

Guidewire Software, Inc.
 Form 10-Q
 November 30, 2017
Table of Contents

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended October 31, 2017

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	36-4468504
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

1001 E. Hillsdale Blvd., Suite 800	94404
Foster City, California	
(Address of principal executive offices)	(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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company ..

Table of Contents

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ``

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 October 31, 2017, the registrant had 75,362,109 shares of common stock issued and outstanding.

Table of Contents

Guidewire Software, Inc.
Index

Part I – Financial Information

Item 1.	<u>Financial Statements (unaudited):</u>	<u>3</u>
	<u>Condensed Consolidated Balance Sheets as of October 31, 2017 and July 31, 2017</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations for the Three Months Ended October 31, 2017 and 2016</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Comprehensive Loss for the Three Months Ended October 31, 2017 and 2016</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended October 31, 2017 and 2016</u>	<u>6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
Item 4.	<u>Controls and Procedures</u>	<u>37</u>
	<u>Part II – Other Information</u>	<u>38</u>
Item 1.	<u>Legal Proceedings</u>	<u>38</u>
Item 1A.	<u>Risk Factors</u>	<u>38</u>
Item 6.	<u>Exhibits</u>	<u>55</u>
	<u>Signatures</u>	<u>56</u>

Table of Contents

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, 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,” “p

“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 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;
- the developing market for subscription services and uncertainties attendant on emerging sales and delivery models;
- trends in future sales, including the mix of licensing and subscription models and seasonality;
- our competitive environment and changes thereto;
- competitive attributes of our software applications and delivery models;
- challenges to further increase sales outside of the United States;
- our research and development investment and efforts;
- expenses to be incurred, and benefits to be achieved from our acquisitions;
- our gross and operating margins and factors that affect such margins;
- our provision for tax liabilities and other critical accounting estimates;
- the impact of new accounting standards and any contractual changes we have made in anticipation of such changes;
- 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 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. together with its subsidiaries when we use the terms “Guidewire,” the “Company,” “we,” “our” or “us.”

Table of Contents

PART I – Financial Information

ITEM 1. Financial Statements (unaudited)

GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	October 31, 2017	July 31, 2017
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$255,399	\$263,176
Short-term investments	305,685	310,027
Accounts receivable	78,408	79,433
Prepaid expenses and other current assets	28,142	26,604
Total current assets	667,634	679,240
Long-term investments	92,388	114,585
Property and equipment, net	13,806	14,376
Intangible assets, net	66,538	71,315
Deferred tax assets, net	146,005	37,430
Goodwill	141,924	141,851
Other assets	21,853	20,104
TOTAL ASSETS	\$1,150,148	\$1,078,901
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$14,233	\$13,416
Accrued employee compensation	24,579	48,882
Deferred revenues, current	86,661	91,243
Other current liabilities	9,959	10,075
Total current liabilities	135,432	163,616
Deferred revenues, noncurrent	24,519	19,892
Other liabilities	1,796	2,112
Total liabilities	161,747	185,620
STOCKHOLDERS' EQUITY:		
Common stock	8	8
Additional paid-in capital	850,705	830,014
Accumulated other comprehensive loss	(6,567)	(5,796)
Retained earnings	144,255	69,055
Total stockholders' equity	988,401	893,281
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,150,148	\$1,078,901

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended	
	October 31,	
	2017	2016
Revenues:		
License and other	\$ 30,093	\$ 38,721
Maintenance	18,930	16,532
Services	59,148	38,874
Total revenues	108,171	94,127
Cost of revenues:		
License and other	6,715	2,430
Maintenance	3,467	3,325
Services	52,712	36,264
Total cost of revenues	62,894	42,019
Gross profit:		
License and other	23,378	36,291
Maintenance	15,463	13,207
Services	6,436	2,610
Total gross profit	45,277	52,108
Operating expenses:		
Research and development	35,711	30,750
Sales and marketing	23,610	25,500
General and administrative	18,671	14,160
Total operating expenses	77,992	70,410
Loss from operations	(32,715)	(18,302)
Interest income	1,908	1,342
Other expense, net	(262)	(681)
Loss before income taxes	(31,069)	(17,641)
Benefit from income taxes	(22,155)	(9,783)
Net loss	\$(8,914)	\$(7,858)
Net loss per share:		
Basic	\$(0.12)	\$(0.11)
Diluted	\$(0.12)	\$(0.11)
Shares used in computing net loss per share:		
Basic	75,187,437	73,293,467
Diluted	75,187,437	73,293,467

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended October 31,	
	2017	2016
Net loss	(8,914)	(7,858)
Other comprehensive loss:		
Foreign currency translation adjustments	(696)	(851)
Unrealized losses on available-for-sale securities, net of tax benefit of \$45 and \$134 for the three months ended October 31, 2017 and 2016, respectively	(90)	(196)
Reclassification adjustment for realized losses (gains) included in net loss	15	(27)
Other comprehensive loss	(771)	(1,074)
Comprehensive loss	(9,685)	(8,932)

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

	Three Months Ended October 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(8,914)	\$(7,858)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,634	3,074
Stock-based compensation	19,623	17,877
Deferred income tax	(23,708)	(10,502)
Amortization of premium on available-for-sale securities, and other non-cash items	210	467
Changes in operating assets and liabilities:		
Accounts receivable	855	8,682
Prepaid expenses and other assets	(3,575)) 191
Accounts payable	1,868	902
Accrued employee compensation	(23,953)	(21,300)
Other liabilities	(356)) (1,251)
Deferred revenues	68	(3,192)
Net cash used in operating activities	(31,248)	(12,910)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale securities	(66,843)	(200,893)
Sales of available-for-sale securities	93,039	157,163
Purchases of property and equipment	(1,899)) (2,474)
Capitalized software development costs	(517)) —
Acquisitions of business, net of acquired cash	—	