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

FORM 10-Q

(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number: 001-35394

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

Delaware (State or other jurisdiction of Incorporation or organization)	36-4468504 (I.R.S. Employer Identification No.)
1001 E. Hillsdale Blvd., Suite 800 Foster City, California (Address of principal executive offices)	94404 (Zip Code)

(650) 357-9100
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	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 x

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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PART I – Financial Information

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

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

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

Business

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

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

Basis of Presentation

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

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

Use of Estimates

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

Cash, Cash Equivalents and Investments

Cash and cash equivalents are comprised of cash and highly liquid investments with remaining maturities of 90 days or less at the date of purchase. Cash equivalents consist of commercial paper and money market funds. The Company classifies investments as short-term when they have remaining contractual maturities of less than one year from the balance sheet date, and as long-term when the investments have remaining contractual maturities of more than one year from the balance sheet date. The Company's investment policy is consistent with the definition of available-for-sale securities. From time to time, the Company may sell certain securities but the objectives are generally not to generate profits on short-term differences in price.

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Concentration of Credit Risk

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

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

Revenue Recognition

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

Revenues are derived from three sources:

(i) License fees, related to term (or time-based) licenses, perpetual software licenses, and other;

(ii) Maintenance fees, related to email and phone support, bug fixes and unspecified software updates and upgrades released when, and if, available during the maintenance term; and

(iii) Services fees, related to professional services related to implementation of our software, reimbursable travel and training.

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

- Persuasive evidence of an arrangement exists. Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period.
- Delivery or performance has occurred. The Company’s software is delivered electronically to the customer. Delivery is considered to have occurred when the Company provides the customer access to the software along with login credentials.
- Fees are fixed or determinable. Arrangements where a significant portion of the fee is due beyond 90 days from delivery are not considered to be fixed or determinable. Revenues from such arrangements are recognized as payments become due, assuming all other revenue recognition criteria have been met. Fees from term licenses are generally due in annual or, in certain cases, quarterly, installments over the term of the agreement beginning on the effective date of the license. Accordingly, fees from term licenses are not considered to be fixed or determinable until they become due.
- Collectability is probable. Collectability is assessed on a customer-by-customer basis, based primarily on creditworthiness as determined by credit checks and analysis, as well as customer payment history. Payment terms generally range from 30 to 90 days from invoice date. If it is determined prior to revenue recognition that collection of an arrangement fee is not probable, revenues are deferred until collection becomes probable or cash is collected, assuming all other revenue recognition criteria are satisfied.

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

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

If the undelivered elements are all service elements and VSOE of fair value does not exist for one or more service element, the total arrangement fee is recognized ratably over the longest service period starting at software delivery, assuming all the related services have been made available to the customer.

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

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

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

Deferred Revenues

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

Income Taxes

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

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

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

Stock-Based Compensation

The Company recognizes compensation expense related to its stock options and restricted stock units (“RSUs”) granted to employees based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. The RSUs are subject to time-based vesting, which generally occurs over a period of 4 years. The awards expire 10 years from the grant date. The Company estimates the grant date fair value, and the resulting stock-based compensation expense, of the Company’s stock options using the Black-Scholes option-pricing model. The Company determines the grant date fair value of its RSUs based on the closing market price of the Company’s common stock on the date of grant. The Company recognizes the fair value of stock-based compensation for awards which contain only service conditions on a straight-line basis over the requisite service period, which is generally the vesting period of the respective awards. The Company recognizes the compensation cost for awards which contain performance conditions based upon the probability of that performance condition being met, net of estimated forfeitures, using the graded method.

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

Recent Accounting Pronouncement

Stock-Based Compensation

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

Revenue from Contracts with Customers

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

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2. Fair Value of Financial Instruments

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

	April 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. agency securities	$91,516	$47	$—	$91,563
Commercial paper	109,653	14	(13)	109,654
Corporate bonds	306,382	72	(86)	306,368
U.S. government bonds	23,774	16	(1)	23,789
Foreign government bonds	5,611	10	—	5,621
Certificates of deposit	2,700	—	—	2,700
Money market funds	68,002	—	—	68,002
Municipal debt securities	2,512	1	—	2,513
Total	$610,150	$160	$(100)	$610,210

	July 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. agency securities	$94,048	$30	$(21)	$94,057
Asset-backed securities	1,363	—	(2)	1,361
Commercial paper	132,442	14	(4)	132,452
Corporate bonds	297,731	104	(182)	297,653
U.S. government bonds	17,991	3	(3)	17,991
Foreign government bonds	2,755	—	(1)	2,754
Certificates of deposit	6,709	—	(1)	6,708
Money market funds	53,959	—	—	53,959
Municipal debt securities	12,985	13	(1)	12,997
Total	$619,983	$164	$(215)	$619,932

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

	April 30, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Commercial paper	$33,353	$(13)	$—	$—	$33,353	$(13)
U.S. agency securities	4,002	—	—	—	4,002	—
Corporate bonds	150,498	(86)	—	—	150,498	(86)
U.S. government bonds	4,994	(1)	—	—	4,994	(1)
Total	$192,847	$(100)	$—	$—	$192,847	$(100)

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

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

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

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

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

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

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

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

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

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

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

its professional pricing service to derive pricing as described above.
The Company did not have any Level 3 financial assets or liabilities as of April 30, 2015 or July 31, 2014.

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

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

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

3. Balance Sheet Components

Property and Equipment, Net

Property and equipment consist of the following:

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

As of April 30, 2015 and July 31, 2014, no property and equipment was pledged as collateral against borrowings. Depreciation expense was $1.6 million and $4.5 million for the three and nine months ended April 30, 2015, respectively, and $1.4 million and $3.9 million for the three and nine months ended April 30, 2014, respectively.

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Goodwill and Intangible Assets

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

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

Intangible assets consist of the following:

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

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

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

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

Accrued Employee Compensation

Accrued employee compensation consists of the following:

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

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Accumulated Other Comprehensive Loss

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

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

4. Net Loss Per Share

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

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

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

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

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5. Commitments and Contingencies

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

Leases

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

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

Letters of Credit

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

Legal Proceedings

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

Indemnification

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

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

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

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6. Stockholders' Equity and Stock-Based Compensation

Stock-Based Compensation Expense

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

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

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

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

RSUs

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

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

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

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Stock Options

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

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

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

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

Valuation of Awards

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

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

Common Stock Reserved for Issuance

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

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

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7. Income Taxes

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

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

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

8. Segment Information

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

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

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

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

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

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

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

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

Overview

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

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

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

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

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

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

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

Key Business Metrics

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

Four-Quarter Recurring Revenues

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

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

Adjusted EBITDA

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

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

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

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

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

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

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

Operating Cash Flows

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

Critical Accounting Policies and Estimates

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

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

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

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Results of Operations

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

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

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

Revenues

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

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

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

License Revenues

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

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

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

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

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

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

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

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

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Maintenance Revenues

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

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

Services Revenues

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

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

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

Deferred Revenues

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

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

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

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

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

Cost of Revenues and Gross Profit

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

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

	Three Months Ended April 30,			
	2015	2014	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Cost of revenues:				
License	$1,184	$849	$335	39 %
Maintenance	2,299	2,133	166	8 %
Services	34,421	33,293	1,128	3 %
Total cost of revenues	$37,904	$36,275	$1,629	4 %
Includes stock-based compensation of:				
Cost of license revenues	$54	$45	$9	20 %
Cost of maintenance revenues	293	211	82	39 %
Cost of services revenues	3,774	3,028	746	25 %
Total	$4,121	$3,284	$837	25 %

	Nine Months Ended April 30,			
	2015	2014	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Cost of revenues:				
License	$3,411	$3,288	$123	4 %
Maintenance	6,812	5,817	995	17 %
Services	97,532	101,194	(3,662)	(4)%
Total cost of revenues	$107,755	$110,299	$(2,544)	(2)%
Includes stock-based compensation of:				
Cost of license revenues	$158	$141	$17	12 %
Cost of maintenance revenues	879	572	307	54 %
Cost of services revenues	11,165	8,862	2,303	26 %
Total	$12,202	$9,575	$2,627	27 %

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

The $2.5 million decrease in cost of revenues during the nine months ended April 30, 2015 was primarily driven by a decrease of $6.3 million in third-party consultant costs and billable expenses, offset by an increase of $2.0 million in allocated overhead, an increase of $1.5 million in personnel-related expenses, and an increase of $0.3 million in recruiting and general office expenses. The decrease in third-party consultant costs and billable expenses was due to completion of a few large implementation projects and our efforts to transfer a portion of the implementation work to our system integrator partners. The increase in personnel-related expenses was primarily due to an increase in stock-based compensation from the issuance of annual employee equity awards. The increase in allocated overhead costs was due to higher IT support, facility costs, and other administrative costs. The increase in recruiting and general office expenses was due to an increase in headcount.

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	Three Months Ended April 30,					
	2015		2014		Change	
	Amount	Margin %	Amount	Margin %	($)	(%)
	(in thousands, except percentages)					
Gross profit:						
License	$32,118	96 %	$31,078	97 %	$1,040	3 %
Maintenance	9,884	81 %	8,307	80 %	1,577	19 %
Services	5,534	14 %	6,375	16 %	(841)	(13)%
Total gross profit	$47,536	56 %	$45,760	56 %	$1,776	4 %

	Nine Months Ended April 30,					
	2015		2014		Change	
	Amount	Margin %	Amount	Margin %	($)	(%)
	(in thousands, except percentages)					
Gross profit:						
License	$102,366					