

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended July 31, 2016

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.)

1001 E. Hillsdale Blvd., Suite 800 Foster City, California, 94404

(Address of principal executive offices, including zip code)

(650) 357-9100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of class)  
Common Stock, \$0.0001 par value

(Name of exchange on which registered)  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K.

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

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

The aggregate market value of common stock held by non-affiliates of the registrant, computed by reference to the closing price at which the common stock was sold on January 31, 2016, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the New York Stock Exchange, was approximately \$2.1 billion. Shares of common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status does not reflect a determination that such persons are affiliates of the registrant for any other purpose.

On August 31, 2016, the registrant had 73,068,434 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

## [Table of Contents](#)

Portions of the registrant's definitive Proxy Statement relating to its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

---

**Guidewire Software, Inc.**

**Table of Contents**

**Part I**

Item 1.	<a href="#">Business</a>	<a href="#">1</a>
Item 1A.	<a href="#">Risk Factors</a>	<a href="#">7</a>
Item 1B.	<a href="#">Unresolved Staff Comments</a>	<a href="#">23</a>
Item 2.	<a href="#">Properties</a>	<a href="#">23</a>
Item 3.	<a href="#">Legal Proceedings</a>	<a href="#">23</a>
Item 4.	<a href="#">Mine Safety Disclosures</a>	<a href="#">23</a>

**Part II**

Item 5.	<a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">24</a>
Item 6.	<a href="#">Selected Financial Data</a>	<a href="#">26</a>
Item 7.	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">27</a>
Item 7A.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">47</a>
Item 8.	<a href="#">Financial Statements and Supplementary Data</a>	<a href="#">48</a>
Item 9.	<a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</a>	<a href="#">75</a>
Item 9A.	<a href="#">Controls and Procedures</a>	<a href="#">75</a>
Item 9B.	<a href="#">Other Information</a>	<a href="#">76</a>

**Part III**

Item 10.	<a href="#">Directors, Executive Officers and Corporate Governance</a>	<a href="#">76</a>
Item 11.	<a href="#">Executive Compensation</a>	<a href="#">76</a>
Item 12.	<a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	<a href="#">76</a>
Item 13.	<a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	<a href="#">76</a>
Item 14.	<a href="#">Principal Accounting Fees and Services</a>	<a href="#">76</a>

**Part IV**

Item 15.	<a href="#">Exhibits, Financial Statement Schedules</a>	<a href="#">77</a>
----------	---	--------------------

## FORWARD-LOOKING STATEMENTS

*The Business section, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other parts of this Annual Report on Form 10-K 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, results of operations, 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 "continue," 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 Annual Report on Form 10-K. 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;*
- *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;*
- *benefits to be achieved from our acquisitions;*
- *our gross margins and factors that affect gross margins;*
- *our provision for tax liabilities and other critical accounting estimates;*
- *our exposure to market risks, including geographical and political events that may negatively impact our customers; 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 Annual Report on Form 10-K are based on information available to us as of the filing date of this Annual Report on Form 10-K 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.*

---

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

**Item 1. Business**

**Overview**

Guidewire Software, Inc. is a provider of software products for property and casualty (“P&C”) insurers. Our software serves as a technology platform for P&C insurance carriers. Guidewire InsurancePlatform™ consists of three key elements: core transaction processing, data management and analytics, and digital engagement, which work together to strengthen our customers’ ability to adapt and succeed. Guidewire InsuranceSuite™ provides core transactional systems of record supporting the entire insurance lifecycle. Our data and analytics products enable insurers to manage data more effectively and gain insights into their business. Our digital engagement products support digital sales, service and claims experiences for policyholders, agents, and field employees. Our solutions are delivered through a web-based interface and can be deployed either on-premise, which a majority of customers choose, or in cloud environments. To support the global operations of our customers, our software has been localized for use in a variety of international regulatory, language and currency environments.

Strong customer relationships are a key component of our business, which supports the long-term nature of our contracts and importance of customer references for new sales. Our customers range from some of the largest global insurance carriers or their subsidiaries such as AXA and Zurich to national carriers such as Basler Versicherung (Switzerland), Direct Line Group (U.K.), Farmers Insurance (U.S.), IAG (Australia), MS&AD (Japan), Nationwide (U.S.), PZU (Poland), and San Cristobal Seguros S.A. (Argentina) and carriers that serve specific states and/or regions such as Automobile Club of Southern California, Canadian Automobile Association Insurance Company (Ontario), and Kentucky Farm Bureau. As of July 31, 2016, we had 260 customers using one or more of our products in 31 countries. This includes 23 new customers gained through our acquisition of EagleEye Analytics, Inc. during fiscal year 2016, but excludes new customers gained through our acquisition of FirstBest Systems, Inc. which closed on August 31, 2016 after the end of fiscal year 2016.

We began our principal business operations in 2001 and sold the initial versions of ClaimCenter in 2003, PolicyCenter in 2004 and BillingCenter in 2006. We conducted our initial public offering of our common stock on January 25, 2012 and follow-on public offerings of our common stock on April 19, 2012 and October 22, 2013. We primarily generate software license revenues through annual license fees that recur during the multi-year term of a customer’s contract. We primarily derive our services revenues from implementation and training services performed for our customers. A significant majority of services are billed on a time and materials basis.

**Industry Background**

The P&C insurance industry is large, fragmented, highly regulated and complex. This industry is highly competitive, with carriers competing primarily on the following factors: product differentiation, pricing options, customer service, marketing and advertising, affiliate programs and channel strategies.

New technologies are placing demands on many insurers that require them to adapt how they engage with, sell to and manage relationships with customers. Insurers adopting modern infrastructures can more rapidly introduce innovative products that are intended to protect consumers in new ways from existing and emerging risks. We anticipate that insurers will respond to these new technologies and market demands by adopting software that will allow them to:

- develop new distribution channels;
- define products that are more targeted;
- leverage data more effectively to improve underwriting and claims decisions;
- improve customer service across different channels; and
- lower their operating costs.

The key functional areas in P&C insurance are underwriting and policy administration, claims management and billing. Underwriting and policy administration involves collecting information from potential policyholders, determining appropriate coverages and terms, pricing the policy, issuing the policy and updating and maintaining the policy over its lifetime. Claims management includes loss report intake, investigation and evaluation of incidents, claims negotiation, payment processing and litigation management. Billing includes account creation, policyholder invoicing, payment collection, commission calculation and disbursement.

## **Guidewire's Products**

### **Core Transaction Processing**

#### *Guidewire InsuranceSuite*

Guidewire InsuranceSuite is comprised of our individual core system applications: PolicyCenter, ClaimCenter and BillingCenter. We have built our suite on a unified technology platform, providing enhanced workflow and functionality between applications.

#### *Guidewire PolicyCenter*

Guidewire PolicyCenter is our flexible underwriting and policy administration application that serves as a comprehensive system-of-record supporting the entire policy lifecycle, including product definition, underwriting, quoting, binding, issuances, endorsements, audits, cancellations and renewals.

#### *Guidewire ClaimCenter*

Guidewire ClaimCenter is our claims management application for claim intake, assessment, settlement and processing of claim-related financial transactions. ClaimCenter enables claims lifecycle management improvements including dynamic, intuitive loss report intake, advanced adjudication processes and integrated operational reporting. ClaimCenter provides P&C insurance carriers with modern productivity tools built within a sophisticated business rules-based claims application.

#### *Guidewire BillingCenter*

Guidewire BillingCenter is our billing and receivables management application. It automates the billing lifecycle, enables the design of a wide variety of billing and payment plans, manages agent commissions and integrates with external payment systems.

#### *Guidewire Underwriting Management.*

Guidewire Underwriting Management, gained through the acquisition of FirstBest Systems which closed on August 31, 2016, is a cloud-based, integrated business application designed for commercial and specialty line insurers to drive premium growth and profit from better underwriting. This feature-rich workstation delivers straight-through processing, exception-based underwriting, real-time collaboration, and knowledge management in one integrated solution. Guidewire Underwriting Management provides value alongside Guidewire PolicyCenter as well as any policy administration system (PAS), including non-Guidewire policy administration systems.

#### *InsuranceSuite Add-on Modules*

We also offer the following add-on modules for InsuranceSuite:

*Guidewire Rating Management.* Guidewire Rating Management enables P&C insurance carriers to manage the pricing of their insurance products.

*Guidewire Reinsurance Management.* Guidewire Reinsurance Management enables P&C insurance carriers to use rules-based logic to execute their reinsurance strategy through their underwriting and claims processes.

*Guidewire Client Data Management.* Guidewire Client Data Management helps P&C insurance carriers capitalize on customer information more coherently, overcoming traditional siloed practices that impair efficiency and customer service.

*Guidewire Product Content Management.* Guidewire Product Content Management provides software tools and standards-based, line-of-business templates to enable insurers to introduce and modify products more rapidly by reducing product configuration and maintenance efforts which must connect to and incorporate regulatory or industry-standard data and content, such as ISO content.

*Guidewire London Market Messaging.* Guidewire London Market Messaging is a specialized add-on for Guidewire ClaimCenter that provides out of the box functionality to address requirements of international insurers operating in the London Market.

### **Data Management and Analytics**

#### *Guidewire DataHub*

Guidewire DataHub is an operational data store that unifies, standardizes and stores data from the patchwork of an insurer's systems as well as from external sources. DataHub enables carriers to accelerate legacy system replacement.

## [Table of Contents](#)

### *Guidewire InfoCenter*

Guidewire InfoCenter is a business intelligence warehouse for P&C insurers which provides information in easy-to-use formats for business intelligence, analysis and enhanced decision making. With InfoCenter, customers gain flexible operational insights as well as the ability to optimize their business.

### *Guidewire Live*

Guidewire Live is a cloud-based suite of analytical applications that aggregate data from internal and third-party sources and analyze and visualize the data in ways that provide insurers with valuable insights into their business. These insights can be acted upon through the processes managed by InsuranceSuite. To date, Guidewire Live applications have been made available only to Guidewire ClaimCenter or PolicyCenter customers.

### *Guidewire Predictive Analytics*

Guidewire Predictive Analytics is a cloud-based tool which allows insurers to make data-driven decisions throughout the insurance lifecycle. By building predictive models from multiple data sets, analyzing model output, and deploying predictive models, insurers can realize significant reductions in loss ratio and expenses.

## **Digital Engagement**

### *Guidewire Digital Portals*

Our Digital Portals deliver real-time, self-service capabilities for people operating outside the corporate intranet. We have developed a number of different digital portal products that are targeted at different constituencies, such as customers, agents and brokers. These portals expose the data and business processes within Guidewire InsuranceSuite.

## **Technology**

We developed our suite of applications on a unified technology platform, which combines standards-based elements and proprietary components. We designed our suite of applications to help P&C insurance carriers grow their business, improve customer and agent engagement, and lower operating costs. Our customers' IT departments manage and administer our applications through their development, test and production environments. We continue to invest in research and development to enhance existing products and introduce new ones. These investments focus on continued architectural refinements of our core applications designed to meet evolving customer needs relating to scalability, features and functions, and cloud delivery.

## **Services**

We provide implementation and integration services to help our customers realize benefits from our software products. Our 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. We also partner with leading system integration consulting firms, certified on our software, to achieve scalable, cost-effective implementations for our customers. As of July 31, 2016, we had 573 employees in our professional services organization, compared to 500 as of July 31, 2015.

## **Customers**

We market and sell our products to a wide variety of global P&C insurance carriers ranging from some of the largest global insurers to national carriers to regional carriers. We believe strong customer relationships are a key driver of our success given the long-term nature of our contracts and importance of customer references for new sales. We focus on developing and maintaining our customer relationships through customer service and account management. As of July 31, 2016, we had 260 customers using one or more of our products in 31 countries. This includes 23 new customers gained through our acquisition of EagleEye Analytics, Inc. during fiscal year 2016, but excludes new customers gained through our acquisition of FirstBest Systems, Inc. which closed on August 31, 2016 after the end of fiscal year 2016.

## **Strategic Relationships**

We have extensive relationships with system integration, consulting and industry partners. Our network of partners has expanded as interest in and adoption of our products has grown. 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.

## Sales and Marketing

Consistent with our industry focus and the mission-critical needs our products address, our sales and marketing efforts are tailored to communicate effectively to senior executives within the P&C industry. Our sales, marketing and executive teams work together to cultivate long-term relationships with our current and prospective customers in each of the geographies in which we are active.

As of July 31, 2016, we employed 267 employees in a sales and marketing capacity, including 48 direct sales representatives organized by geographic region across the Americas, EMEA and APAC. This team serves as both our exclusive sales channel and our account management function. We augment our sales professionals with a presales team possessing insurance domain and technical expertise, who engage customers in sessions to understand their specific business needs and then represent our products through demonstrations tailored to address those needs.

Our marketing team supports sales with competitive analysis and sales tools, while investing to strengthen our brand name and reputation. We participate at industry conferences, are published frequently in the industry press and have active relationships with all of the major industry analysts. We also host Connections, our annual user conference where customers both participate in and deliver presentations on a wide range of Guidewire and insurance technology topics. We invite potential customers and partners to our user conference, as we believe customer references are a key component of driving new sales. Our strong relationships with leading system integrators enhance our direct sales through co-marketing efforts and providing additional market validation of our products' distinctiveness and quality.

## Research and Development

Our research and development efforts reflect the extensive IT needs of P&C insurance carriers. These systems are required to perform millions of complex transactions that must balance on a daily basis. This accuracy must be maintained not only during normal business operations, but also during extraordinary events such as catastrophes, which may result in extremely high transaction volume in a short period of time. Our research and development efforts focus on enhancing our products to meet the increasingly complex requirements of P&C insurance carriers and broadening our suite of applications with new product initiatives to form an end-to-end software platform for P&C insurance carriers.

As of July 31, 2016, our research and development department had 464 employees. We incurred \$112.5 million, \$93.4 million and \$76.2 million in research and development expenses for fiscal years 2016, 2015 and 2014, respectively.

## Competition

The market to provide core system software to the P&C insurance industry is highly competitive and fragmented. This market is subject to changing technology, shifting customer needs and introductions of new products and services. Our competitors vary in size and in the breadth and scope of the products and services offered. Our current competitors include, but are not limited to:

Internally developed software	Many large insurance companies have sufficient IT resources to maintain and augment their own proprietary internal systems, or consider developing new custom systems;
IT services firms	Firms such as Accenture, Computer Sciences Corporation and Tata Consultancy Services Limited offer software and systems or develop custom, proprietary solutions for the P&C insurance industry;
P&C insurance software vendors	Vendors such as 1insurer (formerly Innovation Group), Duck Creek, eBaoTech Corporation, Exigen, Fadata AD, FINEOS, Insurity, Inc., ISCS, Inc., Majesco, One, Inc., OneShield, Inc., Sapiens International Corporation, StoneRiver, Inc., and TIA Technology A/S provide software solutions that are specifically designed to meet the needs of P&C insurance carriers; and
Horizontal software vendors	Vendors such as Pegasystems Inc. and SAP AG offer software that can be customized to address the needs of P&C insurance carriers.

Competitive factors in our industry depend on the size, geographic market and line of business of potential customers. The principal competitive factors include product functionality, performance, customer references, total cost of ownership, solution completeness, implementation track record, and in-depth knowledge of the P&C insurance industry. We typically compete favorably on the basis of these factors in most geographies.



## **Intellectual Property**

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. Our success and ability to compete depend in part upon our ability to protect our proprietary technology, to establish and adequately protect our intellectual property rights, and to protect against third-party claims and litigation related to intellectual property. To accomplish these objectives, we rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions, as well as license agreements and other contractual protections. We own or have pending, a significant number of patents and patent applications, which generally apply to our software. Our owned patents have expiration dates starting in 2025. We also rely on several registered and unregistered trademarks, and applications for registrations, to protect our brand, both in the United States and internationally.

## **Employees**

As of July 31, 2016, we had 1,536 employees, including 267 in sales and marketing, 573 in professional services, 69 in technical support and licensing operations, 464 in research and development and 163 in general and administrative capacity. As of July 31, 2016, we had 965 employees in the United States and 571 employees internationally. Our employees in the United States are not represented by a labor union, however, for certain foreign subsidiaries, workers' councils represent our employees. We have not experienced any work stoppages and we consider our relations with our employees to be good.

## **Information about Segment and Geographic Revenue**

Information about segment and geographic revenue is set forth in Note 10 of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

## **Seasonality**

We have historically experienced seasonal variations in our revenues as a result of increased customer orders in our second and fourth fiscal quarters. 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, which is the quarter ended July 31, due to efforts by our sales team to achieve annual incentives. This seasonal pattern, however, may be absent in any given year. For example, in fiscal year 2016, we had higher licensing orders in the third fiscal quarter than in the second fiscal quarter. Our maintenance revenues are not impacted by these seasonal trends.

Our services revenues are also subject to seasonal fluctuations, though to a lesser degree than our license revenues. Our services revenues are impacted by the number of billable days in a given fiscal quarter. The quarter ended January 31 usually has fewer billable days due to the impact of the Thanksgiving, Christmas and New Year's holidays. The quarter ended July 31 usually also has fewer billable days due to the impact of vacation times taken by our professional staff. Because we pay our services professionals the same amounts throughout the year, our gross margins on our services revenues are lower in these quarters.

## **WHERE YOU CAN FIND MORE INFORMATION**

The following filings are available through our investor relations website after we file them with the Securities and Exchange Commission ("SEC"): Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and our Proxy Statement for our annual meeting of stockholders. These filings are also available for download free of charge on our investor relations website. Our website is located at [www.guidewire.com](http://www.guidewire.com), and our investor relations website is located at <http://ir.guidewire.com/>. We also provide a link to the section of the SEC's website at [www.sec.gov](http://www.sec.gov) that has all of our public filings, including periodic reports, proxy statements and other information. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

[Table of Contents](#)

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including our governance guidelines and code of business conduct and ethics, is also available on our investor relations website under the heading "Corporate Governance." The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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 results of operations 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 results of operations 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 with substantial negotiating leverage, at comparable prices;
- our ability to renew existing contracts for multiple year terms versus annual automatic renewals;
- our ability to attract new 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;
- introduction of new, or the increase of existing, licensing models that feature ratable revenue recognition;
- 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;
- 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;
- erosion in services margins or significant increase or decrease in services revenues both in absolute terms and as a percentage of total revenues;
- our ability to realize expected benefits from our acquisitions;
- timing of commissions expense related to large transactions;
- bonus expense based on the bonus attainment rate;
- the timing and cost of hiring personnel and of large expenses such as third-party professional services;
- stock-based compensation expenses, which vary along with changes to our stock price;
- fluctuations in foreign currency exchange rates;
- unanticipated trade sanctions and other restrictions that may impede our ability to sell internationally;
- general domestic and international economic conditions, in the insurance industry in particular; and
- future accounting pronouncements or changes in accounting rules or our accounting policies.

In addition, our revenue may fluctuate if our customers make an early payment of their annual license fees in advance of the invoice due date. This may cause an unexpected increase in revenues in one quarter which can reduce revenue growth rates in future periods.

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. We believe our ability to adjust spending quickly enough to compensate for a

revenues shortfall is very limited and our inability to do so could magnify the adverse impact of such revenues shortfall on our results of operations. If we fail to achieve our quarterly forecasts, if our forecasts fall below the expectations of research analysts or investors, or if our actual results fail to meet the expectations of research analysts or investors, our stock price may 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 future product delivery requirements or specified terms for product upgrades or functionality, which may require us to delay revenue recognition for the initial period;
- our term licenses may include payment terms that are modest at the outset and increase over time; and
- we may enter into license agreements with other contractual terms that may affect the timing of revenue recognition.

These seasonal patterns, however, may be absent in any given year. For example, in fiscal year 2016, we had higher licensing orders in the third fiscal quarter than in the second fiscal quarter.

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 license fees in advance of the invoice due date. 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.***

## [Table of Contents](#)

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 significant portion of our revenues. While the composition of our individual top customers will vary from year to year, in fiscal years 2016, 2015 and 2014, our ten largest customers accounted for 27%, 31% 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 orders, fails to renew its license agreements 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.

### ***Increases in services revenues as a percentage of total revenues or lower services margins could adversely affect our overall gross margins and profitability.***

Our services revenues were 34%, 40% and 45% of total revenues for each of fiscal years 2016, 2015 and 2014, respectively. Our services revenues produce lower gross margins than our license revenues. The gross margin of our services revenues was 8%, 12% and 13% for fiscal years 2016, 2015 and 2014, respectively, while the gross margin for license revenues was 97% for each of the three fiscal years presented. An increase in the percentage of total revenues represented by services revenues or lower services margins could reduce our overall gross margins and adversely affect our results of operations. These trends can be the result of several factors, some of which are outside of our control, including the rates we charge for our services and the utilization of our personnel, unexpected difficulty in projects which may require additional efforts without commensurate compensation and the extent to which system integrators provide services directly to customers. Any erosion in our services margins or any significant increase in services revenues as a percentage of total revenues at current services margins would adversely affect our gross and operating margins. For example, services margin may erode for a period of time if we hire and train additional services personnel to support the sale of new products, enter into new markets, or introduce innovative software delivery models.

Services margins may also decline if we are required to defer services revenues in connection with an engagement. This may happen if there is a specific product deliverable associated with a broader services engagement. In these situations, we would defer only the direct costs associated with the engagement. Deferring all revenue but only direct costs will reduce margins. In fiscal year 2017, for example, we expect to defer a significant amount of revenue and direct costs associated with one project, which would reduce margins during fiscal year 2017. The recognition of such deferred revenues in subsequent periods, conversely, may increase services revenues as a percentage of total revenues in future periods.

### ***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 holding such intellectual property rights, including leading companies, competitors, patent holding companies and/or non-practicing entities, 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.

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. Any of these events could seriously harm our business, results of operations and financial condition.

***We may expand through acquisitions 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 includes the potential acquisitions of the shares or assets of companies with complementary software, technologies or businesses or alliances with such companies. For example, in March 2016, we acquired EagleEye Analytics Inc., a provider of cloud-based predictive analytics products designed for property and casualty insurers, and in August 2016, we acquired FirstBest Systems, Inc., a provider of an underwriting management system for property and casualty insurers. Acquisitions and alliances may result in unforeseen operating difficulties and expenditures and may not result in the benefits anticipated by such corporate activity. In particular, we may fail to: assimilate or integrate the businesses, technologies, services, products, personnel or operations of the acquired companies; retain key personnel necessary to favorably execute the combined companies business plan; retain existing customers or sell acquired products to new customers. 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. In addition, our ability to maintain favorable pricing of new products may be challenging if we bundle such products with sales of existing products. A delay in the recognition of revenues from sales of acquired or alliance products, or reduced pricing due to bundled sales, may cause fluctuations in our quarterly financial results, may adversely affect our operating margins and may reduce the benefits of such acquisitions or alliances.

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, in addition to our failure to realize the anticipated benefits of any acquisition, including our revenues or return on investment assumptions, we may be exposed to unknown liabilities or impairment charges as a result of acquisitions we do complete.

***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. 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. Our implementation cycle is lengthy, variable and requires the investment of significant time and expense by our customers. 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. Since sales of software products may be a small part of their business and they may be more focused on related services revenues, they may offer their software products at significantly reduced prices or under terms that we cannot match. The competitors we face in any sale may change depending, among other things, on the line of business purchasing the software, the application being sold, the geography in which we're operating and the size of the insurance carrier to which we are selling. For example, we are more likely to face competition from small independent firms when addressing the needs of small insurers. These competitors compete on the basis of price, the time and cost required for software implementation, custom developments, or unique product features or functions. Outside of the United States, we are more likely to compete against vendors that may differentiate themselves based on local advantages in language, market knowledge and pre-built content applicable to that jurisdiction. We also compete with vendors of horizontal software products that may be customized to address needs of the P&C insurance industry.

We expect the intensity of competition to remain high in the future as new or existing companies obtain new capital, consolidate with other vendors, improve product or sales capabilities, or create and expand partnerships with systems integrators. Such intense competition could result in increased pricing pressure, increased sales and marketing expenses, and greater investments in research and development, each of which could negatively impact our profitability. In addition, failure to increase, or the loss of, market share, would harm our business, results of operations, financial condition or future prospects. Our larger competitors may be able to devote greater resources to the development, promotion and sale of their products than

we can devote to ours, which could allow them to respond more quickly than we can to new technologies and changes in customer needs leading to 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 other vendors or third parties with greater available resources. As a result of such acquisitions, our current or potential competitors might be more able than we 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, or take advantage of other opportunities to more readily or develop and expand their product and service offerings more quickly. 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.

***If our products or cloud-based services 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.***

If our security measures are breached or unauthorized access to customer data is otherwise obtained, our products may be perceived as not being secure, customers may reduce the use of or stop using our products, and we may incur significant liabilities. Our software and cloud services involve the storage and transmission of data, and security breaches could result in the loss of this information, litigation, indemnity obligations and other liability. While we have taken steps to protect the confidential information that we have access to, including confidential information we may obtain through our customer support services or customer usage of our cloud-based services, our security measures could be breached. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any or all of these issues could negatively impact our ability to attract new customers and increase engagement by existing customers, cause existing customers to elect to not renew their term licenses, or subject us to third-party lawsuits, regulatory fines or other action or liability, thereby adversely affecting our financial results. We use third-party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support and other functions. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third-party vendor, such measures cannot provide absolute security.

***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.***

Our current and predominant business model does not significantly collect and transfer personal information from our customers to us, however, a limited number of our product solutions may collect, process, store, and use transaction-level data aggregated across insurers using our common data model. We anticipate that over time we may expand our business model to include greater collection and transfer of personal information from our customers to us and we recognize that personal privacy has become a significant issue in the United States, Europe, and many other jurisdictions 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.

In the European Community, Directive 95/46/EC (the "Directive") has required European Union member states to implement data protection laws to meet the strict privacy requirements of the Directive. Among other requirements, the Directive regulates transfers of personally identifiable data that is subject to the Directive ("Personal Data") to third countries, such as the United States, that have not been found to provide adequate protection to such Personal Data. We have in the past relied upon adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland, which established a means for legitimating the transfer of Personal Data collected by US companies doing business in the European Economic Area (or "EEA"), to the United States. As a result of the October 6, 2015 European Union Court of Justice, or ECJ, opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) regarding the adequacy of the U.S.-EU Safe Harbor Framework, the U.S. - EU Safe Harbor Framework was no longer deemed to be a valid method of compliance with requirements set forth in the Directive (and member states' implementations thereof) regarding the transfer of Personal Data outside of the EEA.

However, on July 12, 2016, the EU Commission formally adopted a new mechanism for the transfer of personal data from the European Union ( the "EU") to the United States, branded the "EU-US Privacy Shield" ("Privacy Shield"). We are currently preparing for the process of certifying with the U.S. Department of Commerce ("DOC") to comply with the framework's terms. While the EU Commission and the U.S. have formally adopted the Privacy Shield, we will continue to face uncertainty to the limited extent we may transfer any Personal Data and as to whether our efforts to comply with our obligations under European

## [Table of Contents](#)

privacy laws will be sufficient. If we are investigated by a European data protection authority, we could face fines and other penalties. Any such investigation or charges by European data protection authorities could have a negative effect on our existing business and on our ability to attract and retain new customers.

In light of any continued concerns in view of the ECJ opinion in the Schrems case, we continue to undertake efforts in the event of any necessary transfers of Personal Data from the EEA based on current regulatory obligations, available guidance of data protection authorities, and evolving best practices. Despite this, we may be unsuccessful in conforming to means of transferring such data from the EEA, including due to resistance to the adoption of Privacy Shield by EU member countries, which may vary the current data protection landscape for the transfer of Personal Data.

We may also experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use some of our services due to the potential risk exposure to such customers as a result of the ECJ ruling in the Schrems case and the current data protection obligations imposed on them by certain data protection authorities. Such customers may also view any alternative approaches to the transfer of any Personal Data as being too costly, too burdensome, too legally uncertain or otherwise objectionable, and therefore may decide not to do business with us if the transfer of Personal Data is a necessary requirement.

Though our current and predominant business model does not significantly collect and transfer personal information from our customers to us, given the current data protection landscape in view of the ECJ opinion in the Schrems case, we may be at risk of potential inquiries and/or enforcement actions taken by certain EU data protection authorities until such point in time that we may be able to ensure that any transfers of Personal Data to us from the EEA are conducted in compliance with all applicable regulatory obligations, the guidance of data protection authorities, and evolving best practices. We may find it necessary to establish systems to maintain Personal Data originating from the EU in the EEA, which may involve substantial expense and may cause us to need to divert resources from other aspects of our business, all of which may adversely affect our business.

The Directive may also be replaced in time with the pending European General Data Protection Regulation, which may impose additional obligations and risk upon our business as we may expand our business model to include greater collection and transfer of personal information from our EEA customers to Guidewire. The pending European General Data Protection Regulation may increase substantially the penalties to which we could be subject in the event of any non-compliance. We may incur substantial expense in complying with the new obligations to be imposed by the European General Data Protection Regulation and we may be required to make significant changes to our expanding business operations, all of which may adversely affect our revenues and our business overall.

Changes to laws or regulations affecting privacy could impose additional costs and liabilities 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. In addition, we may be subject to fines, penalties, and potential litigation if we fail to comply with applicable privacy and/or data security laws, regulations, standards and other requirements. 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.

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

***If we are required to, and fail to successfully manage any changes to our business model, including the transition of our products to cloud offerings, our results of operations could be harmed.***

To address the trends of the industry, we will likely offer customers the use of our software products through a cloud-based offering in addition to our on-premises offering. Any such transition requires a considerable investment of technical, financial, legal and sales resources. Such transition will divert our resources and may increase our costs in a given period and such investments may not improve our long term growth and results of operations. The revenue that we would recognize under widely adopted cloud-based licensing models is more likely to be ratable. That transition may reduce license revenue in those periods in which the portion of our revenues attributable to ratable recognition grows. In addition, market acceptance of our cloud-based offerings may be affected by a variety of factors, including but not limited to: security, reliability, performance, customer preference and public concerns regarding privacy and the enactment of restrictive laws or regulations. We are in the early stages of rearchitecting our exiting products and developing new products in an effort to offer customers greater choices on how they would prefer to consume software. We will also be required to develop the associated subscription agreements in connection with this effort. Whether our product development efforts or business model transition will prove successful and will accomplish our business and financial objectives is subject to numerous uncertainties and risks, including but not limited to: customer demand, impact on our customers, our ability to further develop and scale infrastructure, our ability to include



[Table of Contents](#)

functionality and usability in such offerings that address customer requirements, tax and accounting implications, pricing and our costs. In addition, the metrics we use to gauge the status of our business model transition may evolve over the course of the transition as significant trends emerge. It may be difficult, therefore, to accurately determine the impact of such transition on our business on a contemporaneous basis or communicate clearly the appropriate metrics to our investors. If we are unable to successfully establish these new cloud offerings and navigate our business model transition in light of the foregoing risks and uncertainties, our results of operations could be harmed.

***Our customers may defer or forego purchases of our products or services in the event of weakened global economic conditions and industry consolidation.***

General worldwide economic conditions continue to remain unstable. Prolonged economic uncertainties or downturns could harm our business operations or financial results. For example, in June 2016, the decision by referendum to withdraw the United Kingdom (U.K.) from the European Union (“Brexit”) caused significant volatility in global stock markets and fluctuations in currency exchange rates. The results of this referendum, or other global events, may continue to create global economic uncertainty not only in the U.K., but in other regions in which we have significant operations. These conditions make it difficult for our customers and us to forecast and plan future business activities accurately, and they could cause our customers to reevaluate their decision to purchase our products, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Furthermore, during challenging economic times our customers may face issues in gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to record an allowance for doubtful accounts, which would adversely affect our financial results. A substantial downturn in the P&C insurance industry may cause firms to react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their spending on information technology. P&C insurance companies may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. Negative or worsening conditions in the general economy both in the United States and abroad, including conditions resulting from financial and credit market fluctuations, could cause a decrease in corporate spending on enterprise software in general, and in the insurance industry specifically, and negatively affect the rate of growth of our business.

The increased pace of consolidation in the P&C insurance industry may result in reduced overall spending on our products. Acquisitions of customers can delay or cancel sales cycles and because we cannot predict the timing or duration of such acquisitions, our results of operations could be materially impacted by the change in the industry.

***Factors outside of our control including but not limited to natural catastrophes and terrorism 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, losses from catastrophes or terrorism that may adversely impact their businesses. Catastrophes can be caused by various events, including, amongst others, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tomadoes, 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 catastrophes and terrorism are inherently unpredictable, and it is difficult to predict the timing of such events or estimate the amount of loss they will generate. Future events may adversely impact our current or potential customers, which may prevent us from maintaining or expanding our customer base and increasing our revenues as such events may cause customers to postpone purchases of new products and professional service engagements or discontinue projects.

***Our sales and implementation cycles are lengthy and variable, depend upon factors outside our control, and could cause us to expend significant time and resources prior to generating 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. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will produce any sales. Even if we succeed at completing a sale, we may be unable to predict the size of an initial license until very late in the sales cycle. 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

## [Table of Contents](#)

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 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. Failing to meet 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. 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.

The lengthy and variable sales and implementation cycles may 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 global 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 global 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 global 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 global 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 which, in some cases, may require the establishment of effective relationships with regional systems integrators. Although we have established relationships with some of the leading system integrators, our products and services may compete directly against products and services that such leading system integrators support or market. We are unable to control the quantity or quality of resources that our system integrator partners commit to implementing our products, or the quality or timeliness of such implementation. If our partners do not commit sufficient or qualified resources to these activities, our customers will be less satisfied, be less supportive with references, or may require the investment of our resources at discounted rates. These, and other failures by our partners to successfully implement our products, will have an adverse effect on our business and our 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 results of operations.***

Some of our customers include the largest P&C insurance carriers. These customers have significant bargaining power when negotiating new licenses or renewals of existing licenses, 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 avoid reducing our average selling prices or increasing our average costs, our results of operations could be harmed.

***Because we derive a significant majority of our revenues and cash flows from InsuranceSuite or its component applications - ClaimCenter, PolicyCenter and BillingCenter products and related services - failure of any of these products or services to satisfy customer demands or to maintain market acceptance would harm our business, results of operations, financial condition and growth prospects.***

We derive a significant majority of our revenues and cash flows from software licenses, support and services related to our InsuranceSuite product or its individual component applications: ClaimCenter, PolicyCenter and BillingCenter. We expect to continue to derive a substantial portion of our revenues from these sources. As such, continued market acceptance of these

## [Table of Contents](#)

products is critical to our growth and success. Demand for our products is affected by a number of factors, some of which are beyond our control, including the successful implementation of our products, the timing of development and release of new products by us and our competitors, technological advances which reduce the appeal of our products, and the 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, to achieve and maintain a technological advantage over competitors, or to maintain market acceptance of our products, our business, results of operations, financial condition and growth prospects may be 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, or the sale of their operations to a buyer that is not a current customer. For example, in fiscal 2016, two customers, each with DWP of less than \$150 million, informed us of their intention to not renew their license upon their expiration. In the first case, the reason not to renew was due to the licensee being acquired. In the second case, the non-renewal was as a result of our decision to discontinue support for the licensee's legacy product, which we had acquired through the Millbrook acquisition in fiscal 2013.

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.

***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. 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 dictate that we change the technology platform underlying our existing products or that new products be developed on different technology platforms, potentially adding material time and expense to our development cycles. 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 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. 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. We have invested and intend to increase investments in research and development to meet these challenges. Revenues may not be sufficient to support the future product development that is required for us to remain competitive. If we fail to develop products in a timely manner that are competitive in technology and price or develop products that fail to meet customer demands, our market share will decline and our business and results of operations could be harmed.

***Real or perceived errors or failures in our products or implementation services may affect our reputation, cause us to lose customers and reduce sales which may harm our business and results of operations and 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.

We provide our customers with upfront estimates regarding the duration, resources and costs associated with the implementation of our products. Failure to meet these upfront estimates and the expectations of our customers 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.

The license and support of our 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 harm our 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 extent of the protection afforded by 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.

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 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 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 certain of our products by exercising this right, and others may do so in the future.

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.

***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.

***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. In addition to risks 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, some open source licenses 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 many of the restrictions in 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 objectionable 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 such 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.

***Incorrect or improper use of our products or our failure to properly train customers on how to 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. 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. Because our customers rely on our products, services and maintenance support to manage a wide range of

## [Table of Contents](#)

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 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 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 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 services, 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 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, including Marcus Ryu, one of our co-founders and our current president and chief executive officer, sales and marketing personnel, professional services personnel and software engineers. 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.

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.

We face competition for qualified individuals, who are in high demand, from numerous software and other technology companies. 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. 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. 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. We have a limited number of sales people and the loss of several sales people within 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, or we may be required to pay increased compensation in order to do so.

Our ability to expand geographically depends, in large part, on our ability to attract, retain and integrate both leaders for the local business and people with the appropriate skills. Similarly, our profitability depends on our ability to effectively utilize personnel with the right mix of skills and experience to perform services for our clients, including our ability to transition employees to new assignments on a timely basis. If we are unable to effectively deploy our employees globally on a timely basis to fulfill the needs of our clients, our reputation could suffer and our ability to attract new clients may be harmed.

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 harm our ability to generate sales or successfully develop new products, customer and consulting services and enhancements of existing products.

***Failure to manage our expanding operations effectively could harm our business.***

We have recently experienced rapid growth and expect to continue to expand our operations, among other factors, in the number of employees and in the locations and scope of our international operations. This expansion has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future operational expansion 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. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new products. If we increase the size of our 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 expanding operations, 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.

***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 2016, 2015 and 2014, 35%, 35% and 31% 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 and costs 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;
- compliance by international staff with accounting practices generally accepted in the United States, including adherence to our accounting policies and internal controls;
- 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;
- government sanctions that may interfere with our ability to sell into particular countries, such as Russia; 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.

***Our revenues, 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, Japanese Yen and Brazilian Real.***

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 at the cash flow or operating income level 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. In addition, because our contracts are characterized by large annual payments, significant fluctuations in foreign currency exchange rates that coincide with annual payments may affect our revenues or financial results in such quarter. Our results of operations may also be impacted by transaction gains or losses related to revaluing certain current asset and liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. Moreover, significant and unforeseen changes in foreign currency exchange rates may cause us to fail to achieve our stated projections for revenue and operating income, which could have an adverse effect on our stock price. We will continue to experience fluctuations in foreign currency exchange rates, which, if material, may harm our revenues or results of operations.

***The nature of our business requires the application of complex revenue and expense recognition rules that require management to make estimates and assumptions. Additionally, 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.***

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 consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, 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.

While we believe that our financial statements have been prepared in accordance with accounting principles generally accepted in the United States, 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 reported revenues and results of operations could be significantly impacted.

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.

The FASB issued new accounting guidance on revenue recognition that becomes effective for us beginning August 1, 2018. The standard permits the use of either the full retrospective or cumulative effect transition method. We currently intend to select the cumulative effect transition method. While we continue to evaluate the impact this guidance will have on our financial condition and results of operations, any change in how we recognize revenues can have a significant impact on our quarterly or annual financial results from operations. In order to reduce the risk of financial statement volatility, we have begun to revise our contracting practices primarily by shortening the initial non-refundable term of our licenses. If we are unsuccessful in adapting our business to the requirements of the new revenue standard, or if changes to our go-to-market strategy create new risks, then we may experience greater volatility in our quarterly and annual results, which may cause our stock price to decline. In addition to greater volatility, the application of this new standard may result in the exclusion of a portion of the licensing revenues from contracts in effect prior to the adoption date, which, despite no change in associated cash flows, could have a material adverse effect on our recognized revenues and net income.

***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 of 2002 (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. For example, we may fail to file periodic reports in a timely manner or may need to restate our financial results, either of which may cause the price of our common stock to 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. 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



[Table of Contents](#)

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.

***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 develop new or enhance existing products and services, acquire businesses and technologies, or otherwise to 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.

***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.***

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. 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 and research analyst coverage about our business.

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 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.

***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 <sup>2</sup>/<sub>3</sub>% 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.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

Our corporate headquarters are located in Foster City, California, where we currently have a seven year lease for approximately 97,674 square feet of space that commenced on August 1, 2012. As of July 31, 2016, we also lease facilities for our distributed sales and development centers in Columbia, South Carolina; Dublin, Ireland; Edina, Minnesota; Exton, Pennsylvania; Krakow, Poland; London, United Kingdom; Mississauga, Ontario, Canada; Paris, France; Sydney, Australia; Tokyo, Japan.

We believe that our facilities are suitable to meet our current needs. We intend to expand our facilities or add new facilities as we add employees and enter new geographic markets, and we believe that suitable additional or alternative space will be available as needed to accommodate any such growth. However, we expect to incur additional expenses in connection with such new or expanded facilities, including our corporate headquarters.

**Item 3. 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 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity****Securities**

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “GWRE”. The following table sets forth the high and low sales price per share of our common stock as reported on the NYSE for the periods indicated:

	Fiscal Year 2016		Fiscal Year 2015	
	High	Low	High	Low
First Quarter	\$ 59.21	\$ 50.68	\$ 50.14	\$ 39.76
Second Quarter	\$ 61.90	\$ 51.74	\$ 52.73	\$ 45.60
Third Quarter	\$ 58.02	\$ 43.05	\$ 55.66	\$ 49.61
Fourth Quarter	\$ 63.79	\$ 55.25	\$ 60.08	\$ 47.40

On July 31, 2016, the last reported sale price of our common stock on the New York Stock Exchange was \$61.47 per share. As of July 31, 2016, we had 68 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our capital stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

**Performance Graph**

This performance graph shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (“the Exchange Act”) or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended (the “Securities Act”) or the Exchange Act.

[Table of Contents](#)

The following graph shows a comparison from January 25, 2012, (the date our common stock commenced trading on the NYSE) through July 31, 2016, of the cumulative total return for our common stock, the NASDAQ Composite Total Returns Index and the Zacks Computer Software Services Total Return Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the Zacks Computer Software Services Total Return Index assume reinvestment of dividends.



	<u>1/25/2012</u>	<u>7/31/2012</u>	<u>7/31/2013</u>	<u>7/31/2014</u>	<u>7/31/2015</u>	<u>7/31/2016</u>
Guidewire Software, Inc.	100.00	197.38	336.62	311.54	454.23	473.85
NASDAQ Composite-Total Returns	100.00	104.89	131.27	160.16	190.13	194.61
Zacks Computer Software Services Total Return	100.00	90.80	103.90	90.02	79.02	71.48

**Unregistered Sales of Equity Securities and Use of Proceeds**

*Issuer Purchases of Equity Securities*

There were no repurchases of shares of our common stock made during the three months and the fiscal year ended July 31, 2016.

**PART II****Item 6. Selected Financial Data****SELECTED CONSOLIDATED FINANCIAL DATA**

The following tables set forth selected financial data as of and for the last five fiscal years. This selected financial data should be read in conjunction with our historical financial statements, including the notes thereto, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included elsewhere in this report.

	Fiscal years ended July 31,				
	2016	2015	2014	2013	2012
	(in thousands, except share and per share data)				
Total revenues	\$ 424,446	\$ 380,537	\$ 350,246	\$ 300,649	\$ 232,061
Total cost of revenues	151,834	147,184	148,947	125,651	90,005
Total gross profit	272,612	233,353	201,299	174,998	142,056
Income from operations	16,437	16,493	18,422	29,739	28,934
Net income	\$ 14,976	\$ 9,885	\$ 14,721	\$ 24,658	\$ 18,664
Net income per share:					
Basic	\$ 0.21	\$ 0.14	\$ 0.22	\$ 0.44	\$ 0.36
Diluted	\$ 0.20	\$ 0.14	\$ 0.21	\$ 0.40	\$ 0.32
Shares used in computing net income per share:					
Basic	72,026,694	70,075,908	65,748,896	56,331,018	34,774,983
Diluted	73,765,960	72,314,433	69,112,733	61,569,195	41,759,338

	As of July 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Cash, cash equivalents and investments	\$ 735,802	\$ 677,752	\$ 647,781	\$ 207,739	\$ 205,718
Working capital	588,589	557,235	421,044	135,309	169,278
Total assets	916,178	799,947	757,227	305,673	281,286
Total stockholders’ equity	783,935	689,388	650,686	221,832	181,000

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes thereto included in Item 8 and the Risk Factors included in Item 1A of Part I of this Annual Report on Form 10-K. 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 assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.*

### **Overview**

We are a leading provider of a software platform for property and casualty ("P&C") insurers. Guidewire InsurancePlatform™ consists of three key elements: core transaction processing, data management and analytics, and digital engagement, which work together to strengthen our customers' ability to engage and empower their customers, agents, and employees. Our InsuranceSuite products provide transactional systems of record, which support the entire insurance lifecycle. Our data management and analytics products enable insurers to manage data more effectively and gain insights that can lead to better business decisions. Our digital engagement products support digital sales, service and claims experiences for policyholders, agents, and other key stakeholders.

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 through investments in sales and marketing in Europe, Asia and Latin America. Our customer engagement is led by our direct sales model and supported by our system integrator ("SI") partners. In addition to our investments in sales and marketing and in our SI partnerships, we work to align with each insurer's strategic goals in order to address any sales cycle risk. 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 deepening our customer relationships through continued successful product implementations, robust product support, strategic engagement on new products and technologies, and ongoing account management.

Our sales cycles for new and existing customers remain protracted as customers are deliberate and the decision making and product evaluation process is long. Sales to new customers also involve extensive customer due diligence and reference checks. We must also earn credibility as we expand our sales operations and enter new markets which require investment not only in sales and services capabilities, but in development to optimize our products for such new markets.

Customers can buy our core transaction processing applications, Guidewire PolicyCenter, Guidewire ClaimCenter and Guidewire BillingCenter, either separately or in combination as a suite. We refer to the combination of all three applications as InsuranceSuite. Sales of our core applications typically include sales of add-on applications such as Rating Management and Reinsurance Management that offer additional functionality which customers may find valuable.

Our data management and analytics and digital engagement products are sold to customers of InsuranceSuite or one of its component applications, which naturally limits the quantity of potential customers. Some sales of new products are generated at the same time as an insurance carrier becomes a new customer of InsuranceSuite or one of its applications, or are sold later as cross-sell opportunities.

A majority of our term based licenses range from 2 to 5 years. These contracts are renewable on an annual or multi-year basis. In preparing for our adoption of the new revenue recognition standard, we have begun revising our contracting practices by shortening the initial non-refundable term of our licenses. 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 generally higher in the second and fourth quarters of our fiscal year. This seasonal pattern may not be exhibited in each fiscal year. For example, in fiscal year 2016, sales in the third quarter were higher than in the second quarter. We primarily derive our services revenues from implementation, integration and training services. Our implementation teams assist customers in building implementation plans, integrating our software with their existing systems, and defining business rules and requirements unique to each customer.

To extend our technology leadership in the global market, we continue to invest in research and development to enhance and improve our current products and introduce new products to market. Continued investment in product innovation is critical as we seek to: assist our customers in their IT goals; maintain our competitive advantage; grow our revenues and expand internationally; and meet evolving customer demands. In certain cases we will also continue to explore the acquisition of skills and technologies to accelerate our time to market for new products and solutions.

## [Table of Contents](#)

In March 2016, we acquired EagleEye Analytics Inc. (“EagleEye”), a provider of cloud-based predictive analytics products specifically designed for property and casualty insurers for cash consideration of approximately \$42 million. The acquisition added Guidewire Predictive Analytics to our product offerings. We believe that, over time, the acquisition will enable our customers to apply predictive analytics to make better decisions across the insurance lifecycle. The results of EagleEye’s operations since the date of acquisition have been included in our results of operations for fiscal year 2016 and were not material.

In August 2016 after the end of fiscal year 2016, we added Guidewire Underwriting Management through the acquisition of FirstBest Systems, Inc., a provider of an underwriting management system to P&C insurers for cash consideration of approximately \$34 million. The results of FirstBest’s operations will be included in the our first quarter of fiscal year 2017 results of operations. Sales of these new products are expected to grow following an investment to integrate them with our core transactional systems, educate our sales force in their attributes and train SI partners in their implementation. As a result, revenue in connection with any sales of these products are expected to be minimal in fiscal year 2017. In addition, if we are unable to establish VSOE, revenue recognized in connection with such sales will be delayed.

We partner with leading SIs to assist in the implementation of our products in a manner that increases efficiency and scale while reducing customer implementation costs. 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 focus our engineering resources on continued innovation. Our track record of success with customers and their implementations are central to our strategy. We continue to focus and invest time and resources in increasing the number of qualified consultants employed by our SI partners, develop relationships with new SIs in existing and new markets, and ensure that all partners are ready to assist with implementing our products.

We face a number of risks in the execution of our strategy including risks related to expanding to new markets, managing lengthy sales cycles, competing effectively in the global market, relying on sales to a relatively small number of large customers, developing new or acquiring existing products successfully, and increasing the overall adoption of our products. In response to these and other risks 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 and new markets, and enable us to maintain a persistent, consultative relationship with our existing customers. Our investments in product development are designed to meet the evolving needs of our customers.

### **Seasonality**

We have historically experienced seasonal variations in our revenues as a result of increased customer orders in our second and fourth fiscal quarters. 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, which is the quarter ended July 31, due to efforts by our sales team to achieve annual incentives. This seasonal pattern, however, may be absent in any given year. For example, in fiscal year 2016, we had higher licensing orders in the third fiscal quarter than in the second fiscal quarter. Our maintenance revenues are not impacted by these seasonal trends.

Our services revenues are also subject to seasonal fluctuations, though to a lesser degree than our license revenues. Our services revenues are impacted by the number of billable days in a given fiscal quarter. The quarter ended January 31 usually has fewer billable days due to the impact of the Thanksgiving, Christmas and New Year’s holidays. The quarter ended July 31 usually also has fewer billable days due to the impact of vacation times taken by our professional staff. Because we pay our services professionals the same amounts throughout the year, our gross margins on our services revenues are lower in these quarters.

### **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 flows.

#### ***Four-Quarter Recurring Revenues***

We measure four-quarter recurring revenues by adding the total term license revenues and total maintenance revenues recognized under GAAP in the preceding four quarters ended in the stated period. This metric excludes perpetual license



[Table of Contents](#)

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. This metric applies revenue recognition rules under GAAP and does not substitute individually tailored revenue recognition and measurement methods. Our four-quarter recurring revenues for each of the nine periods presented were:

	Four quarters ended								
	July 31, 2016	April 30, 2016	January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015	January 31, 2015	October 31, 2014	July 31, 2014
	(in thousands)								
Term license revenues	\$ 208,430	\$ 194,458	\$ 184,647	\$ 173,232	\$ 169,366	\$ 160,114	\$ 157,542	\$ 150,309	\$ 139,902
Total maintenance revenues	59,931	56,103	53,610	51,516	50,024	48,785	47,041	44,768	41,888
Total four-quarter recurring revenues	<u>\$ 268,361</u>	<u>\$ 250,561</u>	<u>\$ 238,257</u>	<u>\$ 224,748</u>	<u>\$ 219,390</u>	<u>\$ 208,899</u>	<u>\$ 204,583</u>	<u>\$ 195,077</u>	<u>\$ 181,790</u>

**Adjusted EBITDA**

We believe Adjusted EBITDA, a non-GAAP financial measure, is useful 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;
- it is useful to exclude non-cash charges, such as depreciation and amortization and stock-based compensation 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; and
- it is also useful to exclude the effect of income taxes, interest income and other income or expenses because the amount of such items may not directly correlate to the underlying performance of our business operations.

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 concerning our financial performance.

[Table of Contents](#)

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 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 provides a reconciliation of net income to Adjusted EBITDA:

	Fiscal years ended July 31,		
	2016	2015	2014
	(unaudited, in thousands)		
Net income	\$ 14,976	\$ 9,885	\$ 14,721
Non-GAAP adjustments:			
Provision for income taxes	5,806	6,855	5,225
Other (income) expense, net	505	1,998	(174)
Interest (income), net	(4,850)	(2,245)	(1,350)
Depreciation and amortization	8,842	7,480	6,751
Stock-based compensation	66,131	51,375	42,538
Adjusted EBITDA	<u>\$ 91,410</u>	<u>\$ 75,348</u>	<u>\$ 67,711</u>

### **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 depreciation and amortization and stock-based compensation expenses. 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 timing of invoicing and collections of accounts receivable, annual bonus payment, as well as payments of payroll and other taxes. As a result, our operating cash flows fluctuate significantly. Operating cash flows were \$99.9 million, \$63.7 million and \$75.5 million for fiscal years 2016, 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 consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States. The preparation of our consolidated financial statements requires our management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the applicable periods.

We believe that of our significant accounting policies, which are described in Note 1 “The Company and a Summary of Significant Accounting Policies” to our consolidated financial statements, the following accounting policies require significant judgments, assumptions, and estimates used in the preparation of the consolidated financial statements and actual results could differ materially from the amounts reported based on these policies. To the extent there are material differences between our estimates and the actual results, our future consolidated results of operations may be affected.

### **Revenue Recognition**

We enter into arrangements to deliver multiple products or services (multiple-elements). We apply software revenue recognition rules and allocate the total revenues among elements based on vendor-specific objective evidence (“VSOE”) of fair value of each element. This requires us to make judgments and estimates in determining the fair value of each element when we apply the revenue recognition rules as described in Note 1 of the notes to our consolidated financial statements. Revisions of estimates may result in increases or decreases to revenues as reflected in our consolidated financial statements in the periods in which they are first identified and revised.

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.

VSOE of fair value does not exist for our software licenses; therefore, we allocate 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. 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.

We sell some of our software licenses on a subscription basis. The related revenues are recognized ratably over the contract term. While this is currently not a significant part of our business, we expect it to grow as we introduce new or acquired products.

In certain professional service offerings sold as fixed fee arrangements, we recognize 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, we apply 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, the zero gross margin or the completed contract method is applied to revenues and direct costs. Under the zero gross margin method, revenues recognized are limited to the direct costs incurred for the implementation services. Under the completed contract method, revenues and costs are deferred until the project is complete.

#### ***Income Taxes***

Determining the consolidated provision for income tax expense, income tax liabilities and deferred tax assets and liabilities involves judgment. Deferred tax assets and liabilities, measured using enacted tax rates, are recognized for the future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities. As a global company, we calculate and provide for income taxes in each of the tax jurisdictions in which we operate. This involves estimating current tax exposures in each jurisdiction as well as making judgments regarding the recoverability of deferred tax assets. Tax exposures can involve complex issues and may require an extended period to resolve. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and adjust the valuation allowances accordingly. Factors considered in making this determination include the period of expiration of the tax asset, planned use of the tax asset, tax planning strategies and historical and projected taxable income as well as tax liabilities for the tax jurisdiction in which the tax asset is located. Valuation allowances will be subject to change in each future reporting period as a result of changes in one or more of these factors. Changes in the geographic mix or estimated level of annual income before taxes can affect the overall effective tax rate.

We apply an estimated annual effective tax rate to our quarterly results of operations to determine the interim provision for income tax expense. A change in judgment that impacts the measurement of a tax position taken in a prior year is recognized as a discrete item in the interim period in which the change occurs. In the event there is a significant unusual or infrequent item recognized in our quarterly results of operations, the tax attributable to that item is recorded in the interim period in which it occurs.

No taxes have been provided on undistributed foreign earnings that are planned to be indefinitely reinvested. If future events, including material changes in estimates of cash, working capital and long-term investment requirements, necessitate that these earnings be distributed, an additional provision for taxes may apply. This could materially affect our future effective tax rate.

Our estimates and assumptions made in our tax provisions may differ from the actual results as reflected in our income tax returns and we record the required adjustments when they are identified or resolved. For a description of our accounting for income tax, see Note 1 of the notes to our consolidated financial statements.

#### ***Business Combination and Valuation of Intangible Assets and Goodwill***

Accounting for business combinations requires us to make significant estimates and assumptions, especially at the acquisition date with respect to tangible and intangible assets acquired and liabilities assumed. We use our best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. Examples of critical estimates in valuing certain of the intangible assets and goodwill we have acquired include but are not limited to: future expected cash flows from subscription and support contracts, professional services contracts, other customer contracts and acquired developed technologies; the acquired company's existing customer and partner relationship, as well as assumptions about the period of time the acquired intangible assets will continue to be used in our offerings; uncertain tax positions and tax related valuation allowances assumed; and discount rates.

In addition, on an ongoing basis, we make estimates, assumptions, and judgments when evaluating the recoverability of our goodwill and intangible assets. We consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Examples of qualitative factors are described in Note 1 of the notes to our consolidated financial statements.

#### ***Stock-Based Compensation***

We have awarded more restricted stock units than granted stock options in recent years. Consequently, our restricted stock units ("RSUs") compensation expense represents a larger portion of total stock-based compensation expense recorded in our financial statements than stock options compensation expense. The fair value of our restricted stock units, including performance-based restricted stock units ("PSUs"), is determined based on the fair value of the award on the grant date. The number of shares expected to vest for our performance-based restricted stock units is based on the targeted annual revenue during the year the PSUs are granted. On a quarterly basis during the year the PSUs are granted, we estimate the number of PSUs that will be vested based on our probability assessment of the targeted annual revenues. Actual results may vary significantly from our assessment and may result in material quarterly adjustments to our financial results.

We estimate the grant date fair value of our stock options using the Black-Scholes option-pricing model with the assumptions of expected term, expected volatility, risk-free interest rate and expected dividend. Each of these assumptions is subjective and generally requires significant judgment to determine. Beginning with fiscal year 2016, we began estimating the expected term of stock options using a historical data method, instead of the simplified method, because we now have sufficient data to estimate the stock option exercise period based on its historical stock option activity and employee termination data. In addition, we began estimating the volatility using our own common stock data, instead of volatility of several comparable publicly listed peers, as we now have sufficient trading history of our stock.

We recognize the fair value of stock-based compensation expense for stock options and restricted stock units over the requisite service period, net of estimated forfeitures. Our forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates. Changes in the estimated forfeiture rate can have a significant impact on our stock-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture rate is revised.

#### **Recent Accounting Pronouncement**

See Note 1 "The Company and Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for a full description of recent accounting pronouncements, including the expected dates of adoption, which is incorporated herein by reference.

#### **Results of Operations**

The following tables set forth our results of operations for the periods presented. The data have been derived from the Consolidated Financial Statements contained in this Annual Report on Form 10-K 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 years presented. The operating results for any period should not be considered indicative of results for any future period.

[Table of Contents](#)

	Fiscal years ended July 31,		
	2016	2015	2014
	(in thousands)		
<b>Revenues:</b>			
License	\$ 219,751	\$ 179,172	\$ 151,921
Maintenance	59,931	50,024	41,888
Services	144,764	151,341	156,437
Total revenues	424,446	380,537	350,246
<b>Cost of revenues:</b>			
License	7,184	4,605	4,442
Maintenance	11,547	9,073	8,118
Services	133,103	133,506	136,387
Total cost of revenues	151,834	147,184	148,947
<b>Gross profit:</b>			
License	212,567	174,567	147,479
Maintenance	48,384	40,951	33,770
Services	11,661	17,835	20,050
Total gross profit	272,612	233,353	201,299
<b>Operating expenses:</b>			
Research and development	112,496	93,440	76,178
Sales and marketing	92,765	82,023	71,295
General and administrative	50,914	41,397	35,404
Total operating expenses	256,175	216,860	182,877
Income from operations	16,437	16,493	18,422
Interest income	4,850	2,245	1,350
Other income (expenses), net	(505)	(1,998)	174
Income before provision for income taxes	20,782	16,740	19,946
Provision for income taxes	5,806	6,855	5,225
Net income	\$ 14,976	\$ 9,885	\$ 14,721

	Fiscal years ended July 31,		
	2016	2015	2014
	(percentage of total revenues)		
<b>Revenues:</b>			
License	52%	47%	43%
Maintenance	14	13	12
Services	34	40	45
Total revenues	100	100	100
<b>Cost of revenues:</b>			
License	2	1	1
Maintenance	3	3	3
Services	31	35	39
Total cost of revenues	36	39	43
<b>Gross profit:</b>			
License	50	46	42
Maintenance	11	10	9
Services	3	5	6
Total gross profit	64	61	57
<b>Operating expenses:</b>			
Research and development	26	25	22
Sales and marketing	22	21	20
General and administrative	12	11	10
Total operating expenses	60	57	52
Income from operations	4	4	5
Interest income	1	1	—
Other income (expenses), net	—	—	—
Income before provision for income taxes	5	5	5
Provision for income taxes	1	2	1
Net income	4%	3%	4%

**Comparison of the Fiscal Years Ended July 31, 2016 and 2015**

**Revenues**

We derive our revenues from licensing our software applications, providing maintenance support and providing professional services. Our license revenues are primarily generated through annual license fees that recur during the term of our multi-year contracts. A majority of these multi-year contracts have licensing terms ranging from 2 to 5 years and are renewable on an annual or multi-year basis. In certain cases, when required by a customer, we license our software on a perpetual basis. In addition, certain 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. We generally price our licenses based on the amount of direct written premiums, or DWP, that will be managed by our solutions. We typically invoice our customers annually in advance or quarterly for both term license and maintenance fees, and we invoice our perpetual license customers either in full at contract signing or on an installment basis and invoice related maintenance fees annually in advance. Our license revenues have generally been recognized when payment is due or cash is received from our customers.

Our maintenance revenues are generally recognized over the committed maintenance term. Our maintenance fees are typically priced as a fixed percentage of the associated license fees.

A substantial majority of our services engagements generate revenues on a time and materials basis and revenues are typically recognized upon delivery of our services. We derive our services revenues primarily from implementation services performed for our customers, reimbursable travel expenses and training fees.

We will adopt ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” on August 1, 2018, which provides revenue recognition guidance. We currently expect that we will apply the cumulative effect method. In evaluating the potential impacts that this guidance will have on our consolidated financial statements, we have begun revising our contracting practices primarily by shortening the initial non-refundable term of our licenses.

Refer to Note 1 of Notes to Consolidated Financial Statements for a description of our accounting policy related to revenue recognition.

	Fiscal years ended July 31,					
	2016		2015		Change	
	Amount	% of total revenues	Amount	% of total revenues	(\$)	(%)
(in thousands, except percentages)						
<b>Revenues:</b>						
License	\$ 219,751	52%	\$ 179,172	47%	\$ 40,579	23%
Maintenance	59,931	14	50,024	13	9,907	20
Services	144,764	34	151,341	40	(6,577)	(4)
<b>Total revenues</b>	<b>\$ 424,446</b>	<b>100%</b>	<b>\$ 380,537</b>	<b>100%</b>	<b>\$ 43,909</b>	<b>12%</b>

*License Revenues*

The \$40.6 million increase in license revenues during fiscal year 2016 was primarily driven by the combined effect from an increased adoption of InsuranceSuite and sales of our newer products in data management and digital engagement. Our license revenues are comprised of term license revenues and perpetual license revenues. Term licenses remain our predominant licensing model.

	Fiscal years ended July 31,					
	2016		2015		Change	
	Amount	% of license revenues	Amount	% of license revenues	(\$)	(%)
(In thousands, except percentages)						
<b>License revenues:</b>						
Term	\$ 208,430	95%	\$ 169,366	95%	\$ 39,064	23%
Perpetual	11,321	5	9,806	5	1,515	15
<b>Total license revenues</b>	<b>\$ 219,751</b>	<b>100%</b>	<b>\$ 179,172</b>	<b>100%</b>	<b>\$ 40,579</b>	<b>23%</b>

The \$39.1 million increase in term license revenues during fiscal year 2016 was primarily driven by the combined effect from an increase of \$33.2 million in revenues recognized from current year orders from new and existing customers and a net increase of \$5.9 million in revenues recognized in the current year from orders originated in the prior year but which were deferred as a result of the timing of the invoicing and the corresponding due dates or other contractual terms that affected revenue recognition from these customer contracts.

The \$1.5 million increase in perpetual license revenues during fiscal year 2016 was primarily due to the net effect from an increase of \$3.8 million in perpetual orders in fiscal year 2016 compared to 2015 related to our expansion in certain regions where perpetual licenses are the preferred licensing model, partially offset by a decrease of \$2.3 million from fewer perpetual buyouts in the current fiscal year compared to the prior fiscal year.

We expect that our revenues from the sale and delivery of our perpetual licenses will continue to represent a small percentage of our total license revenues. However, we expect volatility across quarters for our perpetual license revenues due to the timing of billings and corresponding due dates, timing of perpetual license sales and the exercise of perpetual buyout rights in term licenses. Additionally, our license revenues may fluctuate if our customers make an early payment of their annual license fees in advance of the invoice due date which may cause an unexpected increase in revenues in one quarter which can reduce revenue growth rates in future periods.

*Maintenance Revenues*

The \$9.9 million increase in maintenance revenues during fiscal year 2016 reflects our growing customer base and increased license revenues.

We expect that our maintenance revenues will continue to grow as license revenues grow.

### Services Revenues

The \$6.6 million decrease in services revenues during fiscal year 2016 was primarily due to the net effect from decreases of \$19.7 million in services revenues resulting from the combined effect from the completion of certain large implementation projects in fiscal year 2016, our continued increased engagement with our system integrator partners with whom our customers can contract for services related to our products, and deferrals of services billings as a result of certain contractual terms, partially offset by an increase of \$12.7 million in services revenue related to services performed on new projects.

While we continue to expand our network of third-party system integrators with whom our customers can contract for services related to our products, our services revenues may fluctuate as the result of several factors, including the rates we charge for our services and unexpected difficulty in projects as we support the sale of new products, enter into new markets, or introduce different software delivery models.

### Deferred Revenues

	As of July 31,			
	2016	2015	Change	
	Amount	Amount	(\$)	(%)
(In thousands, except percentages)				
Deferred revenues:				
Deferred license revenues	\$ 19,841	\$ 13,558	\$ 6,283	46%
Deferred maintenance revenues	38,928	32,365	6,563	20
Deferred services revenues	11,246	6,643	4,603	69
Total deferred revenues	<u>\$ 70,015</u>	<u>\$ 52,566</u>	<u>\$ 17,449</u>	<u>33%</u>

The \$6.3 million increase in deferred license revenues was primarily driven by a \$5.8 million net increase in billings related to existing customer contracts that are being deferred due to the timing of the invoices and the corresponding due dates, contracts that are being recognized on a ratable basis, and license billings related to new contracts executed during fiscal year 2016 which contributed an additional increase of \$2.4 million which will be recognized when contractual obligations are met or on a ratable basis over the contractual period. These increases in deferred revenues were partially offset by the recognition of \$1.9 million in license revenue upon meeting certain contractual obligations.

The \$6.6 million increase in deferred maintenance revenues was primarily driven by billings in excess of revenues recognized from new and existing orders during fiscal year 2016.

The \$4.6 million increase in deferred services revenues was primarily driven by the net effect from an increase of \$6.5 million in services billings deferred in the current fiscal year, partially offset by the recognition in the current year based upon the fulfillment of certain contractual obligations of \$1.9 million of billings which were invoiced and deferred in the prior year. The \$6.5 million in deferred service billings includes \$5.1 million related to an arrangement entered into during fiscal 2016 with a large, national insurer to implement Guidewire InsurancePlatform™ in a cloud-delivered, digitally-rich format which includes InsuranceSuite and our data products together with a new version of our digital portal product. As a result of our agreement to develop new digital portal functionality in conjunction with the implementation, all license and services revenues will be deferred until the implementation is complete, which we currently project to occur during the second half of fiscal 2017, at which point, revenue will be recognized ratably. As a result of this arrangement, we anticipate deferred revenues to increase significantly above historical norms when such implementation is complete.

Our deferred revenues consist only of amounts that have been invoiced, but not yet recognized as revenues. As a result, deferred revenues and change 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, amortization of our acquired intangible assets, and fulfillment services personnel costs. Our cost of maintenance revenues is comprised of compensation and benefit expenses for our technical support team, including stock-based awards and allocated overhead. Our cost of services revenues is primarily comprised of compensation and benefit expenses for our professional service employees and contractors, including stock-based awards, travel-related costs and allocated overhead.



[Table of Contents](#)

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.

	Fiscal years ended July 31,					
	2016		2015		Change	
	Amount	Amount	Amount	Amount	(\$)	(%)
(In thousands, except percentages)						
<b>Cost of revenues:</b>						
License	\$ 7,184	\$ 4,605	\$ 2,579			56%
Maintenance	11,547	9,073	2,474			27
Services	133,103	133,506	(403)			—
<b>Total cost of revenues</b>	<b>\$ 151,834</b>	<b>\$ 147,184</b>	<b>\$ 4,650</b>			<b>3%</b>
<b>Includes stock-based compensation of:</b>						
Cost of license revenues	\$ 433	\$ 222	\$ 211			
Cost of maintenance revenues	1,491	1,158	333			
Cost of services revenues	17,878	15,022	2,856			
<b>Total</b>	<b>\$ 19,802</b>	<b>\$ 16,402</b>	<b>\$ 3,400</b>			

The \$4.7 million increase in cost of revenues during the fiscal year ended July 31, 2016 was primarily driven by the net effect from increases in the costs of license and maintenance revenues of \$2.6 million and 2.5 million, respectively, partially offset by a \$0.4 million decrease in the cost of service revenues. The \$2.6 million increase in the cost of license revenues was primarily attributable to increases in expenses from royalty and intangible asset amortization and increases in headcount and related expenses. The \$2.5 million increase in cost of maintenance revenues was primarily attributable to the aggregate effect of increased headcount and related expenses. The \$0.4 million decrease in cost of services revenues was primarily attributable to the net effect from a decrease of \$7.0 million in costs for third-party services due to the completion of certain large implementation projects in fiscal year 2016, and a \$2.4 million increase in the deferral of costs associated with deferred service revenues, partially offset by an increase of \$8.9 million in headcount and related expenses which included an increase of \$2.9 million of stock-based compensation expense. We had 573 professional service employees and 69 technical support and licensing operations employees at July 31, 2016 compared to 500 professional services employees and 50 technical support and licensing operations employees at July 31, 2015. Of the incremental 73 employees in the services organization, 64 were hired in the second half of fiscal year 2016. The significant increase in hiring was driven by our anticipated need to staff a large, cloud-based deployment, our need to meet demand for new implementations of our data products and to minimize capacity constraints in the Americas. We anticipate continued near-term growth in the headcount, and the related expenses attributable to, the services organization as a result of these needs.

	Fiscal years ended July 31,					
	2016		2015		Change	
	Amount	margin %	Amount	margin %	(\$)	(%)
(In thousands, except percentages)						
<b>Gross profit:</b>						
License	\$ 212,567	97%	\$ 174,567	97%	\$ 38,000	22 %
Maintenance	48,384	81%	40,951	82%	7,433	18 %
Services	11,661	8%	17,835	12%	(6,174)	(35)%
<b>Total gross profit</b>	<b>\$ 272,612</b>	<b>64%</b>	<b>\$ 233,353</b>	<b>61%</b>	<b>\$ 39,259</b>	<b>17 %</b>

Our gross margin percentage improved from 61% to 64% primarily due to the benefit we realized from increased license and maintenance revenues as a percentage of total revenues, partially offset by the impact from the lower margin contribution from services revenue which carry higher costs due to increased costs primarily related to headcount. Our license and maintenance revenues yield a higher gross margin than our professional services.

We expect our 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. We anticipate our services margin to decline significantly in fiscal year 2017 as the effect of acquisitions, sizable hiring and training requirements and the sizable deferral of services revenues during the year depress services profitability. We anticipate this impact to be limited to fiscal year 2017 as the

recognition of deferred amounts and the potential increase in sales of newly acquired products may increase services margins in fiscal year 2018.

### *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 compensation and benefit expenses for our employees, including stock-based awards and, to a lesser extent, professional services, and rent and facility costs.

	Fiscal years ended July 31,				Change	
	2016		2015		(\$)	(%)
	Amount	% of total revenues	Amount	% of total revenues		
(In thousands, except percentages)						
<b>Operating expenses:</b>						
Research and development	\$ 112,496	27 %	\$ 93,440	25 %	\$ 19,056	20%
Sales and marketing	92,765	22	82,023	21	10,742	13
General and administrative	50,914	12	41,397	11	9,517	23
<b>Total operating expenses</b>	<b>\$ 256,175</b>	<b>60 %</b>	<b>\$ 216,860</b>	<b>57 %</b>	<b>\$ 39,315</b>	<b>18%</b>
<b>Includes stock-based compensation of:</b>						
Research and development	\$ 15,555		\$ 10,683		\$ 4,872	
Sales and marketing	15,090		12,090		3,000	
General and administrative	15,684		12,200		3,484	
<b>Total</b>	<b>\$ 46,329</b>		<b>\$ 34,973</b>		<b>\$ 11,356</b>	

#### *Research and Development*

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

The \$19.1 million increase in research and development expenses was primarily related to increased compensation and related headcount costs of \$14.3 million and increased costs for stock-based compensation costs of \$4.9 million. Our research and development headcount was 464 in fiscal year 2016 compared with 406 in fiscal year 2015. The increase in headcount reflects our continued investment in data management and analytics, and digital engagement, including the addition of employees from the acquisition of EagleEye which was completed on March 31, 2016.

#### *Sales and Marketing*

Our sales and marketing expenses consist primarily of costs incurred for compensation and benefit expenses for our sales and marketing employees, including stock-based awards. It also includes allocated overhead, commission payments, travel expenses and professional services for marketing activities.

The \$10.7 million increase in sales and marketing expenses was primarily related to the combined effect from increases in compensation and related headcount costs of \$9.3 million, which included increased costs for stock-based compensation of \$3.0 million, and increases in our selling expenses of \$1.8 million primarily related to increases in our sales commissions as a result of the increases in our customer orders. Our sales and marketing headcount was 267 at July 31, 2016 compared with 238 at July 31, 2015. The increase in headcount was required to support the growth in our revenue base.

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 compensation and benefit expenses, including stock-based awards, as well as professional services and facility costs related to our executive, finance, human resources, information technology, corporate development and legal functions.

[Table of Contents](#)

The \$9.5 million increase in general and administrative expenses was primarily related to increased expenses for headcount and related costs, increased costs for stock-based compensation, and to a lesser extent, increased costs for professional services resulting from the acquisition of EagleEye. Our general and administrative headcount was 163 at July 31, 2016 compared with 147 at July 31, 2015. The increase in headcount was required to support the growth of our business.

***Interest Income and Other Income (Expense)***

	Fiscal years ended July 31,			
	2016	2015	Change	
	Amount	Amount	(\$)	(%)
	(In thousands, except percentages)			
Interest income	\$ 4,850	\$ 2,245	\$ 2,605	116 %
Other income (expenses), net	(505)	(1,998)	1,493	(75)

***Interest Income***

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

Interest income increased by \$2.6 million for fiscal year 2016 due to the combined effect from higher yields on our cash equivalents and investments and \$1.0 million in imputed interest income realized upon the conversion in the third fiscal quarter of 2016 of our strategic investment from convertible debt to preferred equity.

***Other Income (Expense), Net***

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

Other expense decreased by \$1.5 million primarily due to improvements in the current year in the foreign exchange rates realized between the U.S. dollar and the Australian dollar, British Pound, Canadian dollar, Euro, and Japanese Yen compared to fiscal year 2015.

***Provision for 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.

	Fiscal years ended July 31,			
	2016	2015	Change	
	Amount	Amount	(\$)	(%)
	(In thousands, except percentages)			
Provision for income taxes	\$ 5,806	\$ 6,855	\$ (1,049)	(15)%

We recognized an income tax provision of \$5.8 million for fiscal year 2016 compared to \$6.9 million for fiscal year 2015. Our effective income tax rate decreased to 28% for fiscal year 2016 compared to 41% for fiscal year 2015, which was primarily due to increased benefits from the permanent extension of the federal research and development credits under the Protecting Americans from Tax Hikes (“PATH”) Act of 2015 that was signed into law during the current fiscal year, partially offset by tax charge from the re-measurement of deferred tax assets due to a recent change in domestic state tax law.

**Comparison of the Fiscal Years Ended July 31, 2015 and 2014**

***Revenues***

	Fiscal years ended July 31,					
	2015		2014		Change	
	Amount	% of total revenues	Amount	% of total revenues	(\$)	(%)
(in thousands, except percentages)						
<b>Revenues:</b>						
License	\$ 179,172	47%	\$ 151,921	43%	\$ 27,251	18%
Maintenance	50,024	13	41,888	12	8,136	19
Services	151,341	40	156,437	45	(5,096)	(3)
Total revenues	\$ 380,537	100%	\$ 350,246	100%	\$ 30,291	9%

#### License Revenues

The \$27.3 million increase in license revenues during fiscal year 2015 was primarily driven by increased adoption of InsuranceSuite and sales of newer products to both new and existing customers. Our license revenue growth across geographies was led by international markets.

Our license revenues are comprised of term license revenues and perpetual license revenues. Term license revenues as a percentage of total license revenues increased for fiscal year 2015, which reflects a continuing shift from perpetual license to term license arrangements.

	Fiscal years ended July 31,					
	2015		2014		Change	
	Amount	% of license revenues	Amount	% of license revenues	(\$)	(%)
(In thousands, except percentages)						
<b>License revenues:</b>						
Term	\$ 169,366	95%	\$ 139,902	92%	\$ 29,464	21%
Perpetual	9,806	5	12,019	8	(2,213)	(18)
Total license revenues	\$ 179,172	100%	\$ 151,921	100%	\$ 27,251	18%

Term license revenues grew 21% from \$139.9 million in fiscal year 2014 to \$169.4 million in fiscal year 2015. This \$29.5 million growth was the result of \$30.8 million of revenues recognized from current year orders from new and existing customers, offset by a net decline of \$1.3 million in revenues related to prior year orders that were recognized in fiscal year 2014 but were not recognizable in fiscal year 2015 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 \$2.2 million decrease in perpetual license revenues during fiscal year 2015 was primarily due to fewer perpetual buyouts and perpetual license contracts as compared to fiscal year 2014, driven by our strategy to promote adoption of term licenses.

#### Maintenance Revenues

The \$8.1 million increase in maintenance revenues during fiscal year 2015 reflects our growing customer base and increased term license revenues.

#### Services Revenues

The \$5.1 million decrease in service revenues during fiscal year 2015 was primarily due to the completion of several large implementation projects throughout the fiscal year and our efforts to transfer a greater portion of the implementation work to our system integrator partners on new implementation projects, resulting in a \$7.0 million decrease in service revenues compared to fiscal year 2014. This is partially offset by \$1.9 million in revenues recognized on an order previously deferred pending completion of certain project implementation milestones which was completed during fiscal year 2015.

*Deferred Revenues*

	As of July 31,			
	2015	2014	Change	
	Amount	Amount	(\$)	(%)
(In thousands, except percentages)				
Deferred revenues:				
Deferred license revenues	\$ 13,558	\$ 19,295	\$ (5,737)	(30)%
Deferred maintenance revenues	32,365	28,702	3,663	13
Deferred services revenues	6,643	7,335	(692)	(9)
Total deferred revenues	\$ 52,566	\$ 55,332	\$ (2,766)	(5)%

The \$5.7 million decrease in deferred license revenues compared to prior year end was primarily driven by \$8.7 million of revenue recognized from existing orders previously deferred due to contractual terms affecting revenue recognition, and revenue recognized upon meeting performance obligations on certain arrangements. This is partially offset by \$3.0 million in current year billings on existing orders being recognized on a ratable basis and new orders being deferred due to contractual terms effecting revenue recognition.

The \$3.7 million increase in deferred maintenance revenues compared to the prior year end was primarily driven by revenues deferred from new and existing orders during the current fiscal year. This increase reflects the combined effect of the annual billing pattern of our multi-year arrangements and increased volume of orders being recognized over the respective service periods.

The \$0.7 million decrease in deferred services revenues compared to the prior year end was primarily driven by \$1.9 million of services revenues recognized for upon completion of certain project implementation milestones, partially offset by \$1.2 million of services billings deferred due to certain contractual terms.

***Cost of Revenues and Gross Profit***

	Fiscal years ended July 31,			
	2015	2014	Change	
	Amount	Amount	(\$)	(%)
(In thousands, except percentages)				
Cost of revenues:				
License	\$ 4,605	\$ 4,442	\$ 163	4 %
Maintenance	9,073	8,118	955	12
Services	133,506	136,387	(2,881)	(2)
Total cost of revenues	\$ 147,184	\$ 148,947	\$ (1,763)	(1)%
Includes stock-based compensation of:				
Cost of license revenues	\$ 222	\$ 184	\$ 38	
Cost of maintenance revenues	1,158	797	361	
Cost of services revenues	15,022	11,929	3,093	
Total	\$ 16,402	\$ 12,910	\$ 3,492	

The \$1.8 million decrease in cost of revenues was primarily driven by a decrease of \$6.8 million in third-party consultant costs and billable expenses and \$0.2 million decrease in royalty fees, partially offset by an increase of \$2.8 million in allocated overhead, an increase of \$1.4 million in compensation and benefit expenses including stock-based awards, an increase of \$0.7 million in recruiting and general office expenses, and an increase of \$0.3 million in professional services. The decrease in third-party consultant costs and billable expenses was due to completion of several large implementation projects that required significant contractor support. The increase in allocated overhead costs was attributable to higher IT support, facility and other administrative costs, as a result of an increase in headcount. The increase in compensation and benefit expenses was primarily due to the issuance of equity awards to new and existing employees. Our professional service and technical support headcount was 550 at July 31, 2015 compared with 516 at July 31, 2014. The increase in headcount was primarily attributable to hiring in our international locations as we expanded our global operations.

[Table of Contents](#)

	Fiscal years ended July 31,					
	2015		2014		Change	
	Amount	margin %	Amount	margin %	(\$)	(%)
(In thousands, except percentages)						
<b>Gross profit:</b>						
License	\$ 174,567	97%	\$ 147,479	97%	\$ 27,088	18%
Maintenance	40,951	82	33,770	81%	7,181	21
Services	17,835	12	20,050	13%	(2,215)	(11)
<b>Total gross profit</b>	<b>\$ 233,353</b>	<b>61%</b>	<b>\$ 201,299</b>	<b>57%</b>	<b>\$ 32,054</b>	<b>16%</b>

The \$32.1 million increase in gross profit was driven by higher term license and maintenance revenues. Our gross margin percentage improved from 57% to 61% due to increases in term license revenues and maintenance revenues that have higher gross margins combined with a decrease in lower gross margin service revenues.

**Operating Expenses**

	Fiscal years ended July 31,					
	2015		2014		Change	
	Amount	% of total revenues	Amount	% of total revenues	(\$)	(%)
(In thousands, except percentages)						
<b>Operating expenses:</b>						
Research and development	\$ 93,440	25 %	\$ 76,178	22 %	\$ 17,262	23%
Sales and marketing	82,023	21	71,295	20	10,728	15
General and administrative	41,397	11	35,404	10	5,993	17
<b>Total operating expenses</b>	<b>\$ 216,860</b>	<b>57 %</b>	<b>\$ 182,877</b>	<b>52 %</b>	<b>\$ 33,983</b>	<b>19%</b>
<b>Includes stock-based compensation of:</b>						
Research and development	\$ 10,683		\$ 9,008		\$ 1,675	
Sales and marketing	12,090		10,744		1,346	
General and administrative	12,200		9,876		2,324	
<b>Total</b>	<b>\$ 34,973</b>		<b>\$ 29,628</b>		<b>\$ 5,345</b>	

The \$34.0 million increase in operating expenses was primarily driven by an increase of \$22.1 million in compensation and benefit expenses, including stock-based awards, an increase of \$8.8 million in professional services, an increase of \$1.8 million in IT support, facility and other administrative costs, and an increase of \$1.3 million in travel and marketing expenses.

*Research and Development*

The \$17.3 million increase in research and development expenses was primarily due to an increase of \$9.2 million in compensation and benefit expenses, including stock-based awards, an increase of \$4.0 million in consultant costs, an increase of \$2.9 million in allocated overhead, an increase of \$0.9 million in recruiting, employee training and other general office expenses, and an increase of \$0.3 million in travel expense. Increases in compensation and benefit expenses, allocated overhead, employee travel, recruiting and training expenses were due to the increase in headcount in fiscal year 2015, the full year impact of employees hired throughout fiscal year 2014 and the issuance of equity awards to new and existing employees. The increase in consulting costs was driven by product development and enhancement projects. Our research and development headcount was 406 at July 31, 2015 compared with 328 at July 31, 2014.

*Sales and Marketing*

The \$10.7 million increase in sales and marketing expenses was primarily due to an increase of \$7.5 million in compensation and benefit expenses including stock-based awards and commissions, an increase of \$1.8 million in allocated overhead, an increase of \$0.7 million in employee travel expenses and marketing programs, an increase of \$0.5 million in consultant costs, and an increase of \$0.2 million in recruiting, training and general office expenses. Increases in compensation and benefit expenses, allocated overhead, recruiting and training expenses were due to the increase in headcount in fiscal year 2015, the full year impact of employees hired throughout fiscal year 2014 and the issuance of equity awards to new and

[Table of Contents](#)

existing employees. The increases in consultant costs, travel and marketing programs were primarily driven by an increase in sales activities for our new products in new geographical markets. Our sales and marketing headcount was 238 at July 31, 2015 compared with 219 at July 31, 2014.

*General and Administrative*

The \$6.0 million increase in general and administrative expenses was primarily due to increases in compensation and benefit 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. Our general and administrative headcount was 147 at July 31, 2015 compared with 120 at July 31, 2014.

*Other Income (Expense)*

	Fiscal years ended July 31,		Change	
	2015	2014		
	Amount	Amount	(\$)	(%)
	(In thousands, except percentages)			
Interest income, net	\$ 2,245	\$ 1,350	\$ 895	*
Other income (expense), net	(1,998)	174	(2,172)	*
Total	\$ 247	\$ 1,524	\$ (1,277)	*

\* Not meaningful

*Interest Income, Net*

Interest income increased by \$0.9 million primarily due to higher yields on our cash equivalents and investments as well as higher investment balances.

*Other Expense, Net*

Other expense increased by \$2.2 million primarily due to higher foreign exchange losses resulting from the U.S. dollar strengthening against the Australian dollar, Canadian dollar, Euro, British pound, and Japanese Yen during fiscal year 2015 compared to fiscal year 2014.

*Provision for Income Taxes*

	Fiscal years ended July 31,		Change	
	2015	2014		
	Amount	Amount	(\$)	(%)
	(In thousands, except percentages)			
Provision for income taxes	\$ 6,855	\$ 5,225	\$ 1,630	31%

We recognized an income tax provision of \$6.9 million for fiscal year 2015 compared to \$5.2 million for fiscal year 2014. Our effective income tax rate increased to 41% for fiscal year 2015 compared to 26% for fiscal year 2014, which was primarily due to a change in estimate resulting in a decrease in tax credits for prior fiscal years, and the tax rate differences between the United States and foreign countries.

### Quarterly Results of Operations

The following table sets forth our selected unaudited quarterly financial information for each of the eight quarters ended July 31, 2016. In management's opinion, the data below have been prepared on the same basis as the audited consolidated financial statements and reflect all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the data. The results of historical periods are not necessarily indicative of the results to be expected for a full year or any future period.

	Fiscal quarters ended							
	July 31, 2016	April 30, 2016	January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015	January 31, 2015	October 31, 2014
	(unaudited)							
	(in thousands, except per share amounts)							
Total Revenues	\$ 141,177	\$ 98,860	\$ 102,129	\$ 82,280	\$ 125,917	\$ 85,440	\$ 89,446	\$ 79,734
Total cost of revenues	42,756	39,007	34,901	35,170	39,429	37,904	34,080	35,771
Total Gross profit	98,421	59,853	67,228	47,110	86,488	47,536	55,366	43,963
Income (loss) from operations	23,475	(5,777)	7,702	(8,963)	23,496	(6,700)	3,335	(3,638)
Net income (loss)	16,097	(404)	913	(1,630)	11,893	(2,987)	3,976	(2,997)
Income (loss) per share - basic	\$ 0.22	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.17	\$ (0.04)	\$ 0.06	\$ (0.04)
Income (loss) per share - diluted	\$ 0.22	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.16	\$ (0.04)	\$ 0.06	\$ (0.04)

Our quarterly results of operations may fluctuate significantly due to a variety of factors, many of which are outside of our control, making our results of operations variable and difficult to predict. Such factors include those discussed above and those set forth in "Risk Factors—We may experience significant quarterly and annual fluctuations in our results of operations due to a number of factors" and "Risk Factors—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" in item 1A of Part I of this Annual Report on Form 10-K. One or more of these factors may cause our results of operations to vary widely. As such, we believe that our quarterly results of operations may vary significantly in the future and that sequential quarterly comparisons of our results of operations may not be meaningful and should not be relied upon as an indication of future performance.



## Liquidity and Capital Resources

As of July 31, 2016, 2015 and 2014, we had \$223.6 million, \$212.4 million and \$148.1 million of cash and cash equivalents, respectively, and working capital of \$588.6 million, \$557.2 million and \$421.0 million, respectively.

Cash flows provided by operating activities were \$99.9 million, \$63.7 million and \$75.5 million during the years ended July 31, 2016, 2015 and 2014, respectively. We had capital expenditures of \$7.1 million, \$6.3 million and \$5.0 million for the years ended July 31, 2016, 2015 and 2014, respectively. Our capital expenditures consisted of purchases of property and equipment, primarily consisting of computer hardware, software and leasehold improvements.

As of July 31, 2016, approximately \$26.5 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.

Our cash flows from operations are significantly impacted by timing of invoicing and collections of accounts receivable, annual bonus payment, as well as payments of payroll and other 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. 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 revenues 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 also anticipate investing in, or acquiring complementary businesses, applications or technologies, which may require the use of significant cash resources and may require incremental financing.

### Cash Flows

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

	Fiscal years ended July 31,		
	2016	2015	2014
	(in thousands)		
Net cash provided by operating activities	\$ 99,900	\$ 63,677	\$ 75,491
Net cash provided by (used in) investing activities	(101,253)	23,070	(380,420)
Net cash provided by (used in) financing activities	13,454	(17,351)	372,564

### Cash Flows from Operating Activities

Net cash provided by operating activities increased by \$36.2 million in fiscal year 2016 as compared to fiscal year 2015. This is attributable to a net \$25.8 million increase in cash provided by working capital activity, and a \$10.5 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. We generated more cash for working capital activity for fiscal year 2016 as compared to fiscal year 2015, primarily due to higher cash collections from customers and changes in deferred revenues, partially offset by higher payments to vendors in fiscal year 2016.

Net cash provided by operating activities decreased by \$11.8 million in fiscal year 2015 from fiscal year 2014. This is attributable to a net \$24.3 million decrease in cash provided by working capital activity, partially offset by a \$12.5 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. The decrease in cash provided by working capital activity was due to changes in deferred revenues, moderate increases in bonus and commission accruals, timing of invoicing to customers, and timing of payments to vendors during fiscal year 2015 as compared to fiscal year 2014.

**Cash Flows from Investing Activities**

Our investing activities consist primarily of purchase and sales of short-term and long-term investments, capital expenditures to purchase property and equipment, and changes in our restricted cash. In the future, we expect we will continue to invest in capital expenditures to support our expanding operations.

Net cash used in investing activities was \$101.3 million in fiscal year 2016, as compared to \$23.1 million net cash provided in fiscal year 2015. The increase of \$124.3 million in net cash used in investing activities was primarily due to a net increase of \$79.0 million in purchases of marketable securities, net of sales proceeds, \$39.5 million used for our acquisition of EagleEye during the third quarter of fiscal year 2016, and a \$5.0 million strategic investment.

Net cash provided by investing activities was \$23.1 million in fiscal year 2015, as compared to \$380.4 million net cash used in fiscal year 2014. The increase of \$403.5 million in fiscal year 2015, was primarily due to a \$208.8 million increase in proceeds from sales and maturity of our available-for-sale securities and a \$195.8 million decrease in purchases of available-for-sale securities, as compared to fiscal year 2014 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 \$1.3 million increase in capital expenditures to purchase property and equipment as compared to fiscal year 2014.

**Cash Flows from Financing Activities**

Our financing activities consist primarily of cash receipts from the exercise of stock options, payments of taxes withheld from vesting of RSUs and excess tax benefits realized on the exercise or release of each of these items. During the fourth quarter of fiscal year 2015, we began requiring that the general employee population sell a portion of the shares that they receive upon the vesting of RSUs in order to cover any required withholding taxes (“sell-to-cover”), rather than our previous approach of net share settlement. The transition was completed in the quarter ended January 31, 2016. This sell-to-cover approach materially reduced our cash used for financing activities. In fiscal year 2014, we received net inflows of cash from financing activities related to public offerings.

Net cash provided by financing activities was \$13.5 million in fiscal year 2016, as compared to \$17.4 million net cash used in fiscal year 2015. The increase of \$30.8 million in net cash provided by financing activities was primarily a result of the transition from the net share settlement to the sell-to-cover tax withholding method. This reduced our cash used by \$25.7 million in fiscal year 2016. In addition, a \$3.6 million increase in excess tax benefits realized and a \$1.5 million increase in proceeds from options exercise contributed to the increase in cash provided by financing activities.

Cash flows provided by financing activities decreased by \$389.9 million during fiscal year 2015 when compared to fiscal year 2014. During fiscal year 2014, we received \$389.5 million in net proceeds from our follow-on offering of common stock, after deducting underwriters’ discounts and commissions and paying expenses in connection with the offering. Additionally, the net impact of fewer stock option exercises, lower excess tax benefits combined with less taxes remitted for RSU releases contributed to the remaining \$0.4 million decrease in cash provided by financing activities. Option proceeds have declined during fiscal year 2015 and will continue to decline with the decreasing population of exercisable options. Taxes remitted for RSU releases have and will decline with the switch from the net share settlement to the sell-to-cover tax withholding method. The current year decrease of excess tax benefits is in line with less options exercised and RSUs released during fiscal year 2015 compared to fiscal year 2014.

**Contractual Obligations**

The following summarizes our contractual obligations as of July 31, 2016:

	Payments due by period				Total
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
	(in thousands)				
Operating lease obligations <sup>(1)</sup>	\$ 7,273	\$ 12,836	\$ 2,470	\$ 1,260	\$ 23,839
Royalty obligations <sup>(2)</sup>	997	1,183	250	—	2,430
Purchase commitments <sup>(3)</sup>	1,743	1,505	—	—	3,248
Total <sup>(4)</sup>	\$ 10,013	\$ 15,524	\$ 2,720	\$ 1,260	\$ 29,517

<sup>(1)</sup> Operating lease agreements primarily represent our obligations to make payments under our non-cancellable lease agreements for our corporate headquarters and worldwide offices through 2025.

## [Table of Contents](#)

- (2) Royalty obligations primarily represent our obligations under our non-cancellable agreements related to certain revenue-generating agreements.
- (3) Purchase commitments consist of agreements to purchase services, entered into in the ordinary course of business. These represent non-cancellable long-term commitments for which a penalty would be imposed if the agreement was canceled for any reason other than an event of default as described by the agreement.
- (4) Excluded from the table above are unrecognized tax benefits of \$7.7 million associated with our U.S. federal and California research and development tax credits as of July 31, 2016. We are unable to estimate when any cash settlement with a taxing authority might occur.

### **Off-Balance Sheet Arrangements**

Through July 31, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates and foreign currency exchange rates. We do not hold or issue financial instruments for trading purposes.

#### ***Interest Rate Sensitivity***

Our exposure to market risk for changes in interest rates relates primarily to our cash, cash equivalents, and investments as of July 31, 2016, and 2015. Our cash, cash equivalents, and investments as of July 31, 2016 and 2015 were \$735.8 million and \$677.8 million, respectively, and 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 Australian dollar, Brazilian Real, British Pound, Canadian dollar, Euro, 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. Additionally, 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 fiscal year ended July 31, 2016, British Pound had a 15 percent decline while the Australian dollar, Brazilian Real, Euro, and Japanese Yen strengthened 2 to 22 percent, and as a result, we recorded a net foreign currency loss of \$0.5 million as other income (expense) in our consolidated statements of income. Similarly, for the fiscal year ended July 31, 2015, we recorded a foreign currency loss of \$2.0 million as other income (expense) in our consolidated statements of income as a result of 8 to 22 percent unfavorable exchange rate fluctuations of the above foreign currencies. We will continue to experience fluctuations in foreign currency exchange rates, and if a ten percent change in foreign exchange rates occurs in the future, a similar impact would result. 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.

[Table of Contents](#)

**Item 8. Financial Statements and Supplemental Data**

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">49</a>
<a href="#">Consolidated Balance Sheets</a>	<a href="#">50</a>
<a href="#">Consolidated Statements of Income</a>	<a href="#">51</a>
<a href="#">Consolidated Statements of Comprehensive Income</a>	<a href="#">52</a>
<a href="#">Consolidated Statements of Stockholders' Equity</a>	<a href="#">53</a>
<a href="#">Consolidated Statements of Cash Flows</a>	<a href="#">54</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">55</a>

The supplementary financial information required by this Item 8 is included in Item 7 under the caption "Quarterly Results of Operations."

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Guidewire Software, Inc.:

We have audited the accompanying consolidated balance sheets of Guidewire Software, Inc. and subsidiaries (the Company) as of July 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended July 31, 2016. We also have audited the Company's internal control over financial reporting as of July 31, 2016, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Guidewire Software, Inc. and subsidiaries as of July 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended July 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2016, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by COSO.

/s/ KPMG LLP  
Santa Clara, California  
September 15, 2016

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except for share data)

	July 31, 2016	July 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 223,582	\$ 212,362
Short-term investments	404,655	359,273
Accounts receivable	62,792	62,062
Deferred tax assets, current	—	13,845
Prepaid expenses and other current assets	16,643	14,102
Total current assets	707,672	661,644
Long-term investments	107,565	106,117
Property and equipment, net	12,955	12,160
Intangible assets, net	14,204	3,999
Deferred tax assets, noncurrent	31,364	5,896
Goodwill	30,080	9,205
Other assets	12,338	926
<b>TOTAL ASSETS</b>	<b>\$ 916,178</b>	<b>\$ 799,947</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 9,929	\$ 8,816
Accrued employee compensation	41,267	37,235
Deferred revenues, current	60,270	50,766
Other current liabilities	7,617	7,592
Total current liabilities	119,083	104,409
Deferred revenues, noncurrent	9,745	1,800
Other liabilities	3,415	4,350
Total liabilities	132,243	110,559
Commitments and contingencies (Note 6)		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, par value \$0.0001 per share—500,000,000 shares authorized as of July 31, 2016 and 2015, respectively; 73,039,919 and 71,005,738 shares issued and outstanding as of July 31, 2016 and 2015, respectively	7	7
Additional paid-in capital	742,690	662,869
Accumulated other comprehensive loss	(6,593)	(6,343)
Retained earnings	47,831	32,855
Total stockholders' equity	783,935	689,388
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 916,178</b>	<b>\$ 799,947</b>

*See accompanying Notes to Consolidated Financial Statements.*

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except share and per share amounts)

	Fiscal years ended July 31,		
	2016	2015	2014
<b>Revenues:</b>			
License	\$ 219,751	\$ 179,172	\$ 151,921
Maintenance	59,931	50,024	41,888
Services	144,764	151,341	156,437
Total revenues	<u>424,446</u>	<u>380,537</u>	<u>350,246</u>
<b>Cost of revenues:</b>			
License	7,184	4,605	4,442
Maintenance	11,547	9,073	8,118
Services	133,103	133,506	136,387
Total cost of revenues	<u>151,834</u>	<u>147,184</u>	<u>148,947</u>
<b>Gross profit:</b>			
License	212,567	174,567	147,479
Maintenance	48,384	40,951	33,770
Services	11,661	17,835	20,050
Total gross profit	<u>272,612</u>	<u>233,353</u>	<u>201,299</u>
<b>Operating expenses:</b>			
Research and development	112,496	93,440	76,178
Sales and marketing	92,765	82,023	71,295
General and administrative	50,914	41,397	35,404
Total operating expenses	<u>256,175</u>	<u>216,860</u>	<u>182,877</u>
Income from operations	16,437	16,493	18,422
Interest income	4,850	2,245	1,350
Other income (expenses), net	(505)	(1,998)	174
Income before provision for income taxes	20,782	16,740	19,946
Provision for income taxes	5,806	6,855	5,225
Net income	<u>\$ 14,976</u>	<u>\$ 9,885</u>	<u>\$ 14,721</u>
<b>Earnings per share:</b>			
Basic	<u>\$ 0.21</u>	<u>\$ 0.14</u>	<u>\$ 0.22</u>
Diluted	<u>\$ 0.20</u>	<u>\$ 0.14</u>	<u>\$ 0.21</u>
<b>Shares used in computing earnings per share:</b>			
Basic	<u>72,026,694</u>	<u>70,075,908</u>	<u>65,748,896</u>
Diluted	<u>73,765,960</u>	<u>72,314,433</u>	<u>69,112,733</u>

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>As of July 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 14,976	\$ 9,885	\$ 14,721
Other comprehensive income (loss):			
Foreign currency translation adjustments	(562)	(4,937)	288
Unrealized (loss) gain on available-for-sale securities, net of tax benefit (expense) of \$(187), \$38, and \$(7)	288	(83)	(42)
Reclassification adjustment for realized loss (gain) included in net income	24	44	(39)
Other comprehensive income (loss)	(250)	(4,976)	207
Comprehensive income	<u>\$ 14,726</u>	<u>\$ 4,909</u>	<u>\$ 14,928</u>

*See accompanying Notes to Consolidated Financial Statements.*



**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except share amounts)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained Earnings (Accumulated deficit)	Total stockholders' equity
	Shares	Amount				
<b>Balance as of July 31, 2013</b>	<b>57,909,277</b>	<b>6</b>	<b>215,151</b>	<b>(1,574)</b>	<b>8,249</b>	<b>221,832</b>
Proceeds from issuance of common stock in connection with public offering, net of underwriting discounts and commission	8,306,291	1	389,948	—	—	389,949
Costs incurred in connection with public offering	—	—	(408)	—	—	(408)
Issuance of common stock upon exercise of stock options	1,579,469	—	8,755	—	—	8,755
Issuance of common stock upon RSU release	2,007,423	—	—	—	—	—
Shares withheld for taxes related to net share settlement	(720,199)	—	(32,799)	—	—	(32,799)
Stock-based compensation	—	—	42,538	—	—	42,538
Tax benefit from the exercise of stock options and vesting of RSUs	—	—	5,891	—	—	5,891
Net income	—	—	—	—	14,721	14,721
Foreign currency translation adjustment	—	—	—	288	—	288
Unrealized loss on available-for-sale securities, net of tax	—	—	—	(42)	—	(42)
Reclassification adjustment for realized gain included in net income	—	—	—	(39)	—	(39)
<b>Balance as of July 31, 2014</b>	<b>69,082,261</b>	<b>\$ 7</b>	<b>\$ 629,076</b>	<b>\$ (1,367)</b>	<b>\$ 22,970</b>	<b>\$ 650,686</b>
Issuance of common stock upon exercise of stock options	665,665	—	6,294	—	—	6,294
Issuance of common stock upon RSU release	1,819,825	—	—	—	—	—
Shares withheld for taxes related to net share settlement	(562,013)	—	(27,183)	—	—	(27,183)
Stock-based compensation	—	—	51,375	—	—	51,375
Tax benefit from the exercise of stock options and vesting of RSUs	—	—	3,307	—	—	3,307
Net income	—	—	—	—	9,885	9,885
Foreign currency translation adjustment	—	—	—	(4,937)	—	(4,937)
Unrealized loss on available-for-sale securities, net of tax	—	—	—	(83)	—	(83)
Reclassification adjustment for realized loss included in net income	—	—	—	44	—	44
<b>Balance as of July 31, 2015</b>	<b>71,005,738</b>	<b>\$ 7</b>	<b>\$ 662,869</b>	<b>\$ (6,343)</b>	<b>\$ 32,855</b>	<b>\$ 689,388</b>
Issuance of common stock upon exercise of stock options	652,832	—	7,840	—	—	7,840
Issuance of common stock upon RSU release	1,408,746	—	—	—	—	—
Shares withheld for taxes related to net share settlement	(27,397)	—	(1,488)	—	—	(1,488)
Stock-based compensation	—	—	66,409	—	—	66,409
Tax benefit from the exercise of stock options and vesting of RSUs	—	—	7,060	—	—	7,060
Net income	—	—	—	—	14,976	14,976
Foreign currency translation adjustment	—	—	—	(562)	—	(562)
Unrealized gain on available-for-sale securities, net of tax	—	—	—	288	—	288
Reclassification adjustment for realized loss included in net income	—	—	—	24	—	24
<b>Balance as of July 31, 2016</b>	<b>73,039,919</b>	<b>\$ 7</b>	<b>\$ 742,690</b>	<b>\$ (6,593)</b>	<b>\$ 47,831</b>	<b>\$ 783,935</b>

*See accompanying Notes to Consolidated Financial Statements.*

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

	Fiscal years ended July 31,		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 14,976	\$ 9,885	\$ 14,721
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,842	7,480	6,751
Stock-based compensation	66,131	51,375	42,538
Excess tax benefit from exercise of stock options and vesting of RSUs	(7,102)	(3,538)	(7,067)
Deferred taxes	(4,568)	295	(2,718)
Amortization of premium on available-for-sale securities	3,283	4,839	3,490
Other non-cash items affecting net income	(767)	1	99
Changes in operating assets and liabilities:			
Accounts receivable	(75)	(12,999)	(9,276)
Prepaid expenses and other assets	(7,668)	(3,178)	(1,372)
Accounts payable	603	2,266	393
Accrued employee compensation	4,114	3,261	8,463
Other liabilities	5,993	6,253	5,288
Deferred revenues	16,138	(2,263)	14,181
Net cash provided by operating activities	99,900	63,677	75,491
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of available-for-sale securities	(652,017)	(491,626)	(687,419)
Sales and maturities of available-for-sale securities	597,405	520,997	312,149
Purchase of property and equipment	(7,111)	(6,301)	(4,993)
Acquisition, net of cash acquired	(39,530)	—	(157)
Net cash provided by (used in) investing activities	(101,253)	23,070	(380,420)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock upon exercise of stock options	7,840	6,294	8,755
Taxes remitted on RSU awards vested	(1,488)	(27,183)	(32,799)
Proceeds from issuance of common stock in connection with stock offerings, net of underwriting discounts and commission	—	—	389,949
Costs paid in connection with stock offerings	—	—	(408)
Excess tax benefit from exercise of stock options and vesting of RSUs	7,102	3,538	7,067
Net cash provided by (used in) financing activities	13,454	(17,351)	372,564
Effect of foreign exchange rate changes on cash and cash equivalents	(881)	(5,135)	699
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>11,220</b>	<b>64,261</b>	<b>68,334</b>
<b>CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR</b>	<b>212,362</b>	<b>148,101</b>	<b>79,767</b>
<b>CASH AND CASH EQUIVALENTS—END OF YEAR</b>	<b>\$ 223,582</b>	<b>\$ 212,362</b>	<b>\$ 148,101</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid for interest	\$ —	\$ —	\$ 4
Cash paid for income taxes, net of tax refunds	\$ 3,907	\$ 1,899	\$ 2,141
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES:</b>			
Accruals for purchase of property and equipment	\$ 882	\$ 496	\$ 768

*See accompanying Notes to Consolidated Financial Statements.*

**GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Company**

Guidewire Software, Inc., a Delaware corporation, was incorporated on September 20, 2001. Guidewire Software, Inc. together with its subsidiaries (the “Company”) provides a technology platform which consists of three key elements: core transaction processing, data management and analytics, and digital engagement. It supports core insurance operations, including underwriting and policy administration, claim management and billing, enables new insights into data that can improve business decision making and supports digital sales, service and claims experiences for policyholders, agents, and other key stakeholders. The Company’s customers are primarily insurance carriers for property and casualty insurance.

**Basis of Presentation and Consolidation**

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). The consolidated financial statements include the accounts of Guidewire Software, Inc. and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of the accompanying 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. 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 from these estimates.

**Foreign Currency**

The functional currency of the Company’s foreign subsidiaries is their respective local currency. The Company translates all assets and liabilities of foreign subsidiaries to U.S. dollars at the current exchange rate as of the applicable consolidated balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the period in which the transactions occur. The effects of foreign currency translations are recorded in accumulated other comprehensive income/loss as a separate component of stockholders’ equity in the accompanying consolidated statements of stockholders’ equity. Transaction gains and losses from foreign currency transactions that arise from exchange rate fluctuations on transactions denominated in a currency other than the local functional currency are recorded as other income (expense) in the consolidated statements of income.

**Cash and Cash Equivalents**

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.

**Investments**

Management determines the appropriate classification of investments at the time of purchase based upon management’s intent with regard to such investments. All investments are held as available-for-sale investments.

The Company classifies investments as short-term when they have remaining contractual maturities of one year or less 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. All investments are recorded at fair value with unrealized holding gains and losses included in accumulated other comprehensive (loss) income.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets. Maintenance and repairs that do not extend the life or improve an asset are expensed in the period incurred.

The estimated useful lives of property and equipment are as follows:

## [Table of Contents](#)

Computer hardware	3 years
Software	3 years
Furniture and fixtures	3 years
Leasehold improvements	Shorter of the lease term or estimated useful life

### **Product Development Costs**

Certain software development costs incurred subsequent to the establishment of technological feasibility are subject to capitalization and amortized over the estimated lives of the related products. Technological feasibility is established upon completion of a working model. Through July 31, 2016, costs incurred subsequent to the establishment of technological feasibility have not been material, and therefore, all software development costs have been charged to research and development expense in the accompanying consolidated statements of income as incurred.

### **Business Combinations**

The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. Goodwill is calculated as the difference between the acquisition-date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and subject to refinement and, as a result, actual results may differ from estimates. During the measurement period, which may be up to one year from the acquisition date, if new information is obtained about facts and circumstances that existed as of the acquisition date, the Company may record adjustments to the fair value of these assets and liabilities, with the corresponding offset to goodwill. The Company adopted ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)" ("ASU 2015-16"), which requires the cumulative impact of measurement period adjustments (including the impact on prior periods) to be recognized in the reporting period in which the adjustments are identified. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

### **Impairment of Long-Lived Assets, Intangible Assets and Goodwill**

The Company evaluates its long-lived assets, consisting of property and equipment and intangible assets, for indicators of possible impairment when events or changes in circumstances indicate that the carrying amount of certain assets may not be recoverable. Impairment exists if the carrying amounts of such assets exceed the estimates of future net undiscounted cash flows expected to be generated by such assets. Should impairment exist, the impairment loss would be measured based on the excess carrying value of the assets over the estimated fair value of the assets. The Company has not written down any of its long-lived assets as a result of impairment during any of the periods presented.

The Company tests goodwill for impairment annually during the fourth quarter of each fiscal year and in the interim whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company evaluates qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. In performing the qualitative assessment, the Company considers events and circumstances, including but not limited to, macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy, changes in customers, changes in the composition or carrying amount of a reporting unit's net assets and changes in the price of the Company's common stock. If, after assessing the totality of events or circumstances, the Company determines that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then the two-step goodwill impairment test is not performed. The Company has not recognized any goodwill impairment as a result of its impairment analysis during any of the periods presented.

### **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, cash equivalents and investments 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 individually accounted for 10% or more of the Company's revenues for the years ended July 31, 2016, 2015 and 2014. No customer individually accounted for 10% or more of the Company's total accounts receivable as of July 31, 2016 and 2015.

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at invoiced amounts, net of the Company's estimated allowances for doubtful accounts. The allowance for doubtful accounts is estimated based on an assessment of the Company's ability to collect on customer accounts receivable, and there is judgment involved in such assessment. The Company regularly reviews the allowance by considering certain factors such as historical experience, industry data, credit quality, age of accounts receivable balances, customers' financial condition and current economic conditions that may affect a customer's ability to pay. The Company has had no allowance for doubtful accounts in the periods presented in this Annual Report on Form 10-K. The Company's accounts receivable are not collateralized by any security.

### 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 indirect taxes, such as sales tax and value added tax, 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.* The Company assesses whether a fee is fixed or determinable at the outset of the arrangement, primarily based on the payment terms associated with the transaction. Fees from term licenses are invoiced in annual or quarterly installments over the term of the agreement beginning on the effective date of the license. A significant majority are invoiced annually. Perpetual license fees are generally due between 30 and 60 days from delivery of software. In certain cases extended payment terms may be offered resulting in term and perpetual license fees to not be considered to be fixed or determinable until they become due or payment is received.
- *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. 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.

The Company sells some of its software licenses on a subscription basis and the related revenues are recognized ratably over the contract term.

## [Table of Contents](#)

In certain professional service 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, the zero gross margin or the completed contract method is applied to revenues and direct costs. Under the zero gross margin method, revenues recognized are limited to the direct costs incurred for the implementation services. Under the completed contract method, revenues and costs are deferred until the project is complete.

As noted above, the Company generally invoices fees for licenses and maintenance to its customers in annual or quarterly installments payable in advance. Deferred revenues represent amounts, which are billed to or collected from customers for which one or more of the revenue recognition criteria have not been met. The deferred revenues balance does not represent the total contract value of annual or multi-year, non-cancellable arrangements.

### **Sales Commissions**

Sales commissions are recognized as an expense when earned by the sales representative, generally occurring at the time the customer order is signed. Substantially all of the effort by the sales force is expended through the time of closing the sale, with limited to no involvement thereafter.

### **Warranties**

The Company generally provides a warranty for its software products and services to its customers for periods ranging from 3 to 12 months. The Company's software products are generally warranted to be free of defects in materials and workmanship under normal use and the products are also generally warranted to substantially perform as described in published documentation. The Company's services are generally warranted to be performed in a professional manner and to materially conform to the specifications set forth in the related customer contract. In the event there is a failure of such warranties, the Company generally will correct the problem or provide a reasonable workaround or replacement product. If the Company cannot correct the problem or provide a workaround or replacement product, then the customer's remedy is generally limited to refund of the fees paid for the nonconforming product or services. Warranty expense has been insignificant.

### **Advertising Costs**

Advertising costs are expensed as incurred and amounts incurred were not material during the years ended July 31, 2016, 2015 and 2014.

### **Stock-Based Compensation**

The Company recognizes compensation expense related to 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 awards are subject to time-based vesting, which generally occurs over a period of four years. Option 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 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.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement carrying amounts of existing assets and liabilities by using enacted tax rates in effect for the year in which the difference is expected to reverse. 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. A valuation allowance against deferred tax assets is recorded when it is more likely than not that some portion or all of such deferred tax assets will not be realized and is

## [Table of Contents](#)

based on the positive and negative evidence about the future including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

The Company adopted ASU 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes, effective January 31, 2016 on a prospective basis. As a result, all deferred tax assets and liabilities are classified as non-current. Prior to the adoption, deferred tax assets and liabilities were classified as either current or non-current based on the related asset or liability.

The effective tax rate in any given financial statement period may differ materially from the statutory rate. These differences may be caused by changes in the mix and level of income or losses, changes in the expected outcome of audits, change in tax regulations, or changes in the deferred tax valuation allowance.

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

### **Recent Accounting Pronouncement**

#### ***Improvements on Employee Share-Based Payment Accounting***

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Improvements on Employee Share-Based Payment Accounting (Topic 718)” (“ASU 2016-09”), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new standard is effective for annual periods beginning after December 15, 2016 and interim periods within those years. Early adoption is permitted. The standard will be effective for the Company beginning August 1, 2017. The Company is currently evaluating the impact to its consolidated financial statements.

#### ***Accounting for Leases***

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard is effective for annual periods beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. The standard will be effective for the Company beginning August 1, 2019. The Company is currently evaluating the impact to its 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. In August 2015, the FASB issued ASU No. 2015-14 which deferred the effective date to annual reporting periods and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

Subsequently, the FASB issued ASU No. 2016-08, Principal Versus Agent Consideration (or Reporting Revenue Gross versus Net) in March 2016, ASU No. 2016-10, Identifying Performance Obligations and Licensing in April 2016, and ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients in May 2016. These amendments do not change the core principle of revenue recognition but clarified certain aspects of Topic 606.

The Company will adopt the guidance on August 1, 2018 and currently intends to select the cumulative effect transition method. In evaluating the potential impacts that this guidance will have on its consolidated financial statements, the Company has begun to revise its contracting practices primarily by shortening the initial non-refundable term of its licenses.

**2. Fair Value of Financial Instruments**

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

	<b>July 31, 2016</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
	<b>(in thousands)</b>			
U.S. agency securities	\$ 58,070	\$ 30	\$ (12)	\$ 58,088
Commercial paper	152,317	12	(6)	152,323
Corporate bonds	274,656	321	(38)	274,939
U.S. government bonds	90,593	58	(2)	90,649
Foreign government bonds	2,418	9	—	2,427
Money market funds	114,833	—	—	114,833
<b>Total</b>	<b>\$ 692,887</b>	<b>\$ 430</b>	<b>\$ (58)</b>	<b>\$ 693,259</b>

	<b>July 31, 2015</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
	<b>(in thousands)</b>			
U.S. agency securities	\$ 82,946	\$ 21	\$ (4)	\$ 82,963
Commercial paper	142,822	13	(4)	142,831
Corporate bonds	281,942	47	(216)	281,773
U.S. government bonds	32,529	13	(2)	32,540
Foreign government bonds	8,663	7	(2)	8,668
Certificate of deposit	2,700	—	—	2,700
Money market funds	88,319	—	—	88,319
<b>Total</b>	<b>\$ 639,921</b>	<b>\$ 101</b>	<b>\$ (228)</b>	<b>\$ 639,794</b>

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:

	<b>July 31, 2016</b>					
	<b>Less Than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>
	<b>(in thousands)</b>					
U.S. agency securities	\$ 7,961	\$ (12)	\$ —	\$ —	\$ 7,961	\$ (12)
Commercial paper	47,484	(6)	—	—	47,484	(6)
Corporate bonds	56,197	(28)	7,755	(10)	63,952	(38)
U. S. government bonds	10,029	(2)	—	—	10,029	(2)
<b>Total</b>	<b>\$ 121,671</b>	<b>\$ (48)</b>	<b>\$ 7,755</b>	<b>\$ (10)</b>	<b>\$ 129,426</b>	<b>\$ (58)</b>

As of July 31, 2016, the Company had 44 investments resulting in the insignificant gross unrealized loss position noted above. The unrealized losses on its available-for-sale securities were primarily a result of unfavorable 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 July 31, 2016 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 consolidated balance sheets, with unrealized gains and losses



[Table of Contents](#)

reported as a component of accumulated other comprehensive loss. The amount 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 July 31, 2016:

	<b>Less Than 12 Months</b>	<b>12 to 24 Months</b>	<b>Total</b>
	<b>(in thousands)</b>		
U.S. agency securities	\$ 51,539	\$ 6,549	\$ 58,088
Commercial paper	152,323	—	152,323
Corporate bonds	205,434	69,505	274,939
U.S. government bonds	61,565	29,084	90,649
Foreign government bonds	—	2,427	2,427
Money market funds	114,833	—	114,833
Total	<u>\$ 585,694</u>	<u>\$ 107,565</u>	<u>\$ 693,259</u>

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 our Level 2 investment portfolio balance against the fair values of its Level 2 investment portfolio balance provided by its investment managers. The Company's 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 July 31, 2016, or 2015.

[Table of Contents](#)

The following tables summarize the Company's financial assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy:

	<b>July 31, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>(in thousands)</b>				
<b>Assets</b>				
<b>Cash and cash equivalents:</b>				
Commercial paper	\$ —	\$ 66,206	\$ —	\$ 66,206
Money market funds	114,833	—	—	114,833
<b>Short-term investments:</b>				
U.S. agency securities	—	51,539	—	51,539
Commercial paper	—	86,117	—	86,117
U. S. government bonds	—	61,565	—	61,565
Corporate bonds	—	205,434	—	205,434
<b>Long-term investments:</b>				
U.S. agency securities	—	6,549	—	6,549
Corporate bonds	—	69,505	—	69,505
U.S. government bonds	—	29,084	—	29,084
Foreign government bonds	—	2,427	—	2,427
<b>Total assets</b>	<b>\$ 114,833</b>	<b>\$ 578,426</b>	<b>\$ —</b>	<b>\$ 693,259</b>

	<b>July 31, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>(in thousands)</b>				
<b>Assets</b>				
<b>Cash and cash equivalents:</b>				
Commercial paper	\$ —	\$ 86,085	\$ —	\$ 86,085
Money market funds	88,319	—	—	88,319
<b>Short-term investments:</b>				
U.S. agency securities	—	68,212	—	68,212
Commercial paper	—	56,746	—	56,746
U. S. government bonds	—	19,983	—	19,983
Foreign government bonds	—	8,668	—	8,668
Corporate bonds	—	202,964	—	202,964
Certificate of deposit	—	2,700	—	2,700
<b>Long-term investments:</b>				
U.S. agency securities	—	14,751	—	14,751
Corporate bonds	—	78,809	—	78,809
U.S. government bonds	—	12,557	—	12,557
<b>Total assets</b>	<b>\$ 88,319</b>	<b>\$ 551,475</b>	<b>\$ —</b>	<b>\$ 639,794</b>

In December 2015, the Company invested \$5.0 million in a convertible note issued by a privately-held company. The note did not have a readily determinable market value. In April 2016, the convertible note with accrued interest of \$0.1 million converted to preferred stock. The investment was re-measured at \$6.0 million based on the estimated fair value of the preferred stock at the date of conversion. The resulting gain of \$0.9 million was recorded as interest income. The equity investment is accounted for under the cost method of accounting, and reported in long-term other assets on the Company's consolidated balance sheet.

[Table of Contents](#)

The fair value of the investment is not readily available as there is no quoted market prices for the investment. The Company assesses the investment for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. As of July 31, 2016, the investment with a carrying value of \$6.0 million was not impaired.

### 3. Acquisition

On March 31, 2016, the Company purchased all of the outstanding equity interests of EagleEye Analytics, Inc. (“EagleEye”), a privately held provider of cloud-based predictive analytics products specifically designed for property and casualty insurers, for total purchase consideration of \$40.2 million, including an amount placed into escrow to cover future potential claims. At the time of the purchase, EagleEye maintained a management incentive program that required certain payments to management upon the completion of a change in control. Pursuant to this program, an additional \$1.6 million was placed into a separate escrow account to be paid out 18 months after closing to former EagleEye employees. This additional payment is subject to continued employment with the Company and therefore is excluded from the purchase consideration. The payment will be recognized as compensation expense over the requisite service period of 18 months. The Company believes that the acquisition will enable its customers to apply predictive analytics to make better decisions across the insurance lifecycle. Acquisition-related costs of \$1.4 million were recorded in general and administrative expenses in the Company’s consolidated statements of operations for the fiscal year ended July 31, 2016.

As part of the purchase price allocation, the Company determined that EagleEye’s separately identifiable intangible assets were developed technology, customer contracts and related relationships, partner relationships and order backlog. The Company measured fair values of the intangible assets by applying the income and relief from royalty approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement. The valuation models were based on estimates of future operating projections of the acquired business and rights to sell new products containing the acquired technology as well as judgments on the discount rates used and other variables. The Company developed forecasts based on a number of factors including future revenue projections, a discount rate that is representative of the weighted average cost of capital, and royalty and long-term sustainable growth rates based on market analysis. The Company is amortizing the acquired intangible assets over their estimated useful lives.

The allocation of the purchase price is preliminary pending final valuation of acquired deferred tax assets and is therefore subject to potential future measurement period adjustments. Preliminary allocation of the purchase consideration was as follows:

	<b>Total Purchase Price Allocation</b>	<b>Estimated Useful Lives</b>
	<i>(in thousands)</i>	<i>(in years)</i>
Assumed Liabilities, net of acquired assets	\$ (550)	
Developed technology	6,700	4
Customer contracts and related relationships	4,500	9
Partner relationships	200	9
Order backlog	1,100	3
Deferred tax assets, net	7,325	
Goodwill	20,875	
<b>Total purchase price</b>	<b>\$ 40,150</b>	

The goodwill of \$20.9 million arising from the acquisition consists largely of the acquired workforce, the expected company-specific synergies and the opportunity to expand the Company’s customer base. None of the goodwill recognized is expected to be deductible for income tax purposes.

The results of EagleEye’s operations since the date of acquisition have been included in the Company’s results for the fiscal year ended July 31, 2016 and were not material. Pro forma results of operations have not been presented because the effects of the business combination were not material to the Company’s consolidated results of operations.

#### 4. Balance Sheet Components

##### *Property and Equipment, net*

Property and equipment, net consists of the following:

	July 31, 2016	July 31, 2015
	(in thousands)	
Computer hardware	\$ 19,257	\$ 15,099
Software	5,066	4,867
Furniture and fixtures	3,492	3,065
Leasehold improvements	8,434	8,040
Total property and equipment	36,249	31,071
Less accumulated depreciation	(23,294)	(18,911)
Property and equipment, net	\$ 12,955	\$ 12,160

As of July 31, 2016, and 2015, no property and equipment was pledged as collateral against borrowings. Amortization of leasehold improvements is included in depreciation expense. Depreciation expense was \$6.5 million, \$6.0 million and \$5.3 million during the years ended July 31, 2016, 2015 and 2014, respectively.

##### *Goodwill and Intangible Assets*

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

	(in thousands)	
Goodwill, July 31, 2014	\$	9,205
Changes in carrying value		—
Goodwill, July 31, 2015	\$	9,205
Addition - EagleEye acquisition		20,875
Goodwill, July 31, 2016	\$	30,080

Intangible assets consist of the following:

	July 31, 2016			July 31, 2015		
	(in thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Amortized intangible assets:						
Acquired technology	\$ 13,900	\$ 5,199	8,701	\$ 7,200	3,201	\$ 3,999
Customer contracts and related relationships	\$ 4,500	\$ 167	4,333	—	—	—
Partner relationships	\$ 200	\$ 8	192	—	—	—
Order backlog	\$ 1,100	\$ 122	978	—	—	—
Total	\$ 19,700	\$ 5,496	\$ 14,204	\$ 7,200	\$ 3,201	\$ 3,999

[Table of Contents](#)

Amortization expense was \$2.3 million, \$1.4 million and \$1.4 million during the years ended July 31, 2016, 2015 and 2014, respectively. Estimated aggregate amortization expense for each of the next five fiscal years is as follows:

	<b>Future Amortization</b>	
	<b>(in thousands)</b>	
2017	\$	4,004
2018		3,682
2019		2,442
2020		1,639
2021		522
Thereafter		1,915
<b>Total</b>	<b>\$</b>	<b>14,204</b>

***Accrued Employee Compensation***

Accrued employee compensation consists of the following:

	<b>July 31, 2016</b>		<b>July 31, 2015</b>	
	<b>(in thousands)</b>			
Accrued bonuses	\$	24,872	\$	19,819
Accrued commission		2,571		5,008
Accrued vacation		9,067		7,980
Accrued salaries, payroll taxes and benefits		4,757		4,428
<b>Total</b>	<b>\$</b>	<b>41,267</b>	<b>\$</b>	<b>37,235</b>

***Accumulated Other Comprehensive Loss***

Changes in accumulated other comprehensive loss by component were as follows:

	<b>Foreign Currency Items</b>		<b>Unrealized gain (loss) on available-for-sale securities</b>		<b>Total</b>	
	<b>(In thousands)</b>					
<b>Balance as of July 31, 2014</b>	\$	(1,310)	\$	(57)	\$	(1,367)
Other comprehensive income (loss) before reclassification adjustments:		(4,937)		(121)		(5,058)
Amounts reclassified from accumulated other comprehensive income (loss) to earnings		—		44		44
Tax effect		—		38		38
<b>Balance as of July 31, 2015</b>		<b>(6,247)</b>		<b>(96)</b>		<b>(6,343)</b>
Other comprehensive income (loss) before reclassification adjustments:		(562)		475		(87)
Amounts reclassified from accumulated other comprehensive income (loss) to earnings		—		24		24
Tax effect		—		(187)		(187)
<b>Balance as of July 31, 2016</b>	<b>\$</b>	<b>(6,809)</b>	<b>\$</b>	<b>216</b>	<b>\$</b>	<b>(6,593)</b>

**5. Net Income per Share**

The Company calculates basic earnings per share by dividing the net income by the weighted average number of shares of common stock outstanding for the period. The diluted earnings per share is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock and restricted stock units are considered to be common stock equivalents.

[Table of Contents](#)

The following table sets forth the computation of the Company's basic and diluted net income per share for the years ended July 31, 2016, 2015 and 2014:

	Fiscal years ended July 31,		
	2016	2015	2014
(in thousands, except share and per share amounts)			
<b>Numerator:</b>			
Net income	\$ 14,976	\$ 9,885	\$ 14,721
<b>Net income per share:</b>			
Basic	\$ 0.21	\$ 0.14	\$ 0.22
Diluted	\$ 0.20	\$ 0.14	\$ 0.21

	Fiscal years ended July 31,		
	2016	2015	2014
<b>Denominator:</b>			
Weighted average shares used in computing net income per share:			
Basic	72,026,694	70,075,908	65,748,896
Weighted average effect of diluted stock options	859,855	1,223,106	1,896,766
Weighted average effect of dilutive restricted stock units	879,411	1,015,419	1,467,071
Diluted	73,765,960	72,314,433	69,112,733

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

	Fiscal years ended July 31,		
	2016	2015	2014
Stock options to purchase common stock	77,737	290,670	206,136
Restricted stock units	22,994	678	76,840

**6. Commitments and Contingencies**

The following table presents a summary of the Company's contractual obligations and commitments as of July 31, 2016:

Fiscal Year Ending July 31,	Lease Obligations	Royalty Obligations <sup>(1)</sup>	Purchase Commitments <sup>(2)</sup>	Total
	(in thousands)			
2017	\$ 7,273	\$ 997	\$ 1,743	\$ 10,013
2018	6,638	666	1,429	8,733
2019	6,198	517	76	6,791
2020	1,324	250	—	1,574
2021	1,146	—	—	1,146
2022 and thereafter	\$ 1,260	\$ —	\$ —	\$ 1,260
Total	\$ 23,839	\$ 2,430	\$ 3,248	\$ 29,517

(1) Royalty obligations primarily represent our obligations under our non-cancellable agreements related to software used in certain revenue-generating agreements.

(2) Purchase commitments consist of agreements to purchase services, entered into in the ordinary course of business. These represent non-cancellable long term commitments for which a penalty would be imposed if the agreement was canceled for any reason other than an event of default as described by the agreement.

**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 new corporate headquarters, located in Foster City, California, for approximately 97,674 square feet of space commencing August 1, 2012. In connection with the lease, the Company opened an

## [Table of Contents](#)

unsecured letter of credit with Silicon Valley Bank for \$1.2 million. On July 1, 2015, the unsecured letter of credit was reduced from \$0.8 million to \$0.4 million in accordance with the lease agreement.

Lease expense for all worldwide facilities and equipment, which is being recognized on a straight-line basis over terms of the various leases, was \$5.7 million, \$5.5 million and \$5.8 million during the years ended July 31, 2016, 2015 and 2014, respectively.

### ***Letters of Credit***

The Company had two outstanding letters of credit required to secure contractual commitments as of July 31, 2016 and 2015, 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 \$2.6 million as of July 31, 2016) to secure contractual commitments and prepayments. No amounts were outstanding under the Company's unsecured letters of credit as of July 31, 2016 or July 31, 2015.

### ***Legal Proceedings***

From time to time, the Company is involved in various other legal proceedings and receives claims, arising from the normal course of business activities. The Company accrues for estimated losses in the accompanying 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 July 31, 2016 and 2015. 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.

## **7. Stockholders' Equity and Stock-Based Compensation**

### ***Equity Incentive Plans***

On September 14, 2011, the Company's Board of Directors adopted the 2011 Stock Plan ("2011 Plan") for the purpose of granting equity-based incentive awards as compensation tools to motivate the Company's workforce. The Company had initially reserved 7,500,000 shares of its common stock for the issuance of awards under the 2011 Plan. The 2011 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2013, by up to 5% of the outstanding number of shares of the Company's common stock on the immediately preceding December 31. This number is subject to adjustment in the event of a stock split, stock dividend or other defined changes in the Company's capitalization.

In addition, the Company has equity awards outstanding from its other equity incentive plans, the 2006 Stock Plan, the 2009 Stock Plan and the 2010 Restricted Stock Unit Plan, which were discontinued for the purposes of making new grants upon the adoption of the 2011 Plan.



**Stock-Based Compensation Expense**

Stock-based compensation cost related to options and restricted stock units (“RSUs”) granted to employee and non-employee is as follows:

	Fiscal years ended July 31,		
	2016	2015	2014
	(in thousands)		
Total cost of stock-based compensation	\$ 66,409	\$ 51,375	\$ 42,538
Amount capitalized in deferred cost of services revenues during the year	\$ (278)	\$ —	\$ —
Amount charged to income	<u>\$ 66,131</u>	<u>\$ 51,375</u>	<u>\$ 42,538</u>
Stock-based compensation cost charged to the following expense categories:			
Cost of license revenues	\$ 433	\$ 222	\$ 184
Cost of maintenance revenues	1,491	1,158	797
Cost of services revenues	17,878	15,022	11,929
Research and development	15,555	10,683	9,008
Sales and marketing	15,090	12,090	10,744
General and administrative	15,684	12,200	9,876
Total stock-based compensation expense	66,131	51,375	42,538
Tax benefit from stock-based compensation	20,092	19,087	15,905
Total stock-based compensation expense, net of tax effect	<u>\$ 46,039</u>	<u>\$ 32,288</u>	<u>\$ 26,633</u>

As of July 31, 2016, total unrecognized compensation cost, adjusted for estimated forfeitures and before tax benefit, was as follows:

	As of July 31, 2016	
	Unrecognized Expense (in thousands)	Weighted Average Expected Recognition Period (in years)
Restricted stock units	\$ 109,968	2.4
Stock options	2,621	1.7
	<u>\$ 112,589</u>	

**RSUs**

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

[Table of Contents](#)

	Number of RSUs	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value <sup>(1)</sup>
			(in thousands)
Balance as of July 31, 2013	4,027,601	\$ 19.27	\$ 176,248
Granted	1,667,433	43.87	
Released	(2,007,423)	18.59	\$ 91,300
Canceled	(303,390)	31.48	
Balance as of July 31, 2014	3,384,221	30.70	\$ 137,061
Granted	1,664,413	47.50	
Released	(1,819,825)	25.99	\$ 88,648
Canceled	(346,135)	36.72	
Balance as of July 31, 2015	2,882,674	42.65	\$ 170,222
Granted	1,586,192	54.99	
Released	(1,408,746)	41.21	\$ 78,763
Canceled	(332,396)	46.71	
Balance as of July 31, 2016	2,727,724	\$ 50.08	\$ 167,673
Expected to vest as of July 31, 2016	2,553,456	\$ 49.87	\$ 156,961

(1) Aggregate intrinsic value at each fiscal year end represents the total market value of RSUs at the Company's closing stock price of \$61.47, \$59.05 and \$40.50 on July 31, 2016, 2015 and 2014, respectively. Aggregate intrinsic value for released RSUs represents the total market value of released RSUs at date of release.

The Company's restricted stock units also included performance stock unit ("PSU") awards, which have been granted to certain executives and employees of the Company. The PSU awards included performance conditions as well as time-based vesting which generally vest over four years. Included in fiscal year 2016, 2015 and 2014 stock-based compensation were \$6.9 million, \$2.4 million and \$2.4 million of expense for performance-based awards, which were tied to the Company's financial results.

In fiscal year 2015, the Company began requiring that the general employee population sell a portion of the shares that they receive upon the vesting of RSUs in order to cover any required withholding taxes ("sell-to-cover"), rather than its previous approach of net share settlement.

**Stock Options**

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

	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value <sup>(1)</sup> (in thousands)
Balance as of July 31, 2013	3,763,228	\$ 6.74	5.7	\$ 139,315
Granted	225,930	46.63		
Exercised	(1,580,344)	5.53		65,300
Canceled	(8,561)	21.75		
Balance as of July 31, 2014	2,400,253	11.24	5.5	71,640
Granted	138,643	47.23		
Exercised	(665,665)	9.46		27,263
Canceled	(51,169)	23.04		
Balance as of July 31, 2015	1,822,062	14.29	4.9	81,548
Granted	10,000	54.00		
Exercised	(652,832)	12.01		29,186
Canceled	(20,658)	40.86		
Balance as of July 31, 2016	1,158,572	\$ 15.45	4.0	\$ 53,316
Vested and expected to vest as of July 31, 2016	1,153,815	\$ 15.32	4.0	\$ 53,252
Exercisable as of July 31, 2016	1,010,609	\$ 10.95	3.5	\$ 51,060

<sup>(1)</sup> Aggregate intrinsic value at each fiscal year end represents the difference between the Company's closing stock price of \$61.47, \$59.05 and \$40.50 on July 31, 2016, 2015 and 2014 and the exercise price of the option, respectively. Aggregate intrinsic value for exercised options represents the difference between the Company's stock price at date of exercise and the exercise price.

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

	Fiscal years ended July 31,		
	2016	2015	2014
Expected life (in years)	4.9	6.0 - 6.1	5.0 - 6.1
Risk-free interest rate	1.5%	1.7% - 1.9%	1.5% - 2.0%
Expected volatility	38.8%	39.4% - 45.1%	41.3% - 46.2%
Expected dividend yield	—%	—%	—%
Weighted average fair value of options granted	\$19.18	\$20.78	\$21.06

**Common Stock Reserved for Future Issuance**

As of July 31, 2016 and 2015, the Company had reserved shares of common stock for future issuance as follows:

	July 31, 2016	July 31, 2015
Exercise of stock options to purchase common stock	1,158,572	1,822,062
Vesting of restricted stock units	2,727,724	2,882,674
Shares available for grant under stock plans	16,746,754	14,363,906
Total common stock reserved for issuance	20,633,050	19,068,642

**8. Income Taxes**

The Company's income before provision for income taxes for the years ended July 31, 2016, 2015 and 2014 is as follows:

	Fiscal years ended July 31,		
	2016	2015	2014
	(in thousands)		
Domestic	\$ 11,209	\$ 11,348	\$ 11,956
International	9,573	5,392	7,990
Income before provision for income taxes	\$ 20,782	\$ 16,740	\$ 19,946

The provision for income taxes consists of the following:

	Fiscal years ended July 31,		
	2016	2015	2014
	(in thousands)		
Current:			
U.S. federal	\$ 4,936	\$ 2,509	\$ 5,235
State	1,006	300	1,326
Foreign	4,350	3,910	2,509
Total current	10,292	6,719	9,070
Deferred:			
U.S. federal	(4,867)	983	(4,277)
State	631	169	78
Foreign	(250)	(1,016)	354
Total deferred	(4,486)	136	(3,845)
Total provision for income taxes	\$ 5,806	\$ 6,855	\$ 5,225

Differences between income taxes calculated using the statutory federal income tax rate of 35% and the provision for income taxes are as follows:

	Fiscal years ended July 31,		
	2016	2015	2014
	(in thousands)		
Statutory federal income tax	\$ 7,274	\$ 5,858	\$ 6,977
Nondeductible items and other	2,289	1,575	1,164
State income taxes, net of federal benefit	191	388	840
Impact of state rate changes	1,132	—	—
Foreign income taxed at different rates	945	816	(207)
Tax credits	(5,963)	(1,697)	(3,612)
Change in valuation allowance	(62)	(85)	63
Total provision for income taxes	\$ 5,806	\$ 6,855	\$ 5,225

[Table of Contents](#)

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities are as follows:

	As of July 31,	
	2016	2015
	(in thousands)	
Accruals and reserves	\$ 11,618	\$ 9,974
Stock-based compensation	6,874	5,534
Deferred revenues	1,513	410
Property and equipment	1,815	914
Net operating loss carryforwards	10,333	436
Tax credits	12,145	10,435
Total deferred tax assets	44,298	27,703
Less valuation allowance	10,505	6,783
Net deferred tax assets	33,793	20,920
Less deferred tax liabilities:		
Intangible assets	2,429	1,179
Total net deferred tax assets	\$ 31,364	\$ 19,741

During the years ended July 31, 2016, 2015 and 2014, the Company was able to consider positive evidence in determining the realizability of its deferred tax assets, including projections for future growth, and determined a valuation allowance was not required for a significant portion of its deferred tax assets. A valuation allowance of \$10.5 million and \$6.8 million remained as of July 31, 2016 and 2015, respectively, primarily for California research and development credits and net operating loss carryforwards that were not more likely than not realizable.

As of July 31, 2016, the Company had U. S. federal, California and other states net operating loss (“NOL”) carryforwards of \$221.7 million, \$68.5 million, and \$114.3 million, respectively. The U. S. federal and California NOL carryforwards will start to expire in 2022 and 2017, respectively.

The Company had research and development tax credit (“R&D credit”) carryforwards of the following:

	As of July 31, 2016	
	(in thousands)	
U.S. federal	\$	18,820
California		18,529
Total R&D credit carryforwards	\$	37,349

The U.S. federal R&D credit will start to expire in 2023. California R&D tax credits have no expiration.

The excess tax benefits associated with stock option exercises are recorded directly to stockholders’ equity only when realized through reduction to income tax payable on the tax returns. As a result, the pre-tax excess tax benefits included in federal and California net operating loss carryforwards on the tax returns but not reflected in deferred tax assets for fiscal year 2016 are \$195.5 million and \$49.8 million, respectively.

Federal and California laws impose restrictions on the utilization of net operating loss carryforwards and R&D credit carryforwards in the event of a change in ownership of the Company, which constitutes an “ownership change” as defined by Internal Revenue Code Sections 382 and 383. The Company experienced an ownership change in the past that does not materially impact the availability of its net operating losses and tax credits. Nevertheless, should there be an ownership change in the future, the Company’s ability to utilize existing carryforwards could be substantially restricted.

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 July 31, 2016, U.S. income taxes were not provided for on the cumulative total of \$29.7 million in undistributed earnings from profitable foreign subsidiaries. As of July 31, 2016, the unrecognized deferred tax liability for these earnings was approximately \$9.7 million.

**Unrecognized Tax Benefits**

The following table summarizes the activity related to unrecognized tax benefits:

	Fiscal years ended July 31,		
	2016	2015	2014
	(in thousands)		
Unrecognized tax benefit - beginning of period	\$ 6,109	\$ 7,976	\$ 6,727
Gross increases - prior period tax positions	177	1	140
Gross decreases - prior period tax positions	(216)	(2,896)	(508)
Gross increases - current period tax positions	1,617	1,028	1,617
Unrecognized tax benefit - end of period	<u>\$ 7,687</u>	<u>\$ 6,109</u>	<u>\$ 7,976</u>

During the year ended July 31, 2016, the Company's unrecognized tax benefits increased by \$1.6 million, primarily associated with the Company's U.S. federal and California R&D tax credits. As of July 31, 2016, the Company had unrecognized tax benefits of \$3.7 million that, if recognized, would affect the Company's effective tax rate.

The Company or one of its subsidiaries files income taxes in the U.S. federal jurisdiction and various states and foreign jurisdictions. If the Company utilizes net operating losses or tax credits in future years, the U.S. federal, state and local, and non-U.S. tax authorities may examine the tax returns covering the period in which the net operating losses and tax credits arose. As a result, the Company's tax returns in the U.S. and California remain open to examination from fiscal years 2002 through 2016. As of July 31, 2016, the Company has no tax audits in progress in the U.S. and in our foreign jurisdictions.

#### 9. Defined Contribution and Other Post-retirement Plans

The Company's employee savings and retirement plan in the United States is qualified under Section 401(k) of the Internal Revenue Code. Employees on the Company's U.S. payroll are automatically enrolled when they meet eligibility requirements, unless they decline participation. Upon enrollment employees are provided with tax-deferred salary deductions and alternative investment options. Employees may contribute up to 60% of their eligible salary up to the statutory prescribed annual limit. The Company matches employees' contributions up to \$5,000 per participant per calendar year. Certain of the Company's foreign subsidiaries also have defined contribution plans in which a majority of its employees participate and the Company makes matching contributions. The Company's contributions to its 401(k) and foreign subsidiaries' plans were \$5.5 million, \$4.3 million and \$3.2 million for the fiscal years ended July 31, 2016, 2015 and 2014, respectively.

#### 10. 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 revenue 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:

	Fiscal years ended July 31,		
	2016	2015	2014
	(in thousands)		
United States	\$ 230,935	\$ 208,104	\$ 203,791
Canada	44,717	37,833	39,100
Other Americas	18,114	7,162	8,106
Total Americas	<u>293,766</u>	<u>253,099</u>	<u>250,997</u>
United Kingdom	34,031	44,393	37,890
Other EMEA	41,914	47,449	35,149
Total EMEA	<u>75,945</u>	<u>91,842</u>	<u>73,039</u>
APAC	54,735	35,596	26,210
Total revenues	<u>\$ 424,446</u>	<u>\$ 380,537</u>	<u>\$ 350,246</u>

No country other than those listed above accounted for more than 10% of revenues during the years ended July 31, 2016, 2015 and 2014.

[Table of Contents](#)

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

	July 31, 2016	July 31, 2015
	(in thousands)	
Americas	\$ 53,826	\$ 22,746
EMEA	3,085	2,183
APAC	328	435
Total	\$ 57,239	\$ 25,364

## 11. Subsequent Event

On August 4, 2016, the Company entered into an agreement to purchase all of the outstanding equity interests of FirstBest Systems, Inc., a provider of an underwriting management system to P&C insurers. On August 31, 2016, the Company completed its acquisition of FirstBest Systems, Inc. Total consideration for the transaction was approximately \$34 million in cash payable at closing, subject to standard purchase price adjustments and escrows. The transaction will be accounted for as a business combination and the preliminary purchase price allocation will be included in the Company's first quarter of fiscal year 2017 results.

### Item 9. Changes in and Disagreements with Accountant on Accounting and Financial Disclosure

None.

### Item 9A. 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 Annual Report on Form 10-K. 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.

#### *Management's Annual Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of July 31, 2016, using the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission's 2013 framework. Based on this assessment and those criteria, management concluded that our internal control over financial reporting was effective as of July 31, 2016.

Our internal control over financial reporting has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which appears in Part II, Item 8 of this Form 10-K.

***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, 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.

***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.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer and principal financial officer. The Code of Business Conduct and Ethics is posted on our investor relations website.

We will post any amendments to, or waivers from, a provision of this Code of Business Conduct and Ethics by posting such information on our website, at the address and location specified above.

The other information required by this item will be contained in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2016 annual meeting of stockholders (the "Proxy Statement"), which is expected to be filed not later than 120 days after the end of our fiscal year ended July 31, 2016, and is incorporated in this report by reference.

**Item 11. Executive Compensation**

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information, if any, required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.



**PART IV**

**Item 15.        *Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements

See Index to Consolidated Financial Statements at Item 8 herein.

2. Financial Statement Schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes herein.

3. Exhibits

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

The exhibits listed below are filed or incorporated by reference as part of this Annual Report on Form 10-K.

**Signatures**

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

**GUIDEWIRE SOFTWARE, INC.**

By: /s/ Richard Hart

Richard Hart  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**POWER OF ATTORNEY**

Each person whose individual signature appears below hereby authorizes and appoints Marcus S. Ryu, Richard Hart, and Winston King, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Marcus S. Ryu</u> Marcus S. Ryu	President, Chief Executive Officer and Director (Principal Executive Officer)	September 15, 2016
<u>/s/ Richard Hart</u> Richard Hart	Chief Financial Officer (Principal Financial and Accounting Officer)	September 15, 2016
<u>/s/ John Cavoores</u> John Cavoores	Director (Chairman of the Board)	September 15, 2016
<u>/s/ Andrew Brown</u> Andrew Brown	Director	September 15, 2016
<u>/s/ Craig Conway</u> Craig Conway	Director	September 15, 2016
<u>/s/ Guy Dubois</u> Guy Dubois	Director	September 15, 2016
<u>/s/ Peter Gassner</u> Peter Gassner	Director	September 15, 2016
<u>/s/ Paul Lavin</u> Paul Lavin	Director	September 15, 2016
<u>/s/ Clifton Thomas Weatherford</u> Clifton Thomas Weatherford	Director	September 15, 2016

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference From Form</b>	<b>Incorporated by Reference From Exhibit Number</b>	<b>Date Filed</b>
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
10.1	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1/A	10.1	October 28, 2011
10.2	2006 Stock Plan and forms of agreements thereunder.	S-1	10.2	September 2, 2011
10.3	2009 Stock Plan and forms of agreements thereunder.	S-1	10.3	September 2, 2011
10.4	2010 Restricted Stock Unit Plan and forms of agreements thereunder.	S-1	10.4	September 2, 2011
10.5	2011 Stock Plan and forms of agreements thereunder.	S-1/A	10.5	December 13, 2011
10.6	Form of Executive Agreement.	10-K	10.6	September 17, 2014
10.7	Senior Executive Incentive Bonus Plan.	S-1/A	10.12	December 13, 2011
10.8	Lease Agreement between Parkside Towers, L.P. and the Registrant dated as of December 5, 2011.	S-1/A	10.13	December 13, 2011
10.9	Form of Performance-Based Restricted Stock Unit Award Agreement under the 2011 Stock Plan.	10-Q	10.9	December 2, 2015
21.1	Subsidiaries of the Registrant.	Filed herewith	—	—
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.	Filed herewith	—	—
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 Annual Report on Form 10-K 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.



**Subsidiaries of the Registrant**

<b>Subsidiary</b>	<b>Country or Jurisdiction</b>
Guidewire Software Pty Ltd. (Aus)	Australia
Guidewire Software Services Ltda	Brazil
Guidewire Canada Ltd.	Canada
Guidewire Software (Beijing) Co. Ltd.	China
Guidewire Software France SAS	France
Guidewire Software GmbH	Germany
Guidewire Software Asia Ltd. (HK)	Hong Kong
Guidewire Software (Ireland) Ltd.	Ireland
Guidewire Software Technology Ltd.	Ireland
Guidewire Software Italy SRL.	Italy
Guidewire Software Japan KK	Japan
Guidewire Software Poland Sp. Z o.o.	Poland
Guidewire Software (Spain) SL	Spain
Guidewire Software (Switzerland) GmbH	Switzerland
Guidewire Software Ltd. (UK)	United Kingdom
EagleEye Analytics (UK)	United Kingdom
Millbrook, Inc.	United States
Advanced Field Services	United States
EagleEye Analytics, Inc.	United States

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Guidewire Software, Inc.:

We consent to the incorporation by reference in the registration statement (Nos. 333-209906, 333-202541, 333-179799, 333-187004, and 333-194290) on Form S-8, and in the registration statements (Nos. 333-191856 and 333-191834) on Form S-3 of Guidewire Software, Inc. of our report dated September 15, 2016, with respect to the consolidated balance sheets of Guidewire Software, Inc. as of July 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended July 31, 2016, and the effectiveness of internal control over financial reporting as of July 31, 2016, which report appears in the July 31, 2016 annual report on Form 10-K of Guidewire Software, Inc.

/S/KPMG LLP

Santa Clara, California  
September 15, 2016

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Marcus S. Ryu, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guidewire Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 15, 2016

By: /s/ MARCUS S. RYU

Marcus S. Ryu  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Richard Hart, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guidewire Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 15, 2016

By: /s/ Richard Hart

Richard Hart

Chief Financial Officer

(Principal Financial and Accounting Officer)



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Guidewire Software, Inc. for the year ended July 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Marcus S. Ryu, as Chief Executive Officer of Guidewire Software, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Guidewire Software, Inc.

Date: September 15, 2016

By: /s/ Marcus S. Ryu

Marcus S. Ryu

President and Chief Executive Officer

(Principal Executive Officer)

In connection with the Annual Report on Form 10-K of Guidewire Software, Inc. for the year ended July 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Richard Hart, as Chief Financial Officer of Guidewire Software, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Guidewire Software, Inc.

Date: September 15, 2016

By: /s/ Richard Hart

Richard Hart

Chief Financial Officer

(Principal Financial and Accounting Officer)

