% 13	% 14	% 13	%
Services	47	% 48	% 44	% 50	%
Total revenues	100	% 100	% 100	% 100	%
Cost of revenues:					
License	1	% 1	% 1	% 1	%
Maintenance	3	% 3	% 3	% 3	%
Services	40	% 40	% 38	% 44	%
Total cost of revenues	44	% 44	% 42	% 48	%
Gross profit:					
License	38	% 38	% 41	% 36	%
Maintenance	11	% 10	% 11	% 10	%
Services	7	% 8	% 6	% 6	%
Total gross profit	56	% 56	% 58	% 52	%
Operating expenses:					
Research and development	29	% 24	% 27	% 23	%
Sales and marketing	22	% 21	% 22	% 21	%
General and administrative	13	% 11	% 12	% 11	%
Total operating expenses	64	% 56	% 61	% 55	%
Income (loss) from operations	(8	)% —	% (3	)% (3	)%
Interest income, net	1	% 1	% 1	% —	%
Other income (expense), net	—	% —	% (1	)% —	%
Income (loss) before income taxes	(7	)% 1	% (3	)% (3	)%
Provision for (benefit from) income taxes	(4	)% 3	% (2	)% (1	)%
Net loss	(3	)% (2	)% (1	)% (2	)%

## Revenues

We derive our revenues from our software licensing fees, maintenance support, and professional services, principally consisting of software implementation and training services. Please refer to Note 1 of Notes to Condensed Consolidated Financial Statements for a description of our accounting policy related to revenue recognition.

	Three Months Ended April 30,		2014	2015	Change		
	Amount	% of total revenues					Amount
	(in thousands, except percentages)						
Revenues:							
License	\$33,302	39	% \$31,927	39	% \$1,375	4	%
Maintenance	12,183	14	% 10,440	13	% 1,743	17	%
Services	39,955	47	% 39,668	48	% 287	1	%
Total revenues	\$85,440	100	% \$82,035	100	% \$3,405	4	%



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	Nine Months Ended April 30, 2015		2014		Change (\$)	Change (%)		
	Amount (in thousands, except percentages)	% of total revenues	Amount	% of total revenues				
Revenues:								
License	\$105,777	42	% \$86,012	37	% \$19,765	23		%
Maintenance	36,866	14	% 29,969	13	% 6,897	23		%
Services	111,977	44	% 116,058	50	% (4,081)	(4)		)%
Total revenues	\$254,620	100	% \$232,039	100	% \$22,581	10		%

## License Revenues

The \$1.4 million and \$19.8 million increases in license revenues during the three and nine months ended April 30, 2015, respectively, were primarily driven by increased adoption of our InsuranceSuite software and expansion in our international markets.

Our license revenues are comprised of term license revenue and perpetual license revenue. Term license revenue as a percentage of total license revenues increased for the three and nine months ended April 30, 2015, which reflects a continuing shift from perpetual license to term license arrangements.

	Three Months Ended April 30, 2015		2014		Change (\$)	Change (%)		
	Amount (in thousands, except percentages)	% of license revenues	Amount	% of license revenues				
License revenues:								
Term	\$30,785	92	% \$28,213	88	% \$2,572	9		%
Perpetual	2,517	8	% 3,714	12	% (1,197)	(32)		)%
Total license revenues	\$33,302	100	% \$31,927	100	% \$1,375	4		%

	Nine Months Ended April 30, 2015		2014		Change (\$)	Change (%)		
	Amount (in thousands, except percentages)	% of license revenues	Amount	% of license revenues				
License revenues:								
Term	\$100,809	95	% \$80,598	94	% \$20,211	25		%
Perpetual	4,968	5	% 5,414	6	% (446)	(8)		)%
Total license revenues	\$105,777	100	% \$86,012	100	% \$19,765	23		%

The \$2.6 million increase in term license revenues during the three months ended April 30, 2015 was primarily driven by \$4.8 million of revenues recognized from new orders or expanded orders from existing customers, offset by a \$2.2 million decrease in revenues recognized due to timing of invoicing and corresponding due dates, early payments made by our customers or other contractual terms that affected license revenue recognition from customer contracts.

The \$20.2 million increase in term license revenues during the nine months ended April 30, 2015 was driven by \$18.3 million of revenues recognized from new orders or expanded orders from existing customers and \$1.9 million of revenues recognized due to timing of invoicing and corresponding due dates, early payments made by our customers or other contractual terms that affected license revenue recognition from customer contracts.

The \$1.2 million and \$0.4 million decreases in perpetual license revenues during the three and nine months ended April 30, 2015, respectively, were primarily a result of lower transaction values of perpetual buyouts entered in the current periods as compared to the same periods a year ago.

We expect that our term license revenues will continue to grow in absolute dollars and as a percentage of total revenues on an annual basis. However, we expect volatility across quarters for our license revenues as a percentage of total revenues due to the timing of annual billings, timing of perpetual license sales and the exercise of perpetual buyout rights in term licenses.

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## Maintenance Revenues

The \$1.7 million and \$6.9 million increases in maintenance revenues during the three and nine months ended April 30, 2015, respectively, reflect our growing customer base and increased term license revenue.

We expect that our maintenance revenues will continue to grow along with the increase in term license revenue and penetration of our customer base.

## Services Revenues

Services revenues during the three months ended April 30, 2015 remained relatively flat as compared to the same quarter a year ago due to our continued engagement with our system integrator partners on new contracts.

The \$4.1 million decrease in services revenues during the nine months ended April 30, 2015 was due to completion of a number of major implementation projects and our efforts to transfer a portion of the implementation work to our system integrator partners on new contracts.

We expect our services revenues to decrease as a percentage of total revenues as we continue to expand our network of third-party system integrators with whom our customers can contract for services related to our products.

## Deferred Revenues

	As of April 30, 2015 Amount (in thousands, except percentages)	July 31, 2014 Amount	Change (\$)	(%)	
Deferred revenues:					
Deferred license revenues	\$26,427	\$19,295	\$7,132	37	%
Deferred maintenance revenues	29,478	28,702	776	3	%
Deferred services revenues	7,923	7,335	588	8	%
Total deferred revenues	\$63,828	\$55,332	\$8,496	15	%

The \$7.1 million increase in deferred license revenues compared to the prior fiscal year end was primarily driven by \$5.8 million of license billings for new deals not yet recognized during the nine months ended April 30, 2015, and \$1.3 million of deferred revenues related to billings on existing customer contracts as of April 30, 2015.

The \$0.8 million increase in deferred maintenance revenues compared to the prior fiscal year end was primarily driven by revenues deferred from new and existing customer contracts during the nine months ended April 30, 2015. This increase reflects the seasonal nature of the billing of maintenance revenues.

The \$0.6 million increase in deferred services revenues compared to the prior fiscal year end was primarily driven by \$2.5 million services billings deferred due to certain contractual terms, offset by \$1.9 million services revenues recognized for one customer that was previously subject to refund in the event of nonperformance of certain project implementation milestones during the nine months ended April 30, 2015.

Our deferred revenues consist only of amounts that have been invoiced, but not yet recognized as revenues. As a result, deferred revenues and changes in deferred revenues are incomplete measures of the strength of our business and are not necessarily indicative of our future performance.

## Cost of Revenues and Gross Profit

Our cost of revenues and gross profit are variable and depend on the type of revenues earned in each period. Our cost of license revenues is primarily comprised of royalty fees paid to third parties and fulfillment services personnel costs. Our cost of maintenance revenues is comprised of personnel-related expenses for our technical support team, including stock-based compensation, and allocated overhead. Our cost of services revenues is primarily comprised of



personnel-related expenses for our professional service employees and contractors, including stock-based compensation, travel-related costs and allocated overhead.

We allocate overhead such as IT support, facility, and other administrative costs to all functional departments based on headcount. As such, general overhead expenses are reflected in cost of revenue and each functional operating expense category.

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	Three Months Ended April 30,				
	2015	2014	Change		
	Amount	Amount	(\$)	(%)	
	(in thousands, except percentages)				
Cost of revenues:					
License	\$1,184	\$849	\$335	39	%
Maintenance	2,299	2,133	166	8	%
Services	34,421	33,293	1,128	3	%
Total cost of revenues	\$37,904	\$36,275	\$1,629	4	%
Includes stock-based compensation of:					
Cost of license revenues	\$54	\$45	\$9	20	%
Cost of maintenance revenues	293	211	82	39	%
Cost of services revenues	3,774	3,028	746	25	%
Total	\$4,121	\$3,284	\$837	25	%
	Nine Months Ended April 30,				
	2015	2014	Change		
	Amount	Amount	(\$)	(%)	
	(in thousands, except percentages)				
Cost of revenues:					
License	\$3,411	\$3,288	\$123	4	%
Maintenance	6,812	5,817	995	17	%
Services	97,532	101,194	(3,662)	(4)	)%
Total cost of revenues	\$107,755	\$110,299	\$(2,544)	(2)	)%
Includes stock-based compensation of:					
Cost of license revenues	\$158	\$141	\$17	12	%
Cost of maintenance revenues	879	572	307	54	%
Cost of services revenues	11,165	8,862	2,303	26	%
Total	\$12,202	\$9,575	\$2,627	27	%

The \$1.6 million increase in cost of revenues during the three months ended April 30, 2015 was primarily driven by an increase of \$0.9 million in personnel-related expenses, including stock-based compensation, an increase of \$0.9 million in allocated overhead, an increase of \$0.4 million in recruiting and training expenses, and an increase of \$0.3 million in royalty expense. These increases were partially offset by a decrease of \$0.7 million in third-party consultant costs and billable expenses and a decrease of \$0.2 million in temporary contractor expenses. The increase in personnel-related expenses was primarily due to an increase in stock-based compensation from the issuance of annual employee equity awards. The increase in allocated overhead costs was due to higher IT support, facility costs, and other administrative costs. The increase in recruiting and training expenses was due to an increase in associated personnel. The increase in royalty expense was due to more licenses sold, as a result of a change in product mix, during the three months ended April 30, 2015 as compared to the same period a year ago. The decrease in third-party consultant costs and billable expenses was due to completion of a few large implementation projects and our efforts to transfer a portion of the implementation work to our system integrator partners. Our cost of revenues headcount was 548 at April 30, 2015 compared with 505 at April 30, 2014. The increase in headcount was primarily attributable to hiring in our international locations as we expand our global operations.

The \$2.5 million decrease in cost of revenues during the nine months ended April 30, 2015 was primarily driven by a decrease of \$6.3 million in third-party consultant costs and billable expenses, offset by an increase of \$2.0 million in allocated overhead, an increase of \$1.5 million in personnel-related expenses, and an increase of \$0.3 million in

recruiting and general office expenses. The decrease in third-party consultant costs and billable expenses was due to completion of a few large implementation projects and our efforts to transfer a portion of the implementation work to our system integrator partners. The increase in personnel-related expenses was primarily due to an increase in stock-based compensation from the issuance of annual employee equity awards. The increase in allocated overhead costs was due to higher IT support, facility costs, and other administrative costs. The increase in recruiting and general office expenses was due to an increase in headcount.

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	Three Months Ended April 30, 2015		2014		Change			
	Amount	Margin %	Amount	Margin %	(\$)	(%)		
	(in thousands, except percentages)							
Gross profit:								
License	\$32,118	96	% \$31,078	97	% \$1,040	3		%
Maintenance	9,884	81	% 8,307	80	% 1,577	19		%
Services	5,534	14	% 6,375	16	% (841)	(13)		)%
Total gross profit	\$47,536	56	% \$45,760	56	% \$1,776	4		%
	Nine Months Ended April 30, 2015		2014		Change			
	Amount	Margin %	Amount	Margin %	(\$)	(%)		
	(in thousands, except percentages)							
Gross profit:								
License	\$102,366	97	% \$82,724	96	% \$19,642	24		%
Maintenance	30,054	82	% 24,152	81	% 5,902	24		%
Services	14,445	13	% 14,864	13	% (419)	(3)		)%
Total gross profit	\$146,865	58	% \$121,740	53	% \$25,125	21		%

The \$1.8 million and \$25.1 million increases in gross profit during the three and nine months ended April 30, 2015 were due to higher revenues, and an increase in higher gross margin term license revenue as a percentage of total revenues for the nine months ended April 30, 2015.

We expect our quarterly gross margin to vary in percentage terms as we experience changes in the mix between higher gross margin license revenues and lower gross margin service revenues.

**Operating Expenses**

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses. The largest components of our operating expenses are personnel-related expenses for our employees, including stock-based compensation, and, to a lesser extent, professional services costs, rent and facility costs.

	Three Months Ended April 30, 2015		2014		Change			
	Amount	% of total revenues	Amount	% of total revenues	(\$)	(%)		
	(in thousands, except percentages)							
Operating expenses:								
Research and development	\$24,575	29	% \$19,761	24	% \$4,814	24		%
Sales and marketing	18,801	22	% 16,735	21	% 2,066	12		%
General and administrative	10,860	13	% 9,117	11	% 1,743	19		%
Total operating expenses	\$54,236	64	% \$45,613	56	% \$8,623	19		%
Includes stock-based compensation of:								
Research and development	\$2,813	3	% \$2,260	3	% \$553	24		%
Sales and marketing	2,620	3	% 2,291	3	% 329	14		%
General and administrative	2,840	3	% 2,532	3	% 308	12		%
Total	\$8,273		\$7,083		\$1,190			

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	Nine Months Ended April 30, 2015		2014		Change (\$)	Change (%)		
	Amount (in thousands, except percentages)	% of total revenues	Amount	% of total revenues				
Operating expenses:								
Research and development	\$67,167	27	% \$54,813	23	% \$12,354	23	%	
Sales and marketing	56,506	22	% 49,686	21	% 6,820	14	%	
General and administrative	30,195	12	% 25,240	11	% 4,955	20	%	
Total operating expenses	\$153,868	61	% \$129,739	55	% \$24,129	19	%	
Includes stock-based compensation of:								
Research and development	\$7,618	3	% \$6,657	3	% \$961	14	%	
Sales and marketing	9,049	4	% 8,140	4	% 909	11	%	
General and administrative	9,011	4	% 7,320	3	% 1,691	23	%	
Total	\$25,678		\$22,117		\$3,561			

The \$8.6 million increase in operating expenses during the three months ended April 30, 2015 was driven by an increase of \$5.1 million in personnel-related expenses, including stock-based compensation, an increase of \$3.0 million in professional services, an increase of \$0.3 million in IT support, facility, and other administrative costs, and an increase of \$0.2 million in travel and marketing expenses.

The \$24.1 million increase in operating expenses during the nine months ended April 30, 2015 was driven by an increase of \$14.3 million in personnel-related expenses, including stock-based compensation, an increase of \$7.2 million in professional services, an increase of \$1.4 million in IT support, facility, and other administrative costs, and an increase of \$1.2 million in travel and marketing expenses.

### Research and Development

Our research and development expenses consist primarily of costs incurred for personnel-related expenses for our technical staff, including stock-based compensation and allocated overhead, as well as professional services costs.

The \$4.8 million increase in research and development expenses during the three months ended April 30, 2015 was primarily due to an increase of \$2.7 million in personnel-related expenses, including stock-based compensation, an increase of \$0.9 million in consulting expenses, an increase of \$0.8 million in allocated overhead, and an increase of \$0.4 million in employee travel, recruiting and training expenses. Our research and development headcount was 383 at April 30, 2015 compared with 311 at April 30, 2014, resulting in higher personnel-related expenses, higher allocated overhead, and higher employee travel, recruiting and training expenses. The increase in consulting expenses was due to increases in product portfolio enhancements.

The \$12.4 million increase in research and development expenses during the nine months ended April 30, 2015 was primarily due to an increase of \$6.1 million in personnel-related expenses, an increase of \$3.3 million in consulting expenses, an increase of \$2.2 million in allocated overhead, and an increase of \$0.8 million in employee travel, recruiting and training expenses. The increases in personnel-related expenses, allocated overhead, and employee travel, recruiting and training expenses were due to an increase in headcount. The increase in consulting expenses was due to increases in product portfolio enhancements.

We expect our research and development expenses to continue to increase in absolute dollars as we continue to dedicate substantial internal resources to develop, improve and expand the functionality of our solutions.

#### Sales and Marketing

Our sales and marketing expenses consist primarily of costs incurred for personnel-related expenses for our sales and marketing employees, including stock-based compensation, and allocated overhead, as well as commission payments to our sales employees, sales travel expenses and professional services for marketing costs.

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The \$2.1 million increase in sales and marketing expenses during the three months ended April 30, 2015 was primarily due to an increase of \$1.3 million in personnel-related expenses, including stock-based compensation and commissions, an increase of \$0.4 million in allocated overhead, an increase of \$0.2 million in consultant costs, and an increase of \$0.2 million in recruiting and training expenses. Our sales and marketing headcount was 230 at April 30, 2015 compared with 205 at April 30, 2014, resulting in higher personnel-related expenses, higher allocated overhead and recruiting and training expenses.

The \$6.8 million increase in sales and marketing expenses during the nine months ended April 30, 2015 was primarily due to an increase of \$4.2 million in personnel-related expenses, including stock-based compensation and commissions, an increase of \$1.4 million in allocated overhead, an increase of \$0.7 million in employee travel expenses and marketing programs, an increase of \$0.3 million in recruiting, training and general office expenses, and an increase of \$0.2 million in consultant costs. The increases in personnel-related expenses, allocated overhead, and recruiting, training and other general office costs were due to an increase in headcount. The increases in consultant costs, travel and marketing programs were due to an increase in sales and marketing activities.

We expect our sales and marketing expenses to continue to increase in absolute dollars as we continue to increase our sales and marketing activities to support business growth.

## General and Administrative

Our general and administrative expenses consist primarily of personnel-related expenses, including stock-based compensation, as well as professional services and facility costs related to our executive, finance, human resources, information technology, corporate development and legal functions.

The \$1.7 million increase in general and administrative expenses during the three months ended April 30, 2015 was primarily due to increases in personnel-related expenses including stock-based compensation, professional services costs, IT support, facility, and other administrative costs, net of allocations to other functional departments. The increase in general and administrative expenses was due to more initiatives and projects to support business growth and headcount increase. Our general and administrative headcount was 138 at April 30, 2015 compared with 124 at April 30, 2014.

The \$5.0 million increase in general and administrative expenses during the nine months ended April 30, 2015 was primarily due to increases in personnel-related expenses including stock-based compensation, professional services costs, IT support, facility, and other administrative costs, net of allocations to other functional departments. The increase in general and administrative expenses was due to business growth and headcount increase.

We expect our general and administrative expense to continue to increase in absolute dollars due to increases in personnel costs and infrastructure costs to support the growth of our business.

## Other Income (Expense)

	Three Months Ended April 30,		Change		
	2015	2014	(\$)	(%)	
	Amount	Amount			
	(in thousands, except percentages)				
Interest income, net	\$636	\$415	\$221	53	%
Other income (expense), net	77	115	(38)	(33)	)%
Total	\$713	\$530	\$183		

## Nine Months Ended April 30,

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	2015	2014	Change		
	Amount	Amount	(\$)	(%)	
	(in thousands, except percentages)				
Interest income, net	\$1,643	\$919	\$724	79	%
Other income (expense), net	(1,267	) 172	(1,439	) *	
Total	\$376	\$1,091	\$(715	)	

\* Not meaningful

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## Interest Income, Net

Interest income represents interest earned on our cash, cash equivalents and investments.

Interest income increased by \$0.2 million and \$0.7 million during the three and nine months ended April 30, 2015, respectively, primarily due to higher yields on our cash equivalents and investments as well as higher investment balances.

## Other Income (Expense), Net

Other income (expense), net consists primarily of fluctuations in foreign exchange rates on receivables and payables denominated in currencies other than the U.S. dollar.

The \$1.4 million increase in other expense for the nine months ended April 30, 2015 was primarily from currency exchange loss on British Pound, Euro, Australia and Canadian Dollar, and Japanese Yen transactions during the nine months ended April 30, 2015 due to a stronger U.S. dollar against these currencies.

## Provision for (Benefit from) Income Taxes

We are subject to taxes in the United States as well as other tax jurisdictions or countries in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to current U.S. income tax.

	Three Months Ended April 30,		Change	
	2015	2014		
	Amount	Amount	(\$)	(%)
	(in thousands, except percentages)			
Provision for (benefit from) income taxes	\$ (3,000	) \$ 2,590	\$ (5,590	) *

\* Not meaningful

	Nine Months Ended April 30,		Change	
	2015	2014		
	Amount	Amount	(\$)	(%)
	(in thousands, except percentages)			
Provision for (benefit from) income taxes	\$ (4,619	) \$ (1,872	) \$ (2,747	) *

\* Not meaningful

We recognized income tax benefits of \$3.0 million and \$4.6 million for the three and nine months ended April 30, 2015, respectively, and recognized an income tax provision of \$2.6 million for the three months ended April 30, 2014 and an income tax benefit of \$1.9 million for the nine months ended April 30, 2014. The changes for the three and nine months ended April 30, 2015 were primarily due to a decrease in profitability and tax benefit related to research and development ("R&D") credits. On December 19, 2014, President Obama signed H.R.5771, The Tax Increase Prevention Act, extending the federal R&D credits through December 31, 2014. For the three and nine months ended April 30, 2015, income tax provisions of \$1.6 million and \$0.4 million were recorded as a result of an updated R&D credit study for the period from August 1, 2013 through July 31, 2014. The effective tax rate of 50.1% and 69.7% for the three and nine months ended April 30, 2015 differs from the statutory U.S. federal income tax rate of 35% mainly due to incentive stock option tax deductions, permanent differences for foreign stock-based compensation, the impact of state income taxes, the tax rate differences between the United States and foreign countries, and R&D credits.

## Liquidity and Capital Resources

As of April 30, 2015 and July 31, 2014, we had \$643.8 million and \$647.8 million of cash, cash equivalents and investments, respectively, and working capital of \$531.0 million and \$421.0 million, respectively.

Cash flows provided by operating activities were \$30.7 million and \$26.1 million during the nine months ended April 30, 2015 and 2014, respectively. We had capital expenditures of \$5.1 million and \$3.7 million for the nine months ended April 30, 2015 and 2014, respectively. Our capital expenditures consisted of purchases of property and equipment, primarily consisting of computer hardware, software and leasehold improvements.

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Our cash flows from operations are significantly impacted by timing of revenues, bonus payments and collections of accounts receivable, as well as by changes in deferred taxes. We expect that we will continue to generate positive cash flows from operations on an annual basis, although this may fluctuate significantly on a quarterly basis. In particular, we typically use more cash during the first fiscal quarter ended October 31, as we generally pay cash bonuses to our employees for the prior fiscal year during that period and pay seasonally higher sales commissions from increased orders in our fourth fiscal quarter. As such, we believe that our existing cash and cash equivalents and sources of liquidity will be sufficient to fund our operations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities and the timing and extent of our spending to support our research and development efforts and expansion into other markets. We may also seek to invest in, or acquire complementary businesses, applications or technologies. As of April 30, 2015, approximately \$21.2 million of our cash and cash equivalents were domiciled in foreign tax jurisdictions. While we have no plans to repatriate these funds to the United States in the short term, if we choose to do so, we would be required to accrue and pay additional taxes on any portion of the repatriation where no United States income tax had been previously provided.

**Cash Flows**

The following summary of cash flows for the periods indicated has been derived from our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q:

	Nine Months Ended April 30,	
	2015	2014
	(in thousands)	
Net cash provided by operating activities	\$30,664	\$26,053
Net cash provided by (used in) investing activities	3,848	(318,785
Net cash provided by (used in) financing activities	(21,607	) 371,739
<b>Cash Flows from Operating Activities</b>		

Net cash provided by operating activities increased by \$4.6 million for the nine months ended April 30, 2015 when compared to the nine months ended April 30, 2014. The increase was due to a \$7.5 million increase in profitability after excluding the impact of non-cash charges such as stock-based compensation, depreciation and amortization expense, deferred taxes and other non-cash items, offset by a net \$2.9 million increase in cash used for working capital activity. The increase in cash used for working capital activity was due to changes in deferred revenues, and higher bonus and commission payments, offset by an increase in cash collections and timing of payments to vendors in the nine months ended April 30, 2015 as compared to the same period a year ago.

**Cash Flows from Investing Activities**

Our investing activities consist primarily of investment of excess cash and cash equivalents into short-term and long-term investments, as well as capital expenditures to purchase property and equipment.

Cash provided by investing activities increased \$322.6 million for the nine months ended April 30, 2015, primarily due to a \$164.0 million increase in proceeds from sales and maturity of our available-for-sale securities and a \$159.9 million decrease in purchases of available-for-sale securities, as compared to the same period a year ago when we invested excess cash into available-for-sale securities from our follow-on public offering. This net increase in cash provided by investing activities was offset by a \$1.4 million increase in capital expenditures to purchase property and equipment.

**Cash Flows from Financing Activities**

Cash flows provided by financing activities decreased by \$393.3 million for the nine months ended April 30, 2015 when compared to the same period a year ago. During the nine months ended April 30, 2014, we received \$389.9 million in net proceeds from our follow-on offering of common stock, after deducting underwriters' discounts and commissions. Additionally, in the current period, proceeds from stock options exercises decreased by \$2.6 million in line with the decreasing population of exercisable options as we have granted more RSUs than stock options to employees in recent years.



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### Contractual Obligations

Our primary contractual obligations are from operating leases for office space and letters of credit related to those leases. See Note 5 to the Condensed Consolidated Financial Statements for a discussion of our lease commitments and letters of credit.

Other than the lease commitments and letters of credit discussed in Note 5 to the Condensed Consolidated Financial Statements, we do not have commercial commitments under lines of credit, standby repurchase obligations or other such debt arrangements. We do not have any material non-cancellable purchase commitments as of April 30, 2015.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements or transactions with unconsolidated limited purpose entities, nor do we have any undisclosed material transactions or commitments involving related persons or entities.

## ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

### Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our cash, cash equivalents and investments as of April 30, 2015 and July 31, 2014. Our cash, cash equivalents and investments as of April 30, 2015 and July 31, 2014 were \$643.8 million and \$647.8 million, respectively, consisted primarily of cash, corporate bonds, U. S. agency debt securities, commercial paper, money market funds and municipal debt securities. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of our interest-bearing securities, a ten percent change in market interest rates would not be expected to have a material impact on our consolidated financial condition or results of operations.

### Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Canadian dollar, Australian dollar, Euro, British Pound and Japanese Yen. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure because we typically collect revenues and incur costs in the currency in the location in which we provide our application, our contracts with our customers are long term in nature so it is difficult to predict if our operating activities will provide a natural hedge in the future. Changes in foreign currency exchange rates can affect our financial results due to transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. For example, for the nine months ended April 30, 2015, we experienced nine to eighteen percent fluctuations in exchange rates in Euro, British Pound, Australia, Canadian dollar and Japanese Yen and as a result, recorded a foreign currency loss of \$1.3 million as other income (expense) in our statement of operations. We will continue to experience fluctuations in foreign currency exchange rates, however, we believe that a ten percent change in foreign exchange rates would not have a material impact on our results of operations. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

### Fair Value of Financial Instruments

We do not have material exposure to market risk with respect to investments in financial instruments, as our investments consist primarily of highly liquid investments purchased with a remaining maturity of two years or less. We do not use derivative financial instruments for speculative or trading purposes. However, this does not preclude our adoption of specific hedging strategies in the future.

## ITEM 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the

Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on

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Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time we are involved in legal proceedings that arise in the ordinary course of our business. Any such proceedings, whether meritorious or not, could be time consuming, costly, and result in the diversion of significant operational resources or management time.

Although the outcomes of legal proceedings are inherently difficult to predict, we are not currently involved in any legal proceeding in which the outcome, in our judgment based on information currently available, is likely to have a material adverse effect on our business or financial position.

ITEM 1A. Risk Factors

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this report, and in our other public filings. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.

We may experience significant quarterly and annual fluctuations in our results of operations due to a number of factors.

Our quarterly and annual results of operations may fluctuate significantly due to a variety of factors, many of which are outside of our control. This variability may lead to volatility in our stock price as research analysts and investors respond to quarterly fluctuations. In addition, comparing our results of operations on a period-to-period basis, particularly on a sequential quarterly basis, may not be meaningful. You should not rely on our past results as an indication of our future performance.

Factors that may affect our results of operations include:

- the timing of new orders and revenue recognition for new and prior year orders;
- seasonal buying patterns of our customers;
- our ability to increase sales to and renew agreements with our existing customers, particularly larger customers, at comparable prices;
- our ability to renew existing contracts for multiple year terms versus annual automatic renewals;
- our ability to attract new customers, particularly larger customers, in both domestic and international markets;
- structure of our licensing contracts, including fluctuations in perpetual licenses from period to period;
- our ability to enter into contracts on favorable terms, including terms related to price, payment timing and product delivery;
- volatility in the sales of our products and timing of the execution of new and renewal agreements within such periods;
- commissions expense related to large transactions;
- bonus expense based on the bonus attainment rate;
- the lengthy and variable nature of our product implementation cycles;
  - reductions in our customers’ budgets for information technology purchases and delays in their purchasing cycles;
- our ability to control costs, including our operating expenses;
- any significant change in our facilities-related costs;
- the timing and cost of hiring personnel and of large expenses such as those for trade shows and third-party professional services;
- stock-based compensation expenses and related payroll taxes, which vary along with changes to our stock price;
- general domestic and international economic conditions, in the insurance industry in particular;
- fluctuations in foreign currency exchange rates;



future accounting pronouncements or changes in our accounting policies; and the impact of a recession or any other adverse global economic conditions on our business, including uncertainties that may cause a delay in entering into or a failure to enter into significant customer agreements.

In addition, our revenue may fluctuate if our customers make an early payment of their annual fees.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly and annual results of operations. Any failure to adjust spending quickly enough to compensate for a revenues shortfall

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could magnify the adverse impact of such revenues shortfall on our results of operations. Failure to achieve our quarterly forecasts or to meet or exceed the expectations of research analysts or investors will cause our stock price to decline.

Seasonal sales patterns and other variations related to our revenue recognition may cause significant fluctuations in our results of operations and cash flows and may prevent us from achieving our quarterly or annual forecasts, which may cause our stock price to decline.

We sign a significantly higher percentage of software license orders in the second and fourth quarters of each fiscal year. We generally see increased orders in our second fiscal quarter, which is the quarter ended January 31, due to customer buying patterns. We also see increased orders in our fourth fiscal quarter due to efforts by our sales team to achieve annual incentives. As a result, a significantly higher percentage of our annual license revenues have historically been recognized during those quarters. Since a substantial majority of our license revenues recur annually under our multi-year contracts, we expect to continue to experience this seasonality effect in subsequent years.

Notwithstanding the fact that we generally see increased licensing orders in our second and fourth fiscal quarters, we expect to see additional quarterly revenue fluctuations that may, in some cases, mask the impact of these expected seasonal variations. Our quarterly growth in license revenues also may not match up to new orders we receive in a given quarter. This mismatch is primarily due to the following reasons:

- for the initial year of a multi-year term license, we generally recognize revenues when payment is due and payment may not be due until a subsequent fiscal quarter;

- we may enter into license agreements with specified terms for product upgrades or functionality, which may require us to delay revenue recognition for the initial period; and

- we may enter into license agreements with other contractual terms that may affect the timing of revenue recognition.

Our revenues may fluctuate versus comparable prior periods or prior quarters within the same fiscal year based on when new orders are executed in the quarter and the payment terms of each order. Additionally, our revenues may fluctuate if our customers make an early payment of their annual fees. Our ability to renew existing contracts for multiple year terms versus annual automatic renewals may also impact revenue recognition.

We generally charge annual software license fees for our multi-year term licenses and price our licenses based on the amount of direct written premiums (“DWP”) that will be managed by our solutions. However, in certain circumstances, our customers desire the ability to purchase our products on a perpetual license basis, resulting in an acceleration of revenue recognition. Milestone payments in a perpetual license order also cause seasonal variations. Our perpetual license revenues are not consistent from period to period. In addition, a few of our multi-year term licenses provide the customer with the option to purchase a perpetual license at the end of the initial contract term, which we refer to as a perpetual buyout right. The mix of our contract terms for our licenses and the exercise of perpetual buyout rights at the end of the initial contract term by our customers may lead to variability in our results of operations. Increases in perpetual license sales and exercises of perpetual buyout rights by our customers may affect our ability to show consistent growth in license revenues in subsequent periods. Reductions in perpetual licenses in future periods could cause adverse period-to-period comparisons of our financial results.

In addition, because we price our products based on the amount of DWP that will be managed by our solutions, license revenues from each customer may fluctuate up or down based upon insurance policies sold by the customer in the preceding year. If we enter into a new territory, our revenue recognition pattern may change, depending on the contractual terms and local laws and regulations. Seasonal and other variations related to our revenue recognition may cause significant fluctuations in our results of operations and cash flows, may make it challenging for an investor to predict our performance on a quarterly basis and may prevent us from achieving our quarterly or annual forecasts or meeting or exceeding the expectations of research analysts or investors, which may cause our stock price to decline.

We have relied and expect to continue to rely on orders from a relatively small number of customers in the P&C insurance industry for a substantial portion of our revenues, and the loss of any of these customers would significantly

harm our business, results of operations and financial condition.

Our revenues are dependent on orders from customers in the P&C insurance industry, which may be adversely affected by economic, environmental and world political conditions. A relatively small number of customers have historically accounted for a majority of our revenues. In fiscal years 2014, 2013 and 2012, our ten largest customers accounted for 35%, 33% and 35% of our revenues, respectively. While we expect this reliance to decrease over time, we expect that we will continue to depend upon a relatively small number of customers for a significant portion of our revenues for the foreseeable future. As a result, if we fail to successfully sell our products and services to one or more anticipated customers in any particular period or fail to identify additional potential customers or an anticipated customer purchases fewer of our products or services, defers or cancels

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orders, or terminates its relationship with us, our business, results of operations and financial condition would be harmed. Some of our orders are realized at the end of the quarter or are subject to delayed payment terms. As a result of this concentration and timing, if we are unable to complete one or more substantial sales or achieve any required performance or acceptance criteria in any given quarter, our quarterly results of operations may fluctuate significantly. Our services revenues produce lower gross margins than our license or maintenance revenues, and an increase in services revenues as a percentage of total revenues could adversely affect our overall gross margins and profitability. Our services revenues were 45%, 46% and 45% of total revenues for each of fiscal years 2014, 2013 and 2012, respectively. Our services revenues produce lower gross margins than our license revenues. The gross margin of our services revenues was 13%, 16% and 20% for fiscal years 2014, 2013 and 2012, respectively, while the gross margin for license revenues was 97%, 99% and 99% for the respective periods. An increase in the percentage of total revenues represented by services revenues could reduce our overall gross margins.

The volume and profitability of our services offerings depend in large part upon:

- price charged to our customers;
- the utilization rate of our services personnel;
- the complexity of our customers' information technology environments;
- our ability to accurately forecast the time and resources required for each implementation project;
- the resources directed by our customers to their implementation projects;
- our ability to hire, train and retain qualified services personnel;
- unexpected difficulty in projects which may require additional efforts on our part without commensurate compensation;
- our ability to manage fixed fee arrangements;
- the extent to which system integrators provide services directly to customers; and
- our ability to adequately predict customer demand and scale our professional services staff accordingly.

Any erosion in our services margins or any significant increase in services revenues as a percentage of total revenues would adversely affect our results of operations.

Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and results of operations.

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents and other intellectual property rights. In particular, leading companies in the software industry own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims against us. From time to time, third parties, including certain of these leading companies, may assert patent, copyright, trademark or other intellectual property claims against us, our customers and partners, and those from whom we license technology and intellectual property.

Although we believe that our products and services do not infringe upon the intellectual property rights of third parties, we cannot assure that third parties will not assert infringement or misappropriation claims against us with respect to current or future products or services, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation, or result in us being unable to use certain intellectual property. We cannot assure that we are not infringing or otherwise violating any third party intellectual property rights. Infringement assertions from third parties may involve patent holding companies or other patent owners who have no relevant product revenues, and therefore our own issued and pending patents may provide little or no deterrence to these patent owners in bringing intellectual property rights claims against us.

Any intellectual property infringement or misappropriation claim or assertion against us, our customers or partners, and those from whom we license technology and intellectual property could have a material adverse effect on our business, financial condition, reputation and competitive position regardless of the validity or outcome. If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed a party's intellectual property; cease making, licensing or using our products or services that are alleged to infringe or

misappropriate the intellectual property of others; expend additional development resources to redesign our products or services; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or works; and to indemnify our partners, customers, and other third parties. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Any of these events could seriously harm our business, results of operations and financial

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condition. In addition, any lawsuits regarding intellectual property rights, regardless of their success, could be expensive to resolve and divert the time and attention of our management and technical personnel.

We may expand through acquisitions of or partnerships with other companies, which may divert our management's attention and result in unexpected operating and technology integration difficulties, increased costs and dilution to our stockholders.

Our business strategy may include additional acquisitions of complementary software, technologies or businesses or alliances with other companies offering the same. Acquisitions and alliances may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties in assimilating or integrating the businesses, technologies, services, products, personnel or operations of the acquired companies, if the key personnel of the acquired company choose not to work for us, or we may have difficulty retaining the existing customers or signing new customers of any acquired business. Acquisitions and alliances may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for ongoing development of our current business. We also may be required to use a substantial amount of our cash or issue debt or equity securities to complete an acquisition or realize the potential of an alliance, which could deplete our cash reserves and/or dilute our existing stockholders. Following an acquisition or the establishment of an alliance offering new products, we may be required to defer the recognition of revenues that we receive from the sale of products that we acquired or that result from the alliance, or from the sale of a bundle of products that includes such new products, if we have not established vendor-specific objective evidence ("VSOE") for the undelivered elements in the arrangement. A delay in the recognition of revenues from sales of acquired or alliance products, or bundles that include the same, may cause fluctuations in our quarterly financial results and may adversely affect our operating margins.

Additionally, competition within the software industry for acquisitions of businesses, technologies and assets has been, and may in the future continue to be, intense. As such, even if we are able to identify an acquisition that we would like to consummate, the target may be acquired by another strategic buyer or financial buyer such as a private equity firm, or we may otherwise not be able to complete the acquisition on commercially reasonable terms, if at all. Moreover, the anticipated benefits of any acquisition, including our revenues or return on investment assumptions, may not be realized or we may be exposed to unknown liabilities as a result of such acquisition.

We face intense competition in our market, which could negatively impact our business, results of operations and financial condition and cause our market share to decline.

The market for our core insurance system software is intensely competitive. Our implementation cycle is lengthy, variable and requires the investment of significant time and expense by our customers. We compete with legacy systems, many of which have been in operation for decades. Maintaining these legacy systems may be so time consuming and costly for our customers that they do not have adequate resources to devote to the purchase and implementation of our products. We also compete against technology consulting firms that offer software and systems or develop custom, proprietary products for the P&C insurance industry. These consulting firms generally have greater name recognition, larger sales and marketing budgets and greater resources than we do and may have pre-existing relationships with our potential customers, including relationships with, and access to, key decision makers within these organizations. We also encounter competition from small independent firms that compete on the basis of price, custom developments or unique product features or functions and from vendors of software products that may be customized to address the needs of P&C insurance carriers.

We expect the intensity of competition to remain high in the future as new companies enter our markets and existing competitors develop stronger capabilities. Such intense competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, and failure to increase, or the loss of, market share, any of which could harm our business, results of operations and financial condition. Our competitors may be able to devote greater resources to the development, promotion and sale of their products than we can to ours, which could allow them to respond more quickly than we can to new technologies and changes in customer needs and achieve wider market acceptance. We may not be able to compete effectively and competitive pressures may prevent us from acquiring and maintaining the customer base necessary for us to increase our revenues and profitability.

Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources. Current or potential competitors may be acquired by third parties

with greater available resources. As a result of such acquisitions, our current or potential competitors might be able to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of other opportunities more readily or develop and expand their product and service offerings more quickly than we do. Additionally, they may hold larger portfolios of patents and other intellectual property rights as a result of such acquisitions. If we are unable to compete effectively for a share of our market, our business, results of operations and financial condition could be materially and adversely affected.

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Certain of our software products may be deployed through cloud-based implementations, and if such implementations are compromised by data security breaches or other disruptions, our reputation could be harmed, and we could lose customers or be subject to significant liabilities.

Although our software products typically are deployed on our customers' premises, some of our products are deployed in cloud-based environments we maintain and some of our products may be deployed in our customers' cloud-based environments, in which our products and associated services are made available using an Internet-based infrastructure. In cloud deployments, our infrastructure and the infrastructure of third-party service providers used by both ourselves and our customers may be vulnerable to hacking incidents, other security breaches, computer viruses, telecommunications failures, power loss, other system failures and similar disruptions. These same vulnerabilities may exist in our customers' internal computing environments as well.

Any of these occurrences, whether intentional or accidental, could lead to interruptions, delays or cessation of operation of our servers or the servers of third-party service providers' used by our customers, and to the unauthorized use or access of our software and proprietary information and sensitive or confidential data stored or transmitted by our products. The inability of service providers used by our customers, or our own inability, to provide continuous access to hosted services, and to secure hosted services and associated customer information from unauthorized use, access or disclosure, could cause us reputational harm, loss of customers and could expose us to significant liability, all of which could harm our business, financial condition and results of operations.

If our products experience data security breaches, and there is unauthorized access to our customers' data, we may lose current or future customers and our reputation and business may be harmed.

Our products are used by our customers to manage and store proprietary information and sensitive or confidential data relating to their businesses. Although we maintain security features in our products and our customers maintain their own security measures for their operating environments, our security measures may not detect or prevent hacker interceptions, break-ins, security breaches, the introduction of viruses or malicious code, and other disruptions that may jeopardize the security of information stored in and transmitted by our products. A party that is able to circumvent our or our customers' security measures could misappropriate our or our customers' proprietary or confidential information, cause interruption in operations, damage or misuse of computer systems, and misuse any information misappropriated.

If any compromise of the security of our products were to occur, we may lose customers and our reputation, business, financial condition and results of operations could be harmed. In addition, if there is any perception that we cannot protect our customers' proprietary and confidential information, we may lose the ability to retain existing customers and attract new customers and our revenues could decline.

Privacy concerns could result in regulatory changes and impose additional costs and liabilities on us, limit our use of information, and adversely affect our business.

Certain of our solutions collect, process, store, and use transaction-level data aggregated across insurers using Guidewire's common data model. Personal privacy has become a significant issue in the United States, Europe, and many other countries where we operate. Many federal, state, and foreign legislatures and government agencies have imposed or are considering imposing restrictions and requirements about the collection, use, and disclosure of personal information. Changes to laws or regulations affecting privacy could impose additional costs and liability on us and could limit our use of such information to add value for customers. If we were required to change our business activities or revise or eliminate services, or to implement burdensome compliance measures, our business and results of operations could be harmed. Privacy concerns, whether valid or not, may also inhibit market adoption of our solutions in some situations, harming our growth. In addition, we may be subject to fines, penalties, and potential litigation if we fail to comply with applicable privacy regulations.

The costs of compliance with and other burdens imposed by privacy-related laws, regulations and standards may limit the use and adoption of our product solutions and reduce overall demand, or lead to significant fines, penalties or liabilities for any noncompliance.

Furthermore, concerns regarding data privacy may cause our customers' customers to resist providing the data necessary to allow our customers to use our solutions effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products



or services, and could limit adoption of our solutions.

Weakened global economic conditions may adversely affect the P&C insurance industry, including the rate of information technology spending, which could cause our customers to defer or forego purchases of our products or services.

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Our business depends on the overall demand for information technology from, and on the economic health of, our current and prospective customers. In addition, the purchase of our products is discretionary and involves a significant commitment of capital and other resources. Our customers may suffer from reduced operating budgets, which could cause them to defer or forego purchases of our products or services. Challenging global economic conditions, or a reduction in information technology spending even in improving economic conditions, could adversely impact our business, results of operations and financial condition in a number of ways, including longer sales cycles, lower prices for our products and services, material default rates among our customers, reduced sales of our products and services and lower or no growth.

Our sales cycle is lengthy and variable, depends upon many factors outside our control, and could cause us to expend significant time and resources prior to earning associated revenues.

The typical sales cycle for our products and services is lengthy and unpredictable, requires pre-purchase evaluation by a significant number of employees in our customers' organizations, and often involves a significant operational decision by our customers. Our sales efforts involve educating our customers about the use and benefits of our products, including the technical capabilities of our products and the potential cost savings achievable by organizations deploying our products. Customers typically undertake a significant evaluation process, which frequently involves not only our products, but also those of our competitors and can result in a lengthy sales cycle. Moreover, a purchase decision by a potential customer typically requires the approval of several senior decision makers, including the board of directors of our customers. Our sales cycle for new customers is typically one to two years and can extend even longer in some cases. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will produce any sales. In addition, we sometimes commit to include specific functions in our base product offering at the request of a customer or group of customers and are unable to recognize license revenues until the specific functions have been added to our products. Providing this additional functionality may be time consuming and may involve factors that are outside of our control. The lengthy and variable sales cycle may also have a negative impact on the timing of our revenues, causing our revenues and results of operations to vary significantly from period to period.

If we are unable to continue the successful development of our direct sales force and the expansion of our relationships with our strategic partners, sales of our products and services will suffer and our growth could be slower than we project.

We believe that our future growth will depend on the continued development of our direct sales force and their ability to obtain new customers, particularly large P&C insurance carriers, and to manage our existing customer base. Our ability to achieve significant growth in revenues in the future will depend, in large part, on our success in recruiting, training and retaining a sufficient number of direct sales personnel. New hires require significant training and may, in some cases, take more than a year before becoming productive, if at all. If we are unable to hire and develop sufficient numbers of productive direct sales personnel, sales of our products and services will suffer and our growth will be impeded.

We believe our future growth also will depend on the expansion of successful relationships with system integrators. Our system integrators as channel partners help us reach additional customers. Our growth in revenues, particularly in international markets, will be influenced by the development and maintenance of this indirect sales channel. Although we have established relationships with some of the leading system integrators, our products and services compete directly against the products and services of other leading system integrators, as well as various software producers who partner with system integrators. We are unable to control the resources that our system integrator partners commit to implementing our products or the quality of such implementation. If they do not commit sufficient resources to these activities, our business and results of operations could fail to grow in line with our projections. Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that result in increased cost of sales, decreased revenues and lower average selling prices and gross margins, all of which could harm our operating results.

Some of our customers include the largest P&C insurance carriers with significant bargaining power in negotiations with us, and have the ability to buy similar products from other vendors or develop such systems internally. These customers have and may continue to seek advantageous pricing and other commercial terms and may require us to

develop additional features in the products we sell to them. We have and may continue to be required to reduce the average selling price, or increase the average cost, of our products in response to these pressures. If we are unable to offset any reductions in our average selling prices or increases in our average costs with increased sales volumes and reduced costs, our results of operations could be harmed.

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Our limited operating history and the evolving nature of the industry in which we operate may make it difficult to evaluate our business.

We were incorporated in 2001, and since that time have been developing products to meet the evolving demands of customers in the markets in which we operate. We sold the initial versions of ClaimCenter in 2003, PolicyCenter in 2004 and BillingCenter in 2006. This limited operating history makes financial forecasting and evaluation of our business difficult. Furthermore, because we depend in part on the market's acceptance of our products, it is difficult to evaluate trends that may affect our business. We expect to make significant investments and our expenses will increase in future periods as we implement initiatives designed to grow our business, including, among other things, improvement of our current products, development and marketing of new services and products, stock-based compensation expense, international expansion, investment in our infrastructure, and increased general and administrative functions. If our revenues do not sufficiently increase to offset these expected increases in operating expenses, we will incur significant losses and will not be profitable. Our growth in revenues in recent periods should not be considered indicative of our future performance. Any failure to continue profitability may harm our business, results of operations and financial condition.

Because we derive substantially all of our revenues and cash flows from our ClaimCenter, PolicyCenter, BillingCenter and InsuranceSuite products and related services, failure of any of these products or services to satisfy customer demands or to achieve increased market acceptance would harm our business, results of operations, financial condition and growth prospects.

We derive substantially all of our revenues and cash flows from our ClaimCenter, PolicyCenter, BillingCenter and InsuranceSuite products and related services. We expect to continue to derive a substantial portion of our revenues from these products and related services. As such, increased market acceptance of these products is critical to our continued growth and success. Demand for our products is affected by a number of factors beyond our control, including the timing of development and release of new products by us and our competitors, technological change, and growth or contraction in the worldwide market for technological solutions for the P&C insurance industry. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of our products, our business, results of operations, financial condition and growth prospects will be materially and adversely affected. Our business depends on customers renewing and expanding their license and maintenance contracts for our products. A decline in our customer renewals and expansions could harm our future results of operations.

Our customers have no obligation to renew their term licenses after their license period expires, and these licenses may not be renewed on the same or more favorable terms. Moreover, under certain circumstances, our customers have the right to cancel their license agreements before they expire. We have limited historical data with respect to rates of customer license renewals, upgrades and expansions so we may not accurately predict future trends in customer renewals. In addition, our term and perpetual license customers have no obligation to renew their maintenance arrangements after the expiration of the initial contractual period. Our customers' renewal rates may fluctuate or decline because of several factors, including their satisfaction or dissatisfaction with our products and services, the prices of our products and services, the prices of products and services offered by our competitors or reductions in our customers' spending levels due to the macroeconomic environment or other factors. In addition, in some cases, our customers have a right to exercise a perpetual buyout of their term licenses at the end of the initial contract term. If our customers do not renew their term licenses for our solutions or renew on less favorable terms, our revenues may decline or grow more slowly than expected and our profitability may be harmed.

Our implementation cycle is lengthy and variable, depends upon factors outside our control, and could cause us to expend significant time and resources prior to earning associated revenues.

The implementation and testing of our products by our customers typically lasts 6 to 24 months or longer and unexpected implementation delays and difficulties can occur. Implementing our products typically involves integration with our customers' systems, as well as adding their data to our platform. This can be complex, time-consuming and expensive for our customers and can result in delays in the implementation and deployment of our products. Depending upon the nature and complexity of our customers' systems and the time and resources that our customers are willing to devote to implementation of our products, the implementation and testing of our products may take significantly longer than 24 months. The lengthy and variable implementation cycle may also have a

negative impact on the timing of our revenues, causing our revenues and results of operations to vary significantly from period to period.

Our product development cycles are lengthy, and we may incur significant expenses before we generate revenues, if any, from new products.

Because our products are complex and require rigorous testing, development cycles can be lengthy, taking us multiple years to develop and introduce new products or provide updates to our existing products. Additionally, market conditions may

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dictate that we change the technology platform underlying our existing products or that new products be developed on different technology platforms, potentially adding material expense and time to our development cycles. Moreover, development projects can be technically challenging and expensive. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses. If we expend a significant amount of resources on research and development and our efforts do not lead to the successful introduction or improvement of products that are competitive in the marketplace, this could materially and adversely affect our business and results of operations. Additionally, anticipated customer demand for a product we are developing could decrease or not materialize after the development cycle has commenced. Such lower customer demand may cause us to fall short of our sales targets, and we may nonetheless be unable to avoid substantial costs associated with the product's development. If we are unable to complete product development cycles successfully and in a timely fashion and generate revenues from such future products, the growth of our business may be harmed.

Failure to meet customer expectations on the implementation of our products could result in negative publicity and reduced sales, both of which would significantly harm our business, results of operations, financial condition and growth prospects.

We provide our customers with upfront estimates regarding the duration, budget and costs associated with the implementation of our products. Failing to meet these upfront estimates and the expectations of our customers for the implementation of our products could result in a loss of customers and negative publicity regarding us and our products and services, which could adversely affect our ability to attract new customers and sell additional products and services to existing customers. Such failure could result from our product capabilities or service engagements by us, our system integrator partners or our customers' IT employees, the latter two of which are beyond our direct control. The consequences could include, and have included: monetary credits for current or future service engagements, reduced fees for additional product sales, and a customer's refusal to pay their contractually-obligated license, maintenance or service fees. In addition, time-consuming implementations may also increase the amount of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

Failure to protect our intellectual property could substantially harm our business and results of operations.

Our success depends in part on our ability to enforce and defend our intellectual property rights. We rely upon a combination of trademark, trade secret, copyright, patent and unfair competition laws, as well as license agreements and other contractual provisions, to do so.

We have filed, and may in the future file, patent applications related to certain of our innovations. We do not know whether those patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. In addition, we may not receive competitive advantages from the rights granted under our patents and other intellectual property. Our existing patents and any patents granted to us or that we otherwise acquire in the future, may be contested, circumvented or invalidated, and we may not be able to prevent third parties from infringing these patents. Therefore, the exact effect of the protection of these patents cannot be predicted with certainty. In addition, given the costs, effort, risks and downside of obtaining patent protection, including the requirement to ultimately disclose the invention to the public, we may choose not to seek patent protection for certain innovations; however, such patent protection could later prove to be important to our business.

We also rely on several registered and unregistered trademarks to protect our brand. Nevertheless, competitors may adopt service names similar to ours, or purchase our trademarks and confusingly similar terms as keywords in Internet search engine advertising programs, thereby impeding our ability to build brand identity and possibly leading to confusion in the marketplace. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our trademarks. Any claims or customer confusion related to our trademarks could damage our reputation and brand and substantially harm our business and results of operations.

In addition, we attempt to protect our intellectual property, technology, and confidential information by generally requiring our employees and consultants to enter into confidentiality and assignment of inventions agreements and third parties to enter into nondisclosure agreements, all of which offer only limited protection. These agreements may

not effectively prevent unauthorized use or disclosure of our confidential information, intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, intellectual property or technology. Despite our efforts to protect our confidential information, intellectual property, and technology, unauthorized third parties may gain access to our confidential proprietary information, develop and market products or services similar to ours, or use trademarks similar to ours, any of which could materially harm our business and results of operations. In addition, others may independently discover our trade secrets and confidential information, and in such cases, we could not assert any trade secret rights against such parties. Existing U.S. federal, state and international intellectual property laws offer only limited protection. The laws of some foreign countries do not protect our intellectual property rights to as great an extent as the laws of

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the United States, and many foreign countries do not enforce these laws as diligently as governmental agencies and private parties in the United States. Moreover, policing our intellectual property rights is difficult, costly and may not always be effective.

From time to time, legal action by us may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could negatively affect our business, reputation, results of operations and financial condition. If we are unable to protect our technology and to adequately maintain and protect our intellectual property rights, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time and effort required to create the innovative products that have enabled us to be successful to date.

We and our customers rely on technology and intellectual property of third parties, the loss of which could limit the functionality of our products and disrupt our business.

We use technology and intellectual property licensed from unaffiliated third parties in certain of our products, and we may license additional third-party technology and intellectual property in the future. Any errors or defects in this third-party technology and intellectual property could result in errors that could harm our brand and business. In addition, licensed technology and intellectual property may not continue to be available on commercially reasonable terms, or at all. The loss of the right to license and distribute this third party technology could limit the functionality of our products and might require us to redesign our products.

Further, although we believe that there are currently adequate replacements for the third-party technology and intellectual property we presently use and distribute, the loss of our right to use any of this technology and intellectual property could result in delays in producing or delivering affected products until equivalent technology or intellectual property is identified, licensed or otherwise procured, and integrated. Our business would be disrupted if any technology and intellectual property we license from others or functional equivalents of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required either to attempt to redesign our products to function with technology and intellectual property available from other parties or to develop these components ourselves, which would result in increased costs and could result in delays in product sales and the release of new product offerings. Alternatively, we might be forced to limit the features available in affected products. Any of these results could harm our business and impact our results of operations. Catastrophes may adversely impact the P&C insurance industry, preventing us from expanding or maintaining our existing customer base and increasing our revenues.

Our customers are P&C insurance carriers which have experienced, and will likely experience in the future, catastrophe losses that adversely impact their businesses. Catastrophes can be caused by various events, including, amongst others, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tornados, explosions, severe weather and fires. Global warming trends are contributing to an increase in erratic weather patterns globally and intensifying the impact of certain types of catastrophes. Moreover, acts of terrorism or war could cause disruptions in our or our customers' businesses or the economy as a whole. The risks associated with natural disasters and catastrophes are inherently unpredictable, and it is difficult to predict the timing of such events or estimate the amount of loss they will generate. In the event a future catastrophe adversely impacts our current or potential customers, we may be prevented from maintaining and expanding our customer base and from increasing our revenues because such events may cause customers to postpone purchases of new products and professional service engagements or discontinue projects. There may be consolidation in the P&C insurance industry, which could reduce the use of our products and services and adversely affect our revenues.

Mergers or consolidations among our customers could reduce the number of our customers and potential customers. This could adversely affect our revenues even if these events do not reduce the aggregate number of customers or the activities of the consolidated entities. If our customers merge with or are acquired by other entities that are not our customers, or that use fewer of our products and services, they may discontinue or reduce their use of our products and services. Any of these developments could materially and adversely affect our results of operations and cash flows. Some of our services and technologies may use "open source" software, which may restrict how we use or distribute our services or require that we release the source code of certain products subject to those licenses.



Some of our services and technologies may incorporate software licensed under so-called “open source” licenses, including, but not limited to, the GNU General Public License and the GNU Lesser General Public License. In addition to risks

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related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Additionally, open source licenses typically require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. These open source licenses typically mandate that proprietary software, when combined in specific ways with open source software, become subject to the open source license. If we combine our proprietary software in such ways with open source software, we could be required to release the source code of our proprietary software.

We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. Additionally, we rely on multiple software programmers to design our proprietary technologies, and although we take steps to prevent our programmers from including open source software in the technologies and software code that they design, write and modify, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated open source software into our proprietary products and technologies or that they will not do so in the future. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our services and technologies and materially and adversely affect our business, results of operations and prospects. Real or perceived errors or failures in our products, or unsatisfactory performance of our products or services could adversely affect our reputation and the market acceptance of our products, and cause us to lose customers or subject us to liability for breach of warranty claims.

Because we offer complex products, undetected errors or failures may exist or occur, especially when products are first introduced or when new versions are released. Our products are often installed and used in large-scale computing environments with different operating systems, system management software and equipment and networking configurations, which may cause errors or failures in our products or may expose undetected errors, failures or bugs in our products. Despite testing by us, we may not identify all errors, failures or bugs in new products or releases until after commencement of commercial sales or installation. In the past, we have discovered software errors, failures and bugs in some of our product offerings after their introduction.

Product errors will affect the performance of our products and could delay the development or release of new products or new versions of products, adversely affect our reputation and our customers' willingness to buy products from us, and adversely affect market acceptance or perception of our products. In addition, because our software is used to manage functions that are critical to our customers, the licensing and support of our products may involve the risk of product liability claims. We also may face liability for breaches of our product warranties, product failures or damages caused by faulty installation of our products. Provisions in our contracts relating to warranty disclaimers and liability limitations may be unenforceable or otherwise ineffective.

Any errors or delays in releasing new products or new versions of products or allegations of unsatisfactory performance of our products or services could cause us to lose revenues or market share, increase our service costs, cause us to incur substantial costs in redesigning the products, cause us to lose significant customers, harm our reputation, subject us to liability for breach of warranty claims or damages and divert our resources from other tasks, any one of which could materially and adversely affect our business, results of operations and financial condition.

We may be obligated to disclose our proprietary source code to our customers, which may limit our ability to protect our intellectual property and could reduce the renewals of our support and maintenance services.

Our software license agreements typically contain provisions permitting the customer to become a party to, or a beneficiary of, a source code escrow agreement under which we place the proprietary source code for our products in escrow with a third party. Under these escrow agreements, the source code to the applicable product may be released to the customer, typically for its use to maintain, modify and enhance the product, upon the occurrence of specified events, such as our filing for bankruptcy, discontinuance of our maintenance services and breaching our

representations, warranties or covenants of our agreements with our customers. Additionally, in some cases, customers have the right to request access to our source code upon demand. Some of our customers have obtained the source code for our products by exercising this right, and others may do so in the future.

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Disclosing the content of our source code may limit the intellectual property protection we can obtain or maintain for that source code or the products containing that source code and may facilitate intellectual property infringement claims against us. It also could permit a customer to which a product's source code is disclosed to support and maintain that software product without being required to purchase our support or maintenance services. Each of these could harm our business, results of operations and financial condition.

Incorrect or improper use of our products or our failure to properly train customers on how to implement or utilize our products could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition and growth prospects.

Our products are complex and are deployed in a wide variety of network environments. The proper use of our products requires training of the customer. If our products are not used correctly or as intended, inadequate performance may result. Additionally, our customers or third-party partners may incorrectly implement or use our products. Our products may also be intentionally misused or abused by customers or their employees or third parties who are able to access or use our products. Similarly, our products are sometimes installed or maintained by customers or third parties with smaller or less qualified IT departments, potentially resulting in sub-optimal installation and, consequently, performance that is less than the level anticipated by the customer. Because our customers rely on our products, services and maintenance support to manage a wide range of operations, the incorrect or improper use of our products, our failure to properly train customers on how to efficiently and effectively use our products, or our failure to properly provide implementation or maintenance services to our customers may result in negative publicity or legal claims against us. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our products and services. In addition, if there is substantial turnover of customer personnel responsible for implementation and use of our products, or if customer personnel are not well trained in the use of our products, customers may defer the deployment of our products, may deploy them in a more limited manner than originally anticipated or may not deploy them at all. Further, if there is substantial turnover of the customer personnel responsible for implementation and use of our products, our ability to make additional sales may be substantially limited.

Our ability to sell our products is highly dependent on the quality of our professional services and technical support services and the support of our system integration providers, and the failure of us or our system integration providers to offer high-quality professional services or technical support services could damage our reputation and adversely affect our ability to sell our products and services to new customers and renew our licenses to existing customers. If we or our system integration providers do not effectively assist our customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing support, our ability to sell additional products and services to existing customers would be adversely affected and our reputation with potential customers could be damaged. Once our products are deployed and integrated with our customers' existing information technology investments and data, our customers may depend on our technical support services and/or the support of system integrators or internal resources to resolve any issues relating to our products. High-quality support is critical for the continued successful marketing and sale of our products. In addition, as we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. Many enterprise customers require higher levels of support than smaller customers. If we fail to meet the requirements of our larger customers, it may be more difficult to increase our penetration with larger customers, a key group for the growth of our revenues and profitability. As we rely more on system integrators to provide deployment and on-going support, our ability to ensure a high level of quality in addressing customer issues is diminished. Our failure to maintain high-quality implementation and support services, or to ensure that system integrators provide the same, could have a material adverse effect on our business, results of operations, financial condition and growth prospects.

If we are unable to develop, introduce and market new and enhanced versions of our products, we may be put at a competitive disadvantage.

Our success depends on our continued ability to develop, introduce and market new and enhanced versions of our products to meet evolving customer requirements. However, we cannot assure that this process can be maintained. If we fail to develop new products or enhancements to our existing products, our business could be adversely affected,

especially if our competitors are able to introduce products with enhanced functionality. We plan to continue our investment in product development in future periods. It is critical to our success for us to anticipate changes in technology, industry standards and customer requirements and to successfully introduce new, enhanced and competitive products to meet our customers' and prospective customers' needs on a timely basis. However, we cannot assure that revenues will be sufficient to support the future product development that is required for us to be competitive. Although we may be able to release new products in addition to enhancements to existing products, we cannot assure that our new or upgraded products will be accepted by the market, will

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not be delayed or canceled, will not contain errors or “bugs” that could affect the performance of the products or cause damage to users’ data, or will not be rendered obsolete by the introduction of new products or technological developments by others. If we fail to develop products that are competitive in technology and price and fail to meet customer needs, our market share will decline and our business and results of operations could be harmed.

We may be subject to significant liability claims if our core system software fails, and the limitation of liability provided in our license agreements may not protect us, which may adversely impact our financial condition.

The license and support of our core system software creates the risk of significant liability claims against us. Our license agreements with our customers contain provisions designed to limit our exposure to potential liability claims.

It is possible, however, that the limitation of liability provisions contained in such license agreements may not be enforced as a result of international, federal, state and local laws or ordinances or unfavorable judicial decisions.

Breach of warranty or damage liability, or injunctive relief resulting from such claims, could have a material and adverse impact on our results of operations and financial condition.

If we are unable to retain our personnel and hire and integrate additional skilled personnel, we may be unable to achieve our goals and our business will suffer.

Our future success depends upon our ability to continue to attract, train, integrate and retain highly skilled employees, particularly our management team, sales and marketing personnel, professional services personnel and software engineers. Each of our executive officers and other key employees could terminate his or her relationship with us at any time. The loss of any member of our senior management team might significantly delay or prevent the achievement of our business or development objectives and could materially harm our business. In addition, a number of our senior management personnel are substantially vested in their stock option grants or other equity compensation.

While we periodically grant additional equity awards to management personnel and other key employees to provide additional incentives to remain employed by us, employees may be more likely to leave us if a significant portion of their equity compensation is fully vested, especially if the shares underlying the equity awards have significantly appreciated in value. Our inability to attract and retain qualified personnel, or delays in hiring required personnel, may seriously harm our business, results of operations and financial condition.

We face competition for qualified individuals, which are in high demand, from numerous software and other technology companies. In addition, competition for qualified personnel is particularly intense in the San Francisco Bay Area, where our headquarters are located. Often, significant amounts of time and resources are required to train technical, sales and other personnel. Further, qualified individuals are in high demand. We may incur significant costs to attract and retain them, and we may lose new employees to our competitors or other technology companies before we realize the benefit of our investment in recruiting and training them. We have a limited number of sales people and the loss of some of these in a short period of time could have a negative impact on our sales efforts. We may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational and managerial requirements, on a timely basis or at all, and we may be required to pay increased compensation in order to do so. Because of the technical nature of our products and services and the dynamic market in which we compete, any failure to attract, integrate and retain qualified direct sales, professional services and product development personnel, as well as our contract workers, could have a material adverse effect on our ability to generate sales or successfully develop new products, customer and consulting services and enhancements of existing products. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information.

Our ability to effectively use equity compensation to help attract and retain qualified personnel may be limited by our stockholders, and equity compensation arrangements may negatively impact our results of operations. We intend to continue to issue restricted stock units and stock options as key components of our overall compensation and employee attraction and retention efforts. We may face pressure from stockholders, who must approve extraordinary increases in our equity compensation pool, to limit the use of equity-based compensation so as to minimize its dilutive effect on stockholders. In addition, we are required under U. S. GAAP to recognize compensation expense in our results of operations for employee share-based equity compensation under our equity grants, which may negatively impact our results of operations and may increase the pressure to limit equity-based compensation. These factors may make it more difficult or unlikely for us to continue granting attractive equity-based

compensation packages to our employees, which could adversely impact our ability to attract and retain key employees. If we lose any senior executive or other key employee, our business and results of operations could be materially and adversely affected.

Failure to manage our rapid growth effectively could harm our business.

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We have recently experienced rapid growth, and expect to continue to experience growth, in our number of employees and in our international operations that has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future growth effectively, we must continue to maintain and may need to enhance our information technology infrastructure, financial and accounting systems and controls and manage expanded operations and employees in geographically distributed locations. We also must attract, train and retain a significant number of additional qualified sales and marketing personnel, professional services personnel, software engineers, technical personnel and management personnel. Our failure to manage our growth effectively could have a material adverse effect on our business, results of operations and financial condition. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new services or product enhancements. If these expectations are incorrect, and we increase the size of our professional services organization without experiencing an increase in sales of our products and services, we will experience reductions in our gross and operating margins and net income. If we are unable to effectively manage our growth, our expenses may increase more than expected, our revenues could decline or grow more slowly than expected and we may be unable to implement our business strategy. We also intend to continue to expand into additional international markets which, if not technologically or commercially successful, could harm our financial condition and prospects.

Our international sales and operations subject us to additional risks that can adversely affect our business, results of operations and financial condition.

We sell our products and services to customers located outside the United States and Canada, and we are continuing to expand our international operations as part of our growth strategy. In fiscal years 2014, 2013 and 2012, 31%, 28% and 30% of our revenues, respectively, were derived from outside of the United States and Canada. Our current international operations and our plans to expand our international operations subject us to a variety of risks, including: increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;

- unique terms and conditions in contract negotiations imposed by customers in foreign countries;
- longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable;
- the need to localize our products and licensing programs for international customers;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- increased exposure to fluctuations in currency exchange rates;
- the burdens of complying with a wide variety of foreign laws and legal standards;
- compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended (“FCPA”), the U.K. Bribery Act and other anti-corruption regulations, particularly in emerging market countries;
- import and export license requirements, tariffs, taxes and other trade barriers;
- increased financial accounting and reporting burdens and complexities;
- weaker protection of intellectual property rights in some countries;
- multiple and possibly overlapping tax regimes; and
- political, social and economic instability abroad, terrorist attacks and security concerns in general.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and reduce our international sales, adversely affecting our business, results of operations, financial condition and growth prospects.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below expectations of securities analysts and investors, resulting in a decline in our stock price.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this Quarterly Report on Form 10-Q and Note 1 of Notes to Condensed Consolidated



Financial Statements, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenues and expenses that are not readily apparent from other sources. Because our customer contracts are highly negotiated, they often include unique terms and conditions that require judgment with respect to revenue recognition. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price.

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The nature of our business requires the application of complex revenue and expense recognition rules and the current legislative and regulatory environment affecting U.S. Generally Accepted Accounting Principles ("GAAP") is uncertain and significant changes in current principles could affect our financial statements going forward and changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and harm our operating results.

The accounting rules and regulations that we must comply with are complex. Recent actions and public comments from the Financial Accounting Standards Board (the "FASB") and the Securities and Exchange Commission have focused on the integrity of financial reporting. In addition, many companies' accounting policies are being subject to heightened scrutiny by regulators and the public. Further, the accounting rules and regulations are continually changing in ways that could materially impact our financial statements. For example, in May 2014, the FASB issued a new accounting guidance on revenue recognition, Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), that may become effective for us beginning August 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. In April 2015, the FASB proposed a one-year deferral of the effective date and to permit us to adopt the standard as early as August 1, 2017. The tentative decisions are currently being exposed for public comments with a 30-day comment period ending May 31, 2015.

We have not yet selected a transition method and continue to evaluate the impact that this guidance will have on our financial condition and results of operations. Regardless of the transition method, the application of this new guidance may result in exclusion of certain future licensing revenues in the statement of income after the adoption date, which, despite no change in associated cash flows, could have a material adverse effect on our net income.

While we believe that our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, we cannot predict the impact of future changes to accounting principles or our accounting policies on our financial statements going forward. In addition, were we to change our critical accounting estimates, including the timing of recognition of license revenue and other revenue sources, our results of operations could be significantly impacted.

We incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to compliance initiatives.

As a public company, we incur legal, accounting and other expenses that we did not incur as a private company. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), as well as rules subsequently implemented by the Securities and Exchange Commission ("SEC") and the New York Stock Exchange, impose additional requirements on public companies, including specific corporate governance practices. We are required to comply with Section 404 of the Sarbanes-Oxley Act and we have incurred costs to implement additional internal controls as well as to obtain an independent auditors report on our internal control over financial reporting. Additionally, the listing requirements of the New York Stock Exchange require that we satisfy numerous corporate governance requirements. Our management and other personnel will continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal, accounting and financial compliance costs and make some activities more time-consuming and costly. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders. We may need additional financing to execute on our current or future business strategies, including to:

- hire additional personnel;
- develop new or enhance existing products and services;
- enhance our operating infrastructure;
- acquire businesses or technologies; or
- otherwise respond to competitive pressures.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we incur additional funds through debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness,

thus limiting funds available for our business activities. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, when we desire them, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products and services, or otherwise respond to competitive pressures would be significantly limited. Any of these factors could harm our results of operations.

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If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these elements may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements. The Sarbanes-Oxley Act requires, among other things, that as a publicly-traded company we disclose whether our internal control over financial reporting and disclosure controls and procedures are effective.

If a material misstatement occurs in the future, we may fail to meet our future reporting obligations, we may need to restate our financial results and the price of our common stock may decline. Any failure of our internal controls could also adversely affect the results of the periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act, which became applicable to us beginning with the filing of our Annual Report on Form 10-K for the fiscal year ended July 31, 2013. Effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. Furthermore, any potential transition in enterprise resource planning or other major operational system could impact the timely generation of our financial statements. If we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

If tax laws change or we experience adverse outcomes resulting from examination of our income tax returns, it could adversely affect our results of operations.

We are subject to federal, state and local income taxes in the United States and in foreign jurisdictions. Our future effective tax rates and the value of our deferred tax assets could be adversely affected by changes in tax laws. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. Significant judgment is required in determining our worldwide provision for income taxes. Although we believe we have made appropriate provisions for taxes in the jurisdictions in which we operate, changes in the tax laws or challenges from tax authorities under existing tax laws could adversely affect our business, financial condition and results of operations.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man made problems such as computer viruses or terrorism.

Our corporate headquarters and the majority of our operations are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, tsunami, fire or a flood, could have a material adverse impact on our business, results of operations and financial condition. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Acts of terrorism could cause disruptions in our or our customers' business or the economy as a whole. To the extent that such disruptions result in delays or cancellations of customer orders, or the deployment of our products, our business, results of operations and financial condition would be adversely affected.

Our stock price may be volatile, which could result in securities class action litigation against us.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this report, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, have and may continue to negatively affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may become the target of this type of litigation in the future. Securities litigation

against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

If research analysts do not publish research about our business or if they issue unfavorable commentary or downgrade our common stock, our stock price and trading volume could decline.

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The trading market for our common stock depends in part on the research and reports that research analysts publish about us and our business. If we do not maintain adequate research coverage, or if one or more analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, the price of our common stock could decline. If one or more of the research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and/or trading volume to decline.

We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future. Consequently, the only opportunity to achieve a return on investment in our company will be if the market price of our common stock appreciates and shares are sold at a profit.

Certain provisions of our certificate of incorporation and bylaws and of Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions may also prevent or delay attempts by stockholders to replace or remove our current management or members of our board of directors. These provisions include:

- providing for a classified board of directors with staggered three-year terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- not providing for cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- authorizing our board of directors to issue, without stockholder approval, preferred stock rights senior to those of common stock, which could be used to significantly dilute the ownership of a hostile acquirer;
- prohibiting stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- limiting the persons who may call special meetings of stockholders, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- requiring advance notification of stockholder nominations and proposals, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

The affirmative vote of the holders of at least 66 2/3% of our shares of capital stock entitled to vote is generally necessary to amend or repeal the above provisions that are contained in our amended and restated certificate of incorporation. Also, absent approval of our board of directors, our amended and restated bylaws may only be amended or repealed by the affirmative vote of the holders of at least 50% of our shares of capital stock entitled to vote. In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding common stock, from engaging in certain business combinations without approval of substantially all of our stockholders for a certain period of time.

These and other provisions in our amended and restated certificate of incorporation, our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

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## ITEM 6. Exhibits

The exhibits listed below are filed or incorporated by reference as part of this Report.

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
3.1	Amended and Restated Certificate of Incorporation	10-Q	3.1	March 14, 2012
3.2	Amended and Restated Bylaws	8-K	3.1	January 22, 2013
4.1	Form of Common Stock certificate of the Registrant	S-1/A	4.1	January 9, 2012
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith		
32.1*	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act	Furnished herewith		
101.INS	XBRL Instance Document	Filed herewith		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		

The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such \*certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 2, 2015

GUIDEWIRE SOFTWARE, INC.

By: /s/ Richard Hart  
Richard Hart  
Chief Financial Officer  
(Principal Financial Officer)

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