

Guidewire Software, Inc.
 Form 10-Q
 March 01, 2013
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UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended January 31, 2013

OR

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

For the transition period from _____ to _____
 Commission file number: 001-35394

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

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

| | |
|---|---------------------|
| 1001 E. Hillsdale Blvd., Suite 800 Foster City, California (Address of principal executive offices) | 94404 (Zip Code) |
|---|---------------------|

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

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

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

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

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

| | |
|---|--|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input checked="" type="checkbox"/> (do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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

On January 31, 2013, the registrant had 56,450,245 shares of common stock issued and outstanding.

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FORWARD-LOOKING STATEMENTS

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

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

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. All subsequent written or oral forward-looking statements attributable to our company or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

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

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

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PART I – Financial Information

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

| | January 31, 2013 | July 31, 2012 |
|--|---------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$101,465 | \$205,718 |
| Restricted cash, current portion | 206 | 3,726 |
| Short-term investments | 64,384 | — |
| Accounts receivable | 41,779 | 32,313 |
| Deferred tax asset, current portion | 15,430 | 13,442 |
| Prepaid expenses and other current assets | 6,598 | 7,266 |
| Total current assets | 229,862 | 262,465 |
| Long-term investments | 37,394 | — |
| Property and equipment, net | 11,608 | 11,924 |
| Deferred tax asset, net of current portion | 9,313 | 9,313 |
| Other assets | 511 | 545 |
| TOTAL ASSETS | \$288,688 | \$284,247 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$6,384 | \$9,781 |
| Accrued employee compensation | 18,808 | 26,502 |
| Deferred revenues, current portion | 43,043 | 52,947 |
| Other current liabilities | 5,848 | 3,957 |
| Total current liabilities | 74,083 | 93,187 |
| Deferred revenues, net of current portion | 2,014 | 2,569 |
| Other liabilities | 5,555 | 4,529 |
| Total liabilities | 81,652 | 100,285 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock | 6 | 5 |
| Additional paid-in capital | 224,730 | 207,624 |
| Accumulated other comprehensive loss | (477 |) (496 |
| Accumulated deficit | (17,223 |) (23,171 |
| Total stockholders' equity | 207,036 | 183,962 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$288,688 | \$284,247 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | |

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

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues : | | | | |
| License | \$30,752 | \$25,729 | \$51,564 | \$46,544 |
| Maintenance | 9,210 | 6,805 | 18,580 | 13,911 |
| Services | 32,226 | 22,563 | 65,345 | 47,022 |
| Total revenues | 72,188 | 55,097 | 135,489 | 107,477 |
| Cost of revenues: | | | | |
| License | 130 | 234 | 297 | 533 |
| Maintenance | 1,787 | 1,197 | 3,351 | 2,463 |
| Services | 29,471 | 19,310 | 55,297 | 37,235 |
| Total cost of revenues | 31,388 | 20,741 | 58,945 | 40,231 |
| Gross profit : | | | | |
| License | 30,622 | 25,495 | 51,267 | 46,011 |
| Maintenance | 7,423 | 5,608 | 15,229 | 11,448 |
| Services | 2,755 | 3,253 | 10,048 | 9,787 |
| Total gross profit | 40,800 | 34,356 | 76,544 | 67,246 |
| Operating expenses: | | | | |
| Research and development | 15,885 | 12,162 | 30,649 | 23,121 |
| Sales and marketing | 12,389 | 9,198 | 24,765 | 16,559 |
| General and administrative | 7,445 | 7,639 | 16,111 | 14,077 |
| Total operating expenses | 35,719 | 28,999 | 71,525 | 53,757 |
| Income from operations | 5,081 | 5,357 | 5,019 | 13,489 |
| Interest income, net | 132 | 73 | 222 | 113 |
| Other income (expense), net | 23 | (319) | 164 | (635) |
| Income before provision for (benefit from) income taxes | 5,236 | 5,111 | 5,405 | 12,967 |
| Provision for (benefit from) income taxes | (265) | 1,420 | (543) | 4,464 |
| Net income | \$5,501 | \$3,691 | \$5,948 | \$8,503 |
| Net income per share: | | | | |
| Basic | \$0.10 | \$0.07 | \$0.11 | \$0.17 |
| Diluted | \$0.09 | \$0.06 | \$0.10 | \$0.15 |
| Shares used in computing net income per share: | | | | |
| Basic | 55,868,308 | 18,433,369 | 55,341,176 | 16,499,660 |
| Diluted | 61,706,457 | 25,610,201 | 61,452,245 | 23,387,583 |
| Comprehensive income: | | | | |
| Foreign currency translation adjustment | \$14 | \$(181) | \$(2) | \$(190) |
| Unrealized gains on available-for-sale securities | 21 | — | 21 | — |
| Total comprehensive income | \$5,536 | \$3,510 | \$5,967 | \$8,313 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Six Months Ended January 31, | | |
|---|------------------------------|-----------|---|
| | 2013 | 2012 | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | \$5,948 | \$8,503 | |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation and amortization | 2,045 | 1,364 | |
| Stock-based compensation | 20,158 | 9,604 | |
| Excess tax benefit from exercise of stock options and vesting of RSUs | (186 |) — | |
| Deferred tax assets | (2,003 |) 3,841 | |
| Other noncash items affecting net income | 83 | — | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (9,514 |) (11,565 |) |
| Prepaid expenses and other assets | 708 | (529 |) |
| Accounts payable | 724 | 395 | |
| Accrued employee compensation | (7,491 |) (3,215 |) |
| Other liabilities | 3,101 | (8,756 |) |
| Deferred revenues | (10,464 |) (11,910 |) |
| Net cash provided by (used in) operating activities | 3,109 | (12,268 |) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |