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, 2021

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.)**
2850 S. Delaware St., Suite 400 San Mateo, California	**94403**
(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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value	GWRE	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See 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	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 ☒

On November 30, 2021, the registrant had 83,308,062 shares of common stock issued and outstanding.

Guidewire Software, Inc.

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FORWARD-LOOKING STATEMENTS

The section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as 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, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act") which are subject to risks and uncertainties. The forward-looking statements may 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, revenue, gross margins, operating expenses, services, products, projected costs and capital expenditures, research and development programs, sales and marketing initiatives, and competition. In some cases, you can identify these statements by forward-looking words, such as "will," "may," "might," "should," "could," "estimate," "expect," "suggest," "believe," "anticipate," "intend," "plan," and "continue," the negative or plural of these words and other comparable terminology. Actual events or results may differ materially from those expressed or implied by these statements due to various factors, including but not limited to the matters discussed below, in the section titled "Part II – Other Information – 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."

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 Quarterly Report on Form 10-Q 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.

SUMMARY OF MATERIAL RISKS ASSOCIATED WITH OUR BUSINESS

The principal risks and uncertainties affecting our business include the following:

- 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, including the migration of our existing term license customers to cloud-based offerings on a subscription basis or failure to meet stipulated service levels with our subscription services;
- trends in and timing of future sales, including the mix between license and subscription revenue and seasonality;
- our competitive environment and changes thereto;
- competitive attributes of our software applications and delivery models;
- change in our revenue mix resulting in potential declines in our subscription and support gross margin or our services gross margin;
- our reliance on orders from a relatively small number of customers in the P&C insurance industry for a substantial portion of our revenue and Annual Recurring Revenue ("ARR");
- the timing and number of professional services engagements and the billing rates and utilization of our professional services employees and contractors;
- challenges to further increase sales both in the United States and internationally;
- potential failure of any of our established services or products to satisfy customer demands or to maintain market acceptance;
- our sales and implementation cycles are lengthy and variable, depend upon factors outside our control, and could cause us to expend significant time and resources prior to generating revenue;
- our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that result in increased cost of revenue, decreased revenue, and lower average selling prices and gross margins;
- our business depends on customers renewing and expanding their license, support, and subscription contracts for our services and products;
- potential inability to develop, introduce, and market new and enhanced versions of our services and products;
- our research and development and cloud operations investment and efforts;
- our ability to comply with evolving local and foreign data privacy standards, including the General Data Protection Regulation in the European Union ("EU") and the United Kingdom (U.K.), the California Consumer Privacy Act, the California Privacy Rights Act, and regulations in various other jurisdictions in the United States and abroad, and maintain the security of our customer's data, our cloud-based services or products, and the related costs and liabilities that we may incur;

- expenses to be incurred, and benefits to be achieved, from our acquisitions;
- our gross and operating margins and factors that affect such margins; including costs related to operating, securing and enhancing our subscription services;
- our provision for tax liabilities, judgments related to revenue recognition, and other critical accounting estimates;
- the timing and amount of any share repurchases by us;
- the impact of new or revised regulations and laws, including tax laws in jurisdictions in which we operate and accounting standards;
- our ability to apply accounting guidance that requires management to make estimates and assumptions and to adapt to and interpret the requirements of new guidance, or to clearly explain to stockholders how new guidance affects reporting of our results of operations;
- our exposure to market risks, including geographical and political events that may negatively impact our customers, partners, and vendors or our business operations;
- privacy concerns could result in regulatory changes and impose additional costs and liabilities on us and limit our use of information;
- the effect of uncertainties related to the global COVID-19 pandemic and future mutations or related strains of the virus such as the Delta variant on U.S. and global economies, our business, our employees, results of operations, financial condition, demand for our products, sales and implementation cycles, and the health of our customers' and partners' businesses;
- data security breaches of our cloud-based services or products or unauthorized access to our customers' and employees' data;
- our stock price may be volatile, which could result in securities class action litigation against us;
- our ability to successfully defend litigation brought against us; and
- our ability to satisfy future liquidity requirements.

The summary risk factors described above should be read together with the text of the Risk Factors included in Item 1A of Part II of this Quarterly Report on Form 10-Q and the other information set forth in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes thereto, as well as in other documents that we file with the U.S. Securities and Exchange Commission (the "SEC"). Additional risks and uncertainties, beyond those summarized above or discussed elsewhere in this Quarterly Report on Form 10-Q may apply to our business, activities, or operations as currently conducted or as we may conduct them in the future or in the markets in which we operate or may in the future operate.

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."

PART I – Financial Information

ITEM 1. Financial Statements (unaudited)

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

	October 31, 2021	July 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 239,620	$ 384,910
Short-term investments	602,162	734,517
Accounts receivable, net of allowances of $705 and $1,057, respectively	80,407	104,068
Unbilled accounts receivable, net	87,030	79,061
Prepaid expenses and other current assets	71,444	52,729
Total current assets	1,080,663	1,355,285
Long-term investments	297,841	227,164
Unbilled accounts receivable, net	22,642	24,361
Property and equipment, net	82,774	80,061
Operating lease assets	94,568	97,447
Intangible assets, net	31,688	19,743
Goodwill	372,062	340,877
Deferred tax assets, net	153,367	138,428
Other assets	42,742	38,479
TOTAL ASSETS	$ 2,178,347	$ 2,321,845
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 27,396	$ 27,830
Accrued employee compensation	38,405	102,137
Deferred revenue, net	110,363	138,699
Other current liabilities	28,001	31,648
Total current liabilities	204,165	300,314
Lease liabilities	112,300	115,374
Convertible senior notes, net	347,349	343,825
Deferred revenue, net	5,893	7,237
Other liabilities	10,257	10,201
Total liabilities	679,964	776,951
STOCKHOLDERS' EQUITY:		
Common stock	8	8
Additional paid-in capital	1,649,754	1,617,204
Accumulated other comprehensive income (loss)	(7,741)	(6,218)
Retained earnings (accumulated deficit)	(143,638)	(66,100)
Total stockholders' equity	1,498,383	1,544,894
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,178,347	$ 2,321,845

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended October 31,	
	2021	**2020**
Revenue:		
Subscription and support	$ 78,990	$ 57,966
License	40,153	65,283
Services	46,791	46,553
Total revenue	165,934	169,802
Cost of revenue:		
Subscription and support	50,331	37,006
License	2,339	2,937
Services	50,509	51,024
Total cost of revenue	103,179	90,967
Gross profit:		
Subscription and support	28,659	20,960
License	37,814	62,346
Services	(3,718)	(4,471)
Total gross profit	62,755	78,835
Operating expenses:		
Research and development	59,926	52,615
Sales and marketing	43,631	36,644
General and administrative	24,575	21,180
Total operating expenses	128,132	110,439
Income (loss) from operations	(65,377)	(31,604)
Interest income	674	2,789
Interest expense	(4,794)	(4,620)
Other income (expense), net	1,183	2,568
Income (loss) before provision for (benefit from) income taxes	(68,314)	(30,867)
Provision for (benefit from) income taxes	(17,038)	(10,677)
Net income (loss)	$ (51,276)	$ (20,190)
Net income (loss) per share:		
Basic	$ (0.62)	$ (0.24)
Diluted	$ (0.62)	$ (0.24)
Shares used in computing net income (loss) per share:		
Basic	83,225,743	83,613,287
Diluted	83,225,743	83,613,287

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended October 31,	
	2021	**2020**
Net income (loss)	(51,276)	(20,190)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(724)	(694)
Unrealized gains (losses) on available-for-sale securities	(1,118)	(1,839)
Tax benefit (expense) on unrealized gains (losses) on available-for-sale securities	251	359
Reclassification adjustment for realized gains (losses) included in net income (loss)	69	347
Total other comprehensive income (loss)	(1,522)	(1,827)
Comprehensive income (loss)	$ (52,798)	$ (22,017)

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total stockholders' equity
	Shares	Amount				
Balance as of July 31, 2021	**83,194,157**	**$ 8**	**$ 1,617,204**	**$ (6,218)**	**$ (66,100)**	**$ 1,544,894**
Net income (loss)	—	—	—	—	(51,276)	(51,276)
Issuance of common stock upon exercise of stock options	1,518	—	17	—	—	17
Issuance of common stock upon vesting of RSUs	335,653	—	—	—	—	—
Stock-based compensation	—	—	32,533	—	—	32,533
Repurchase and retirement of common stock	(226,172)	—	—	—	(26,262)	(26,262)
Foreign currency translation adjustment	—	—	—	(724)	—	(724)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	(868)	—	(868)
Reclassification adjustment for realized gain (loss) on available-for-sale securities, included in net income (loss)	—	—	—	69	—	69
Balance as of October 31, 2021	**83,305,156**	**$ 8**	**$ 1,649,754**	**$ (7,741)**	**$ (143,638)**	**$ 1,498,383**

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total stockholders' equity
	Shares	Amount				
Balance as of July 31, 2020	**83,461,925**	**$ 8**	**$ 1,499,050**	**$ (5,246)**	**$ 162,956**	**$ 1,656,768**
Net income (loss)	—	—	—	—	(20,190)	(20,190)
Issuance of common stock upon exercise of stock options	39,169	—	1,716	—	—	1,716
Issuance of common stock upon vesting of RSUs	339,759	—	—	—	—	—
Stock-based compensation	—	—	28,394	—	—	28,394
Repurchase and retirement of common stock	(48,997)	—	—	—	(5,000)	(5,000)
Foreign currency translation adjustment	—	—	—	(694)	—	(694)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	(1,480)	—	(1,480)
Reclassification adjustment for realized gain (loss) on available-for-sale securities, included in net income (loss)	—	—	—	347	—	347
Balance as of October 31, 2020	**83,791,856**	**$ 8**	**$ 1,529,160**	**$ (7,073)**	**$ 137,766**	**$ 1,659,861**

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended October 31,	
	2021	**2020**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (51,276)	$ (20,190)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,434	10,537
Amortization of debt discount and issuance costs	3,524	3,335
Amortization of contract costs	3,001	2,154
Stock-based compensation	32,240	28,084
Changes to allowance for credit losses and revenue reserves	35	(43)
Deferred income tax	(17,551)	(11,827)
Amortization of premium (accretion of discount) on available-for-sale securities, net	1,601	1,390
Other non-cash items affecting net income (loss)	131	(10)
Changes in operating assets and liabilities:		
Accounts receivable	24,088	35,924
Unbilled accounts receivable	(6,137)	(25,214)
Prepaid expenses and other assets	(7,046)	(1,841)
Operating lease assets	2,879	(4,581)
Accounts payable	(1,333)	(2,198)
Accrued employee compensation	(62,637)	(13,513)
Deferred revenue	(30,456)	(23,646)
Lease liabilities	(3,386)	6,772
Other liabilities	(3,153)	(840)
Net cash provided by (used in) operating activities	(107,042)	(15,707)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale securities	(241,247)	(346,405)
Sales of available-for-sale securities	27,331	57,903
Maturities of available-for-sale securities	272,943	241,591
Purchases of property and equipment	(3,333)	(1,907)
Capitalized software development costs	(3,783)	(2,581)
Acquisition of strategic investments	—	(2,000)
Acquisition of business, net of acquired cash	(43,830)	—
Net cash provided by (used in) investing activities	8,081	(53,399)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock upon exercise of stock options	17	1,716
Repurchase and retirement of common stock	(26,262)	(5,000)
Net cash provided by (used in) financing activities	(26,245)	(3,284)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(984)	(743)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(126,190)	(73,133)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of period	384,910	366,969
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of period	$ 258,720	$ 293,836

RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO CONDENSED CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	$ 239,620	$ 293,836
Restricted cash included in prepaid expenses and other current assets and other assets	19,100	—
Total cash, cash equivalents, and restricted cash	$ 258,720	$ 293,836
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 2,500	$ 2,500
Cash paid for income taxes, net of tax refunds	$ 717	$ 990
Accruals for purchase of property and equipment	$ 2,639	$ 343
Accruals for capitalized software development costs	$ 287	$ 112

See accompanying Notes to Condensed Consolidated Financial Statements.

GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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

Company

Guidewire Software, Inc., a Delaware corporation, was incorporated on September 20, 2001. Guidewire Software, Inc., together with its subsidiaries (the “Company”), provides a technology platform, which combines core operations, digital engagement, analytics, and artificial intelligence ("AI") applications. The Company's technology platform supports core insurance operations, including underwriting and policy administration, claim management and billing; insights into data that can improve business decision making; and digital sales, service and claims experiences for policyholders, agents, and other key stakeholders. The Company’s customers are primarily property and casualty insurance carriers.

Basis of Presentation and Consolidation

The Company's condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The condensed consolidated financial statements and 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 intercompany balances and transactions have been eliminated in consolidation. Certain information and disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted under the rules and regulations of the SEC.

These 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, 2021. There have been no changes in the Company’s significant accounting policies from those that were disclosed in the Company’s consolidated financial statements included in its Annual Report on Form 10-K.

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with 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 revenue and expenses. Significant items subject to such estimates include, but are not limited to, revenue recognition, the useful lives of property and equipment and intangible assets, accounts receivable allowances, valuation allowance for deferred tax assets, stock-based compensation, annual bonus attainment, income tax uncertainties, fair value of convertible senior notes and investments, valuation of goodwill and intangible assets, fair value of acquired assets and assumed liabilities, software development costs to be capitalized, leases, 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 from these estimates.

Foreign Currency

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

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with remaining maturities of 90 days or less at the date of purchase. Cash equivalents primarily consist of commercial paper and money market funds.

Investments

Management determines the appropriate classification of investments at the time of purchase based upon management’s intent with regard to such investments. All investments in the periods presented have been classified as available-for-sale.

The Company classifies investments as short-term when they have remaining contractual maturities of one year or less from the balance sheet date, and as long-term when the investments have remaining contractual maturities of more than one year from the balance sheet date. Investments are recorded at fair value with unrealized holding gains and losses, net of taxes, generally included in accumulated other comprehensive income (loss) on the condensed consolidated balance sheets. Unrealized losses related to the credit worthiness of an investment, if any, are recorded in other income (expense), net on the condensed consolidated statements of operations.

Property and Equipment

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

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

Computer hardware	3 years
Purchased software	3 years
Equipment and machinery	3 to 5 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of 10 years or remaining lease term

Software Development Costs

Certain development costs related to software delivered to customers ("self-managed software") incurred subsequent to the establishment of technological feasibility are subject to capitalization and amortized over the estimated lives of the related products. Technological feasibility is established upon completion of a working model. Costs incurred subsequent to the establishment of technological feasibility have not been material and, therefore, all software development costs related to self-managed software have been charged to research and development expense in the accompanying condensed consolidated statements of operations as incurred.

The Company capitalizes software development costs for technology applications that the Company will offer solely as cloud-based subscriptions, which is primarily comprised of compensation for employees who are directly associated with cloud software development projects. The Company begins to capitalize costs when preliminary development efforts are successfully completed, management has authorized and committed project funding, it is probable that the project will be completed, and the software will be used as intended. If any of these criteria cease being met before the software reaches its intended use, any capitalized costs related to the project will be impaired. When the software reaches its intended use, which is typically once the technology applications are available for general release, capitalized costs are amortized to cost of revenue over the estimated useful lives of the related assets, generally estimated to be three to five years. Costs incurred prior to meeting these capitalization criteria and costs incurred for training and maintenance are recorded as research and development expense in the Company's condensed consolidated statements of operations as incurred. Capitalized software development costs are recorded in property and equipment in the Company's condensed consolidated balance sheets.

Leases

The Company accounts for leases under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 842: Leases (“ASC 842"). Under ASC 842, the Company determines if an arrangement is a lease at inception of the agreement. If an arrangement is determined to be a lease, an operating lease asset, also known as a right-of-use asset, and lease liability are recorded based on the present value of lease payments over the lease term. In connection with determining the present value of the lease payments, the Company considers only payments that are fixed and determinable at the time of commencement, including non-lease components that are fixed throughout the lease term. Variable components of the lease payments, such as utilities and maintenance costs, are expensed as incurred and not included in determining the present value of the lease liability. As the Company's leases generally do not provide an implicit rate, the Company's incremental borrowing rate, calculated based on available information at the lease commencement date, is used in determining the present value of the lease payments. The Company's incremental borrowing rate is a hypothetical rate based on the Company's understanding of its credit rating. The lease term used to calculate the lease liability and operating lease asset includes options to extend or terminate the lease if it is reasonably certain the Company will exercise that option. Operating lease assets also include any lease payments made prior to commencement and are recorded net of any lease incentives received. Lease expense is recognized on a straight-line basis over the lease term and is reflected in the condensed consolidated statements of operations in each of the cost of revenue and operating expense categories.

The Company also enters into agreements to sublease unoccupied office space. Any sublease payments received in excess of the straight-line rent expense related to the subleased space are recorded as an offset to operating expenses over the sublease term.

Operating leases are included in operating lease assets, other current liabilities, and lease liabilities on the condensed consolidated balance sheets.

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

The Company evaluates its long-lived assets, consisting of property and equipment, operating lease assets, and intangible assets, for indicators of possible impairment when events or changes in circumstances indicate that the carrying amount of certain assets may not be recoverable. Impairment exists if the carrying amount of such assets exceed the estimates of future net undiscounted cash flows expected to be generated by such assets. Should impairment exist, the impairment loss would be measured based on the excess carrying amount of the assets over the estimated fair value of the assets. There have been no long-lived assets and intangible assets impairments during the periods presented.

The Company tests goodwill for impairment annually, during the fourth quarter of each fiscal year, and in the interim whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company evaluates qualitative factors to determine whether it is more likely than not that the fair value of the Company's single reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the goodwill impairment test. In performing the qualitative assessment, the Company considers events and circumstances, including, but not limited to, macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy, changes in customers, changes in the composition or carrying amount of a reporting unit's net assets, and changes in the price of the Company's common stock. If, after assessing the totality of events or circumstances, the Company determines that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then the goodwill impairment test is not performed. There have been no goodwill impairments during the periods presented.

Convertible Senior Notes

In March 2018, the Company issued $400.0 million aggregate principal amount of 1.25% Convertible Senior Notes due 2025 (the "Convertible Senior Notes"). The Company accounts for the liability and equity components of the issued Convertible Senior Notes separately. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the Convertible Senior Notes as a whole. This difference represents a debt discount that is amortized to interest expense using the effective interest method over the term of the Convertible Senior Notes. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The liability and equity components will not be remeasured as long as the conversion option continues to meet the requirements for equity classification. The equity component is net of issuance costs and recorded in additional paid-in capital.

Business Combinations

The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. Goodwill is calculated as the difference between the acquisition-date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and subject to refinement and, as a result, actual results may differ from estimates. During the measurement period, which may be up to one year from the acquisition date, if new information is obtained about facts and circumstances that existed as of the acquisition date, the Company may record adjustments to the fair value of these assets and liabilities, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired and liabilities assumed, whichever comes first, subsequent adjustments, if any, are recorded to the Company's condensed consolidated statements of operations.

Concentration of Credit Risk

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

No customer accounted for 10% or more of the Company's revenue for the three months ended October 31, 2021, and one customer accounted for 10% or more of the Company's revenue for the three months ended October 31, 2020. One customer accounted for 10% or more of the Company's accounts receivable as of October 31, 2021, and no customer accounted for 10% or more of the Company's accounts receivable as of July 31, 2021.

Accounts Receivable and Allowances

Accounts receivable are recorded at invoiced amounts and do not bear interest. While the Company does not require collateral, the Company performs ongoing credit evaluations of its customers. The Company maintains an allowance for credit losses based upon the expected collectability of its accounts receivable. The expectation of collectability is based on historical loss patterns, the number of days that billings are past due, and an evaluation of the potential risk of loss associated with delinquent accounts. Credit losses are recorded in general and administrative expense while billing and other revenue adjustments are recorded against the corresponding revenue financial statement line item in the condensed consolidated statements of operations.

Revenue Recognition

The Company’s revenue is derived from contracts with customers. The majority of the Company’s revenue is derived from subscriptions to its cloud services, licensing arrangements for its software, and implementation and other professional services arrangements. The Company accounts for revenue in accordance with Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606").

The core principle of ASC 606 is to recognize revenue upon the transfer of services or products to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services or products.

The Company applies the following framework to recognize revenue:

Identification of the contract, or contracts, with the customer

The Company considers the terms and conditions of written contracts and its customary business practices in identifying its contracts. The Company determines it has a contract with a customer when the contract is approved, the Company can identify each party’s rights regarding the services and products to be transferred, the Company can identify the payment terms for the services and products, the Company has determined that the customer has the ability and intent to pay, and the contract has commercial substance. In general, contract terms will be reflected in a written document that is signed by both parties. At contract inception, the Company evaluates whether two or more contracts should be combined and accounted for as a single contract. The Company also evaluates the customer’s ability and intent to pay, which is based on a variety of factors, including the customer’s historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

Contracts may be modified to account for changes in contract scope or price. The Company considers contract modifications to exist when the modification either creates new rights or obligations or changes the existing enforceable rights and obligations of either party. Contract modifications for services and products that are distinct from the existing contract and are priced commensurate with their standalone selling price are treated as separate contracts and are accounted for prospectively. Contract modifications for services and products that are distinct but are not priced commensurate with their standalone selling price or are not distinct from the existing contract may affect the initial transaction price or the allocation of the transaction price to the performance obligations in the contract. In such cases, recognized revenue may be adjusted.

Identification of the performance obligation in the contract

Performance obligations promised in a contract are identified based on the services or products that will be transferred to the customer that are both:

i. capable of being distinct, whereby the customer can benefit from the service or product either on its own or together with other resources that are readily available from the Company or third parties, and

ii. distinct in the context of the contract, whereby the transfer of the services or products is separately identifiable from other promises in the contract.

To the extent a contract includes multiple promised services or products, the Company applies judgment to determine whether promised services or products are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised services or products are accounted for as a combined performance obligation.

The Company generates revenue from the following sources, which represent the performance obligations of the Company:

i. Subscription services related to the Company's Software-as-a-Service ("SaaS") offerings, including hosting;

ii. Support activities that consist of email and phone support, bug fixes, and unspecified software updates and upgrades released when, and if, available during the support term;

iii. Self-managed software licenses related to term or perpetual agreements; and

iv. Services related to the implementation and configuration of the Company's services and products, reimbursable travel, and training.

Subscriptions are typically sold with a three to five year initial term with a customer option to renew on an annual basis after the initial term. Term licenses generally have a two-year initial term with a customer option to renew on an annual basis after the initial term. In certain circumstances, the Company will enter into term licenses with an initial term of more than two years or a renewal period longer than one year. Support for term licenses follows the same contract periods. Professional services typically are time and materials contracts that last for an average period of approximately one year.

Determination of the transaction price

The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for transferring services and products to the customer. Consideration may vary due to discounts, incentives, and potential service level credits or contractual penalties. Variable consideration is estimated and included in the transaction price if, in the Company's judgment, it is probable that there will not be a significant future reversal of cumulative revenue under the contract.

Self-managed software licenses and subscription services may be subject to either fixed or variable installments. Variable installments are generally subject to changes in a customer's Direct Written Premium ("DWP") or a customer's Gross Written Premium ("GWP"). When consideration is subject to variable installments, the Company estimates variable consideration using the expected value method based on historical DWP or GWP usage to the extent that a significant revenue reversal is not probable to occur. When consideration is subject to a customer termination right, the Company estimates the total transaction price using the most likely method, and defers consideration associated with the customer's termination right until it expires.

The Company elected the practical expedient to evaluate whether a significant financing component exists when the contract term is greater than one year and the timing of revenue recognition occurs in advance of invoicing. This timing difference occurs when control of the software license is transferred at a point in time, usually at the contract onset, but the customer payments occur over time. A significant financing component generally does not exist under the Company's standard contracting and billing practices. For example, the Company's typical time-based licenses have a two-year initial term with the final payment due at the end of the first year and the Company's typical subscription services are generally billed in advance of providing the services.

Allocation of the transaction price to the performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on its standalone selling price ("SSP") in relation to the total fair value of all performance obligations in the arrangement. The majority of the Company's contracts contain multiple performance obligations, such as when licenses are sold with support, implementation services, or training services. Additionally, as customers enter into subscription agreements to migrate from an existing term license agreement, customers may be under contract for self-managed licenses and support, in addition to subscription services, for a period of time, which may require an allocation of the transaction price to each performance obligation. New and migration subscription agreements also typically include implementation, configuration and training services, which may require an allocation of the transaction price to each performance obligation. Some of the Company's performance obligations, such as support, implementation services, and training services, have observable inputs that are used to determine the SSP of those distinct performance obligations. Where SSP is not directly observable, the Company determines the SSP using information that may include market conditions and other observable inputs. In the circumstances when available information to determine SSP is highly variable or uncertain, such as for our term licenses, the Company will use the residual method.

Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company recognizes revenue when control of the services or products are transferred to a customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services or products. The Company is principally responsible for the satisfaction of its distinct performance obligations, which are satisfied either at a point in time or over a period of time.

Performance obligations satisfied at a point in time

Self-managed term and perpetual software licenses comprise the majority of distinct performance obligations that are satisfied at a point in time. Revenue is recognized at the point in which the self-managed software licenses are made available to a customer. Consideration for self-managed software licenses is typically billed in advance on an annual basis over the license term.

Performance obligations satisfied over a period of time

Subscriptions, support activities, and professional service arrangements comprise the majority of distinct performance obligations that are satisfied over a period of time.

Revenue from subscription arrangements is recognized ratably over the subscription period using a time-based measure of progress as customers receive the benefits from their subscriptions over the contractually agreed-upon term. The Company's subscription arrangements are generally three to five years in duration. Consideration for subscription arrangements is typically billed in advance on an annual basis over the contract period.

Revenue from support activities associated with self-managed licenses is a stand-ready obligation, which is generally recognized over the contractually agreed-upon term using a time-based measure of progress as customers receive benefits from the availability of support technicians over the support period. Consideration for support activities is typically billed in advance on an annual basis. The Company's support activities are consistently priced as a percentage of the associated self-managed software license.

Revenue from professional service arrangements is recognized over the service period as the underlying services are performed.

In substantially all of the Company's professional service contracts, services are separately identifiable performance obligations for which related revenue and costs are recognized according to when each service obligation is delivered. Substantially all professional services engagements are billed and recognized on a time and materials basis. In select situations, the Company will contract professional services on a fixed fee basis, where the Company generally recognizes services revenue over time, using an input method. The measure of progress of the professional services being provided under these fixed fee arrangements is based on hours incurred compared to estimates of the total hours to complete the performance obligation.

When professional services are sold with a self-managed license or subscription arrangement, the Company evaluates whether the performance obligations are distinct or separately identifiable, or whether they constitute a single performance obligation. In the limited cases where professional services are not considered to be distinct from the self-managed license or subscription services, the Company will recognize revenue based on the nature and term of the combined performance obligation when control of the combined performance obligation is transferred to the customer.

Balance Sheet Presentation

Contracts with customers are reflected in the condensed consolidated balance sheets as follows:

- Accounts receivable, net represents amounts billed to customers in accordance with contract terms for which payment has not yet been received. It is presented net of any allowances as part of current assets in the condensed consolidated balance sheets.

- Unbilled accounts receivable, net represents amounts that are unbilled due to agreed-upon contractual terms in which billing occurs subsequent to revenue recognition. This situation typically occurs when the Company transfers control of self-managed software licenses to customers up-front, but invoices customers annually over the term of the license. Unbilled accounts receivable is classified as either current or non-current based on the duration of remaining time between the date of the condensed consolidated balance sheets and the anticipated due date of the underlying receivables. Unbilled accounts receivable is evaluated for credit losses based upon the expected collectibility of future accounts receivable, customer payment history, global economic conditions, and ongoing credit evaluations of customers. Unbilled accounts receivable is presented net of allowance for credit losses, if applicable, in the condensed consolidated balance sheets. This balance represents contract assets.

- Contract costs include customer acquisition costs, which consist primarily of sales commissions and related payroll taxes paid to sales personnel and referral fees paid to third-parties, and costs to fulfill a contract, which consist primarily of royalties payable to third-party software providers that support both the Company's software offerings and support services. The short-term portion is presented as prepaid and other current assets. The long-term portion is presented as other assets.

- Deferred costs represent costs related to our professional services that have been deferred to align with revenue recognition. The short-term portion is presented as prepaid and other current assets. The long-term portion is presented as other assets.

- Deferred revenue, net represents amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related services or products have not been transferred to the customer. Deferred revenue that will be realized during the 12-month period following the date of the condensed consolidated balance sheets is recorded as current. The remaining deferred revenue is recorded as non-current. This balance represents contract liabilities.

The Company may receive consideration from its customers in advance of performance on a portion of the contract and, on another portion of the contract, perform in advance of receiving consideration. Contract assets and liabilities related to rights and obligations in a contract are interdependent. Therefore, contract assets and liabilities are presented net at the contract level, as either a single contract asset or a single contract liability, in the condensed consolidated balance sheets.

Remaining performance obligations represent contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. The Company excludes amounts related to professional services contracts that are on a time and materials basis from remaining performance obligations.

Contract Costs

Contract costs consists of two components, customer acquisition costs and costs to fulfill a contract.

Customer acquisition costs are capitalized only if the costs are incrementally incurred to obtain a customer contract and the expected amortization period is greater than one year. Contract costs are classified as either current or non-current based on the duration of time remaining between the date of the condensed consolidated balance sheets and the anticipated amortization date of the associated costs. Capitalized customer acquisition costs related to software licenses, subscriptions, and support services are amortized over the anticipated period of time that such goods and services are expected to be provided to a customer, which the Company estimates to be approximately five years. The amortization of customer acquisition costs is classified as a sales and marketing expense in the condensed consolidated statement of operations.

Costs to fulfill a contract, or fulfillment costs, are only capitalized if they relate directly to a contract with a customer, the costs generate or enhance resources that will be used to satisfy performance obligations in the future, and the costs are expected to be recoverable. Fulfillment costs would be generally amortized over the same period of time as the customer acquisition costs. The amortization of fulfillment costs is classified as a cost of revenue in the condensed consolidated statement of operations.

Warranties

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

Advertising Costs

Advertising costs are expensed as incurred and amounts incurred were not material during the three months ended October 31, 2021 and 2020.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair value method, which requires the Company to measure stock-based compensation based on the grant-date fair value of the awards and recognize the compensation expense over the requisite service period. The Company recognizes compensation expense net of actual forfeitures. For the periods presented, the Company has granted time-based restricted stock units ("RSUs"), performance-based restricted stock units ("PSUs"), and restricted stock units that may be earned subject to the Company's total shareholder return ranking relative to the software companies in the S&P Software and

Services Select Industry Index ("S&P Index") over a specified performance period or periods, service periods, and, in select cases, performance conditions ("TSR PSUs"). RSUs, PSUs, and TSR PSUs are collectively referred to as "Stock Awards."

The fair value of the Company's RSUs and PSUs is equal to the market value of the Company's common stock on the date of grant. These awards are subject to time-based vesting, which generally occurs over a period of three to four years. The Company recognizes compensation expense for awards that 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 that contain either performance conditions, market conditions, or both using the graded vesting method and a portion of the expense may fluctuate depending on changing estimates of the achievement of the performance conditions.

The fair value of the Company's TSR PSUs is estimated at the grant date using the Monte Carlo simulation method. The assumptions utilized under this method require judgments and estimates. Changes in these inputs and assumptions could affect the measurement of the estimated fair value of the compensation expense of the related stock awards. Compensation expense associated with TSR PSUs will be recognized over the vesting period regardless of whether the market condition is ultimately satisfied; however, the expense will be reversed if a grantee terminates prior to satisfying the requisite service period. For TSR PSUs containing an additional performance condition, a portion of the expense may fluctuate depending on estimates of the achievement of the performance conditions. All TSR PSUs will vest at the end of a three-year period.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. All deferred tax assets and liabilities are classified as non-current on the Company's condensed consolidated balance sheets. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded when it is more likely than not that some portion or all of such deferred tax assets will not be realized and is based on both positive and negative evidence about the future, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

The effective tax rate in any given financial statement period may differ materially from the statutory rate. These differences may be caused by changes in tax regulations and resulting changes in the deferred tax valuation allowance; changes in the mix and level of income or losses; changes in the expected outcome of tax audits; permanent differences for stock-based compensation, including excess tax benefits; research and development credits; the tax rate differences between the United States and foreign countries; foreign withholding taxes; certain non-deductible expenses, including executive compensation; acquisition-related expenses; and provisions under the Tax Cuts and Jobs Act (the "Tax Act"), including a provision to tax global intangible low-taxed income of foreign subsidiaries, a special deduction for foreign-derived intangible income, and a base erosion anti-abuse tax that may tax certain payments between a U.S. corporation and its foreign subsidiaries.

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

Recent Accounting Pronouncements Not Yet Adopted

Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity

In August 2020, the FASB issued ASU No. 2020-06, "Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity", which simplifies the accounting for convertible instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. By removing the separation model, a convertible debt instrument will be reported as a single liability instrument with no separate accounting for embedded conversion features. This new standard also removes certain settlement conditions that are required for contracts to qualify for equity classification and simplifies the diluted earnings per share calculations by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in diluted earnings per share calculations. This new standard will be effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. The Company is currently assessing the impact of adopting this standard on the condensed consolidated financial statements, however, it believes the requirement to use the if-converted method instead of the treasury stock method of accounting for the shares issuable upon conversion of the Convertible Senior Notes, could negatively affect its diluted earnings per share.

Other Accounting Pronouncements

Other recent accounting pronouncements that will be applicable to the Company are not expected to have a material impact on its present or future financial statements.

2. Revenue

Disaggregation of Revenue

Revenue by license or service type is as follows (in thousands):

	Three Months Ended October 31,	
	2021	2020
Subscription and Support		
Subscription	$ 57,129	$ 37,230
Support	21,861	20,736
License		
Term license	40,105	65,225
Perpetual license	48	58
Services	46,791	46,553
Total revenue	$ 165,934	$ 169,802

Revenue by revenue type and by geography is as follows (in thousands):

	Three Months Ended October 31, 2021			
	Subscription and support	License	Services	Total
United States	$ 53,023	$ 18,453	$ 32,663	$ 104,139
Canada	11,941	5,813	2,358	20,112
Other Americas	1,039	237	708	1,984
Total Americas	66,003	24,503	35,729	126,235
United Kingdom	2,333	5,832	1,094	9,259
Other EMEA	5,217	1,407	6,395	13,019
Total EMEA	7,550	7,239	7,489	22,278
Total APAC	5,437	8,411	3,573	17,421
Total revenue	$ 78,990	$ 40,153	$ 46,791	$ 165,934

	Three Months Ended October 31, 2020			
	Subscription and support	License	Services	Total
United States	$ 39,013	$ 40,977	$ 32,360	$ 112,350
Canada	7,142	10,753	1,137	19,032
Other Americas	1,113	235	1,846	3,194
Total Americas	47,268	51,965	35,343	134,576
United Kingdom	2,030	8,299	1,315	11,644
Other EMEA	5,120	803	6,978	12,901
Total EMEA	7,150	9,102	8,293	24,545
Total APAC	3,548	4,216	2,917	10,681
Total revenue	$ 57,966	$ 65,283	$ 46,553	$ 169,802

No country or region, other than those presented above, accounted for more than 10% of revenue during the three months ended October 31, 2021 and 2020.

Customer Contract - Related Balance Sheet Amounts

Amounts related to customer contract-related arrangements are included in the condensed consolidated balance sheets as follows (in thousands):

	October 31, 2021	July 31, 2021
Unbilled accounts receivable, net	$ 109,672	$ 103,422
Contract costs, net	42,877	42,235
Deferred revenue, net	116,256	145,936

As of October 31, 2021 and July 31, 2021, there was no allowance for credit losses associated with unbilled accounts receivable.

Contract costs

The current portion of contract costs of $13.8 million and $13.4 million is included in prepaid and other current assets in the Company's condensed consolidated balance sheets as of October 31, 2021 and July 31, 2021, respectively. The non-current portion of contract costs of $29.1 million and $28.9 million is included in other assets in the Company's condensed consolidated balance sheets as of October 31, 2021 and July 31, 2021, respectively. The Company amortized $3.0 million and $2.2 million of contract costs during the three months ended October 31, 2021 and 2020, respectively.

Deferred revenue

During the three months ended October 31, 2021, the Company recognized revenue of approximately $67 million related to the Company's deferred revenue balance reported as of July 31, 2021.

Remaining Performance Obligations

The aggregate amount of consideration allocated to remaining performance obligations either not satisfied or partially satisfied, was approximately $881 million as of October 31, 2021. Subscription services are typically satisfied over three to five years, support services are generally satisfied within one year, and professional services are typically satisfied within one year. Professional services under time and material contracts are not included in the performance obligations calculation as these arrangements can be cancelled at any time.

3. Fair Value of Financial Instruments

Available-for-sale investments within cash equivalents and investments consist of the following (in thousands):

	October 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Government agency securities	$ 37,672	$ 1	$ (71)	$ 37,602
Commercial paper	327,355	—	—	327,355
Corporate bonds	372,970	335	(422)	372,883
U.S. Government bonds	62,321	36	(192)	62,165
Asset-backed securities	48,778	8	(33)	48,753
Foreign government bonds	43,586	7	(27)	43,566
Municipal bonds	205	—	—	205
Certificates of deposit	82,151	—	—	82,151
Money market funds	66,523	—	—	66,523
Strategic convertible debt investment*	1,000	—	—	1,000
Total	$ 1,042,561	$ 387	$ (745)	$ 1,042,203

*At original cost

	July 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Government agency securities	$ 85,165	$ 15	$ —	$ 85,180
Commercial paper	389,837	—	—	389,837
Corporate bonds	371,374	623	(37)	371,960
U.S. Government bonds	64,401	62	(1)	64,462
Asset-backed securities	47,925	29	(7)	47,947
Foreign government bonds	33,177	10	(2)	33,185
Municipal bonds	1,685	—	—	1,685
Certificates of deposit	82,250	—	—	82,250
Money market funds	125,118	—	—	125,118
Strategic convertible debt investment*	1,000	—	—	1,000
Total	$ 1,201,932	$ 739	$ (47)	$ 1,202,624

*At original cost

The Company does not consider any portion of the unrealized losses at October 31, 2021 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 income (loss). The amount of unrealized gains and losses reclassified into earnings are based on specific identification when the securities are sold. The realized gains and losses from sales of securities are presented in the condensed consolidated statements of comprehensive income (loss).

The following table summarizes the contractual maturities of the Company's available-for-sale investments measured at fair value (in thousands):

	October 31, 2021		
	Less Than 12 Months	12 Months or Greater	Total
U.S. Government agency securities	$ 10,000	$ 27,602	$ 37,602
Commercial paper	327,355	—	327,355
Corporate bonds	205,968	166,915	372,883
U.S. Government bonds	17,429	44,736	62,165
Asset-backed securities	3,891	44,862	48,753
Foreign government bonds	33,045	10,521	43,566
Municipal bonds	—	205	205
Certificates of deposit	79,151	3,000	82,151
Money market funds	66,523	—	66,523
Strategic convertible debt investment	$ 1,000	$ —	$ 1,000
Total	$ 744,362	$ 297,841	$ 1,042,203

Fair Value Measurement

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 Company applies the three-level valuation hierarchy when measuring the fair value of certain assets and liabilities:

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

Level 2—Inputs other than quoted prices included within Level 1 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.

Available-for-sale investments

The following tables summarize the Company's available-for-sale investments measured at fair value, by level within the fair value hierarchy (in thousands):

	October 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents:				
Commercial paper	$ —	$ 75,677	$ —	$ 75,677
Money market funds	66,523	—	—	66,523
Total cash equivalents	66,523	75,677	—	142,200
Short-term investments:				
U.S. Government agency securities	—	10,000	—	10,000
Commercial paper	—	251,678	—	251,678
Corporate bonds	—	205,968	—	205,968
U.S. Government bonds	—	17,429	—	17,429
Asset-backed securities	—	3,891	—	3,891
Foreign government bonds	—	33,045	—	33,045
Certificates of deposit	—	79,151	—	79,151
Strategic convertible debt investment	—	—	1,000	1,000
Total short-term investments	—	601,162	1,000	602,162
Long-term investments:				
U.S. Government agency securities	—	27,602	—	27,602
Corporate bonds	—	166,915	—	166,915
U.S. Government bonds	—	44,736	—	44,736
Asset-backed securities	—	44,862	—	44,862
Foreign government bonds	—	10,521	—	10,521
Certificates of deposit	—	3,000	—	3,000
Municipal bonds	—	205	—	205
Total long-term investments	—	297,841	—	297,841
Total	$ 66,523	$ 974,680	$ 1,000	$ 1,042,203

	July 31, 2021			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Commercial paper	$ —	$ 115,825	$ —	$ 115,825
Money market funds	125,118	—	—	125,118
Total cash equivalents	125,118	115,825	—	240,943
Short-term investments:				
U.S. Government agency securities	—	69,183	—	69,183
Commercial paper	—	274,012	—	274,012
Corporate bonds	—	225,384	—	225,384
U.S. Government bonds	—	45,320	—	45,320
Asset-backed securities	—	9,036	—	9,036
Foreign government bonds	—	28,353	—	28,353
Certificates of deposit	—	80,750	—	80,750
Municipal bonds		1,480		1,480
Strategic convertible debt investment			1,000	1,000
Total short-term investments	—	733,518	1,000	734,518
Long-term investments:				
U.S. Government agency securities	—	15,997	—	15,997
Corporate bonds	—	146,576	—	146,576
U.S. Government bonds	—	19,142	—	19,142
Asset-backed securities	—	38,911	—	38,911
Foreign government bonds	—	4,832	—	4,832
Certificates of deposit	—	1,500	—	1,500
Municipal bonds		205		205
Total long-term investments	—	227,163	—	227,163
Total	$ 125,118	$ 1,076,506	$ 1,000	$ 1,202,624

Convertible Senior Notes

The fair value of the Convertible Senior Notes was $494.0 million and $452.0 million at October 31, 2021 and July 31, 2021, respectively. The Company estimates the fair value of the Convertible Senior Notes using commonly accepted valuation methodologies and market-based risk measurements that are directly observable, such as unadjusted quoted prices (Level 2). The Company carries the Convertible Senior Notes at initial fair value less unamortized debt discount and issuance costs on its condensed consolidated balance sheets. For further information, see Note 7 "Convertible Senior Notes."

4. Acquisitions

On August 18, 2021, the Company completed its acquisition of HazardHub, Inc. ("HazardHub") for net cash consideration of approximately $53 million, subject to customary transaction adjustments, of which approximately $8 million is an acquisition consideration holdback which is subject to service conditions over the next three years. HazardHub provides API-driven property risk insights to the property & casualty insurance industry through curation, analysis, and distillation of vast amounts of data to deliver a comprehensive, national catalog of risks that may damage or destroy property. The acquisition was accounted for as a business combination.

In conjunction with the preliminary purchase price allocation, the Company determined that HazardHub's separately identifiable intangible assets were developed technology, customer relationships, and trade names. The valuation models were based on estimates of future operating projections of HazardHub and rights to sell new products containing the acquired technology as well as judgments on the discount rates used and other variables. The Company developed forecasts based on a number of factors including future revenue and operating cost projections, a discount rate that is representative of the weighted average cost of capital, in addition to royalty and long-term sustainable growth rates based on a market analysis. These fair value measurements were based on significant inputs that were not observable in the market and thus represents a Level 3 measurement. The Company amortizes the acquired intangibles over their estimated useful lives as set forth in the table below.

The preliminary allocation of purchase price is pending the completion of certain statutory tax filing requirements and is therefore subject to potential future measurement period adjustments. The measurement period will end no later than August 17, 2022. The preliminary allocation of the purchase consideration is as follows:

	Preliminary Purchase Price Allocation	Estimated Useful Lives
	(in thousands)	(in years)
Acquired assets, net of assumed liabilities	$ 461	
Developed technology	9,700	5
Customer relationships	5,100	5
Trademarks	900	7
Goodwill	31,185	
Deferred tax liability	(2,839)	
Total preliminary purchase consideration	$ 44,507	

Goodwill of $31.2 million arising from the acquisition is primarily related to the acquired workforce, expected synergies, and the opportunity to expand the Company's customer base. The goodwill recorded is not expected to be deductible for income tax purposes.

5. Balance Sheet Components

Accounts Receivables, Net

Accounts receivable, net consists of the following (in thousands):

	October 31, 2021	July 31, 2021
Accounts receivable	$ 81,112	$ 105,125
Allowance for credit losses and revenue reserves	(705)	(1,057)
Accounts receivable, net	$ 80,407	$ 104,068

Allowance for Credit Losses and Revenue Reserves

Changes to the allowance for credit losses and revenue reserves consists of the following (in thousands):

Balance as of July 31, 2021	$ 1,057
Net changes to credit losses	—
Net changes to revenue reserves	(32)
Write-offs, net	(320)
Balance as of October 31, 2021	$ 705

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	October 31, 2021	July 31, 2021
Prepaid expenses	$ 23,563	$ 20,330
Contract costs	13,805	13,365
Deferred costs	8,657	9,247
Deposits and other receivables	11,295	9,787
Restricted cash[1]	14,124	—
Prepaid expenses and other current assets	$ 71,444	$ 52,729

(1) Restricted cash represents the short term portion of the acquisition consideration holdback of $3.3 million which is in escrow and funds in transit as of October 31, 2021 of $10.8 million for the purchase of strategic equity investments that had not closed as of the end of the first quarter of fiscal year 2022.

Property and Equipment, Net

Property and equipment consist of the following (in thousands):

	October 31, 2021	July 31, 2021
Computer hardware	$ 19,361	$ 19,256
Purchased software	5,998	6,002
Capitalized software development costs	27,545	24,025
Equipment and machinery	12,240	12,214
Furniture and fixtures	11,791	11,482
Leasehold improvements	60,052	57,960
Total property and equipment	136,987	130,939
Less accumulated depreciation	(54,213)	(50,878)
Property and equipment, net	$ 82,774	$ 80,061

As of October 31, 2021 and July 31, 2021, no property and equipment was pledged as collateral. Depreciation expense, excluding the amortization of capitalized software development costs, was $3.6 million in both the three months ended October 31, 2021 and 2020.

The Company recognized amortization expense related to capitalized software development costs in cost of subscription and support revenue on the condensed consolidated statements of operations of $1.2 million and $0.6 million during the three months ended October 31, 2021 and 2020, respectively.

Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows (in thousands):

Goodwill, July 31, 2021	$ 340,877
Addition — HazardHub acquisition	31,185
Goodwill, October 31, 2021	$ 372,062

The Company's intangible assets are amortized over their estimated useful lives. Intangible assets consist of the following (in thousands):

		October 31, 2021			July 31, 2021		
	Remaining Weighted-Average Useful Life (in years)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Intangible assets:							
Acquired technology	3.4	$ 103,300	$ 88,311	$ 14,989	$ 93,600	$ 86,367	$ 7,233
Customer contracts and related relationships	3.8	40,800	26,122	14,678	35,700	24,432	11,268
Partner relationships	3.4	200	124	76	200	119	81
Trademarks	4.7	3,400	1,455	1,945	2,500	1,339	1,161
Order backlog	0.0	8,700	8,700	—	8,700	8,700	—
Total	3.6	$ 156,400	$ 124,712	$ 31,688	$ 140,700	$ 120,957	$ 19,743

Amortization expense was $3.8 million and $6.3 million for the three months ended October 31, 2021 and 2020, respectively. The future amortization expense for existing intangible assets as of October 31, 2021, based on their current useful lives, is as follows (in thousands):

Fiscal year ending July 31,	
2022 (remainder of fiscal year)	$ 10,327
2023	6,888
2024	5,468
2025	5,026
2026	3,572
Thereafter	407
Total	$ 31,688

Other assets

Other assets consist of the following (in thousands):

	October 31, 2021	July 31, 2021
Prepaid expenses	$ 2,974	$ 3,276
Contract costs	29,061	28,870
Deferred costs	2,175	2,777
Strategic equity investments	3,556	3,556
Restricted cash(2)	4,976	—
Other assets	$ 42,742	$ 38,479

(2) Restricted cash represents the long-term portion of the acquisition consideration holdback.

The Company's other assets include strategic equity investments in privately-held companies in which the Company does not have a controlling interest or the ability to exert significant influence. The strategic investments consist of non-marketable equity securities that do not have readily determinable market values (Level 3). The Company records these strategic investments at cost less impairment and adjusts cost for subsequent observable changes in fair value. No impairment charges related to strategic investments were recognized during the three months ended October 31, 2021 and 2020, respectively.

Accrued Employee Compensation

Accrued employee compensation consists of the following (in thousands):

	October 31, 2021		July 31, 2021	
Bonus	$	12,241	$	48,414
Commission		2,233		11,271
Vacation*		5,746		23,803
Salaries, payroll taxes, and benefits		18,185		18,649
Accrued employee compensation	$	38,405	$	102,137

*In the first quarter of fiscal year 2022, the Company paid out accrued vacation for employees in certain countries upon adopting a non-accrued vacation policy effective September 1, 2021.

Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	October 31, 2021		July 31, 2021	
Lease liabilities	$	11,312	$	11,624
Accrued royalties		9,165		7,525
Accrued taxes		3,495		6,796
Other		4,029		5,703
Other current liabilities	$	28,001	$	31,648

6. Net Income (Loss) Per Share

The Company calculates basic earnings per share by dividing the net income (loss) by the weighted average number of shares of common stock outstanding for the period. The diluted earnings per share is computed by giving effect to all potentially dilutive common stock equivalents outstanding for the period using the treasury stock method. For purposes of this calculation, options to purchase common stock, stock awards, and the Convertible Senior Notes are considered to be common stock equivalents.

The following table sets forth the computation of the Company's basic and diluted net income (loss) per share (in thousands, except share and per share amounts):

	Three Months Ended October 31,	
	2021	2020
Numerator:		
Net income (loss)	$ (51,276)	$ (20,190)
Net income (loss) per share:		
Basic	$ (0.62)	$ (0.24)
Diluted	$ (0.62)	$ (0.24)
Denominator:		
Weighted average shares used in computing net income (loss) per share:		
Basic	83,225,743	83,613,287
Diluted	83,225,743	83,613,287

The following weighted average shares of potential common stock were excluded from the computation of diluted net income (loss) per share for the periods presented because including them would have been anti-dilutive:

	Three Months Ended October 31,	
	2021	2020
Stock options	24,700	61,472
Stock awards	2,905,346	2,263,076
Convertible senior notes	133,668	—

Since the Company has the intent and ability to settle the principal amount of the Convertible Senior Notes in cash and any excess in shares of the Company's common stock, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on net income per share, if applicable. The conversion spread will have a dilutive impact on net income (loss) per share when the average market price of the Company's common stock for a given period exceeds the conversion price of $113.75 per share for the Convertible Senior Notes. During the three months ended October 31, 2021, the average market price of the Company's common stock exceeded the conversion price for the Convertible Senior Notes.

7. Convertible Senior Notes

In March 2018, the Company offered and sold $400.0 million aggregate principal amount of its 1.25% Convertible Senior Notes due 2025. The Convertible Senior Notes were issued in accordance with the Indenture, dated as of March 13, 2018, between the Company and U.S. Bank National Association, as trustee (the "Trustee") (the "Base Indenture"), as amended and supplemented by the First Supplemental Indenture, dated as of March 13, 2018, between the Company and the Trustee (together with the Base Indenture, the "Indenture"). The net proceeds from the issuance of the Convertible Senior Notes were $387.2 million, after deducting issuance costs.

The Convertible Senior Notes are unsecured obligations of the Company with interest payable semi-annually in arrears at a rate of 1.25% per year, on March 15th and September 15th of each year. The Convertible Senior Notes will mature on March 15, 2025 unless repurchased, redeemed, or converted prior to such date. Prior to the close of business on the business day immediately preceding October 15, 2024, the Convertible Senior Notes are convertible at the option of holders during certain periods, upon satisfaction of certain conditions. On or after October 15, 2024, the Convertible Senior Notes are convertible at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. The Convertible Senior Notes will have an initial conversion rate of 8.7912 shares of common stock per $1,000 principal (equivalent to an initial conversion price of approximately

$113.75 per share of the Company's common stock). The conversion rate is subject to customary adjustments upon the occurrence of certain events but will not be adjusted for any accrued and unpaid interest. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at its election.

The Company may redeem the Convertible Senior Notes, at its option, on or after March 20, 2022, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including at least one of the three trading days immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. No sinking fund is provided for the Convertible Senior Notes. Upon the occurrence of a fundamental change (as defined in the Indenture) prior to the maturity date, holders may require the Company to repurchase all or a portion of the Convertible Senior Notes for cash at a price equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Convertible Senior Notes rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes, and equal in right of payment to any of its indebtedness that is not so subordinated. The Convertible Senior Notes are effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) and any preferred equity of its current or future subsidiaries.

The net carrying value of the liability component, unamortized debt discount and unamortized debt issuance costs of the Convertible Senior Notes was as follows (in thousands):

	October 31, 2021	July 31, 2021
Principal	$ 400,000	$ 400,000
Less unamortized:		
Debt discount	47,022	50,198
Debt issuance costs	5,629	5,977
Net carrying amount	$ 347,349	$ 343,825

The effective interest rate of the Convertible Senior Notes is 5.53%. The following table sets forth the interest expense recognized related to the Convertible Senior Notes (in thousands):

	Three Months Ended October 31,	
	2021	2020
Contractual interest expense	$ 1,250	$ 1,250
Amortization of debt discount	3,176	3,020
Amortization of debt issuance costs	348	315
Total	$ 4,774	$ 4,585

Capped Call

In March 2018, the Company paid $37.2 million to purchase capped calls with certain financial institutions pursuant to capped call confirmations (the "Capped Calls"). The Capped Calls have an initial strike price of $113.75 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Convertible Senior Notes. The Capped Calls have initial cap prices of $153.13 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, 3.5 million shares of common stock. By entering into the Capped Calls, the Company expects to reduce the potential dilution to its common stock (or, in the event the conversion is settled in cash, to reduce its cash payment obligation) in the event that at the time of conversion its stock price exceeds the conversion price under the Convertible Senior Notes. The Capped Calls are subject to either adjustment or termination upon the occurrence of specified extraordinary events affecting the Company, including a merger event, tender offer, and a nationalization, insolvency, or delisting involving the Company. Additionally, the Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the Capped Calls, including change in law, insolvency filing, and hedging disruptions. The Capped Calls were recorded in the period purchased as a reduction of the Company's additional paid-in capital in the condensed consolidated balance sheets.

8. Leases

The Company's lease obligations consist of operating leases for office facilities and equipment, with lease periods expiring through fiscal year 2032. Some leases include one or more options to renew. Lease renewals are not assumed in the determination of the lease term until the exercise of the renewal option is deemed to be reasonably certain.

Components of operating lease costs were as follows (in thousands):

	Three Months Ended October 31, 2021	Three Months Ended October 31, 2020
Operating lease cost[1]	$ 4,252	$
Variable lease cost	1,408	
Sublease income	(390)	
Net operating lease cost	$ 5,270	$

(1) Lease expense for leases with an initial term of 12 months or less is excluded from the table above and was $0.2 million and $0.3 million for the three months ended October 31, 2021 and 2020, respectively.

Future operating lease payments as of October 31, 2021 were as follows (in thousands):

Fiscal Year Ending July 31,	
2022 (remainder of fiscal year)	$ 11,936
2023	16,821
2024	16,721
2025	16,967
2026	17,115
Thereafter	68,198
Total future lease payments	147,758
Less imputed interest	(24,146)
Total lease liability balance	$ 123,612

Supplemental information related to leases was as follows (in thousands, except for lease term and discount rate):

	October 31, 2021	July 31, 2021
Operating lease assets	$ 94,568	$ 97,447
Current portion of lease liabilities	$ 11,312	$ 11,624
Non-current portion of lease liabilities	112,300	115,374
Total lease liabilities	$ 123,612	$ 126,998
Weighted average remaining lease term (years)	8.52	8.74
Weighted average discount rate	4.20 %	4.20 %

Supplemental cash and non-cash information related to operating leases was as follows (in thousands):

	Three Months Ended October 31, 2021	Three Months Ended October 31, 2020
Cash payments for operating leases	$ 5,934	$ 5,285
Operating lease assets obtained in exchange for lease liabilities	$ 415	$ 9,217

9. 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, 2021.

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 has not recorded any accrual for claims as of October 31, 2021 or July 31, 2021. The Company has not accrued for estimated losses in the accompanying condensed consolidated financial statements as the Company has determined that no provision for liability nor disclosure is required related to any claim against the Company because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial. The Company expenses legal fees in the period in which they are incurred.

Indemnification

The Company sells software licenses and services to its customers under Software License Agreements ("SLA") and Software Subscription Agreements ("SSA"). SLAs and SSAs contain the terms of the contractual arrangement with the customer and generally include 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. SLAs and SSAs also generally indemnify the customer against judgments, settlements, fines, penalties, costs, and expenses resulting from a claim ("Losses") 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 were outstanding as of October 31, 2021 or July 31, 2021. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under various SLAs and SSAs, 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.

10. Stock-Based Compensation Expense and Shareholders' Equity

Stock-Based Compensation Expense

Stock-based compensation expense related to stock options and Stock Awards is included in the Company's condensed consolidated statements of operations as follows (in thousands):

	Three Months Ended October 31,	
	2021	2020
Stock-based compensation expense	$ 32,533	$ 28,394
Net impact of deferred stock-based compensation	(293)	(310)
Total stock-based compensation expense, net	$ 32,240	$ 28,084
Stock-based compensation expense is included in the following categories:		
Cost of subscription and support revenue	$ 3,348	$ 2,602
Cost of license revenue	182	251
Cost of services revenue	5,637	5,543
Research and development	8,614	7,247
Sales and marketing	7,489	5,977
General and administrative	6,970	6,464
Total stock-based compensation expense	$ 32,240	$ 28,084

Total unrecognized stock-based compensation expense as of October 31, 2021 related to Stock Awards is $361.3 million, that will be recognized over a weighted average period of 2.9 years.

Stock Awards

A summary of the Company’s Stock Awards activity under the Company’s equity incentive plans is as follows:

	Stock Awards Outstanding				
	Number of Stock Awards Outstanding		**Weighted Average Grant Date Fair Value**		**Aggregate Intrinsic Value (in thousands)(1)**
Balance as of July 31, 2021	2,394,968	$	107.15	$	275,900
Granted	1,512,995	$	119.97		
Released	(335,653)	$	99.22	$	40,270
Canceled	(88,420)	$	107.92		
Balance as of October 31, 2021	3,483,890	$	113.47	$	438,029
Expected to vest as of October 31, 2021	3,483,890	$	113.47	$	438,029

(1) Aggregate intrinsic value at each period end represents the total market value of Stock Awards at the Company’s closing stock price of $125.73 and $115.20 on October 31, 2021 and July 31, 2021, respectively. Aggregate intrinsic value for released Stock Awards represents the total market value of released Stock Awards at date of release.

Certain executives and employees of the Company received PSUs and TSR PSUs in addition to RSUs. PSUs awarded in fiscal years 2021 and 2022 will vest over three years with 50% vesting annually over the three year period and the remaining 50% vesting at the end of the third year. The TSR PSUs are subject to total shareholder return rankings of the Company's common stock relative to the software companies in the S&P Index for a specified period or periods, and vest at the end of three years. The Company recognized stock-based compensation related to these performance-based and market-based stock awards of $4.0 million and $3.3 million for the three months ended October 31, 2021 and 2020, respectively.

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**		**Aggregate Intrinsic Value(1)**
				(in years)		**(in thousands)**
Balance as of July 31, 2021	25,278	$	17.39	5.0	$	2,472
Granted	—					
Exercised	(1,518)	$	10.90		$	168
Canceled	—					
Balance at October 31, 2021	23,760	$	17.81	4.1	$	2,564
Vested and expected to vest as of October 31, 2021	23,760	$	17.81	4.1	$	2,564
Exercisable as of October 31, 2021	23,760	$	17.81	4.1	$	2,564

(1) Aggregate intrinsic value at each period end represents the difference between the Company’s closing stock price of $125.73 and $115.20 on October 31, 2021 and July 31, 2021, respectively, and the exercise price of outstanding options. Aggregate intrinsic value for exercised options represents the difference between the Company’s stock price at date of exercise and the exercise price.

Common Stock Reserved for Issuance

As of October 31, 2021 and July 31, 2021, the Company was authorized to issue 500,000,000 shares of common stock with a par value of $0.0001 per share and, of these, 83,305,156 and 83,194,157 shares of common stock were issued and outstanding, respectively.

As of October 31, 2021 and July 31, 2021, the Company had reserved shares of common stock for future issuance as follows:

	October 31, 2021	July 31, 2021
Exercise of stock options to purchase common stock	23,760	25,278
Vesting of stock awards	3,483,890	2,394,968
Shares available under stock plans	3,590,878	5,014,069
Total common stock reserved for issuance	7,098,528	7,434,315

Equity Incentive Plan

On December 15, 2020, the Company's stockholders adopted the 2020 Stock Plan ("2020 Plan") for the purpose of granting equity-based incentive awards. The Company initially reserved 5,000,000 shares of its common stock for the issuance of awards under the 2020 Plan. The shares available for issuance are subject to adjustment in the event of a stock split, stock dividend or other defined changes in the Company's capitalization. The 2020 Plan replaced the Company's 2011 Stock Plan; however, awards outstanding under the 2011 Stock Plan will continue to be governed by their existing terms.

The shares the Company issues under the 2020 Plan will be from the Company's pool of authorized but unissued shares. The shares of common stock underlying any awards under the 2011 Plan that are forfeited, canceled, held back upon exercise or settlement of an award to cover the exercise price or tax withholding, reacquired by the Company prior to vesting, satisfied without any issuance of stock or are otherwise terminated (other than by exercise) are added back to the shares of stock available for issuance under the 2020 Plan.

Stock Repurchase Program

In October 2020, the Company's board of directors authorized and approved a stock repurchase program of up to $200.0 million of the Company's outstanding common stock. Stock repurchases under the program may be made from time to time, in the open market, in privately negotiated transactions and otherwise, at the discretion of management of the Company and in accordance with applicable federal securities laws, including Rule 10b-18 of the Exchange Act, and other applicable legal requirements. Such repurchases may also be made in compliance with Rule 10b5-1 trading plans entered into by the Company.

During the three months ended October 31, 2021, the Company repurchased 226,172 shares of common stock at an average price of $116.12 per share, for an aggregate purchase price of $26.3 million. As of October 31, 2021, $11.2 million remained available for future share repurchases.

11. Income Taxes

The Company recognized an income tax benefit of $17.0 million and $10.7 million for the three months ended October 31, 2021 and 2020, respectively. The change in the amount of income taxes recorded for the three months ended October 31, 2021 compared to the same period a year ago was primarily due to the increase in the loss before taxes and research and development credits, offset by a tax status change of certain foreign subsidiaries for U.S. tax purposes and certain non-deductible expenses. The effective tax rate of 25% for the three months ended October 31, 2021 differs from the statutory U.S. federal income tax rate of 21% mainly due to permanent differences for stock-based compensation including excess tax benefits, research and development credits, and certain non-deductible expenses including executive compensation.

During the three months ended October 31, 2021, unrecognized tax benefits increased by $0.4 million. As of October 31, 2021, the Company had unrecognized tax benefits of $11.1 million that, if recognized, would affect the Company's effective tax rate.

12. Segment Information

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

The Company's long-lived assets for this disclosure is defined as property and equipment and operating lease assets. The Company’s long-lived assets by geographic region is as follows (in thousands):

	October 31, 2021	July 31, 2021
Americas	$ 141,104	$ 143,736
EMEA	34,835	32,171
APAC	1,403	1,601
Total	$ 177,342	$ 177,508

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 related notes thereto included elsewhere in this Quarterly Report on Form 10-Q 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 assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Overview

Guidewire delivers a leading platform that P&C insurers trust to engage, innovate, and grow efficiently. Guidewire's platform combines core operations, digital engagement, analytics, and artificial intelligence ("AI") applications delivered as a cloud service or self-managed software. As a partner to our customers, we continually evolve to enable their success and assist them in navigating a rapidly changing insurance market.

Our core operational services and products are InsuranceSuite via Guidewire Cloud, InsuranceNow, and InsuranceSuite for self-managed installations. These services and products are transactional systems of record that support the entire insurance lifecycle, including insurance product definition, distribution, underwriting, policyholder services, and claims management. InsuranceSuite via Guidewire Cloud is a highly configurable and scalable product, delivered as a service and primarily comprised of three core applications (PolicyCenter, BillingCenter, and ClaimCenter) that can be subscribed to separately or together. These applications are built on and optimized for our Guidewire Cloud Platform ("GWCP") architecture and leverage our in-house Guidewire Cloud operations team. InsuranceSuite via Guidewire Cloud is designed to support multiple releases each year to ensure that cloud customers remain on the latest version and gain fast access to our innovation efforts. Additionally, InsuranceSuite via Guidewire Cloud embeds digital and analytics capabilities natively into our platform. Most new sales and implementations are for InsuranceSuite via Guidewire Cloud. InsuranceNow is a complete, cloud-based application that offers policy, billing, and claims management functionality to insurers that have limited internal information technology resources. InsuranceSuite for self-managed installations is comprised of three core applications (PolicyCenter, BillingCenter, and ClaimCenter) that can be licensed separately or together and can be deployed and updated by our customers and their implementation partners. Our digital engagement applications enable digital sales, omni-channel service, and enhanced claims experiences for policyholders, agents, vendor partners, and field personnel. Our Analytics and AI offerings enable insurers to manage data more effectively, gain insights into their business, drive operational efficiencies, and underwrite new and evolving risks. To support P&C insurers globally, we have localized, and will continue to localize, our platform for use in a variety of international regulatory, language, and currency environments.

Our customers range from some of the largest global insurance companies or their subsidiaries to predominantly national or local insurers that serve specific states and/or regions. Our customer engagement is led by our direct sales team and supported by our system integrator ("SI") partners. We maintain and continue to grow our sales and marketing efforts globally, and maintain regional sales centers throughout the world.

Because our platform is critical to our new and existing customers' businesses, their decision-making and product evaluation process is long, which results in an extended sales cycle. These evaluation periods can extend further if a customer purchases multiple products or assesses the benefits of a cloud-based subscription. Sales to new customers also involve extensive customer due diligence and reference checks. Our sales cycle has lengthened due to the COVID-19 pandemic. The success of our sales efforts relies on continued improvements and enhancements to our current services and products, the introduction of new services and products, efficient operation of our cloud infrastructure, continued development of relevant local content and automated tools for updating content, and successful implementations.

We sell our cloud-delivered offerings through subscription services and our self-managed products through term licenses. We generally price our services and products based on the amount of DWP that will be managed by our platform. Our subscription, term license, and support fees are typically invoiced annually in advance. Subscription services are generally sold with an initial term of between three and five years with optional annual renewals commencing after the initial term. Subscription revenue is recognized on a ratable basis over the committed term, once all revenue recognition criteria is met including providing access to the service. Term licenses are primarily sold with an initial two-year committed term with optional annual renewals commencing after the initial term. We may enter into term license arrangements with our customers that have an initial term of more than two years or may renew license arrangements for longer than one year. A small portion of our revenue is derived from perpetual licenses. Term and perpetual license revenue are typically recognized when software is made available to the customer, provided that all other revenue recognition criteria have been met. Our support revenue is generally recognized ratably over the committed support term of the licensed software. Our support fees are typically priced as a fixed percentage of the associated license fees. We also offer professional services, both directly and through SI partners, to help our customers deploy, migrate, and utilize our platform, services, and products. Substantially all of our services revenue is billed monthly on a time and materials basis.

Over the past few years, we have primarily been entering into cloud-based subscription arrangements with our new and existing customers and we anticipate that subscription arrangements will be a majority of annual new sales going forward. As this sales model matures, we may decide to change certain contract terms in new arrangements to remain competitive or otherwise meet market demands.

To extend our technology leadership in the global market and to drive operating efficiency, we continue to invest in product development and cloud operations to enhance and improve our current services and products, introduce new services and products, and advance our ability to securely and cost-effectively deliver our services in the cloud. Continued investment is critical as we seek to assist our customers in achieving their technology goals, maintain our competitive advantage, grow our revenue, expand internationally, and meet evolving customer demands. In certain cases, we may also acquire skills and technologies to manage our cloud infrastructure and accelerate our time to market for new products, solutions, and upgrades.

Our track record of success with customers and their implementations is central to maintaining our strong competitive position. We rely on our global services team and SI partners to ensure that teams with the right combination of product and language skills are used in the most efficient way to meet our customers' implementation and migration needs. We have extensive relationships with SI, consulting, technology, and other industry partners. Our network of partners has expanded as interest in and adoption of our platform has grown. We encourage our partners to co-market, pursue joint sales initiatives, and drive broader adoption of our technology, helping us grow our business more efficiently and enabling us to focus our resources on continued innovation and further enhancement of our solutions.

We work closely with our network of third-party SI partners to facilitate new sales and implementations of both our subscription services and self-managed products. Our partnership with leading SI partners allows us to increase efficiency and scale while reducing customer implementation and migration costs. We continue to invest time and resources to increase the number of qualified consultants employed by our SI partners, develop relationships with new partners in existing and new markets, and ensure that all SI partners are qualified to assist with implementing our services and products. We believe this model will continue to serve us well, and we intend to continue to expand our network of partners and the number of certified consultants with whom we work so we can leverage our SI partners more effectively, especially for future subscription migrations and implementations.

We face a number of risks in the execution of our strategy, including risks related to expanding to new markets, managing lengthy sales cycles, competing effectively in the global market, relying on sales to a relatively small number of large customers, developing new or acquiring existing services and products successfully, migrating our business towards a subscription model with ratable revenue recognition, increasing the overall adoption of our services and products, and cost-effectively managing the infrastructure of our cloud-based customers. In response to these and other risks we might face, we continue to invest in many areas of our business, including product development, cloud operations, implementation services and sales and marketing.

Seasonality

We have experienced seasonal variations in our license revenue and, to a lesser extent, in our subscription revenue as a result of increased customer orders in our fourth fiscal quarter. We generally see significantly increased orders in our fourth fiscal quarter, which is the quarter ending July 31, due to efforts by our sales team to achieve annual incentives. Because we recognize revenue upfront for new term licenses and multi-year renewals compared to over time for subscription services, changes in the mix between term license and subscription services may impact our quarterly results. Additionally, any quarter in which a significant multi-year term license or multi-year term license renewal or non-renewal occurs could be impacted. For example, in the first quarter of fiscal year 2021, we experienced license revenue growth due to a five-year term license renewal under which revenue was recognized upfront, which overshadowed the comparison with our second quarter of fiscal year 2021 and created a challenging comparable period for the first quarter of fiscal year 2022. Additionally, as subscriptions increase as a percentage of total sales, the revenue we can recognize in the initial fiscal year of an order will be reduced, deferred revenue will increase, and our reported revenue growth will be adversely affected in the near term due to the ratable nature of these arrangements. The concentration of our sales in our fiscal fourth quarter increases this impact as the revenue impact of most fiscal fourth quarter subscription sales will not be realized until the following fiscal year.

Our services revenue is also subject to seasonal fluctuations, though to a lesser degree than our license revenue and subscription revenue. Our services revenue is impacted by the number of billable days in a given fiscal quarter. The fiscal quarter ending January 31 usually has fewer billable days due to the impact of the Thanksgiving, Christmas, and New Year's holidays. The fiscal quarter ending July 31 usually has fewer billable days due to the impact of vacations taken by our services professionals. Because we pay our services professionals the same amount throughout the year, our gross margins on our services revenue are usually lower in these quarters. This seasonal pattern, however, may be absent in any given year.

COVID-19 Impact

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has continued to spread throughout the United States and the world and has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. While we are unable to accurately predict the full impact that COVID-19 will have on our results of operations, financial condition, liquidity, and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures and if there are any periods of increases in the number of COVID-19 cases or future variants of the virus in areas in which we operate, our compliance with containment measures has impacted our day-to-day operations and could continue to disrupt our business and operations, as well as that of our key customers, SI partners, vendors, and other counterparties, for an indefinite period of time. To support the health and well-being of our employees, customers, SI partners and communities, a vast majority of our employees are working remotely. In addition, many of our existing and potential customers are working remotely, which may continue to delay the timing of new orders and professional services engagements in the future.

Our business and financial results since the third quarter of fiscal year 2020 have been impacted due to these disruptions, including decreases in annual recurring revenue ("ARR") growth rates, services revenue and margins, operating cash flow, potentially higher employee attrition, and the change in fair value of strategic investments. ARR and revenue, especially services revenue, continued to be impacted in fiscal year 2022 as a result of the challenges related to our compliance with government-mandated or recommended shelter-in-place orders in jurisdictions in which we, our customers, SI partners and vendors operate.

Although vaccines are making progress against the COVID-19 pandemic in the United States and certain other parts of the world where vaccinations are widely available, the economic impact of the pandemic on our business and the businesses of our customers, SI partners, and vendors may continue through fiscal year 2022, if not longer. We believe that new sales activities are being delayed, not cancelled, and implementation engagements are being rescheduled to later periods or being completed over a longer period of time. Certain marketing events have or will be cancelled or postponed, while others are being hosted both in-person and virtually, like our customer conference, Connections. Our customers may be unable to pay or may request amended payment terms for their outstanding invoices due to the economic impacts from COVID-19, and we may need to increase our accounts receivable allowances. A decrease in orders in a given period could negatively affect our revenues and ARR in future periods, particularly if experienced on a sustained basis, because a substantial proportion of our new software subscription services orders is recognized as revenue over time. Also, the pandemic's global economic impact could affect our customers' DWP, which could ultimately impact our revenue as we generally price our services and products based on the amount of DWP that will be managed by our platform. Additionally, we may be required to record impairment related to our operating lease assets, investments, long-lived assets, or goodwill.

In response to the pandemic, various government programs have been announced which provide financial relief to affected businesses. As an example, the Canadian Government enacted the Canada Emergency Wage Subsidy ("CEWS") under their COVID-19 Economic Response Plan to prevent layoffs and help employers offset, for a limited time, a portion of their employee salaries and wages. Beginning in January 2021, we applied for the CEWS, to the extent we met the requirements to receive a subsidy. We have not and do not expect to receive a subsidy under the CEWS for the three months ended October 31, 2021.

We will continue to evaluate the nature and extent of the impact of COVID-19 on our business.

Key Business Metrics

We use certain key metrics and financial measures not prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") to evaluate and manage our business, including ARR and Free Cash Flow. For a further discussion of how we use key metrics and certain non-GAAP financial measures, see "Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q.

Annual Recurring Revenue ("ARR")

We use ARR to quantify the annualized recurring value outlined in active customer contracts at the end of a reporting period. ARR includes the annualized recurring value of term licenses, subscription agreements, support contracts, and hosting agreements based on customer contracts, which may not be the same as the timing and amount of revenue recognized. All components of the licensing and other arrangements that are not expected to recur (primarily perpetual licenses and professional services) are excluded. In some arrangements with multiple performance obligations, a portion of recurring license and support or subscription contract value is allocated to services revenue for revenue recognition purposes, but does not get allocated for purposes of calculating ARR. This revenue allocation only impacts the initial term of the contract. This means that as we increase arrangements with multiple performance obligations that include services at discounted rates, more of the total contract value will be recognized as services revenue, but our reported ARR amount will not be impacted. During the three months ended October 31, 2021, the recurring license and support or subscription contract value recognized as services revenue was $0.9 million.

If a customer contract contains invoicing amounts that increase over the contract term, then ARR reflects the annualized invoicing amount outlined in the contract for the current reporting period. For example, given a contract with annual invoicing of $1.0 million at the beginning of year one, $2.0 million at the beginning of year two, and $3.0 million at the beginning of year three, and the reporting period is subsequent to year two invoicing and prior to year three invoicing, the reported ARR for that contract would be $2.0 million.

As of October 31, 2021, ARR was $594 million, compared to $582 million as of July 31, 2021. ARR results for interim quarterly periods in fiscal year 2022 are measured on a constant currency basis, using the actual currency rates at the end of fiscal year 2021 throughout the year.

Free Cash Flow

We monitor our free cash flow, as a key measure of our overall business performance, which enables us to analyze our financial performance without the effects of certain non-cash items such as depreciation, amortization, and stock-based compensation expenses. Additionally, free cash flow takes into account the impact of changes in deferred revenue, which reflects the receipt of cash payment for products before they are recognized as revenue, and unbilled accounts receivable, which reflects revenue that has been recognized that has yet to be invoiced to our customers. Our net cash provided by (used in) operating activities is significantly impacted by the timing of invoicing and collections of accounts receivable, the timing and amount of annual bonus payments, as well as payroll and tax payments. Our capital expenditures consists of purchases of property and equipment, primarily computer hardware, software, and leasehold improvements, and capitalized software development costs. In the first quarter of fiscal year 2022, we paid the entire bonus amount for fiscal year 2021 along with accrued vacation for employees in countries where we adopted a non-accrued vacation policy effective September 2021. For a further discussion of our operating cash flows, see "Liquidity and Capital Resources – Cash Flows" in this Quarterly Report on Form 10-Q.

	Three Months Ended October 31,	
	2021	2020
Net cash provided by (used in) operating activities	$ (107,042)	$ (15,707)
Purchases of property and equipment	(3,333)	(1,907)
Capitalized software development costs	(3,783)	(2,581)
Free cash flow	$ (114,158)	$ (20,195)

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP. Accounting policies, methods, and estimates are an integral part of the preparation of condensed consolidated financial statements in accordance with 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 condensed 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 significant accounting policies, methods, and estimates affecting our condensed consolidated financial statements, which are described in Note 1 "The Company and Summary of Significant Accounting Policies and Estimates" to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, our revenue recognition policies are critical to the periods presented.

There have been no material changes to our significant and critical accounting policies as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the fiscal year ended July 31, 2021 except for the addition of business combinations as a significant accounting policy described in Note 1 "The Company and Summary of Significant Accounting Policies and Estimates" to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

See Note 1 "The Company and Summary of Significant Accounting Policies and Estimates" to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, for a full description of recent accounting pronouncements adopted, including the dates of adoption, and recent account pronouncements not yet adopted.

Results of Operations

The following table sets forth our results of operations for the periods presented. The data has been derived from the 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 fairly present the financial position and results of operations for the interim periods presented. The results of operations 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 for the fiscal year ended July 31, 2021.

	Three Months Ended October 31,			
	2021	As a % of total revenue	2020	As a % of total revenue
	(in thousands, except percentages)			
Revenue:				
Subscription and support	$ 78,990	48 %	$ 57,966	35 %
License	40,153	24	65,283	38
Services	46,791	28	46,553	27
Total revenue	165,934	100	169,802	100
Cost of revenue:				
Subscription and support	50,331	30	37,006	22
License	2,339	1	2,937	2
Services	50,509	30	51,024	30
Total cost of revenue	103,179	61	90,967	54
Gross profit:				
Subscription and support	28,659	17	20,960	13
License	37,814	23	62,346	36
Services	(3,718)	(2)	(4,471)	(3)
Total gross profit	62,755	38	78,835	46
Operating expenses:				
Research and development	59,926	36	52,615	30
Sales and marketing	43,631	26	36,644	22
General and administrative	24,575	15	21,180	12
Total operating expenses	128,132	77	110,439	64
Income (loss) from operations	(65,377)	(39)	(31,604)	(18)
Interest income	674	—	2,789	1
Interest expense	(4,794)	(3)	(4,620)	(3)
Other income (expense), net	1,183	1	2,568	2
Income (loss) before provision for (benefit from) income taxes	(68,314)	(41)	(30,867)	(18)
Provision for (benefit from) income taxes	(17,038)	(10)	(10,677)	(6)
Net income (loss)	$ (51,276)	(31) %	$ (20,190)	(12) %

Revenue

We derive our revenue primarily from delivering cloud-based services, licensing our software applications, providing support, and delivering professional services.

Subscription and Support

A growing portion of our revenue consists of fees for our subscription services, which are generally priced based on the amount of DWP that is managed by our subscription services. Subscription revenue is recognized ratably over the term of the arrangement, beginning at the point in time our provisioning process has been completed and access has been made available to the customer. The initial term of such arrangements is generally from three to five years. Subscription agreements contain optional annual renewals commencing upon the expiration of the initial contract term. A majority of our subscription customers are billed annually in advance. In some arrangements with multiple performance obligations, a portion of recurring subscription contract value may be allocated to license revenue or services revenue for revenue recognition purposes. For example, in arrangements with multiple performance obligations that include services at discounted rates, a portion of the total contract value related to subscription services will be allocated and recognized as services revenue.

Our support revenue is generally recognized ratably over the committed support term of the licensed software. Our support fees are typically priced as a fixed percentage of the associated term license fees. We generally invoice support annually in advance.

License

A substantial majority of our license revenue consists of term license fees. Our term license revenue is primarily generated through license fees that are billed annually in advance during the term of the contract, including any renewals. Our term license fees are generally priced based on the amount of DWP that will be managed by our licensed software. Our term licenses have generally been sold under a two-year initial term with optional annual renewals after the initial term. However, we do enter into license arrangements that have an initial term of more than two years and renewal terms of more than one year. Term license revenue for the committed term of the customer agreement is generally fully recognized upon delivery of the software or at the beginning of the renewal term.

In a limited number of cases, we license our software on a perpetual basis. Perpetual license revenue is generally recognized upon delivery. We invoice our perpetual license customers either in full at contract signing or on an installment basis.

Services

Our services revenue is primarily derived from implementation and migration services performed for our customers, reimbursable travel expenses, and training fees. A substantial majority of our services engagements are billed and revenue is recognized on a time and materials basis upon providing our services.

	Three Months Ended October 31,					
	2021		2020		Change	
	Amount	As a % of total revenue	Amount	As a % of total revenue	($)	(%)
	(in thousands, except percentages)					
Revenue:						
Subscription and support:						
Subscription	$ 57,129	34 %	$ 37,230	22 %	$ 19,899	53 %
Support	21,861	13	20,736	12	1,125	5 %
License:						
Term license	40,105	24	65,225	38	(25,120)	(39) %
Perpetual license	48	—	58	—	(10)	(17) %
Services	46,791	28	46,553	28	238	1 %
Total revenue	$ 165,934	99 %	$ 169,802	100 %	$ (3,868)	(2) %

Subscription and Support

We anticipate subscriptions will continue to represent a majority of new arrangements, including customers migrating from existing term license arrangements to subscription services, in future periods. Due to the ratable recognition of subscription revenue, growth in subscription revenue will lag behind the growth of subscription orders and will impact the comparative growth of our reported revenue. If we complete a higher percentage of subscription arrangements in a given period, our short-term growth rates will be negatively impacted. Due to the seasonal nature of our business, the impact of new subscription orders in the fourth fiscal quarter, our historically largest quarter for new orders, is not reflected in revenues until the following fiscal year.

Subscription revenue increased by $19.9 million during the three months ended October 31, 2021 compared to the same period a year ago, primarily due to the impact of new cloud transition agreements for InsuranceSuite via Guidewire Cloud entered into and provisioned since October 31, 2020.

Support revenue increased by $1.1 million during the three months ended October 31, 2021 compared to the same period a year ago, primarily due to an increase in extended support related to certain versions of our self-managed licenses of $0.8 million. Support related to subscription arrangements is included in subscription revenue, as support is not quoted or priced separately from the subscription services. As customers enter into a subscription agreement to migrate from an existing term license agreement, the timing and amount of revenue recognized will be impacted by allocations of the total contract value between the license, subscription, and support performance obligations. As a result, we expect the increase in subscription orders as a percentage of total new sales and customers migrating from term licenses to subscription services will continue to reduce the growth in, or result in lower, support revenue in the future.

License

Revenue related to new term licenses and multi-year term license renewals is generally recognized upfront and, as a result, no additional license revenue is recognized until after the committed term expires. As a customer enters into a subscription agreement to migrate from an existing term license agreement, the timing and amount of revenue recognition will be impacted by allocations of total contract value between license, subscription, and support performance obligations. License revenue growth will be negatively impacted as subscription sales increase as a percentage of total new sales and as customers migrate from term licenses to subscription services instead of renewing their term licenses.

Term license revenue decreased by $25.1 million during the three months ended October 31, 2021 compared to the prior year period, primarily due to a large multi-year term license renewal in the three months ended October 31, 2020. There was no impact of term license contracts with an initial term of greater than two years or a renewal term of greater than one year during the three months ended October 31, 2021 compared with $15.4 million in the prior year period.

Perpetual license revenue accounted for less than 1% of total revenue during the three months ended October 31, 2021. We expect perpetual license revenue to continue to represent a small percentage of our total license revenue. We also expect perpetual license revenue to potentially be volatile across quarters due to the large amount of perpetual revenue that may be generated from a single customer order.

Services

Services revenue increased by $0.2 million during the three months ended October 31, 2021 compared to the same period a year ago. The increase is primarily driven by higher training revenue, but services revenue overall continues to be impacted by contracts with lower average services billing rates and increased investments in customer implementations, including fixed fee or capped arrangements, to accelerate their transition to the cloud. In these arrangements when a project extends longer than originally anticipated, the average billing rate we recognize may decrease which can result in revenue adjustments and lower gross profit.

We expect modestly higher levels of variability in our services revenue in future periods. As we successfully leverage our SI partners to lead more implementations, our services revenue could decrease further. We expect challenges related to COVID-19 will also continue to negatively impact services revenue. As we continue to expand into new markets and develop new services and products, we have, and may continue to, enter into contracts with lower average billing rates, make investments in customer implementation and migration engagements, and enter into fixed price contracts, which may impact services revenue and services margins.

Cost of Revenue and Gross Profit

Our cost of subscription and support revenue consists of personnel costs for our cloud operations and technical support teams, cloud infrastructure costs, development of online training curriculum, amortization of intangible assets, and royalty fees paid to third parties. Our cost of license revenue primarily consists of development of online training curriculum, royalty fees paid to third parties, and amortization of intangible assets. Our cost of services revenue primarily consists of personnel costs for our professional service employees, third-party consultants, and travel costs. In instances where we have primary responsibility for the delivery of services, subcontractor fees are expensed as cost of services revenue. In each case, personnel costs include salaries, bonuses, benefits, and stock-based compensation.

We allocate overhead such as information technology support, information security, facilities, and other administrative costs to all functional departments based on headcount. As such, these general overhead expenses are reflected in cost of revenue and each functional operating expense.

Cost of Revenue:

	Three Months Ended October 31,			
	2021	2020	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Cost of revenue:				
Subscription and support	$ 50,331	$ 37,006	$ 13,325	36 %
License	2,339	2,937	(598)	(20)
Services	50,509	51,024	(515)	(1)
Total cost of revenue	$ 103,179	$ 90,967	$ 12,212	13
Includes stock-based compensation of:				
Cost of subscription and support revenue	$ 3,348	$ 2,602	$ 746	
Cost of license revenue	182	251	(69)	
Cost of services revenue	5,637	5,543	94	
Total	$ 9,167	$ 8,396	$ 771	

Cost of subscription and support revenue during the three months ended October 31, 2021 increased by $13.3 million compared to the same period a year ago. The increase is primarily due to increases in personnel costs of $8.2 million due to our continued investment in our cloud operations to increase operational efficiency and scale, cloud infrastructure expense of $6.5 million for our growing cloud customer base, higher amortization of previously capitalized software development costs of $0.5 million, and professional services expense of $0.4 million, partially offset by a net decrease in amortization of acquired intangibles of $2.3 million due to certain acquired intangible assets being fully amortized.

Due to our continued investment in cloud-based operations, increase in new cloud-based customers, and increased usage from existing cloud-based customers, the costs to provide our subscription services has increased. We expect our cost of subscription revenue to increase as we continue to invest in our cloud operations and incur higher cloud infrastructure costs to support our growing cloud customer base, to improve efficiencies, and to continuously improve and maintain secure environments. However, we believe that the cost of subscription revenue will grow at a slower rate than subscription revenue in future years as we achieve economies of scale and other efficiencies. Cost of support revenue is expected to remain flat or slightly decrease over time as term license customers transition to the cloud. The short-term impact of these trends along with mix within subscription and support revenue may result in a decline in subscription and support gross margin even though subscription and support gross profit increases in absolute dollars.

The cost of license revenue decreased by $0.6 million during the three months ended October 31, 2021 compared to the same period a year ago primarily due to decreases in amortization of acquired intangible assets due to certain acquired intangible assets being fully amortized and lower costs associated with the development of online training curriculum included with the latest releases of InsuranceSuite. We continue to anticipate lower cost of license revenue over time as our term license customers transition to cloud subscription agreements.

The $0.5 million decrease in cost of services revenue during the three months ended October 31, 2021 compared to the same period a year ago was primarily attributable to a decrease of $1.6 million in personnel costs, partially offset by increases of $0.7 million in subcontractor expenses for InsuranceSuite implementation resources, $0.2 million in software subscription expenses, and $0.1 million in web hosting expenses.

We had 634 cloud operations and technical support employees and 659 professional services employees at October 31, 2021, compared to 475 cloud operations and technical support employees and 699 professional services employees at October 31, 2020.

Gross Profit:

	Three Months Ended October 31,					
	2021		2020		Change	
	Amount	Margin %	Amount	Margin %	($)	(%)
	(in thousands, except percentages)					
Gross profit:						
Subscription and support	$ 28,659	36 %	$ 20,960	36 %	$ 7,699	37 %
License	37,814	94	62,346	96	(24,532)	(39)
Services	(3,718)	(8)	(4,471)	(10)	753	17
Total gross profit	$ 62,755	38	$ 78,835	46	$ (16,080)	(20)

Our gross profit decreased $16.1 million during the three months ended October 31, 2021 compared to the same period a year ago. Gross profit was impacted by the decrease in term license revenue due to the impact of multi-year term license arrangements entered into in the first quarter of fiscal year 2022 being significantly lower than the impact of multi-year term license arrangements in the same period a year ago.

Our gross margin decreased to 38% during the three months ended October 31, 2021 from 46% during the same period a year ago. Gross margin was primarily impacted by the increased percentage of subscription and support revenue to total revenue as subscription and support revenue has lower gross margin compared to license revenue.

We expect subscription and support gross margins will fluctuate as our subscription revenue increases and we continue to invest in our cloud operations. However, as we gain efficiencies and increase the number of cloud customers, we expect subscription gross margins to improve over time. In addition to the impact of our investment in customer migrations and implementations, challenges related to COVID-19 may negatively impact services gross margin for at least the remainder of this fiscal year. We expect license gross margin will fluctuate based on changes in revenue due to the timing of delivery of new multi-year term licenses and the execution of multi-year term license renewals, as cost of license revenue is expected to be relatively consistent from period to period in the future. Overall, we expect gross margins to decline in the short-term primarily due to the mix between license revenue and subscription and support revenue.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. The largest components of our operating expenses are personnel costs for our employees and, to a lesser extent, professional services. In each case, personnel costs include salaries, bonuses, commissions, benefits, and stock-based compensation. We allocate overhead such as information technology support, information security, facilities, and other administrative costs to all functional departments based on headcount. As a result, general overhead expenses are reflected in cost of revenue and each functional operating expense.

	Three Months Ended October 31,					
	2021		2020		Change	
	Amount	As a % of total revenue	Amount	As a % of total revenue	($)	(%)
	(in thousands, except percentages)					
Operating expenses:						
Research and development	$ 59,926	36%	$ 52,615	30 %	$ 7,311	14 %
Sales and marketing	43,631	26	36,644	22	6,987	19
General and administrative	24,575	15	21,180	12	3,395	16
Total operating expenses	$ 128,132	77	$ 110,439	64	$ 17,693	16
Includes stock-based compensation of:						
Research and development	$ 8,614		$ 7,247		$ 1,367	
Sales and marketing	7,489		5,977		1,512	
General and administrative	6,970		6,464		506	
Total	$ 23,073		$ 19,688		$ 3,385	

Research and Development

Our research and development expenses primarily consist of personnel costs for our technical staff and consultants providing professional services.

The $7.3 million increase in research and development expenses during the three months ended October 31, 2021 compared to the same period a year ago, was primarily due to increases of $4.6 million in personnel costs associated with higher headcount, inclusive of $0.7 million in acquisition consideration holdback costs relating to the Hazard Hub acquisition, and $2.0 million of cloud infrastructure costs for our development environments.

Our research and development headcount was 871 at October 31, 2021 compared with 810 at October 31, 2020.

We expect our research and development expenses to increase in absolute dollars as we continue to hire and dedicate internal resources to develop, improve, and expand the functionality of our solutions and migrate our solutions to the cloud. Research and development expenses may also increase if we pursue additional acquisitions.

Sales and Marketing

Our sales and marketing expenses primarily consist of personnel costs for our sales and marketing employees. Included in our personnel costs are commissions, which are considered contract acquisition costs and are capitalized when earned and expensed over the anticipated period of time that goods and services are expected to be provided to a customer, which we estimate to be approximately five years. Sales and marketing expenses also includes travel expenses, professional services for marketing activities, and amortization of certain acquired intangibles.

The $7.0 million increase in sales and marketing expenses during the three months ended October 31, 2021 compared to the same period a year ago was primarily attributable to increases of $7.2 million in personnel costs due to higher headcount to sell and market our services and products, including an increase of $0.9 million related to the net effect of the capitalization and amortization of contract acquisition costs (primarily commissions). These increases were partially offset by a decrease of $0.4 million in marketing and advertising expense due to costs associated with Connections Reimagined, our virtual annual sales conference in the first quarter of fiscal year 2021. Our annual sales conference in fiscal year 2022 was primarily an in-person event, supplemented with virtual content, held in November 2021, the second quarter of fiscal year 2022.

Our sales and marketing headcount was 457 at October 31, 2021 compared with 416 at October 31, 2020.

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

General and Administrative

Our general and administrative expenses include executive, finance, human resources, legal, and corporate development and strategy functions, and primarily consist of personnel costs, as well as professional services.

The $3.4 million increase during the three months ended October 31, 2021 compared to the same period a year ago was primarily due to increases of $1.9 million in software and professional services to support our growth and $1.4 million in personnel costs due to higher headcount.

Our general and administrative headcount was 410 at October 31, 2021 compared with 359 at October 31, 2020. General and administrative headcount includes personnel in information technology support, information security, facilities, and recruiting whose expenses are allocated across all functional departments.

We expect that our general and administrative expenses will increase in absolute dollars as we continue to invest in personnel, corporate infrastructure, and systems required to support our strategic initiatives, the growth of our business, and our compliance and reporting obligations.

Other Income (Expense)

	Three Months Ended October 31,			
	2021	2020	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Interest income	$ 674	$ 2,789	$ (2,115)	(76) %
Interest expense	$ (4,794)	$ (4,620)	$ (174)	4 %
Other income (expense), net	$ 1,183	$ 2,568	$ (1,385)	(54) %

*Not meaningful

Interest Income

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

Interest income decreased $2.1 million during the three months ended October 31, 2021 compared to the same period a year ago, primarily due to lower yields on invested funds.

Interest Expense

Interest expense includes both stated interest and the amortization of debt discount and issuance costs associated with the $400.0 million aggregate principal amount of our Convertible Senior Notes. The amortization of debt discount and issuance costs are recognized on an effective interest basis. Stated interest expense is consistent in the comparative periods as the outstanding principal and stated interest rate have not changed.

Interest expense for the three months ended October 31, 2021 and 2020 consists of non-cash interest expense related to the amortization of debt discount and issuance costs of $3.5 million and $3.3 million, respectively, and stated interest of $1.3 million in both periods.

Other Income (Expense), Net

Other income (expense), net includes foreign exchange gains and losses resulting from fluctuations in foreign exchange rates on monetary asset and monetary liability balances that are denominated in currencies other than the functional currency of the entity in which they are recorded. Our monetary assets and liabilities denominated in currencies other than the functional currency of the entity in which they are recorded consist primarily of trade accounts receivable, unbilled accounts receivable and intercompany receivables and payables. We currently have entities with a functional currency of the Argentine Peso, Australian Dollar, Brazilian Real, British Pound, Canadian Dollar, Chinese Yuan, Danish Krone, Euro, Hong Kong Dollar, Indian Rupee, Japanese Yen, Malaysian Ringgit, Mexican Peso, New Zealand Dollar, Polish Zloty, Russian Ruble, South African Rand, and Swiss Franc.

Other income (expense), net during the three months ended October 31, 2021 was income of $1.2 million compared to $2.6 million during the same period a year ago. Due to fluctuations in exchange rates, the three months ended October 31, 2021 included realized and unrealized foreign currency gains of $1.2 million, while the three months ended October 31, 2020 included realized and unrealized foreign currency gains of $2.3 million.

Provision for (benefit from) Income Taxes

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

	Three Months Ended October 31,			
	2021	2020	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Provision for (benefit from) income taxes	$ (17,038)	$ (10,677)	$ (6,361)	60 %
Effective tax rate	25 %	35 %		

We recognized an income tax benefit of $17.0 million and $10.7 million for the three months ended October 31, 2021 and 2020, respectively. The change in the amount of income taxes recorded for the three months ended October 31, 2021 compared to the same period a year ago was primarily due to the increase in the loss before taxes and research and development credits, offset by a tax status change of certain foreign subsidiaries for U.S. tax purposes and certain non-deductible expenses.

The effective tax rate of 25% for the three months ended October 31, 2021 differs from the statutory U.S. federal income tax rate of 21% due to permanent differences for stock-based compensation including excess tax benefits, research and development credits, and certain non-deductible expenses including executive compensation.

During the three months ended October 31, 2021, unrecognized tax benefits increased by $0.4 million. As of October 31, 2021, we had unrecognized tax benefits of $11.1 million that, if recognized, would affect our effective tax rate.

Non-GAAP Financial Measures

In addition to the key business metrics presented above, we believe that the following non-GAAP financial measures provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Management uses these non-GAAP measures to compare our performance to that of prior periods for trend analysis, for purposes of determining executive and senior management incentive compensation, and for budgeting and planning purposes. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial results with other software companies because it provides consistency and comparability with past financial performance and assists in comparisons with other companies, many of which present similar non-GAAP financial measures to investors. However, our management does not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP.

The non-GAAP financial information is presented for supplemental informational purposes only, should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. The principal limitation of these non-GAAP financial measures is that they exclude significant expenses and income that are required by GAAP to be recorded in our financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by management about which expenses and income are excluded or included in determining these non-GAAP financial measures. We urge investors to review the reconciliation of non-GAAP financial measures to the comparable GAAP financial measures included herein and not to rely on any single financial measure to evaluate the Company’s business.

The following table reconciles the specific items excluded from GAAP in the calculation of non-GAAP financial measures for the periods indicated below.

	Three Months Ended October 31,	
	2021	2020
Gross profit reconciliation:		
GAAP gross profit	$ 62,755	$ 78,835
Non-GAAP adjustments:		
Stock-based compensation	9,167	8,396
Amortization of intangibles	1,944	4,526
Non-GAAP gross profit	$ 73,866	$ 91,757
Income (loss) from operations reconciliation:		
GAAP income (loss) from operations	$ (65,377)	$ (31,604)
Non-GAAP adjustments:		
Stock-based compensation	32,240	28,084
Amortization of intangibles	3,754	6,323
Acquisition consideration holdback[1]	673	—
Non-GAAP income (loss) from operations	$ (28,710)	$ 2,803
Net income (loss) reconciliation:		
GAAP net income (loss)	$ (51,276)	$ (20,190)
Non-GAAP adjustments:		
Stock-based compensation	32,240	28,084

Amortization of intangibles		3,754		6,3
Amortization of debt discount and issuance costs		3,524		3,3
Acquisition consideration holdback[1]		673		-
Tax impact of non-GAAP adjustments[2]		(6,966)		(3,1
Non-GAAP net income (loss)	$	(18,051)	$	14,4
Tax provision (benefit) reconciliation:				
GAAP tax provision (benefit)	$	(17,038)	$	(10,6
Non-GAAP adjustments:				
Stock-based compensation		11,548		(22,2
Amortization of intangibles		1,345		(5,0
Amortization of debt discount and issuance costs		1,262		(2,6
Acquisition consideration holdback[1]		241		-
Tax impact of non-GAAP adjustments[2]		(7,430)		33,1
Non-GAAP tax provision (benefit)	$	(10,072)	$	(7,5
Net income (loss) per share reconciliation:				
GAAP net income (loss) per share — diluted	$	(0.62)	$	(0.
Non-GAAP adjustments:				
Stock-based compensation		0.39		0.
Amortization of intangibles		0.05		0.
Amortization of debt discount and issuance costs		0.04		0.
Acquisition consideration holdback[1]		0.01		-
Tax impact of non-GAAP adjustments[2]		(0.08)		(0.
Non-GAAP dilutive shares excluded from GAAP net income (loss) per share calculation[3]		—		(0.
Non-GAAP net income (loss) per share — diluted	$	(0.21)	$	0.
Shares used in computing Non-GAAP income (loss) per share amounts:				
GAAP weighted average shares — diluted		83,225,743		83,613,2
Non-GAAP dilutive shares excluded from GAAP income (loss) per share calculation[3]		—		586,2
Pro forma weighted average shares — diluted		83,225,743		84,199,5

(1) Effective the first quarter of fiscal year 2022, the acquisition consideration holdback that is earned and recognized as expense over a post-acquisition service period is excluded from non-GAAP measures. Prior to the first quarter of fiscal year 2022, there was no acquisition consideration holdback in any periods presented.
(2) Adjustments reflect the impact on the tax benefit (provision) from all non-GAAP adjustments.
(3) Due to the occurrence of a net loss on a GAAP basis, potentially dilutive securities were excluded from the calculation of GAAP net income (loss) per share, as they would have an anti-dilutive effect. However, these shares have a dilutive effect on non-GAAP net income (loss) per share and, therefore, are included in the non-GAAP net income (loss) per share calculation.

Liquidity and Capital Resources

Our principal sources of liquidity are as follows (in thousands):

	October 31, 2021		July 31, 2021	
Cash, cash equivalents, and investments	$	1,139,623	$	1,346,591
Working capital	$	876,498	$	1,054,971

Cash, Cash Equivalents, and Investments

Our cash and cash equivalents are comprised of cash and liquid investments with remaining maturities of 90 days or less from the date of purchase, primarily commercial paper and money market funds. Our investments primarily consist of corporate debt securities, U.S. government and agency debt securities, commercial paper, asset-backed securities, and non-U.S. government securities, which include state, municipal and foreign government securities.

As of October 31, 2021, approximately $37.2 million of our cash and cash equivalents were domiciled in foreign jurisdictions. While we have no current plans to repatriate these funds to the United States, we may repatriate foreign earnings in the future to the extent that the repatriation is not restricted by local laws or there are no substantial incremental costs associated with such repatriation.

Share Repurchase Program

In October 2020, our board of directors authorized and approved a stock repurchase program of up to $200.0 million of our outstanding common stock. During the three months ended October 31, 2021, we repurchased 226,172 shares of common stock at an average price of $116.12 per share, for an aggregate purchase price of $26.3 million. As of October 31, 2021, $11.2 million remained available for future share repurchases.

Cash Flows

Our cash flows from operations are significantly impacted by timing of invoicing and collections of accounts receivable, annual bonus payments, as well as payments of payroll, commissions, payroll taxes and other taxes. We expect that we will continue to generate positive cash flows from operations on an annual basis, although this may fluctuate significantly on a quarterly basis. In particular, we typically use more cash during the first fiscal quarter ended October 31, as we generally pay cash bonuses to our employees for the prior fiscal year and seasonally higher sales commissions from increased customer orders booked in our fourth fiscal quarter of the prior year. Additionally, our capital expenditures may fluctuate depending on future office build outs and development activities subject to capitalization.

We believe that our existing cash and cash equivalents and sources of liquidity will be sufficient to fund our operations for at least the next 12 months. Our future cash requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of our spending to support our research and development efforts, investments in cloud infrastructure and operating costs, and expansion into other markets. We also may invest in or acquire complementary businesses, applications or technologies, or may expand our board-authorized stock repurchase program, which may require the use of significant cash resources and/or additional financing.

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

	Three Months Ended October 31,	
	2021	**2020**
Net cash provided by (used in) operating activities	$ (107,042)	$ (15,707)
Net cash provided by (used in) investing activities	$ 8,081	$ (53,399)
Net cash provided by (used in) financing activities	$ (26,245)	$ (3,284)

Cash Flows from Operating Activities

Net cash used in operating activities was $107.0 million for the three months ended October 31, 2021 compared to net cash used in operating activities of $15.7 million during the three months ended October 31, 2020. This $91.3 million increase in operating cash used was primarily attributable to $69.1 million from the payout of our fiscal year 2021 corporate bonus and accrued vacation balances in countries in which we adopted a non-accrual vacation policy, offset by $11.1 million in cash provided by other working capital activities, and a $33.3 million increase in net loss after excluding the impact of non-cash charges such as deferred taxes, stock-based compensation expense, depreciation and amortization expense, and other non-cash items.

Cash Flows from Investing Activities

Net cash provided by investing activities was $8.1 million for the three months ended October 31, 2021 compared to net cash used in investing activities of $53.4 million for the three months ended October 31, 2020. The $61.5 million increase in cash provided by investing activities was primarily due to a $105.9 million decrease in net purchases of available-for-sale securities and a $2.0 million decrease in strategic investments, partially offset by $43.8 million paid as purchase consideration for the acquisition of HazardHub and a $2.6 million decrease in capital expenditures and capitalized software development costs.

Cash Flows from Financing Activities

Net cash used in financing activities for the three months ended October 31, 2021 was $26.2 million compared to $3.3 million net cash used in financing activities for the three months ended October 31, 2020. This $23.0 million increase in cash used was primarily because we repurchased $21.3 million more of our common stock under our share repurchase program and, to a lesser extent, a decrease in proceeds from option exercises of $1.7 million.

Commitments and Contractual Obligations

Our estimated future obligations consist of leases, royalties, purchase obligations, debt, and unrecognized tax benefits as of October 31, 2021. Refer to Note 7 "Convertible Senior Notes," Note 8 "Leases," Note 9 “Commitments and Contingencies,” and Note 11 “Income Taxes” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

There has been no material change in our contractual obligations and commitments other than in the ordinary course of business since our fiscal year ended July 31, 2021. See the Annual Report on Form 10-K for the fiscal year ended July 31, 2021 for additional information regarding the Company’s contractual obligations.

Off-Balance Sheet Arrangements

Through October 31, 2021, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our cash, cash equivalents, and investments. Our cash, cash equivalents, and investments as of October 31, 2021 and July 31, 2021 were $1,139.6 million and $1,346.6 million, respectively, primarily consisting of cash, money market funds, corporate debt securities, U.S. government and agency debt securities, commercial paper, asset-backed securities, and non-U.S. government securities, which include state, municipal, and foreign government securities. Changes in interest rates, primarily in the United States, affect the interest earned on our cash, cash equivalents, and investments, and their market value. A hypothetical 100 basis point increase in interest rates is estimated to result in a decrease of $6.1 million and $5.2 million in the market value of our available-for-sale securities as of October 31, 2021 and July 31, 2021, respectively. Any realized gains or losses resulting from such interest rate changes would only occur if we sold the investments prior to maturity.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Argentine Peso, Australian Dollar, Brazilian Real, British Pound, Canadian Dollar, Danish Kroner, Euro, Indian Rupee, Japanese Yen, Malaysian Ringgit, New Zealand Dollar, Polish Zloty, Russian Ruble, and Swiss Franc, the currency of the locations within which we currently operate. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure because we typically collect revenue and incur costs in the currency of the location in which we provide our services. However, our relationships with our customers are long-term in nature so it is difficult to predict if our operating activities will provide a natural hedge in the future. Additionally, changes in foreign currency exchange rates can affect our financial results due to transaction gains or losses related to revaluing certain monetary asset and monetary liability balances that are denominated in currencies other than the functional currency of the entity in which they are recorded. Our monetary assets and liabilities denominated in currencies other than the functional currency of the entity in which they are recorded consist primarily of trade accounts receivable, unbilled accounts receivable and intercompany receivables and payables. For the three months ended October 31, 2021 and 2020, we recorded foreign currency gains of $1.2 million and $2.6 million, respectively, in other income (expense) in our condensed consolidated statement of operations primarily due to currency exchange rate fluctuations. We will continue to experience fluctuations in foreign currency exchange rates. If a hypothetical ten percent change in foreign exchange rates were to occur in the future, the resulting transaction gain or loss is estimated to be approximately $18.6 million. As our international operations grow, we will continue to assess our approach to managing our risk relating to fluctuations in currency rates.

Fair Value of Financial Instruments

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

Our strategic investments in privately held securities are in various classes of equity and convertible debt. The particular securities we hold, and their rights and preferences relative to those of other securities within the capital structure, may impact the magnitude by which our investment value moves in relation to movements in the total enterprise value of the company in which we are invested. As a result, our investment in a specific company may move by more or less than any change in value of that overall company. In addition, the financial success of our investment in any company is typically dependent on a liquidity event, such as public offering, acquisition, or other favorable market event reflecting appreciation to the value of our investment. All of our investments, particularly those in privately held companies, are therefore subject to a risk of partial or total loss of invested capital.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Inherent Limitations of Internal Controls

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended October 31, 2021 identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are involved in legal proceedings that arise in the ordinary course of our business. Any such proceedings, whether meritorious or not, could be time consuming, costly, and result in the diversion of significant operational resources and/or management time. Although the outcomes of legal proceedings are inherently difficult to predict, we are not currently involved in any legal proceeding in which the outcome, in our judgment based on information currently available, is likely to have a material adverse effect on our business or financial position.

As described in Note 9 "Commitments and Contingencies," of the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, which are incorporated by reference herein, we are not party to any material pending legal proceedings.

ITEM 1A. Risk Factors

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this Quarterly Report on Form 10-Q, and in our other public filings. If any of such risks and uncertainties actually occurs, our business, financial condition or results of operations could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or results of operations could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.

Risks Related to our Business and Industry

The global COVID-19 pandemic, has adversely affected, and may continue to adversely affect, our business, results of operations, and financial condition.

The COVID-19 pandemic and related adverse public health developments, including orders to shelter-in-place, have adversely affected and are continuing to adversely affect workforces, organizations, economies, and financial markets globally, leading to economic downturns and increased market volatility. Our business and financial results during fiscal year 2021, including our ARR growth rates, services revenue, and margins, were adversely impacted due to the disruptions resulting from the COVID-19 pandemic. The pandemic, as well as measures undertaken to contain the spread of COVID-19, have affected and could further affect our ability to travel to customers and prospects, resulting in delays in services delivery, delays in implementations, and interruptions or modifications in our sales and marketing activities, including Connections, our annual user conference, which has adversely affected, and may continue to adversely affect, our business, results of operations, and financial condition, particularly if there are periods of increases in the number of COVID-19 cases or future variants of the virus in areas in which we operate. The pandemic has also disrupted the normal operations of our customers' businesses and our SI partners' businesses. The related impacts of the pandemic on the global economy could decrease or delay technology spending and adversely affect demand for our products. Further, our sales and implementation cycles have increased and could continue to increase, which has resulted in and could result in contract terms more favorable to customers and a potentially longer delay between incurring operating expenses and the generation of corresponding revenue, if any, or in difficulty accurately forecasting our financial results. Additionally, our customers may be unable to pay outstanding invoices or may request amended payment terms due to the economic impacts from COVID-19. As a result of these containment measures and the related economic impact to our business, we may be required to record impairment related to our operating lease assets, investments, long-lived assets, or goodwill. We may experience further operational challenges, including increased costs, as a portion of our workforce returns to working in person and gradually shifts to assisting customers in person, and higher employee attrition. Despite the increased availability of vaccines, due to the continuing and evolving nature of the COVID-19 pandemic and the potential for periods of increases in case numbers and emergence and spread of virus variants in markets and communities in which we, our customers, and our SI partners operate, it is not possible for us to accurately predict the duration or magnitude of the adverse impacts of the pandemic and its effects on our business, results of operations, or financial condition. Further, to the extent the COVID-19 pandemic adversely affects our business, results of operations, or financial condition, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

We are in the process of transitioning to a hybrid in-person and remote workforce, which will subject us to certain operational challenges and risks and potential harm to our business.

In response to the COVID-19 pandemic, our workforce shifted from in-person to remote work. We have announced our intention to transition to a hybrid work environment in which a significant portion of our workforce will work either in-person on a part-time basis or remotely on a permanent basis. As a result, we expect to continue to be subject to the challenges and risks of having a remote workforce, as well as new challenges and risks from operating with a hybrid workforce. For example, certain security systems in homes or other remote workplaces may be less secure than those used in our offices, which may subject us to increased security risks, including cybersecurity-related events, and expose us to risks of data or financial loss and associated disruptions to our business operations. Members of our workforce who access company data and systems remotely may not have access to technology that is as robust as that in our offices, which could cause the networks, information systems, applications and other tools available to those remote workers to be more limited or less reliable than in our offices. We may also be exposed to risks associated with the locations of remote workers, including compliance with local laws and regulations or exposure to compromised internet infrastructure. Allowing members of our workforce to work remotely may create intellectual property risk if employees create intellectual property on our behalf while residing in a jurisdiction with unenforced or uncertain intellectual property laws. Further, if employees fail to inform us of changes in their work location, we may be exposed to additional risks without our knowledge. The transition to hybrid in-person as well as remote working may also subject us to other operational challenges and risks. For example, our shift to hybrid working may adversely affect our ability to recruit and retain personnel who prefer a fully remote or fully in-person work environment. Operating our business with both remote and in-person workers, or workers who work in flexible locations and on flexible schedules, could have a negative impact on our corporate culture, decrease the ability of our workforce to collaborate and communicate effectively, decrease innovation and productivity, or negatively affect workforce morale and retention rates. In addition, we expect to incur costs related to the transition to a hybrid workforce to, among other things, facilitate permanent remote work for a portion of our workforce and update our offices to offer more collaborative workspaces. If we are unable to effectively transition to a hybrid workforce, manage the cybersecurity and other risks of remote work, and maintain our corporate culture and workforce morale, our business could be harmed or otherwise negatively impacted.

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

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

Factors that may affect our results of operations include:

- the impact of economic downturns and related market volatility caused by the COVID-19 pandemic or other national and worldwide events on our business and the businesses of our customers, partners, and vendors;
- our ability to attract new domestic and international customers and renew existing customers;
- seasonal buying patterns of our potential customers and our ability to sell additional software and services to existing customers;
- the proportion and timing of subscription sales as opposed to term or perpetual software licenses, and the variations in revenue recognition between these contract types;
- changes in contract durations of term software licenses and renewals;
- increases in costs related to cloud operations, product development, and services;
- our ability to develop and achieve market adoption of cloud-based services, including the impact of our customers transitioning from term software licenses to subscription services;
- erosion in services margins or significant fluctuations in services revenue caused by changing customer demand, negotiated professional services billing rates, or fixed fee contracts;
- our ability to enter into contracts on favorable terms, including terms related to price, payment timing, service levels, acceptance, and product delivery, especially with customers and prospects that possess substantial negotiating leverage and procurement expertise;
- the incurrence of penalties for failing to meet certain contractual obligations, including service levels, product development cycles and functionality, and implementation times and objectives;
- security and privacy concerns related to company data, customer data and systems that are accessed or otherwise used by our hybrid workforce and customers;
- future accounting pronouncements or changes in accounting rules and our related accounting policies, interpretations, and controls;
- our ability to realize expected benefits from our acquisitions and other strategic business transactions;
- reductions in our customers' budgets for information technology purchases and delays in their purchasing decisions;
- employee retention and the timing of hiring personnel and employee related expenses;
- the impact of a recession or any other adverse global economic condition on our business, including pandemics, trade tariffs, trade agreements, and other uncertainties that may cause a delay in entering into or a failure to enter into significant customer agreements or the fulfillment of professional service arrangements;
- adverse litigation judgments, dispute-related settlement payments, or litigation-related costs;
- fluctuations in foreign currency exchange rates; and
- the effects of inflation or deflation in the economies in which we operate and its impact on our revenues given the multi-year term of most customer agreements.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly and annual results of operations. Further, due to multi-year term licenses and multi-year term license renewals, increased cloud-based subscription services, timing of and billing rates for professional services engagements, and other ongoing changes to our business, it is challenging to forecast our quarterly and annual results.

We believe our ability to adjust spending quickly enough to compensate for a potential revenue shortfall is very limited and our inability to do so could magnify the adverse impact of a potential revenue shortfall on our results of operations. If we fail to achieve our quarterly forecasts, if our forecasts fall below the expectations of investors or research analysts, or if our actual results fail to meet the expectations of investors or research analysts, our stock price may decline.

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

We generally see increased new orders in our fourth fiscal quarter, which is the quarter ended July 31, due to efforts by our sales team to achieve annual incentives. As a result, a significantly higher percentage of our annual license revenue has historically been recognized in our fourth fiscal quarter. Since a substantial majority of our license revenue has annual renewals after the initial term of the contract, we expect to continue to experience this seasonality effect in subsequent years. Generally, accounting under ASC 606 has and may continue to heighten or change the seasonal impact due to license revenue for the entire committed term of our new term licenses and multi-year term license renewals being recognized at the beginning of the agreement. Because of the upfront nature of revenue recognition for new multi-year term licenses and multi-year term license renewals, any quarter in which a significant agreement of this nature is signed, renewed, cancelled, or not renewed when scheduled to do so may be impacted.

We currently anticipate that sales of, and revenue from, subscription services will continue to increase in the future. Subscriptions are recognized ratably over the term of the agreement after provisioning of the service. Over time, this may reduce the impact of our historic revenue seasonality, but in the near term the introduction of proportionally more subscription services into our revenue stream, together with their delayed and ratable recognition, will likely impact quarter over quarter and year-over-year revenue growth comparisons. Cash flow expectations and comparisons could also be impacted because of the ramped nature of the annual installments of these multi-year subscription services arrangements. Additionally, ARR, which reflects the annualized recurring value of active customer contracts at the end of a reporting period, will be impacted by the seasonality of new sales orders, even if the revenue is recognized ratably.

Our quarterly growth in revenue or ARR also may not coincide with new orders or cash flows in a given quarter, which could mask the impact of seasonal variations. This mismatch is primarily due to the following reasons:

- our subscription arrangements are recognized ratably and only a portion of the revenue from an order is recognized in the same fiscal period of the order;
- subscription arrangements generally have ramped invoicing schedules over the initial term, which affects ARR, but revenue is recognized ratably over the initial term;
- our term license agreements and multi-year term license renewals generally have annual billing arrangements even though revenue is recognized upfront for the entire committed term;
- as customers enter into a subscription agreement to migrate from an existing term license agreement or as we invest in certain cloud implementations to assist our customers with their migration to our cloud services, the timing of revenue recognition may be impacted by the allocation of revenue between different performance obligations;
- we may enter into license agreements with future product delivery requirements, specified terms for product upgrades or functionality, acceptance terms, or unconditional return rights, which may require us to delay revenue recognition for a period of time; and
- revenue recognition may not occur in the period when the order is placed due to certain revenue recognition criteria not being met, such as delivery of the software or providing access to the subscription services.

Additionally, seasonal patterns may be affected by the timing of particularly large transactions and the large number of renewals that occur in the first fiscal quarter. For example, in the first quarter of fiscal year 2021, we achieved higher revenue growth due to a five-year renewal of a single license agreement, which resulted in the first quarter of fiscal year 2021 lacking comparability to the prior year and creating a challenging comparable for the first quarter of fiscal year 2022.

Seasonal and other variations may cause significant fluctuations in our revenues, ARR, results of operations and cash flows, may make it challenging for an investor to predict our performance on a quarterly basis and may prevent us from achieving our quarterly or annual forecasts or meeting or exceeding the expectations of research analysts or investors, which in turn may cause our stock price to decline.

If we fail to successfully manage our transition to a business model focused on delivering cloud-based offerings on a subscription basis or fail to meet stipulated service levels with our subscription services, our results of operations could be harmed.

To address demand trends in the P&C insurance industry, we now offer customers the use of our software products through a cloud-based offering sold on a subscription basis in addition to our self-managed offering. This change to our business model requires a considerable investment of technical, operational, financial, legal, and sales resources. Our software and cloud services involve the storage and transmission of customer data, including in some cases, personal data, and security breaches could result in the loss of this information, which in turn could result in litigation, breach of contract claims, indemnity obligations, harm to our reputation, and other liabilities for us. Our transition to cloud offerings will continue to be the focus of existing resources, require us to hire additional resources, and increase costs, especially in cost of subscription and support revenue and research and development, in any given period. We may not be able to efficiently scale such investments to meet customer demand and expectations, which may impact our long-term growth and results of operations. Further, the increase in some costs associated with our cloud services, such as the cost of third-party infrastructure in which we rely to host our subscription services, may be difficult to predict over time, especially in light of our limited experience with the costs of delivering cloud-based versions of our applications. Furthermore, we may assume greater responsibilities for implementation of subscription services due to our operating and maintaining the cloud environment for our customers. As a result, we may face risks associated with new and complex implementations, the cost of which may differ from original estimates. Our subscription contracts also contain penalty clauses, for matters such as failing to meet stipulated service levels or other contractual provisions, which represent new risks we are not accustomed to managing. Should these penalties be triggered, our results of operations may be adversely affected. These penalties and costs could take the form of monetary credits for current or future service engagements, reduced fees for additional services or products or upon renewal of existing agreements, and a customer's refusal to pay its contractually-obligated subscription or service fees.

Revenue under our cloud-based subscription model will generally be recognized ratably over the term of the contract. The transition to ratable revenue recognition will result in lower revenue we otherwise would have recognized in the initial period of the customer agreement under term license agreements. This effect on recognized revenue may be magnified in any fiscal year due to the concentration of our orders in the fourth fiscal quarter. A combination of increased costs and delayed recognition of revenue would adversely impact our gross and operating margins compared to prior periods. Additionally, the change in our business model and the timing of our customers' decision to transition from self-managed licenses to cloud-based subscription services could negatively affect our ability to forecast the timing and amount of our revenues in any period.

In addition, market acceptance of our cloud-based offerings may be affected by a variety of factors, including, but not limited to, price, security, reliability, performance, customer preference, public concerns regarding privacy, and the enactment of restrictive laws or regulations. We are in the early stages of re-architecting our existing services and products and developing new services and products in an effort to offer customers greater choices on how they utilize our software. As our business practices in this area develop and evolve over time, we may be required to revise our current subscription agreements, which may result in revised terms and conditions that impact how we recognize revenue and the costs and risks associated with these offerings. Whether our product development efforts or business model transition will prove successful and accomplish our business objectives is subject to numerous uncertainties and risks, including, but not limited to, customer demand, our ability to further develop, manage, and scale infrastructure, our ability to include functionality and usability in such offerings that address customer requirements, tax and accounting implications, and our costs.

In addition, the metrics we and our investors use to gauge the status of our business model transition may evolve over the course of the transition as significant trends emerge. It may be difficult, therefore, to accurately determine the impact of this transition on our business on a contemporaneous basis, or to clearly communicate the appropriate metrics to our investors. If we are unable to successfully establish these new cloud offerings and navigate our business model transition in light of the foregoing risks and uncertainties, our reputation could suffer and our results of operations could be harmed, which may cause our stock price to decline.

We have relied and expect to continue to rely on orders from a relatively small number of customers in the P&C insurance industry for a substantial portion of our revenue and ARR, and the loss of any of these customers would significantly harm our business, results of operations, and financial condition.

Our revenue and ARR are dependent on orders from customers in the P&C insurance industry, which may be adversely affected by worldwide economic, environmental, public health, and political conditions. A relatively small number of customers have historically accounted for a significant portion of our revenue. The composition of our individual top customers has and will vary from year to year. In fiscal year 2019, our ten largest customers accounted for 31% of our revenue, in fiscal year 2020 they accounted for 27%, and in fiscal year 2021 they accounted for 28%. Additionally, our ten largest customers based on ARR accounted for 27% of total ARR at July 31, 2021. Customers for these metrics are calculated at the parent corporation level, while our total customer count is based on entities that have placed orders for our services or products. While we expect this reliance to decrease over time as our revenue, customer base and subscription services as a percentage of revenue grows, we expect that we will continue to depend upon a relatively small number of customers for a significant portion of our revenue for the foreseeable future. As a result, if we fail to successfully sell our services and products to one or more of these anticipated customers in any particular period or fail to identify additional potential customers or such customers purchase fewer of our services or products, defer or cancel orders, fail to renew their license or subscription agreements or otherwise terminate or reduce their relationship with us, our business, results of operations, and financial condition would be harmed. Additionally, if one or more of these anticipated customers enters into or transitions to a subscription agreement in any particular period, or if we fail to achieve the required performance or acceptance criteria for one or more of this relatively small number of customers, our quarterly and annual results of operations may fluctuate significantly.

Failure of any of our established services or products to satisfy customer demands or to maintain market acceptance could harm our business, results of operations, financial condition, and growth prospects.

We derive a significant majority of our revenue and cash flows from our established product offerings, including Guidewire InsuranceSuite via Guidewire Cloud, Guidewire InsuranceNow, Guidewire InsuranceSuite for self-managed installations, and our digital and data services and products. We expect to continue to derive a substantial portion of our revenue from these sources. As such, continued market acceptance of these services and products is critical to our growth and success. Demand for our services and products is affected by a number of factors, some of which are beyond our control, including the successful implementation of our services and products, the timing of development and release of product upgrades and new products by us and our competitors, the cost and effort to migrate from self-managed products to subscription services, the ease of integrating our software to third-party software and services, technological advances that reduce the appeal of our services and products, changes in the regulations that our customers must comply with in the jurisdictions in which they operate, and the growth or contraction in the worldwide market for technological solutions for the P&C insurance industry. If we are unable to continue to meet customer demands, to achieve and maintain a technological advantage over competitors, or to maintain market acceptance of our services and products, our business, results of operations, financial condition and growth prospects may be adversely affected.

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

The market for our software and services is intensely competitive. The competitors we face in any sale opportunity may change depending on, among other things, the line of business purchasing the software, the application or service being sold, the geography in which the customer is operating, and the size of the insurance carrier to which we are selling. For example, we are more likely to face competition from small independent firms when addressing the needs of small insurers. These competitors may compete on the basis of price, the time and cost required for implementation, custom development, or unique product features or functions. Outside of the United States, we are more likely to compete against vendors that may differentiate themselves based on local advantages in language, market knowledge, and pre-built content applicable to that jurisdiction. We also compete with vendors of horizontal software products that may be customized to address needs of the P&C insurance industry.

Additionally, many of our prospective customers operate firmly entrenched legacy systems, some of which have been in operation for decades. Our implementation cycles may be lengthy, variable, and require the investment of significant time and expense by our customers. These expenses and associated operating risks attendant on any significant process of re-engineering and technology implementation, may cause customers to prefer maintaining legacy systems. Also, maintaining these legacy systems may be so time consuming and costly for our potential customers that they do not have adequate resources to devote to the purchase and implementation of our services and products. We also compete against technology consulting firms that either helped create such legacy systems or may own, in full or in part, subsidiaries that develop software and systems for the P&C insurance industry.

As we expand our product portfolio, we may begin to compete with software and service providers we have not competed against previously. Such potential competitors offer data and analytics tools that may, in time, become more competitive with our offerings.

We expect the intensity of competition to remain high in the future, as the amount of capital invested in current and potential competitors, including insurtech companies, has increased significantly in recent years. As a result, our competitors or potential competitors may develop improved product or sales capabilities, or even a technology breakthrough that disrupts our market. Continuing intense competition could result in increased pricing pressure, increased sales and marketing expenses, and greater investments in research and development, each of which could negatively impact our profitability. In addition, the failure to increase, or the loss of, market share would harm our business, results of operations, financial condition, and/or future prospects. Our larger current and potential competitors may be able to devote greater resources to the development, promotion, and sale of their services and products than we can devote to ours, which could allow them to respond more quickly than we can to new technologies and changes in customer needs, thus leading to their wider market acceptance. We may not be able to compete effectively and competitive pressures may prevent us from acquiring and maintaining the customer base necessary for us to increase our revenue and profitability.

In addition, the insurance industry is evolving rapidly and we anticipate the market for cloud-based solutions will become increasingly competitive. If our current and potential customers move a greater proportion of their data and computational needs to the cloud, new competitors may emerge that offer services either comparable or better suited than ours to address the demand for such cloud-based solutions, which could reduce demand for our offerings. To compete effectively we will likely be required to increase our investment in research and development, as well as the personnel and third-party services required to improve reliability and lower the cost of delivery of our cloud-based solutions. New competitors are able to develop cloud-based solutions without the cost of maintaining or migrating existing solutions and satisfying existing customer requirements, which may allow them to introduce new services and products more quickly and on more efficient technologies than us. This may increase our costs more than we anticipate and may adversely impact our results of operations.

Our current and potential competitors may also establish cooperative relationships among themselves or with third parties to further enhance their resources and offerings. Current or potential competitors may be acquired by other vendors or third parties with greater available resources. As a result of such acquisitions, our current or potential competitors might be more able than we are to adapt quickly to new technologies and customer needs, to devote greater resources to the promotion or sale of their services and products, to initiate or withstand substantial price competition, or to take advantage of emerging opportunities by developing and expanding their product and service offerings more quickly than we can. Additionally, they may hold larger portfolios of patents and other intellectual property rights as a result of such relationships or acquisitions. If we are unable to compete effectively with these evolving competitors for market share, our business, results of operations, and financial condition could be materially and adversely affected.

Our sales and implementation cycles are lengthy and variable, depend upon factors outside our control, and could cause us to expend significant time and resources prior to generating revenue.

The typical sales cycle for our services and products is lengthy and unpredictable, requires pre-purchase evaluation by a significant number of employees in our customers' organizations, often involves a significant operational decision by our customers, and could be affected by factors outside of our control. Our sales efforts involve educating our customers about the use and benefits of our services and products, including the technical capabilities of our services and products and the potential cost savings achievable by organizations deploying our services and products. Customers typically undertake a significant evaluation process, which frequently involves not only our services and products, but also those of our competitors. We spend substantial time, effort, and money in our sales efforts without any assurance that our efforts will produce sales, and our customers have significant negotiating power during the sales process which may result in a lengthy sales cycle and significant contractual complexity. Additionally, we may be unable to predict the size and terms of the initial contract until very late in the sales cycle, which affects our ability to accurately forecast revenue and ARR. In addition, we sometimes commit to include specific functions in our base service and product offering at the request of a customer or group of customers and are unable to recognize revenue until the specific functions have been added to our services and products. Providing this additional functionality may be time consuming and may involve factors that are outside of our control. Customers may also insist that we commit to certain time frames in which systems built around our services and products will be operational or that once implemented our services and products will be able to meet certain operational requirements. Our ability to meet such timeframes and requirements may involve factors that are outside of our control, and failure to meet such timeframes and requirements could result in us incurring penalties and costs and/or making additional resource commitments, which would adversely affect our business and results of operations.

The implementation and testing of our services and products by our customers typically lasts 6 to 24 months or longer and unexpected implementation delays and difficulties can occur. Implementing our services and products typically involves integration with our customers' and third parties' systems, as well as adding customer and third-party data to our platform. This process can be complex, time consuming, and expensive for our customers and can result in delays in the implementation and deployment of our services and products. Failing to meet the expectations of our customers during the implementation of our services and products could result in a loss of customers and negative publicity about us and our services and products. Such failure could result from deficiencies in our product capabilities or inadequate service engagements by us, our SI partners, or our customers' employees, the latter two of which are beyond our direct control. The consequences of such failure could include, and have included, monetary credits for current or future service engagements, reduced fees for additional services or products sales or upon renewals of existing licenses and services, potential reversals of previously recognized revenue, and a customer's refusal to pay their contractually-obligated license, support, or service fees. In addition, time-consuming and delayed implementations may also increase the amount of services personnel we must allocate to the implementation for it to be successful, thereby increasing our costs and adversely affecting our business, results of operations, and financial condition.

Furthermore, our sales and implementation cycles could be interrupted or affected by other factors outside of our control. For example, the COVID-19 pandemic caused sales and implementation cycles to lengthen, along with other impacts on our business. We currently have restrictions on travel in place, which are in accordance with recommendations by the U.S. government, The Centers for Disease Control and Prevention, and other equivalent agencies in the locations in which we operate, and our customers, SI partners, and prospects have likewise enacted their own preventative policies and travel restrictions. Widespread restrictions on travel and in-person meetings have affected and could continue to affect services delivery, delay implementations, and interrupt sales activity. We cannot predict the duration or the extent of adverse impacts from the COVID-19 pandemic on our business, results of operations, and financial condition.

Revenue mix, as well as declines in our subscription and support gross margin or our services gross margin, could adversely affect our overall gross margin and profitability.

Our subscription and support revenue was 34% and 27% of total revenue for fiscal years 2021 and 2020, respectively. Our subscription and support revenue produces lower gross margins than our license revenue. The gross margin of our subscription and support revenue was 35% and 42% for fiscal years 2021 and 2020, respectively, while the gross margin for license revenue was 97% and 97% for fiscal years 2021 and 2020, respectively. As our cloud transition continues, we expect that subscription revenue will continue to increase as a percentage of total revenue as we contract with new cloud customers and existing customers migrate from term licenses to subscription services. Additionally, we are incurring significant expenses to develop our cloud services and scale our cloud operations which may result in further erosion of our subscription and support gross margin. These trends, along with other factors, some of which may be beyond our control, may adversely affect our overall gross and operating margins. These other factors include the percentage of new customers that enter into subscription services agreements as compared to term license agreements, the revenue impact of allocating total contract consideration between license revenue and subscription and support revenue when existing customers transition from term license to subscription services agreements, investments in certain cloud implementations to assist our customers with their migration to our cloud services, continued growth and efficiency of our cloud operations and technical support teams, and the impact on the global economy as a result of the COVID-19 pandemic or other disasters.

Further, our services revenue was 25% and 28% of total revenue for fiscal years 2021 and 2020, respectively. Our services revenue produces lower gross margin than either our license revenue or our subscription and support revenue. The gross margin of our services revenue was negative for both fiscal years 2021 and 2020. If we experience an increase in the percentage of total revenue represented by services revenue, like we did in fiscal year 2018 due to acquisitions and other factors, such increase could reduce our overall gross and operating margins. Fluctuation in our services revenue can result from several factors, some of which may be beyond our control, including the pace of our customers' migration from term license to subscription services as we continue our cloud transition, change in customer demand for our services team's involvement in the implementation of new services and products, the rates we charge or discounts we offer for our services, our ability to bill our customers for all time incurred to complete a project, the extent and quality of implementations and migrations provided by our SI partners, and the impact on the global economy as a result of the COVID-19 pandemic or other disasters. Additionally, the failure to improve, or the erosion of, our services margin, whether due to discounts related to encouraging clients to accelerate their cloud transition or otherwise, particularly in combination with any increase in services revenue, could adversely affect our overall gross and operating margins. Our services margin may erode if we hire and train additional services personnel to support cloud-based services or markets prior to having customer engagements, if we make investments in customer migrations from self-managed term licenses to subscription services, if we enter into fixed fee services arrangements, if our services personnel are underutilized, or if we require additional personnel on unexpectedly difficult projects to ensure customer success, perhaps without receiving commensurate compensation.

Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that result in increased cost of sales, decreased revenue, and lower average selling prices and gross margins, all of which could harm our results of operations.

Some of our customers include the world's largest P&C insurers. These customers have significant bargaining power when negotiating new licenses or subscriptions or renewals of existing agreements, and have the ability to buy similar services and products from other vendors or develop such systems internally. These customers have and may continue to seek advantageous pricing and other commercial and performance terms that may require us to develop additional features in the services and products we sell to them or add complexity to our customer agreements. We have been required to, and may continue to be required to, reduce the average selling price of our services and products in response to these pressures. If we are unable to avoid reducing our average selling prices, our results of operations could be harmed.

Our business depends on customers renewing and expanding their license, support, and subscription contracts for our services and products. A decline in our customer renewals and expansions could harm our future results of operations.

Our customers have no obligation to renew their term licenses or subscriptions after their contract period expires, and these licenses and subscriptions, if renewed, may be done so on less favorable terms. Moreover, under certain circumstances, our customers have the right to cancel their licenses or subscriptions before they expire. We may not accurately predict future trends in customer renewals. In addition, our perpetual license customers have no obligation to renew their support arrangements after the expiration of the initial contractual period. Our customers' renewal rates may fluctuate or decline because of several factors, including their satisfaction or dissatisfaction with our services and products, the prices of our services and products, the prices of services and products offered by our competitors, reductions in our customers' spending levels due to the macroeconomic environment or other factors, or the sale of their operations to a buyer that is not a current customer.

Also, in some cases, our customers have a right to exercise a perpetual buyout of their term licenses at the end of the initial contract term, which if exercised would eliminate future term license revenue. If our customers do not renew their term licenses or subscriptions for our solutions or renew on less favorable terms, our revenue may decline or grow more slowly than expected and our profitability may be harmed.

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

Our success depends on our continued ability to develop, introduce, and market new and enhanced versions of our services and products to meet evolving customer requirements. Because some of our services and products are complex and require rigorous testing, new features, new functionality, and updates to our existing products and services can take significant time and resources to develop and bring to market. As we expand internationally, our services and products must be modified and adapted to comply with regulations and other requirements of the countries in which our customers do business. Additionally, market conditions may dictate that we change the delivery method of our services and products or the technology platform underlying our existing services and products or that new services and products be developed on different technology platforms, potentially adding material time and expense to our development cycles. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenue, if any, from such expenses.

If we fail to develop new services and products, enhance our existing services and products, or migrate our products to the cloud, our business could be adversely affected, especially if our competitors are able to introduce services and products with enhanced functionality in the cloud. It is critical to our success for us to anticipate changes in technology, industry standards, and customer requirements and to successfully introduce new, enhanced, and competitive services and products to meet our customers' and prospective customers' needs on a timely basis. We have invested and intend to increase investments in research and development and cloud operations to meet these challenges. Revenue may not be sufficient to support the future product development that is required for us to remain competitive. If we fail to develop services and products in a timely manner that are competitive in technology and price or develop services and products that fail to meet customer demands, our market share will decline and our business and results of operations could be harmed. If our research and development efforts do not develop services, products or features that our customers find valuable, then we might incur impairment charges related to our capitalized software development costs.

Our ability to sell our services and products is highly dependent on the quality of our professional services and technical support services and the support of our SI partners, and the failure of us or our SI partners to offer high-quality professional services or technical support services could damage our reputation and adversely affect our ability to sell our services and products to new customers and renew agreements with our existing customers.

If we or our SI partners do not effectively assist our customers in deploying our services and products, successfully help our customers quickly resolve post-deployment issues, assist our customers in migrating from self-managed licenses to subscription services, and provide effective ongoing support, our ability to renew existing agreements and sell additional services and products to existing customers would be adversely affected and our reputation with potential customers could be damaged. Once our services and products are deployed and integrated with our customers' existing information technology environment, our customers may depend on our technical support services and/or the support of SI partners or internal resources to resolve any issues relating to our services and products. High-quality support is critical for the continued successful marketing and sale of our services and products. In addition, as we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training, and documentation in languages other than English. Many enterprise customers require higher levels of support than smaller customers. If we fail to meet the requirements of our larger customers, it may be more difficult to sell additional services and products to these customers or to transition existing license customers to subscription services, a key strategy for the growth of our revenue and profitability. In addition, as we further expand our cloud-based services and products, our professional services, cloud operations and support organizations will face new challenges, including hiring, training, and integrating a large number of new personnel with experience in delivering high-quality services and support for cloud-based offerings. Further, as we continue to rely on SIs to provide deployment, migration, and on-going services, our ability to ensure a high level of quality in addressing customer issues and providing a maintainable and efficient cloud environment could be diminished as we may be unable to control the quality or timeliness of the implementation of our services and products by our SI partners. Our failure to maintain high-quality implementation and support services, or to ensure that SIs provide the same, could have a material adverse effect on our business, results of operations, financial condition, and growth prospects.

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

Our business strategy includes the potential acquisition of shares or assets of companies with software, cloud-based services, technologies, or businesses complementary to ours. Our strategy also includes alliances with such companies. For example, we have made several acquisitions in the past, including Cyence, a Software-as-a-Service company that applies data science and risk analytics to enable P&C insurers to underwrite "21st century risks" such as terrorism, cybersecurity, and reputational risk, in November 2017. Further, in August 2021, we acquired HazardHub, Inc., a leading insurtech provider of API-driven property risk insights. Our prior acquisitions were initially dilutive to earnings, and our recent acquisition of HazardHub, Inc. may also be initially dilutive. Acquisitions and alliances may result in unforeseen operating difficulties and expenditures and may not result in the benefits anticipated by such corporate activity. In particular, we may fail to assimilate or integrate the businesses, technologies, services, products, personnel, or operations of the acquired companies, retain key personnel necessary to favorably execute the combined companies' business plan, or retain existing customers or sell acquired services and products to new customers. Acquisitions and alliances may also disrupt our ongoing business, divert our resources, and require significant management attention that would otherwise be available for ongoing development of our current business. In addition, we may be required to make additional capital investments or undertake remediation efforts to ensure the success of our acquisitions, which may reduce the benefits of such acquisitions. We also may be required to use a substantial amount of our cash or issue debt or equity securities to complete an acquisition or realize the potential of an alliance, which could deplete our cash reserves and/or dilute our existing stockholders. Following an acquisition or the establishment of an alliance offering new services and products, the timing of revenue from the sale of services and products that we acquired or that result from the alliance, or from the sale of a bundle of services and products that includes such new services and products, may be different than the timing of revenue from existing services and products. In addition, our ability to maintain favorable pricing of new services and products may be challenging if we bundle such services and products with existing services and products. A delay in the recognition of revenue from sales of acquired or alliance services and products, or reduced pricing due to bundled sales, may cause fluctuations in our quarterly financial results, may adversely affect our operating margins, and may reduce the benefits of such acquisitions or alliances.

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

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

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

Our SI partners help us reach additional customers. We believe our future growth also will depend on the retention and expansion of successful relationships with SI partners, including with SI partners that will focus on services and products we may acquire in the future. Our growth in revenue, particularly in international markets, will be influenced by the development and maintenance of relationships with SI partners, including regional and local SI partners. Although we have established relationships with some of the leading SI partners, our services and products may compete directly against services and products that such leading SI partners support or market. Additionally, we are unable to control the quantity or quality of resources that our SI partners commit to implementing our services and products, the quality or timeliness of such implementations, or the effects of the COVID-19 pandemic on our SI partners. If our partners do not commit sufficient or qualified resources to these activities, our customers will be less satisfied, be less supportive with references, or may require the investment of our resources at discounted rates. These, and other failures by our partners to successfully implement our services and products, would have an adverse effect on our business and our results of operations could fail to grow in line with our projections.

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

We sell our services and products to customers located outside the United States, and we are continuing to expand our international operations as part of our growth strategy. In fiscal years 2021, 2020, and 2019, $271.1 million, $279.8 million, and $272.9 million of our revenue, respectively, was from customers outside of the United States. Our current international operations and our plans to expand our international operations subject us to a variety of risks, including:

- increased management, travel, infrastructure, and legal compliance costs associated with having multiple international operations;
- unique terms and conditions in contract negotiations imposed by customers in foreign countries;
- longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable;
- the need to localize our contracts and our services and products for international customers;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- increased exposure to fluctuations in currency exchange rates;
- highly inflationary international economies, such as Argentina;

- the burdens and costs of complying with a wide variety of foreign laws and legal standards, including the General Data Protection Regulation in the European Union ("EU") and the U.K.;
- compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.K. Bribery Act and other anti-corruption regulations, particularly in emerging market countries;
- compliance by international staff with accounting practices generally accepted in the United States, including adherence to our accounting policies and internal controls;
- import and export license requirements, tariffs, taxes and other trade barriers;
- increased financial accounting, tax and reporting burdens and complexities;
- weaker protection of intellectual property rights in some countries;
- multiple and possibly overlapping tax regimes;
- government sanctions that may interfere with our ability to sell into particular countries, such as Russia;
- disruption to our operations caused by epidemics or pandemics, such as COVID-19; and
- political, social, and economic instability abroad, terrorist attacks, and security concerns in general.

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

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

We have experienced consistent growth and expect to continue to expand our operations, including the number of employees and the locations and scope of our international operations. Additionally, the COVID-19 pandemic and related shelter in-place orders have resulted in our employees and contractors working from home, bringing new challenges to managing our business and work force. We have announced our intention to transition to a hybrid work environment in which a large portion of our workforce will work either in-person on a part-time basis or remotely on a permanent basis. This expansion and changing work environment has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future operational expansion effectively, we must continue to maintain and may need to enhance our information technology and cybersecurity infrastructure and financial and accounting systems and controls, and manage expanded operations and employees in geographically distributed locations. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new or enhanced services and products or investments in cloud operations. If we increase the size of our organization without experiencing an increase in sales of our services and products, we will experience reductions in our gross and operating margins and net income. If we are unable to effectively manage our expanding operations or hybrid work environment, our expenses may increase more than expected, our revenue could decline or grow more slowly than expected, and we may be unable to implement our business strategy.

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

Our services and products are complex and are deployed in a wide variety of network environments. The proper use of our services and products requires training of the customer. If our services and products are not used correctly or as intended, inadequate performance may result. Our services and products may also be intentionally misused or abused by customers or their employees or third parties who are able to access or use our services and products. Because our customers rely on our services, products, and support to manage a wide range of operations, the incorrect or improper use of our services and products, our failure to properly train customers on how to efficiently and effectively use our services and products, or our failure to properly provide services to our customers may result in negative publicity or legal claims against us. Also, any failure by us to properly provide training or other services to existing customers will likely result in lost opportunities for follow-on and increased sales of our services and products.

In addition, if there is substantial turnover of customer personnel responsible for the use and support of our services and products, or if customer personnel are not well trained in the use and support of our services and products, customers may defer the deployment of our services and products, may deploy them in a more limited manner than originally anticipated, or may not deploy them at all. Further, if there is substantial turnover of the customer personnel responsible for use of our services and products, our ability to renew existing licenses and make additional sales may be substantially limited.

We may not be able to obtain capital when desired on favorable terms, if at all, and we may not be able to obtain capital or complete acquisitions through the use of equity without dilution to our stockholders.

We may need additional financing to execute on our current or future business strategies, including to develop new or enhance existing services and products, acquire businesses and technologies, or otherwise to respond to competitive pressures.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing stockholders could be significantly diluted, and newly-issued securities may have rights, preferences, or privileges senior to those of existing stockholders. If we accumulate additional funds through debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities. We cannot be assured that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available, or are not available on acceptable terms, when we desire them, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our services and products, or otherwise respond to competitive pressures would be significantly limited. Any of these factors could harm our results of operations.

Risks Related to Data Security and Privacy, Intellectual Property, and Information Technology

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

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

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

As adoption of our cloud-based services occurs, the amount of customer data, including customer personal information, that we manage, hold, and/or collect continues to increase. In addition, our services and products may collect, process, store, and use transaction-level data aggregated across insurers using our common data model. We anticipate that over time we will continue to expand the use and collection of personal information as greater amounts of such personal information may be transferred from our customers to us and we recognize that privacy and data security has become a significant issue in the United States, Europe, the U.K., and many other jurisdictions where we operate.

Many federal, state, and foreign legislatures and government agencies have imposed, are considering imposing, or are considering changing restrictions and requirements about the collection, use, and disclosure of personal information. Changes to laws or regulations affecting privacy could impose additional costs and liabilities, including fines, on us and could limit our use of such information to add value for customers, including for example, the California Consumer Privacy Act, the California Privacy Rights Act, which takes substantial effect on January 1, 2023, the Virginia Consumer Data Protection Act, which takes effect on January 1, 2023, the Colorado Privacy Act, which takes effect on July 1, 2023, and the Court of Justice of the EU's invalidation of the Privacy Shield framework in July 2020. On July 16, 2020, the Court of Justice of the European Union (EU) issued a verdict that ruled that the EU-US Data Protection Shield, on which many companies relied on to transfer their data between the US and the EU, was invalidated due to concerns around surveillance by US state and law enforcement agencies, known as the Schrems II decision. Schrems II now requires companies to conduct individual assessments of each data transfer to a non-EU country in order to ensure compliance. If we were required to change our business activities or revise or eliminate services, or to implement burdensome compliance measures, our business and results of operations could be harmed. In addition, we may be subject to fines, penalties, and potential litigation if we fail to comply with applicable privacy and/or data security laws, regulations, standards, and other requirements. The costs of compliance with and other burdens imposed by privacy-related laws, regulations, and standards may limit the use and adoption of our services and products and reduce overall demand.

Furthermore, concerns regarding data privacy and/or security may cause our customers' customers to resist providing the data and information necessary to allow our customers to use our services and products effectively. Even the perception that the privacy and/or security of personal information is not satisfactorily managed, or does not meet applicable legal, regulatory, and other requirements, could inhibit sales of our services or products, and could limit adoption of our solutions, resulting in a negative impact on our sales, reputation, and results from operations.

Privacy concerns in the EU and the U.K. are evolving and we may face fines and other penalties, as well as reputational harm, if we fail to comply with these evolving standards, and compliance with these standards may increase our expenses and adversely affect our business and results of operations.

On April 27, 2016 the EU adopted the General Data Protection Regulation 2016/679 (“GDPR”), that took effect on May 25, 2018. The GDPR applies to any company established in the European Economic Area (“EEA”) as well as to those outside the EEA if they carry out processing of personal data of individuals in the EEA that is related to the offering of goods or services to them or the monitoring of their behavior. The GDPR has enhanced data protection obligations for processors and controllers of personal data, including, for example, expanded disclosures about how personal data is to be used, limitations on retention of personal data, enhanced data subject rights, mandatory data breach notification requirements, and onerous new obligations on data processors. Non-compliance with the GDPR can trigger fines of up to €20 million, or 4% of total worldwide annual revenues, whichever is higher. Given the breadth and depth of changes in data protection obligations, complying with GDPR requirements has caused us to expend significant resources and such expenditures are likely to continue into the near future as we respond to new interpretations and enforcement actions and as we continue to negotiate data processing agreements with our customers and business partners.

In addition, the GDPR restricts transfers of personal data outside of the EEA to countries deemed to lack adequate privacy protections, including the U.S., unless an appropriate safeguard specified by the GDPR is implemented, such as the Standard Contractual Clauses (“SCCs”) approved by the European Commission and, until July 16, 2020, the Privacy Shield for EU–U.S. data transfers. On July 16, 2020, the European Court of Justice (“ECJ”) invalidated the EU-U.S. Privacy Shield, but it deemed that SCCs are valid, provided additional safeguards are in place. However, the ECJ ruled that transfers made pursuant to SCCs and other alternative transfer mechanisms need to be analyzed on a case-by-case basis to ensure EU standards of data protection are met in the jurisdiction where the data importer is based, and there continue to be concerns about whether SCCs will face additional challenges. Moreover, on September 8, 2020, the Swiss Federal Data Protection and Information Commissioner announced that it no longer considers the Swiss-U.S. Privacy Shield to provide adequate protections for transfers of Swiss personal data to the U.S., following the invalidation of the EU-U.S. Privacy Shield by the ECJ. Further, on June 4, 2021, the European Commission published revised standard contractual clauses for data transfers from the EEA. The revised clauses must be used for relevant new data transfers from September 27, 2021, while existing standard contractual clauses arrangements must be migrated to the revised clauses by December 27, 2022. We will be required to implement the revised standard contractual clauses in relation to our customer arrangements within the relevant time frames, which could increase our compliance costs and adversely affect our business. There is some uncertainty around whether the revised clauses can be used for all types of data transfers, particularly whether they can be relied on for data transfers to non-EEA entities subject to the GDPR. These recent developments will require us to review and amend the legal mechanisms by which we make and receive personal data transfers to or in the United States. We (and many other companies) may be required to adopt additional measures to accomplish and maintain legitimate means for the transfer and receipt of personal data from the EU to the United States and other countries. As data protection authorities continue to issue further guidance on personal data export mechanisms and/or start taking enforcement action, we could suffer additional costs, complaints and/or regulatory investigations or fines, and/or if we are otherwise unable to transfer personal data between and among countries and regions in which we operate, it could affect the manner in which we provide our services, the geographical location or segregation of our relevant systems and operations, and could adversely affect our financial results.

We may experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use our services due to the potential risk exposure to such customers as a result of such developments and the data protection obligations imposed on them by various data protection authorities. Such customers may also view any alternative approaches to the transfer of any personal data as being too costly, too burdensome, or otherwise objectionable, and therefore may decide not to do business with us.

Given our current transition to more cloud-based services and the current data protection landscape in the EU, we may be subject to greater risk of potential inquiries and/or enforcement actions. We may find it necessary to establish alternative systems to maintain EEA personal data within the EEA, which may involve substantial expense and may cause us to need to divert resources from other aspects of our business, all of which may adversely affect our results from operations. Further, any inability to adequately address privacy concerns in connection with our cloud-based services, or comply with applicable privacy or data protection laws, regulations, and policies, could result in additional cost and liability to us, including fines and harm to our reputation, and adversely affect our ability to offer cloud-based services.

Starting on January 1, 2021, as a result of Brexit, the U.K. has brought the GDPR into domestic U.K. law with the Data Protection Act 2018 (“U.K. GDPR”), which will remain in force. The U.K. GDPR mirrors the data protection obligations and fines under the GDPR, but there may be further developments about the regulation of particular issues such as U.K. data exports. The transfer of personal data from the United Kingdom to non-adequate countries remains subject to the previous set of standard contractual clauses as approved at the time of Brexit, but the U.K.'s Information Commissioner's Office (the "ICO") is currently considering new, U.K.-specific data transfer agreements. The ICO has stated that it is considering whether to recognize the new standard contractual clauses under U.K. law, and therefore our U.K. data export arrangements may also require updating, resulting in further compliance costs. In addition, on June 28, 2021, the European Commission adopted an adequacy decision in favor of the United Kingdom, enabling data transfers from EEA member states to the United Kingdom without additional safeguards. However, the U.K. adequacy decision will automatically expire in June 2025 unless the European Commission re-assesses and renews/extends that decision, and it remains under review by the Commission during this period. The relationship between the United Kingdom and the EEA in relation to certain aspects of data protection law remains unclear, and it is unclear how U.K. data protection laws and regulations will develop in the near to long term, and how data transfers to and from the United Kingdom will be regulated in the long term. These changes may lead to additional costs and increase our overall risk exposure.

Anticipated further evolution of EU and U.K. regulations on data privacy and security and any related changes to the regulatory framework in these or other countries may increase substantially our risk exposure to the penalties to which we could be subject in the event of any non-compliance. We may incur substantial expense in complying with the new obligations to be imposed by new regulations and interpretations of existing regulations and we may be required to make significant changes to our software applications and expanding business operations, all of which may adversely affect our results of operations.

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

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

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

If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed a party's intellectual property; cease making, licensing, or using our services or products that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our services or products; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or works; and to indemnify our partners, customers, and other third parties. Any of these events could seriously harm our business, results of operations, and financial condition.

Real or perceived errors or failures in our services and products including implementation services may affect our reputation, cause us to lose customers, and reduce sales and renewal rates, which may harm our business and results of operations and subject us to liability for breach of warranty claims.

Because we offer complex services and products, undetected errors or failures may exist or occur, especially when services and products are first introduced or when new versions or updates are released. Our services and products are often installed and used in large-scale computing environments with different operating systems, system management software, and equipment and networking configurations, which may cause errors or failures in our services and products or may expose undetected errors, failures, or bugs in our services and products. Despite testing by us, we may not identify all errors, failures, or bugs in new services and products or releases until after commencement of commercial sales or installation. In the past, we have discovered software errors, failures, and bugs in some of our offerings after their introduction. Additionally, our Guidewire Cloud offerings rely on third-party hosting services, primarily AWS. Any material disruption or slowdown in these services or the systems of third parties who we depend upon could cause outages or delays in our services, which could harm our reputation and adversely affect our results of operations.

We provide our customers with upfront estimates regarding the duration, resources, and costs associated with the implementation of our services and products. Failure to meet these upfront estimates and the expectations of our customers could result from our product capabilities or service engagements performed by us, our SI partners, or our customers' employees, the latter two of which are beyond our direct control. The consequences could include, and have included, monetary credits for current or future service engagements, reduced fees for additional services or product sales or upon renewals of existing licenses or services, modification of existing contracts that could potentially result in reversals of previously recognized revenue, or a customer's refusal to pay its contractually-obligated fees. In addition, time-consuming or difficult implementations may also increase the amount of services personnel we must allocate to the implementation project without commensurate compensation, thereby increasing our costs and adversely affecting our business, results of operations, and financial condition.

The license, subscription, and support of our services and products creates the risk of significant liability claims against us. Our license and subscription agreements with our customers contain provisions designed to limit our exposure to potential liability claims. It is possible, however, that the limitation of liability provisions contained in such agreements may not be enforced as a result of international, federal, state, and local laws or ordinances or unfavorable judicial decisions. Breach of warranty or damage liability, or injunctive relief resulting from such claims, could harm our results of operations, and financial condition.

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

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

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

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

We attempt to protect our intellectual property, technology, and confidential information by generally requiring our employees and consultants to enter into confidentiality agreements and assignment of inventions agreements and third parties to enter into nondisclosure agreements, all of which offer only limited protection. These agreements may not effectively prevent unauthorized use or disclosure of our confidential information, intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, intellectual property, or technology. Despite our efforts to protect our confidential information, intellectual property, and technology, unauthorized third parties may gain access to our confidential proprietary information, develop and market services or products similar to ours, or use trademarks similar to ours, any of which could materially harm our business and results of operations. In addition, others may independently discover our trade secrets and confidential information, and in such cases, we could not assert any trade secret rights against such parties. Existing United States federal, state, and international intellectual property laws offer only limited protection. The laws of some foreign countries do not protect our intellectual property rights to as great an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as governmental agencies and private parties in the United States. Moreover, policing our intellectual property rights is difficult, costly, and may not always be effective.

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

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

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

In addition, our Guidewire Cloud offerings rely on third-party hosting and infrastructure services provided by AWS, for the continuous, reliable, and secure operation of servers, related hardware and software, and network infrastructure. A prolonged AWS service disruption or slowdown for any reason could damage our reputation with current and potential customers, expose us to liability, cause us to lose customers, or otherwise harm our business.

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

Our software license agreements typically contain provisions permitting the customer to become a party to, or a beneficiary of, a source code escrow agreement under which we place the proprietary source code for our applicable services and products in escrow with a third party. Under these escrow agreements, the source code to the applicable product may be released to the customer, typically for its use to maintain, modify, and enhance the product, upon the occurrence of specified events, such as our filing for bankruptcy, discontinuance of our support services, and breaching our representations, warranties, or covenants of our agreements with our customers. Additionally, in some cases, customers have the right to request access to our source code upon demand. Some of our customers have obtained the source code for certain of our services and products by exercising this right, and others may do so in the future.

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

Some of our services and technologies may use "open source" software, which may restrict how we use or distribute our services or require that we release the source code of certain services and products subject to those licenses.

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

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

Risks Related to Legal, Regulatory, Accounting, and Tax Matters

The nature of our business requires the application of accounting guidance that requires management to make estimates and assumptions. Reported results under GAAP may vary from key metrics used to measure our business. Additionally, changes in

accounting guidance may cause us to experience greater volatility in our quarterly and annual results. If we are unsuccessful in adapting to and interpreting the requirements of new guidance, or in clearly explaining to stockholders how new guidance affects reporting of our results of operations, our stock price may decline.

We prepare our consolidated financial statements to conform to United States Generally Accepted Accounting Principles ("GAAP"). These accounting principles are subject to interpretation by the SEC, Financial Accounting Standards Board ("FASB"), and various bodies formed to interpret and create accounting rules and regulations. Accounting standards, such as ASC 606 - Revenue from Contracts with Customers or ASC 842 - Leases, or the guidance relating to interpretation and adoption of standards could have a significant effect on our financial results and could affect our business. Additionally, the FASB and the SEC are focused on the integrity of financial reporting, and our accounting policies are subject to scrutiny by regulators and the public.

We cannot predict the impact of future changes to accounting principles or our related accounting policies on our financial statements going forward. In addition, were we to change our accounting estimates, including those related to the timing of revenue recognition and those used to allocate revenue between various performance obligations, our reported revenue and results of operations could be significantly impacted. If we are unsuccessful in adapting to the requirements of any new standard, or if changes to our go-to-market strategy create new risks, then we may experience greater volatility in our quarterly and annual results, which may cause our stock price to decline.

In addition, GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue, and expenses that are not readily apparent from other sources.

Further, revenue recognition standards require significant judgment and estimates that impact our reported revenue and results of operations. Additionally, reported revenue has and will vary from the ARR and cash flow associated with each customer agreement. For example, some arrangements with multiple performance obligations, a portion of recurring license and support or subscription contract value is allocated to services revenue for revenue recognition purposes, but does not get allocated for purposes of calculating ARR. This revenue allocation only impacts the initial term of the contract. This means that as we increase arrangements with multiple performance obligations that include services at discounted rates, more of the total contract value will be recognized as services revenue, but our reported ARR amount will not be impacted. This potential difference and variability in the trends of reported amounts may cause volatility in our stock price.

If we fail to maintain effective internal control over financial reporting or identify a material weakness in our internal control over financial reporting, our ability to report our financial condition and results of operations in a timely and accurate manner could be adversely affected, investor confidence in our company could diminish, and the value of our common stock may decline.

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these processes may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") requires, among other things, that as a publicly-traded company we disclose whether our internal control over financial reporting and disclosure controls and procedures are effective.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

While we continually undertake steps to improve our internal control over financial reporting as our business changes, we may not be successful in making the improvements and changes necessary to be able to identify and remediate control deficiencies or material weaknesses on a timely basis. If we are unable to successfully remediate any future material weaknesses in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected; our liquidity, access to capital markets and perceptions of our creditworthiness may be adversely affected; we may be unable to maintain compliance with securities laws, stock exchange listing requirements and debt instruments covenants regarding the timely filing of periodic reports; we may be subject to regulatory investigations and penalties; investors may lose confidence in our financial reporting; we may suffer defaults under our debt instruments; and our stock price may decline.

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

We are subject to federal, state, and local income taxes in the United States and in foreign jurisdictions. Our future effective tax rates and the value of our deferred tax assets could be adversely affected by changes in, interpretations of, and guidance regarding tax laws, including impacts of the Jobs Act of 2017 (the "Tax Act") and the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act").

In addition, we are subject to the examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. Significant judgment is required in determining our worldwide provision for income taxes. Although we believe we have made appropriate provisions for taxes in the jurisdictions in which we operate, changes in the tax laws or challenges from tax authorities under existing tax laws could adversely affect our business, financial condition and results of operations.

We have received an immaterial assessment from the California Franchise Tax Board for the state income tax returns filed for fiscal years 2018 and 2017. We have submitted a written protest and we do not believe the examinations will have a material impact on our results of operations, financial condition, or cash flows.

Risks Related to Ownership of Our Common Stock

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

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this report, the timing and amount of any share repurchases by us, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us and research analyst coverage about our business.

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

In the past, we and many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. In July 2020, one of our stockholders filed a putative securities class action complaint in the federal court for the Northern District of California, against us and certain of our current or former officers and directors, alleging misstatements and omissions in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and SEC Rule 10b-5. In October 2020, the suit was voluntarily dismissed without prejudice by plaintiff's counsel. We may become the target of additional complaints of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from our business, which could seriously harm our business, results of operations, and financial condition.

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

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

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

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

- not providing for cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- authorizing our board of directors to issue, without stockholder approval, preferred stock rights senior to those of common stock, which could be used to significantly dilute the ownership of a hostile acquirer;

- prohibiting stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- limiting the persons who may call special meetings of stockholders, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- requiring advance notification of stockholder nominations and proposals, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

The affirmative vote of the holders of at least 66 2/3% of our shares of capital stock entitled to vote is generally necessary to amend or repeal the above provisions that are contained in our amended and restated certificate of incorporation. Also, absent approval of our board of directors, our amended and restated bylaws may only be amended or repealed by the affirmative vote of the holders of at least 50% of our shares of capital stock entitled to vote.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding common stock, from engaging in certain business combinations without approval of substantially all of our stockholders for a certain period of time.

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

Our amended and restated bylaws designate certain state or federal courts as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit stockholders' ability to obtain a favorable judicial forum for disputes with us.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any state law claim for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders;
- any action asserting a claim arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; or
- any action asserting a claim that is governed by the internal affairs doctrine (the "Delaware Forum Provision").

The Delaware Forum Provision will not apply to any causes of action arising under the Securities Act or the Exchange Act. Further, our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the United States District Court for the Northern District of California will be the sole and exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (the "Federal Forum Provision"), as we are based in the State of California. In addition, our amended and restated bylaws provide that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the Delaware Forum Provision and the Federal Forum Provision; provided, however, that stockholders cannot and will not be deemed to have waived our compliance with the U.S. federal securities laws and the rules and regulations thereunder.

The Delaware Forum Provision and the Federal Forum Provision in our amended and restated bylaws may impose additional litigation costs on stockholders in pursuing any such claims. Additionally, these forum selection clauses may limit our stockholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers or employees, which may discourage the filing of lawsuits against us and our directors, officers and employees, even though an action, if successful, might benefit our stockholders. In addition, while the Delaware Supreme Court ruled in March 2020 that federal forum selection provisions purporting to require claims under the Securities Act be brought in federal court are "facially valid" under Delaware law, there is uncertainty as to whether other courts will enforce our Federal Forum Provision. If the Federal Forum Provision is found to be unenforceable, we may incur additional costs associated with resolving such matters. The Federal Forum Provision may also impose additional litigation costs on stockholders who assert that the provision is not enforceable or invalid. The Court of Chancery of the State of Delaware and the United States District Court for the Northern District of California may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than our stockholders.

We cannot guarantee that our share repurchase program will be fully consummated or it will enhance stockholder value, and share repurchases could affect the price of our common stock.

In October 2020, our board of directors authorized and approved a share repurchase program of up to $200 million of our outstanding common stock, $11.2 million of which remains available for future repurchases as of October 31, 2021. Stock repurchases under the program may be made from time to time, in the open market, in privately negotiated transactions and otherwise, at the discretion of management and in accordance with applicable federal securities laws, including Rule 10b-18 of the Exchange Act, and other applicable legal requirements. Such repurchases may also be made in compliance with Rule 10b5-1 trading plans entered into by us. The timing, pricing, and sizes of these repurchases will depend on a number of factors, including the market price of our common stock and general market and economic conditions. The stock repurchase program does not obligate us to repurchase any dollar amount or number of shares, and the program may be suspended or discontinued at any time, which may result in a decrease in the price of our common stock. The share repurchase program could affect the price of our common stock, increase volatility, and diminish our cash reserves.

Risks Related to Our Indebtedness

Servicing our indebtedness requires a significant amount of cash. We may not have sufficient cash flow from our business to pay our substantial indebtedness, and we may not have the ability to raise the funds necessary to settle for cash conversions of the Convertible Senior Notes or to repurchase the Convertible Senior Notes upon a fundamental change, which could adversely affect our business and results of operations.

As of July 31, 2021, we had outstanding an aggregate principal amount of $400.0 million of our 1.25% Convertible Senior Notes due 2025 (the "Convertible Senior Notes"). Our indebtedness may increase our vulnerability to any generally adverse economic and industry conditions, and we and our subsidiaries may, subject to the limitations in the terms of our existing and future indebtedness, incur additional debt, secure existing or future debt, or recapitalize our debt. If we incur additional indebtedness, the risks related to our business would increase and our ability to service or repay our indebtedness may be adversely impacted.

Pursuant to their terms, holders may convert their Convertible Senior Notes at their option prior to the scheduled maturities of their Convertible Senior Notes under certain circumstances. Upon conversion of the Convertible Senior Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be obligated to make cash payments. In addition, holders of our Convertible Senior Notes will have the right to require us to repurchase their Convertible Senior Notes upon the occurrence of a fundamental change (as defined in the Indenture, dated as of March 13, 2018, between the Company and U.S. Bank National Association, as trustee (the "Trustee") (the "Base Indenture"), as amended and supplemented by the First Supplemental Indenture, dated as of March 13, 2018, between the Company and the Trustee (together with the Base Indenture, the "Indenture")) at a repurchase price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the fundamental change purchase date. Although it is our intention and we currently expect to have the ability to settle the Convertible Senior Notes in cash, there is a risk that we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Convertible Senior Notes surrendered therefor or Convertible Senior Notes being converted. In addition, our ability to make payments may be limited by law, by regulatory authority, or by agreements governing our future indebtedness. Our failure to repurchase Convertible Senior Notes at a time when the repurchase is required by the Indenture or to pay any cash payable on future conversions of the Convertible Senior Notes as required by such Indenture would constitute a default under such Indenture. A default under the Indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Convertible Senior Notes or make cash payments upon conversions thereof.

Our ability to make scheduled payments of the principal and interest on our indebtedness when due or to make payments upon conversion or repurchase demands with respect to our Convertible Senior Notes, or to refinance our indebtedness as we may need or desire, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to satisfy our obligations under our existing indebtedness, and any future indebtedness we may incur, and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing, or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance existing or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our existing or future indebtedness and have a material adverse effect on our business, results of operations, and financial condition.

The conditional conversion feature of the Convertible Senior Notes, if triggered, may adversely affect our financial condition and results of operations.

In the event the conditional conversion feature of the notes is triggered, holders of our Convertible Senior Notes will be entitled to convert the Convertible Senior Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Senior Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Senior Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Transactions relating to our Convertible Senior Notes may affect the value of our common stock.

The conversion of some or all of the Convertible Senior Notes would dilute the ownership interests of existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our common stock upon any conversion of such Convertible Senior Notes. Our Convertible Senior Notes may become in the future convertible at the option of their holders under certain circumstances. If holders of our Convertible Senior Notes elect to convert their notes, we may settle our conversion obligation by delivering to them a significant number of shares of our common stock, which would cause dilution to our existing stockholders.

In connection with the issuance of the Convertible Senior Notes, we entered into capped call transactions with certain financial institutions (the “option counterparties”). The capped call transactions are expected generally to reduce the potential dilution to our common stock upon any conversion of the notes and/or offset any cash payments we are required to make in excess of the principal amount of converted notes, as the case may be, with such reduction and/or offset subject to a cap.

From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Convertible Senior Notes. This activity could cause a decrease in the market price of our common stock.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Senior Notes, could have a material effect on our reported financial results.

Under FASB Accounting Standards Codification 470-20 (“ASC 470-20”), Debt with Conversion and Other Options, an entity must separately account for the liability and equity components of convertible debt instruments (such as the Convertible Senior Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. ASC 470-20 requires the value of the conversion option of the Convertible Senior Notes, representing the equity component, to be recorded as additional paid-in capital within stockholders’ equity in our consolidated balance sheets as an original issue discount to the Convertible Senior Notes, which reduces their initial carrying value. The carrying value of the Convertible Senior Notes, net of the discount recorded, will be accreted up to the principal amount of the notes from the issuance date until maturity, which will result in non-cash charges to interest expense in our consolidated statement of operations. Accordingly, we will report lower net income or higher net loss in our financial results because ASC 470-20 requires interest to include both the current period’s accretion of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock, and the trading price of the Convertible Senior Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Convertible Senior Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Convertible Senior Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Convertible Senior Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued.

However, recently issued accounting guidance that will be effective for us on August 1, 2022 will no longer permit the use of the treasury stock method. In August 2020, the FASB issued ASU No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), which simplifies the accounting for convertible instruments. Among other things, the guidance eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. We are currently evaluating the impact of the new guidance on our consolidated financial statements, however, we believe the requirement to use the if-converted method instead of the treasury stock method of accounting for the shares issuable upon conversion of the Convertible Senior Notes, could adversely affect our diluted earnings per share.

We are subject to counterparty risk with respect to the capped call transactions.

The option counterparties are financial institutions, and we will be subject to the risk that any or all of them might default under the capped call transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Past global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the capped call transactions with such option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

General Risks

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

General worldwide economic conditions remain unstable, and prolonged economic uncertainties or downturns could harm our business, results of operations or financial condition. In particular, pursuant to a decision by referendum in June 2016, the U.K. voted to withdraw from the EU. A trade and cooperation agreement, which addresses trade, economic arrangements, law enforcement, judicial cooperation and a governance framework including procedures for dispute resolution, among other things, was recently ratified by the European Parliament and the Council of the EU to govern the U.K.'s future relationship with the EU. Because the agreement merely sets forth a framework in many respects and will require complex additional bilateral negotiations between the U.K. and the EU as both parties continue to work on the rules for implementation, significant political and economic uncertainty remains about how the precise terms of the relationship between the parties will differ from the terms before withdrawal. Brexit has caused significant volatility in global stock markets and fluctuations in currency exchange rates. Brexit has also caused, and may continue to cause, delays in purchasing decisions by our potential and current customers affected by this transition due to the considerable political and economic uncertainty created by Brexit and uncertainty as to the nature of the U.K.'s long-term relationship with the EU. Brexit may further result in new regulatory and cost challenges to our U.K. and global operations, particularly with respect to data protection. Depending on the market and regulatory effects of Brexit, it is possible that there may be adverse practical or operational implications on our business, and prolonged economic uncertainties or downturns caused by Brexit could harm our business and results of operations.

Further, other global events such as the imposition of various trade tariffs by the United States and China and the COVID-19 pandemic, have created and may continue to create global economic uncertainty, including inflationary pressures, in regions in which we have significant operations. These conditions may make it difficult for our customers and us to forecast and plan future business activities accurately, and could cause our customers to reevaluate their decision to purchase our services and products, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Moreover, during challenging economic times our customers may face issues in gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may not receive amounts owed to us and may be required to record an accounts receivable allowance, which would adversely affect our financial results. A substantial downturn in the P&C insurance industry may cause firms to react to worsening conditions by reducing their capital expenditures, reducing their spending on information technology, delaying or canceling information technology projects, or seeking to lower their costs by renegotiating vendor contracts. Negative or worsening conditions in the general economy both in the United States and abroad, including conditions resulting from financial and credit market fluctuations, could cause a decrease in corporate spending on enterprise software in general, and in the insurance industry specifically, and negatively affect the rate of growth of our business.

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

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

Our future success depends upon our ability to continue to attract, train, integrate, and retain highly skilled employees, particularly our executive officers, sales and marketing personnel, professional services personnel, cloud operations personnel, and software engineers, especially as we transition to a business model focused on delivering cloud-based offerings. Additionally, our stakeholders increasingly expect us to have a culture that embraces diversity and inclusion. Our inability to attract and retain diverse and qualified personnel, or delays in hiring required personnel, may seriously harm our business, results of operations, and financial condition. If U.S. immigration policy related to skilled foreign workers were materially adjusted, such a change could hamper our efforts to hire highly skilled foreign employees, including highly specialized engineers, which would adversely impact our business.

Any one of our executive officers and other key employees could terminate his or her relationship with us at any time. The loss of one or more of our executive officers or key employees, and any failure to have in place and execute an effective succession plan for key executive officers, could significantly delay or prevent us from achieving our business and/or development objectives and could disrupt or materially harm our business. Although we strive to reduce the challenges of any transition, failure to ensure effective transfer of knowledge and a smooth transition could disrupt or adversely affect our business, results of operations, financial condition, and prospects.

We face competition for qualified individuals from numerous software and other technology companies. Competition for qualified personnel is particularly intense in the San Francisco Bay Area, where our headquarters are located, though we also face significant competition in all of our domestic and foreign development centers. Further, significant amounts of time and resources are required to train technical, sales, services, operations, and other personnel. We may incur significant costs to attract, train, and retain such personnel, and we may lose new employees to our competitors or other technology companies before we realize the benefit of our investment after recruiting and training them.

Also, to the extent that we hire personnel from competitors, we may be subject to allegations that such personnel have been improperly solicited or have divulged proprietary or other confidential information. In addition, we have a limited number of sales people and the loss of several sales people within a short period of time could have a negative impact on our sales efforts. Additionally, the Covid-19 pandemic and recent economic conditions have increased attrition and decreased the number of available candidates for open positions. We may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational, and managerial requirements, including managing employees and contractors remotely or in a hybrid environment, or we may be required to pay increased compensation in order to do so.

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

Because of the technical nature of our services and products and the dynamic market in which we compete, any failure to attract, integrate, and retain qualified direct sales, professional services, cloud operations, and product development personnel, as well as our contract workers, could harm our ability to generate sales, deliver consulting services, manage our customers' cloud environments, or successfully develop new services and products and enhancements of existing services and products.

Factors outside of our control, including, but not limited to, natural catastrophes and terrorism may adversely impact the P&C insurance industry, preventing us from expanding or maintaining our existing customer base and increasing our revenue. Our business is subject to the risks of earthquakes, fire, floods, and other natural catastrophic events, and to interruption by man-made problems such as computer viruses.

Our customers are P&C insurers that have experienced, and will likely experience in the future, losses from catastrophes or terrorism that may adversely impact their businesses. Catastrophes can be caused by various events, including, without limitation, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tornadoes, explosions, severe weather, epidemics, pandemics, and fires. Climate change and other environmental factors are contributing to an increase in erratic weather patterns globally and intensifying the impact of certain types of catastrophes. Moreover, acts of terrorism or war could cause disruptions to our business or our customers' businesses or the economy as a whole. The risks associated with natural catastrophes and terrorism are inherently unpredictable, and it is difficult to forecast the timing of such events or estimate the amount of losses they will generate. Recently, for example, various parts of the United States have suffered extensive damage due to hurricanes, droughts, severe heat and cold events, fires, and other natural disasters, Germany and other parts of Europe has experienced flooding, and Australia has experienced extensive damage due to fires and flooding. The combined and expected effect of those losses on P&C insurers is significant. Such losses and losses due to future events may adversely impact our current or potential customers, which may prevent us from maintaining or expanding our customer base and increasing our revenue, as such events may cause customers to postpone purchases and professional service engagements or to discontinue existing projects.

Our corporate headquarters and the majority of our operations are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, tsunami, fire, flood, epidemic, or pandemic, such as the COVID-19 pandemic, could have a material adverse impact on our business, results of operations, and financial condition. In addition, our information technology systems are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering. To the extent that such disruptions result in delays or cancellations of customer orders or collections, or the deployment or availability of our services and products, our business, results of operations, and financial condition would be adversely affected.

Our revenue, results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Argentine Peso, Australian Dollar, Brazilian Real, British Pound, Canadian Dollar, Danish Kroner, Euro, Indian Rupee, Japanese Yen, Malaysian Ringgit, New Zealand Dollar, Polish Zloty, Russian Ruble, and Swiss Franc.

The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure at the cash flow or operating income level because we typically collect revenue and incur costs in the currency of the location in which we provide our applications and services, our relationships with our customers are long-term in nature so it is difficult to predict if our operating activities will provide a natural hedge in the future. In addition, because our contracts are characterized by large annual payments, significant fluctuations in foreign currency exchange rates that coincide with annual payments may affect our cash flows, revenue or financial results in such quarter. Our results of operations may also be impacted by transaction gains or losses related to revaluing certain current asset and liability balances that are denominated in currencies other than the functional currency of the entity in which they are recorded. Moreover, significant and unforeseen changes in foreign currency exchange rates may cause us to fail to achieve our stated projections for revenue and operating income, which could have an adverse effect on our stock price. We will continue to experience fluctuations in foreign currency exchange rates, which, if material, may harm our revenue or results of operations.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of equity securities by the Company during the three months ended October 31, 2021 was as follows (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs[(1)]	Approximate Dollar Value (in millions) of Shares That May Yet Be Purchased Under The Plans or Programs[(1)]
August 1, 2021 - August 31, 2021	118,104	$114.55	1,607,095	$24.0
September 1, 2021 - September 30, 2021	60,936	$118.16	1,668,031	$16.8
October 1, 2021 - October 31, 2021	47,132	$117.42	1,715,163	$11.2

(1) On October 7, 2020, we announced that our board of directors authorized and approved a share repurchase program of up to $200.0 million of our outstanding stock. We began repurchasing shares under this program during the first quarter of fiscal year 2021. As of October 31, 2021, we had approximately $11.2 million remaining for future share repurchases under the share repurchase program. The stock repurchase program does not obligate us to repurchase any dollar amount or number of shares, and the program may be suspended or discontinued at any time. There is no stated expiration for the program.

ITEM 6. Exhibits

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

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
3.1	Amended and Restated Certificate of Incorporation	10-Q	3.1	March 5, 2020
3.2	Amended and Restated Bylaws	8-K	3.1	September 14, 2020
4.1	Form of Common Stock certificate of the Registrant	S-1/A	4.1	January 9, 2012
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith		
32.1*	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act	Furnished herewith		
101.INS	Inline XBRL Instance Document	Filed herewith		
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith		
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith		
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith		
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith		

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

SIGNATURES

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

Date: December 3, 2021	**GUIDEWIRE SOFTWARE, INC.**
	By: /s/ JEFF COOPER
	Jeff Cooper
	Chief Financial Officer
	(Principal Financial and Accounting Officer)

Exhibit 31.1

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

I, Mike Rosenbaum, certify that:

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

Date:	December 3, 2021	By:	/s/ MIKE ROSENBAUM
			Mike Rosenbaum
			Chief Executive Officer
			(Principal Executive Officer)

Exhibit 31.2

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

I, Jeff Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guidewire Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    a) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    b) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2021

By: /s/ JEFF COOPER
Jeff Cooper
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Guidewire Software, Inc. for the quarterly period ended October 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Mike Rosenbaum, as Chief Executive Officer of Guidewire Software, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Guidewire Software, Inc.

Date:	December 3, 2021	By:	/s/ MIKE ROSENBAUM
			Mike Rosenbaum
			Chief Executive Officer
			(Principal Executive Officer)

In connection with the Quarterly Report on Form 10-Q of Guidewire Software, Inc. for the quarterly period ended October 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jeff Cooper, as Chief Financial Officer of Guidewire Software, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Guidewire Software, Inc.

Date:	December 3, 2021	By:	/s/ JEFF COOPER
			Jeff Cooper
			Chief Financial Officer
			(Principal Financial and Accounting Officer)