GOLDMAN SACHS GROUP INC
Form 424B2
March 20, 2019
Filed Pursuant to Rule 424(b)(2)

Registration Statement No. 333-219206

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated March 20, 2019.

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The Goldman Sachs Group, Inc.

Callable Step-Up Fixed Rate Notes due 2024

We will pay you interest semi-annually on your notes at a rate of 3.25% per annum from and including April , 2019 to but excluding April , 2021. We will pay you interest semi-annually on your notes at a rate of 3.50% per annum from and including April , 2021 to but excluding April , 2022. We will pay you interest semi-annually on your notes at a rate of 3.75% per annum from and including April , 2022 to but excluding April , 2023. We will pay you interest semi-annually on your notes at a rate of 4.00% per annum from and including April , 2023 to but excluding April , 2024. We will pay you interest semi-annually on your notes at a rate of 4.25% per annum from and including April , 2024 to but excluding the stated maturity date (October , 2024). Interest will be paid on each April and October . The first such payment will be made on October , 2019.

In addition, we may redeem the notes at our option, in whole but not in part, on each January , April , July and October on or after April , 2020, upon at least five business days' prior notice, at a redemption price equal to 100% of the outstanding principal amount plus accrued and unpaid interest to but excluding the redemption date. Although the interest rate will step up during the life of your notes, you may not benefit from such increase in the interest rate if your notes are redeemed prior to the stated maturity date.

	Per Note	Total
Initial price to public*	%	$
Underwriting discount*	%	$
Proceeds, before expenses, to The Goldman Sachs Group, Inc.	%	$

*The initial price to public will vary between% and 100% for certain investors; see "Supplemental Plan of Distribution" on page PS-7.

The initial price to public set forth above does not include accrued interest, if any. Interest on the notes will accrue from April , 2019 and must be paid by the purchaser if the notes are delivered after April , 2019. In addition to offers and sales at the initial price to public, the underwriters may offer the notes from time to time for sale in one or more transactions at market prices prevailing at the time of sale, at prices related to market prices or at negotiated prices.

The return (whether positive or negative) on your investment in notes will depend in part on the issue price you pay for such notes.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Goldman Sachs may use this prospectus in the initial sale of the notes. In addition, Goldman Sachs & Co. LLC or any other affiliate of Goldman Sachs may use this prospectus in a market-making transaction in the notes after their initial sale. Unless Goldman Sachs or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.

Goldman Sachs & Co. LLC Incapital LLC

Pricing Supplement No. dated March , 2019.

About Your Prospectus

The notes are part of the Medium-Term Notes, Series N program of The Goldman Sachs Group, Inc. This prospectus includes this pricing supplement and the accompanying documents listed below. This pricing supplement constitutes a supplement to the documents listed below and should be read in conjunction with such documents:

•Prospectus supplement dated July 10, 2017

•Prospectus dated July 10, 2017

The information in this pricing supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

SPECIFIC TERMS OF THE NOTES

Please note that in this section entitled “Specific Terms of the Notes”, references to “The Goldman Sachs Group, Inc.”, “we”, “our” and “us” mean only The Goldman Sachs Group, Inc. and do not include any of its consolidated subsidiaries. Also, in this section, references to “holders” mean The Depository Trust Company (DTC) or its nominee and not indirect owners who own beneficial interests in notes through participants in DTC. Please review the special considerations that apply to indirect owners in the accompanying prospectus, under “Legal Ownership and Book-Entry Issuance”.

This pricing supplement no.dated March , 2019 (pricing supplement) and the accompanying prospectus dated July 10, 2017 (accompanying prospectus), relating to the notes, should be read together. Because the notes are part of a series of our debt securities called Medium-Term Notes, Series N, this pricing supplement and the accompanying prospectus should also be read with the accompanying prospectus supplement, dated July 10, 2017 (accompanying prospectus supplement). Terms used but not defined in this pricing supplement have the meanings given to them in the accompanying prospectus or accompanying prospectus supplement, unless the context requires otherwise.

The notes are part of a separate series of our debt securities under our Medium-Term Notes, Series N program governed by our Senior Debt Indenture, dated as of July 16, 2008, as amended, between us and The Bank of New York Mellon, as trustee. This pricing supplement summarizes specific terms that will apply to your notes. The terms of the notes described here supplement those described in the accompanying prospectus supplement and accompanying prospectus and, if the terms described here are inconsistent with those described there, the terms described here are controlling.

Terms of the Callable Step-Up Fixed Rate Notes due 2024

Issuer: The Goldman Sachs Group, Inc.

Principal amount: $

Specified currency: U.S. dollars ($)

Type of Notes: Fixed rate notes (notes) Denominations: $1,000 and integral multiples of $1,000

in excess thereof

Trade date: March , 2019

Original issue date: April , 2019

Stated maturity date: October , 2024

Interest rate: 3.25% per annum from and including April , 2019 to but excluding April , 2021; 3.50% per annum from and including April , 2021 to but excluding April , 2022; 3.75% per annum from and including April , 2022 to but excluding April , 2023; 4.00% per annum from and including April , 2023 to but excluding April , 2024; 4.25% per annum from and including April , 2024 to but excluding October , 2024

Supplemental discussion of U.S. federal income tax consequences: Subject to the discussion set forth in the section referenced below regarding short-term debt securities, it is the opinion of Sidley Austin LLP that interest on a note will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. holder's normal method of accounting for tax purposes (regardless of whether we call the notes). Upon the disposition of a note by sale, exchange, redemption or retirement (i.e., if we exercise our right to call the notes or otherwise) or other disposition, a U.S. holder will generally recognize capital gain or loss equal to the difference, if any, between (i) the amount realized on the disposition (other than amounts attributable to accrued but unpaid interest, which would be treated as

such) and (ii) the U.S. holder's adjusted tax basis in the note.

Interest payment dates: April and October of each year, commencing on October , 2019 and ending on the stated maturity date

Regular record dates: for interest due on an interest payment date, the day immediately prior to the day on which payment is to be made (as such payment day may be adjusted under the applicable business day convention specified below)

Day count convention: 30/360 (ISDA), as further discussed under "Additional Information About the Notes — Day Count Convention" on page PS-5 of this pricing supplement

Business day: New York

Business day convention: following unadjusted

Redemption at option of issuer before stated maturity: We may redeem the notes at our option, in whole but not in part, on each January , April , July and October on or after April , 2020, upon at least five business days' prior notice, at a redemption price equal to 100% of the outstanding principal amount plus accrued and unpaid interest to but excluding the redemption date

Limited events of default: The only events of default for the notes are (i) interest or principal payment defaults that continue for 30 days and (ii) certain insolvency events. No other breach or default under our senior debt indenture or the notes will result in an event of default for the notes or permit the trustee or holders to accelerate the maturity of any debt securities – that is, they will not be entitled to declare the principal amount of any notes to be immediately due and payable. See "Risks Relating to Regulatory Resolution Strategies and Long-Term Debt Requirements" and "Description of Debt Securities We May Offer — Default, Remedies and Waiver of Default — Securities Issued on or After

January 1, 2017 under the 2008 Indenture” in the accompanying prospectus for further details.

Listing: None

ERISA: as described under “Employee Retirement Income Security Act” on page 119 of the accompanying prospectus

CUSIP no.: 38150ACL7

ISIN no.: US38150ACL70

Form of notes: Your notes will be issued in book-entry form and represented by a master global note. You should read the section “Legal Ownership and Book- Entry Issuance” in the accompanying prospectus for more information about notes issued in book-entry form

Defeasance applies as follows:

- full defeasance — i.e., our right to be relieved of all our obligations on the note by placing funds in trust for the holder: yes
- covenant defeasance — i.e., our right to be relieved of specified provisions of the note by placing funds in trust for the holder: yes

FDIC: The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank

Calculation Agent: Goldman Sachs & Co. LLC

Foreign Account Tax Compliance Act (FATCA) Withholding May Apply to Payments on Your Notes, Including as a Result of the Failure of the Bank or Broker Through Which You Hold the Notes to Provide Information to Tax Authorities:

Please see the discussion under “United States Taxation — Taxation of Debt Securities — Foreign Account Tax Compliance Act (FATCA) Withholding” in the accompanying prospectus for a description of the applicability of FATCA to payments made on your notes. The discussion in that section is hereby modified to reflect regulations proposed by the Treasury Department indicating its intent to eliminate the requirements under FATCA of withholding on gross proceeds from the sale, exchange, maturity or other disposition of relevant financial instruments. The Treasury Department has indicated that taxpayers may rely on these proposed regulations pending their finalization.

ADDITIONAL INFORMATION ABOUT THE NOTES

Book-Entry System

We will issue the notes as a master global note registered in the name of DTC, or its nominee. The sale of the notes will settle in immediately available funds through DTC. You will not be permitted to withdraw the notes from DTC except in the limited situations described in the accompanying prospectus under "Legal Ownership and Book-Entry Issuance — What Is a Global Security? — Holder's Option to Obtain a Non-Global Security; Special Situations When a Global Security Will Be Terminated". Investors may hold interests in a master global note through organizations that participate, directly or

indirectly, in the DTC system.

In addition to this pricing supplement, the following provisions are hereby incorporated into the global master note: the description of New York business day appearing under "Description of Debt Securities We May Offer – Calculations of Interest on Debt Securities – Business Days" in the accompanying prospectus, the description of the following unadjusted business day convention appearing under "Description of Debt Securities We May Offer – Calculations of Interest on Debt Securities – Business Day Conventions" in the accompanying prospectus and the section "Description of Debt Securities We May Offer – Defeasance and Covenant Defeasance" in the accompanying prospectus.

Day Count Convention

As further described under "Description of Debt Securities We May Offer – Calculations of Interest on Debt Securities – Interest Rates and Interest" in the accompanying prospectus, for each interest period the amount of accrued interest will be calculated by multiplying the principal amount of the note by an accrued interest factor for the interest period. The accrued interest factor will be determined by multiplying the per annum interest rate by a factor resulting from the 30/360 (ISDA) day count convention. The factor is the number of days in the interest period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the interest period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the interest period

falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"D1" is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

When We Can Redeem the Notes

We will be permitted to redeem the notes at our option before their stated maturity, as described below. The notes will not be entitled to the benefit of any sinking fund – that is, we will not deposit money on a regular basis into any separate custodial account to repay your note. In addition, you will not be entitled to require us to buy your note from you before its stated maturity.

We will have the right to redeem the notes at our option, in whole but not in part, on each January , April , July and October on or after April , 2020, at a redemption price equal to 100% of the outstanding principal amount plus accrued and unpaid interest to but excluding the redemption date. We will provide not less than five business days' prior notice in the manner described under "Description of Debt Securities We May Offer — Notices" in the attached prospectus. If the redemption notice is given and funds deposited as required, then interest will cease to accrue on and after the redemption date on the notes. If any redemption date is not a business day, we will pay the redemption price on the next business day without any interest or other payment due to the delay.

What are the Tax Consequences of the Notes

You should carefully consider, among other things, the matters set forth under "United States Taxation" in the accompanying prospectus supplement and the accompanying prospectus. The following discussion summarizes certain of the material U.S. federal income tax consequences of the purchase, beneficial ownership, and disposition of each of the notes. This summary supplements the section "United States Taxation" in the accompanying prospectus supplement and the accompanying prospectus and is subject to the limitations and exceptions set forth therein.

As of the original issue date, the notes should not be treated as issued with "original issue discount" ("OID") despite the fact that the interest rate on the notes is scheduled to step-up over the term of the notes because Treasury regulations generally deem an issuer to exercise a call option in a manner that minimizes the yield on the debt instrument for purposes of determining whether a debt instrument is issued with OID. The yield on the notes would be minimized if we call the notes immediately before the increase in the interest rate on April , 2021 and therefore the notes should be treated as maturing on such date for OID purposes. This assumption is made solely for purposes of determining whether the notes are issued with OID for U.S. federal income tax purposes, and is not an indication of our intention to call or not to call the notes at any time. If we do not call the notes prior to the increase in the interest rate then, solely for OID purposes, the notes will be deemed to be reissued at their adjusted issue price on April , 2021. This deemed issuance should not give rise to taxable gain or loss to holders. The same analysis would apply to the increase in the interest rate on April , 2022, April , 2023 and April , 2024. If the notes are not called on the interest payment date occurring on April , 2024, then, because the period between the interest payment date on April , 2024 and the stated maturity date of the notes is one year or less, the notes, upon their deemed reissuance on April , 2024, could be treated as short-term debt securities for OID purposes (but not for purposes of determining the holding period of your notes). For a discussion of the U.S. federal income tax consequences to a U.S. holder of owning short-term debt securities, please review the section entitled "United States Taxation—Taxation of Debt Securities—United States Holders—Short-Term Debt Securities" in the accompanying prospectus.

Under this approach, and subject to the discussion above regarding short-term debt securities, interest on a note will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. holder's normal method of accounting for tax purposes (regardless of whether we call the notes). Upon the disposition of a note by sale, exchange, redemption or retirement (i.e., if we exercise our right to call the notes or otherwise) or other disposition, a U.S. holder will generally recognize capital gain or loss equal to the difference, if any, between (i) the amount realized on the disposition (other than amounts attributable to accrued but unpaid interest, which would be treated as such) and (ii) the U.S. holder's adjusted tax basis in the note. A U.S. holder's adjusted tax basis in a note generally will equal the cost of the note to the U.S. holder. The deductibility of capital losses is subject to significant limitations.

Foreign Account Tax Compliance Act (FATCA) Withholding. Pursuant to Treasury regulations, Foreign Account Tax Compliance Act (FATCA) withholding (as described in "United States Taxation—Taxation of Debt Securities—Foreign Account Tax Compliance Act (FATCA) Withholding" in the accompanying prospectus) will generally apply to obligations that are issued on or after July 1, 2014; therefore, the notes will generally be subject to the FATCA withholding rules. Pursuant to recently proposed regulations, the Treasury Department has indicated its intent to eliminate the requirements under FATCA of withholding on gross proceeds from the sale, exchange, maturity or other disposition of relevant financial instruments. The Treasury Department has indicated that taxpayers may rely on these proposed regulations pending their finalization.

SUPPLEMENTAL PLAN OF DISTRIBUTION

The Goldman Sachs Group, Inc. and the underwriters for this offering named below have entered into a distribution agreement with respect to the notes. Subject to certain conditions, each underwriter named below has severally agreed to purchase the principal amount of notes indicated in the following table.

Underwriters	Principal Amount of Notes
Goldman Sachs & Co. LLC	$
Incapital LLC	
Total	$

Notes sold by the underwriters to the public will initially be offered at the initial price to public set forth on the cover of this pricing supplement. The underwriters intend to purchase the notes from The Goldman Sachs Group, Inc. at a purchase price equal to the initial price to public less a discount of % of the principal amount of the notes. Any notes sold by the underwriters to securities dealers may be sold at a discount from the initial price to public of up to % of the principal amount of the notes. The initial price to public for notes purchased by certain retirement accounts and certain fee-based advisory accounts will vary between % and 100% of the principal amount of the notes. Any sale of a note to a retirement account or fee-based advisory account at an initial price to public below 100% of the principal amount will reduce the underwriting discount specified on the cover of this pricing supplement with respect to such note. The initial price to public paid by any retirement account or fee-based advisory account will be reduced by the amount of any fees foregone by the securities dealer or dealers involved in the sale of the notes to such retirement account or fee-based advisory account, but not by more than % of the principal amount of the notes. If all of the offered notes are not sold at the initial price to public, the underwriters may change the offering price and the other selling terms. In addition to offers and sales at the initial price to public, the underwriters may offer the notes from time to time for sale in one or more transactions at market prices prevailing at the time of sale, at prices related to market prices or at negotiated prices.

Please note that the information about the initial price to public and net proceeds to The Goldman Sachs Group, Inc. on the front cover page relates only to the initial sale of the notes. If you have purchased a note in a market-making transaction by Goldman Sachs & Co. LLC or any other affiliate of The Goldman Sachs Group, Inc. after the initial sale, information about the price and date of sale to you will be provided in a separate confirmation of sale.

Each underwriter has represented and agreed that it will not offer or sell the notes in the United States or to United States persons except if such offers or sales are made by or through FINRA member broker-dealers registered with the U.S. Securities and Exchange Commission.

The Goldman Sachs Group, Inc. estimates that its share of the total offering expenses, excluding underwriting discounts and commissions, whether paid to Goldman Sachs & Co. LLC or any other underwriter, will be approximately $.

We expect to deliver the notes against payment therefor in New York, New York on April , 2019. Under Rule 15c6-1 the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify alternative settlement arrangements to prevent a failed settlement.

The notes are a new issue of securities with no established trading market. The Goldman Sachs Group, Inc. has been advised by Goldman Sachs & Co. LLC and Incapital LLC that they may make a market in the notes. Goldman Sachs & Co. LLC and Incapital LLC are not obligated to do so and may discontinue market-making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

The Goldman Sachs Group, Inc. has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their affiliates have in the past provided, and may in the future from time to time provide, investment banking and general financing and banking services to The Goldman Sachs Group, Inc. and its affiliates, for which they have in the past received, and may in the future receive, customary fees. The Goldman Sachs Group, Inc. and its affiliates have in the past provided, and may in the future from time to time provide, similar services to the underwriters and their affiliates on customary terms and for customary fees. Goldman Sachs & Co. LLC, one of the underwriters, is an affiliate of The Goldman Sachs Group, Inc. Please see “Plan of Distribution—Conflicts of Interest” on page 118 of the accompanying prospectus.

Any notes which are the subject of the offering contemplated by this pricing supplement, the accompanying prospectus and the accompanying prospectus supplement may not be offered, sold or otherwise made available to any retail investor in the European Economic Area. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. For the purposes of this provision:

a) the expression "retail investor" means a person who is one (or more) of the following:
(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or
(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"); and
b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), the underwriters represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this pricing supplement, the accompanying prospectus and the accompanying prospectus supplement to the public in that Relevant Member State except that, with effect from and including the Relevant Implementation Date, an offer of such notes may be made to the public in that Relevant Member State:

a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by the issuer for any such offer; or
c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes referred to above shall require us or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to The Goldman Sachs Group, Inc.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the notes in, from or otherwise involving the United Kingdom.

The notes may not be offered or sold in Hong Kong by means of any document other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and any rules made thereunder, or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

This pricing supplement, along with the accompanying prospectus supplement and the accompanying prospectus have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this pricing supplement, along with the accompanying prospectus supplement and the accompanying prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA")) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, the securities (as defined in Section 239(1) of the SFA) of that corporation shall not be transferable for six months after that corporation has acquired the notes under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer in that corporation's securities pursuant to Section 275(1A) of the SFA, (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore ("Regulation 32").

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that trust has acquired the notes under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer that is made on terms that such rights or interest are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction (whether such amount is to be paid for in cash or by exchange of securities or other assets), (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32.

The notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the FIEA. The notes may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any relevant laws and regulations of Japan.

The notes are not offered, sold or advertised, directly or indirectly, in, into or from Switzerland on the basis of a public offering and will not be listed on the SIX Swiss Exchange or any other offering or regulated trading facility in Switzerland. Accordingly, neither this pricing supplement nor any accompanying prospectus supplement, prospectus or other marketing material constitute a prospectus as defined in article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus as defined in article 32 of the Listing Rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland. Any resales of the notes by the underwriters thereof may only be undertaken on a private basis to selected individual investors in compliance with Swiss law. This pricing supplement and accompanying prospectus and prospectus supplement may not be copied, reproduced, distributed or passed on to others or otherwise made available in Switzerland without our prior written consent. By accepting this pricing supplement and accompanying prospectus and prospectus supplement or by subscribing to the notes, investors are deemed to have acknowledged and agreed to abide by these restrictions. Investors are advised to consult with their financial, legal or tax advisers before investing in the notes.

Conflicts of Interest

GS&Co. is an affiliate of The Goldman Sachs Group, Inc. and, as such, will have a "conflict of interest" in this offering of notes within the meaning of Financial Industry Regulatory Authority, Inc. (FINRA) Rule 5121. Consequently, this offering of notes will be conducted in compliance with the provisions of FINRA Rule 5121. GS&Co. will not be permitted to sell notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

We have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference in this pricing supplement, the accompanying prospectus supplement or the accompanying prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This pricing supplement, the accompanying prospectus supplement and the accompanying prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this pricing supplement, the accompanying prospectus supplement and the accompanying prospectus is current only as of the respective dates of such documents.

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Pricing Supplement

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The Goldman Sachs Group, Inc.

Callable Fixed Rate

Notes due 2024

Goldman Sachs & Co. LLC

Incapital LLC

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Commercial paper
$
61,065

$
(27
)

$
—

$
—

$
61,065

$
(27
)
U.S. agency securities
9,552

(16
)

—

—

9,552

(16
)
Corporate bonds
153,172

(128
)

3,253

(3
)

156,425

(131
)
U.S. government bonds
38,721

(21
)

—

—

38,721

(21
)
Total
$
262,510

$
(192
)

$
3,253

$
(3
)

$
265,763

$
(195
)

As of October 31, 2016, the Company had 106 investments in a gross unrealized loss position. The unrealized losses on its available-for-sale securities were primarily a result of changes in interest rates subsequent to the initial purchase of these securities. The Company does not intend to sell, nor believe it will need to sell, these securities before recovering the associated unrealized losses. The Company does not consider any portion of the unrealized losses at October 31, 2016 to be an other-than-temporary impairment, nor are any unrealized losses considered to be credit losses. The Company has recorded the securities at

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fair value in its condensed consolidated balance sheets, with unrealized gains and losses reported as a component of accumulated other comprehensive loss. The amounts of realized gains and losses reclassified into earnings are based on the specific identification of the securities sold. The realized gains and losses from sales of securities in the periods presented were not significant.

The following table summarizes the contractual maturities of the Company's investments measured at fair value as of October 31, 2016:

	Less Than 12 Months	12 to 36 Months	Total
	(in thousands)		
U.S. agency securities	$29,957	$17,069	$47,026
Commercial paper	168,345	—	168,345
Corporate bonds	196,192	94,639	290,831
U.S. government bonds	40,541	41,729	82,270
Foreign government bonds	—	2,419	2,419
Money market funds	41,308	—	41,308
Certificates of deposit	22,509	—	22,509
Total	$498,852	$155,856	$654,708

Fair Value Measurement

The current accounting guidance for fair value measurements defines a three-level valuation hierarchy for disclosures as follows:

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

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

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The following tables summarize the Company's financial assets measured at fair value on a recurring basis, by level within the fair value hierarchy as of October 31, 2016 and July 31, 2016:

	October 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Cash equivalents:				
Commercial paper	$—	$58,265	$ —	$58,265
Money market funds	41,308	—	—	41,308
Short-term investments:				
U.S. agency securities	—	29,957	—	29,957
Commercial paper	—	110,080	—	110,080
U.S. government bonds	—	40,541	—	40,541
Corporate bonds	—	196,192	—	196,192
Certificates of deposit	—	22,509	—	22,509
Long-term investments:				
U.S. agency securities	—	17,069	—	17,069
Corporate bonds	—	94,639	—	94,639
U.S. government bonds	—	41,729	—	41,729
Foreign government bonds	—	2,419	—	2,419
Total assets	$41,308	$613,400	$ —	$654,708

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

The Company's equity investment in a privately-held company was accounted for under the cost method of accounting, and reported in long term other assets on the Company's condensed consolidated balance sheet. The fair value of the investment is not readily available as there is no quoted market prices for the investment. The Company assesses the investment for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. As of October 31, 2016 and July 31, 2016, the investment with a carrying value of $6.0 million was not impaired.

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3. Acquisition

On August 31, 2016, the Company acquired all of the outstanding equity interests of FirstBest Systems, Inc.("FirstBest"), a privately-held provider of underwriting management systems and related applications to P&C insurers. Total consideration for the transaction was $37.8 million which included amounts placed into escrow to cover future potential claims. The Company believes that the acquisition will enable the expansion of its insurance platform by providing insurers in the U.S. and Canada writing complex commercial, specialty, and workers' compensation lines greater support for their risk assessment and decision-making processes. Total acquisition costs of $1.2 million were expensed as incurred and recorded as general and administrative expenses in the accompanying condensed consolidated statement of operations, of which, $0.9 million were expensed as incurred during the three months ended October 31, 2016 and $0.3 million were expensed as incurred in the prior fiscal year.

The transaction was accounted for as a business combination. As part of the preliminary purchase price allocation, the Company determined that FirstBest's separately identifiable intangible assets were developed technology, customer contracts and related relationships, and order backlog. The Company measured fair values of the intangible assets by applying the income and relief from royalty approach. These fair value measurements were based on significant inputs that were not observable in the market and thus represents a Level 3 measurement. The valuation models were based on estimates of future operating projections of the acquired business and rights to sell new products containing the acquired technology as well as judgments on the discount rates used and other variables. The Company developed forecasts based on a number of factors including future revenue 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 market analysis. The Company is amortizing the acquired intangible assets over their estimated useful lives. The allocation of the purchase price is preliminary pending the final valuation of intangible assets, certain acquired deferred tax assets and completion of certain statutory tax filing requirements and is therefore subject to potential future measurement period adjustments. Preliminary allocation of the purchase consideration was as follows:

	Total Purchase Price Allocation (in thousands)	Estimated Useful Lives (in years)
Acquired assets, net of assumed liabilities	$ 2,518	
Developed technology	8,000	5
Customer contracts and related relationships	6,500	9
Order backlog	900	3
Deferred tax assets, net	3,651	
Goodwill	16,263	
Total purchase price	$ 37,832	

The goodwill of $16.3 million arising from the acquisition consists largely of the acquired workforce, the expected company-specific synergies and the opportunity to expand the Company's customer base. None of the goodwill recognized is expected to be deductible for income tax purposes.

The results of FirstBest's operations since the date of acquisition were included in the Company's results of operations for the fiscal quarter ended October 31, 2016, and were not material. The pro forma results of operations have not been presented because the effects of the business combination were not material to the Company's consolidated results of operations.

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4. Balance Sheet Components

Property and Equipment, net

Property and equipment consist of the following:

	October 31, 2016	July 31, 2016
	(in thousands)	
Computer hardware	$20,218	$19,257
Software	5,263	5,066
Furniture and fixtures	3,570	3,492
Leasehold improvements	8,394	8,434
Total property and equipment	37,445	36,249
Less accumulated depreciation	(24,435)	(23,294)
Property and equipment, net	$13,010	$12,955

As of October 31, 2016 and July 31, 2016, no property and equipment was pledged as collateral. Depreciation expense was $1.6 million and $1.4 million for the three months ended October 31, 2016 and 2015, respectively.

Goodwill and Intangible Assets

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

	Total (in thousands)
Goodwill, July 31, 2016	$ 30,080
Addition - FirstBest acquisition	16,263
Goodwill, October 31, 2016	$ 46,343

The Company's intangible assets are amortized over the estimated useful lives. Intangible assets consist of the following:

	October 31, 2016			July 31, 2016		
	(in thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Amortized intangible assets:						
Acquired technology	$21,900	$ 6,245	$15,655	$13,900	$ 5,199	$8,701
Customer contracts and related relationships	11,000	412	10,588	4,500	167	4,333
Partner relationships	200	13	187	200	8	192
Order backlog	2,000	264	1,736	1,100	122	978
Total	$35,100	$ 6,934	$28,166	$19,700	$ 5,496	$14,204

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Amortization expense was $1.4 million and $0.4 million for the three months ended October 31, 2016 and 2015, respectively. As of October 31, 2016, the estimated aggregate amortization expense for each of the next five fiscal years is as follows:

	Future Amortization (in thousands)
Fiscal year ending July 31,	
2017 (remainder of fiscal year)	$ 4,970
2018	6,305
2019	5,064
2020	3,986
2021	2,844
Thereafter	4,997
Total	$ 28,166

Accrued Employee Compensation

Accrued employee compensation expense consists of the following:

	October 31, 2016	July 31, 2016
	(in thousands)	
Accrued bonuses	$5,524	$24,872
Accrued commission	576	2,571
Accrued vacation	9,522	9,067
Accrued payroll taxes and benefits	3,972	4,757
Total	$19,594	$41,267

Deferred Revenues

Deferred revenues, current and non-current, consist of the following:

	October 31, 2016	July 31, 2016
	(in thousands)	
Deferred license and other revenues	$22,672	$19,841
Deferred maintenance revenues	30,881	38,928
Deferred services revenues	15,258	11,246
Total	$68,811	$70,015

Deferred services revenues included $9.9 million and $5.1 million of deferred services revenues related to one customer engagement as of October 31, 2016 and July 31, 2016, respectively.

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Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component during the three months ended October 31, 2016 were as follows:

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Available-for-Sale Securities	Total
	(in thousands)		
Balance as of July 31, 2016	$(6,809)	$ 216	$(6,593)
Other comprehensive gain (loss) before reclassification	(851)	(330)	(1,181)
Amounts reclassified from accumulated other comprehensive loss to earnings	—	(27)	(27)
Tax effect	—	134	134
Balance as of October 31, 2016	$(7,660)	$ (7)	$(7,667)

5. Net Loss Per Share

The following table sets forth the computation of the Company's basic and diluted net income loss per share for the periods presented:

	Three Months Ended October 31,	
	2016	2015
	(in thousands, except share and per share amounts)	
Numerator:		
Net loss	$(7,858)	$ (1,630)
Net loss per share:		
Basic	$(0.11)	$ (0.02)
Diluted	$(0.11)	$ (0.02)
Denominator:		
Weighted average shares used in computing net loss per share:		
Basic	73,293,467	71,242,897
Diluted	73,293,467	71,242,897

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

	Three Months Ended October 31,	
	2016	2015
Stock options to purchase common stock	1,054,183	1,573,487
Restricted stock units	3,078,219	3,360,099

6.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, 2016. See the Annual Report on Form 10-K for the fiscal year ended July 31, 2016 for additional information regarding the Company's contractual obligations.

Leases

The Company leases certain facilities and equipment under operating leases. On December 5, 2011, the Company entered into a seven-year lease for a facility to serve as its corporate headquarters, located in Foster City, California, for approximately

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97,674 square feet of space which commenced on August 1, 2012. In connection with this lease, the Company opened an unsecured letter of credit with Silicon Valley Bank for $1.2 million. On July 1, 2015, the unsecured letter of credit was reduced to $0.4 million in accordance with the lease agreement.

Lease expense for all worldwide facilities and equipment, which is being recognized on a straight-line basis over terms of the various leases, was $1.6 million and $1.4 million for the three months ended October 31, 2016 and 2015, respectively.

Letters of Credit

The Company had two outstanding letters of credit required to secure contractual commitments and prepayments as of October 31, 2016 and July 31, 2016, respectively. In addition to the unsecured letter of credit for the building lease, the Company had an unsecured letter of credit agreement related to a customer arrangement for Polish Zloty 10.0 million (approximately $2.5 million as of October 31, 2016) to secure contractual commitments and prepayments. No amounts were outstanding under the Company's unsecured letters of credit as of October 31, 2016 or July 31, 2016.

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. Although the outcomes of legal proceedings are inherently difficult to predict, the Company is not currently involved in any legal proceeding in which the outcome, in the Company's judgment based on information currently available, is likely to have a material adverse effect on the Company's business or financial position. The Company accrues for estimated losses in the accompanying condensed consolidated financial statements for matters with respect to which the Company believes the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable. There is no such accrual as of October 31, 2016 or July 31, 2016.

Indemnification

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

The Company has not had to reimburse any of its customers for losses related to indemnification provisions and no material claims against the Company were outstanding as of October 31, 2016 or July 31, 2016. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under various Software Licenses, the Company cannot estimate the amount of potential future payments, if any, related to indemnification provisions.

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

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7.Stockholders' Equity and Stock-Based Compensation

Stock-Based Compensation Expense

Stock-based compensation expense related to stock-based awards is included in the Company's condensed consolidated statements of operations as follows:

	Three Months Ended October 31,	
	2016	2015
	(in thousands)	
Total cost of stock-based compensation	$18,104	$15,147
Amount capitalized in deferred cost of services revenues during the year	(227)	—
Amount charged to income	$17,877	$15,147
Stock-based compensation cost charged to the following expense categories:		
Cost of license revenues	$51	$89
Cost of maintenance revenues	413	339
Cost of services revenues	4,695	4,363
Research and development	4,467	3,672
Sales and marketing	4,223	3,430
General and administrative	4,028	3,254
Total stock-based compensation expenses	$17,877	$15,147

As of October 31, 2016, total unamortized stock-based compensation cost, adjusted for estimated forfeitures, was as follows:

	As of October 31, 2016	
	Unrecognized Expense (in thousands)	Weighted Average Expected Recognition Period (in years)
Stock options	$2,131	1.6
Restricted stock units	152,871	2.7
	$155,002	

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Restricted Stock Units

A summary of the Company's RSU, PSU and TSR PSU activity under the Company's equity incentive plans is as follows:

	RSUs Outstanding		
	Number of RSUs Outstanding	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands) (1)
Balance as of July 31, 2016	2,727,724	$ 50.08	$ 167,673
Granted	1,128,702	$ 61.90	
Released	(380,696)	$ 46.29	$ 23,195
Canceled	(49,192)	$ 51.50	
Balance as of October 31, 2016	3,426,538	$ 54.37	$ 196,855
Expected to vest as of October 31, 2016	3,157,893	$ 54.07	$ 181,421

(1) Aggregate intrinsic value at each period end represents the total market value of RSUs at the Company's closing stock price of $57.45 and $61.47 on October 31, 2016 and July 31, 2016, respectively. Aggregate intrinsic value for released RSUs represents the total market value of released RSUs at date of release.

Certain executives and employees of the Company received PSUs and TSR PSUs in addition to RSUs. The PSUs included performance-based conditions and vest over a four-year period. The TSR PSUs are subject to total shareholder return rankings relative to the software companies in the S&P Software and Services Select Industry Index for a specified performance period or specified performance periods, and vest at the end of three years. In select cases, certain TSR PSUs are also subject to performance-based conditions.

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, 2016	1,158,572	$ 15.45	4.0	$ 53,316
Granted	—			
Exercised	(90,352)	$ 12.30		$ 4,431
Canceled	—			
Balance as of October 31, 2016	1,068,220	$ 15.72	3.8	$ 44,579
Vested and expected to vest as of October 31, 2016	1,064,976	$ 15.62	3.8	$ 44,549
Exercisable as of October 31, 2016	950,706	$ 11.82	3.3	$ 43,384

(1) Aggregate intrinsic value at each period end represents the difference between the Company's closing stock prices of $57.45 and $61.47 on October 31, 2016 and July 31, 2016, 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.

Valuation of Awards

TSR PSUs

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The fair values of our TSR PSUs were estimated at the date of grant using the Monte Carlo simulation model which included the following assumptions:

	Three Months Ended October 31,	
	2016	2015
Expected term (in years)	2.87 - 2.88	*
Risk-free interest rate	0.89% - 0.93%	*
Expected volatility of the Company	31.5%	*
Average expected volatility of the peer companies in the index	36.9% - 37.0%	*
Expected dividend yield	—%	*

* There were no TSR PSUs granted during the three months ended October 31, 2015.

The number of shares that may ultimately vest will vary based on the relative performance of the Company's total shareholder return rankings relative to the software companies in the S&P Software and Services Select Industry Index for a specified performance period or specified performance periods. The Monte Carlo methodology incorporates into the valuation all possible outcomes, including that the Company's relative performance may result in no shares vesting. As a result, stock-based compensation expense is recognized regardless of the ultimate achievement of the plan's performance metrics. The expense will be reversed only in the event that a grantee is terminated prior to satisfying the requisite service period.

For a subset of TSR PSUs, the number of shares that may ultimately vest will vary based on the achievement of certain Company specific financial performance metrics in addition to the Company's total shareholder return condition noted above. As a result, the expense recognized will fluctuate based on the Company's estimated financial performance relative to the target financial performance metrics.

Stock Options

The assumptions used to estimate the grant date fair value of options and the estimated weighted average grant date fair value of options for the three months ended October 31, 2016 and 2015 were as follows:

	Three Months Ended October 31,	
	2016	2015
Expected life (in years)	*	4.9
Risk-free interest rate	*	1.49%
Expected volatility	*	38.8%
Expected dividend yield	*	—%
Weighted average grant date fair value of options	*	$19.18

* There were no options granted during the three months ended October 31, 2016.

Common Stock Reserved for Issuance

As of October 31, 2016 and July 31, 2016, the Company was authorized to issue 500,000,000 shares of common stock with a par value of $0.0001 per share, and 73,510,967 and 73,039,919 shares of common stock were issued and outstanding, respectively. As of October 31, 2016 and July 31, 2016, the Company had reserved shares of common stock for future issuance as follows:

	October 31, 2016	July 31, 2016
Exercise of stock options to purchase common stock	1,068,220	1,158,572
Vesting of restricted stock units	3,426,538	2,727,724

Shares available under stock plans	15,667,244	16,746,754
Total common stock reserved for issuance	20,162,002	20,633,050

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8.Income Taxes

The Company recognized income tax benefits of $9.8 million and $6.4 million for the three months ended October 31, 2016 and 2015, respectively. The increase in tax benefits for the three months ended October 31, 2016 was primarily due to an increase in the net loss in the three months ended October 31, 2016, as compared to the same period a year ago. The effective tax rate of 55% for the three months ended October 31, 2016 differs from the statutory U.S. federal income tax rate of 35% mainly due to permanent differences for stock-based compensation, research and development credits, domestic manufacturing deduction, the tax rate differences between the United States and foreign countries, and certain non-deductible expenses.

The Company provides U.S. income taxes on the earnings of foreign subsidiaries, unless the subsidiaries' earnings are considered indefinitely reinvested outside the United States. As of October 31, 2016, U.S. income taxes were not provided for on the cumulative total of $31.1 million undistributed earnings from certain foreign subsidiaries. As of October 31, 2016, the unrecognized deferred tax liability for these earnings was approximately $10.1 million.

During the three months ended October 31, 2016, the increase in unrecognized tax benefits from the beginning of the period was $1.1 million. Accordingly, as of October 31, 2016, the Company had unrecognized tax benefits of $3.8 million that, if recognized, would affect the Company's effective tax rate.

9.Segment Information

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

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

	Three Months Ended October 31,	
	2016	2015
	(in thousands)	
United States	$46,849	$43,107
Canada	14,494	9,058
Other Americas	5,224	2,449
Total Americas	66,567	54,614
United Kingdom	8,390	9,687
Other EMEA	8,941	6,875
Total EMEA	17,331	16,562
Total APAC	10,229	11,104
Total revenues	$94,127	$82,280

No country, other than those presented above, accounted for more than 10% of revenues during the three months ended October 31, 2016 and 2015, respectively.

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

	October 31, 2016	July 31, 2016
	(in thousands)	
Americas	$83,749	$53,826
EMEA	3,495	3,085
APAC	275	328

Total	$87,519	$57,239

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

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

Overview

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

We sell our products to a wide variety of global P&C insurance carriers ranging from some of the largest global insurance carriers or their subsidiaries to national carriers to regional carriers. We continue to expand our global reach through investments in sales and marketing in Europe, Asia and Latin America. Our customer engagement is led by our direct sales model and supported by our system integrator ("SI") partners. In addition to our investments in sales and marketing and in our SI partnerships, we work to align with each insurer's strategic goals in order to address any sales cycle risk. Strong customer relationships are a key driver of our success given the long-term nature of our contracts and the importance of customer references for new sales. We continue to focus on deepening our customer relationships through continued successful product implementations, robust product support, strategic engagement on new products and technologies, and ongoing account management.

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

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

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

In preparing for our adoption of the new revenue recognition standard, we have begun revising our contracting practices by shifting our existing customers to a two-year committed term with optional annual renewals. In fiscal 2016, substantially all of our term-based licenses were sold with an initial two-year committed term and optional annual renewals. We generally price our licenses based on the amount of direct written premiums ("DWP") that will be managed by our solutions. We typically invoice our customers annually in advance or, in certain cases, quarterly for both recurring term license and maintenance fees. Our sales and marketing efforts are affected by seasonal variations in which our customer orders are generally higher in the second and fourth quarters of our fiscal year. This seasonal pattern may not be exhibited in each fiscal year. We primarily derive our services revenues from implementation, integration and training services. Our implementation teams assist customers in building implementation plans, defining business rules and requirements unique to each customer, and integrating our software with their existing systems.

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

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In March 2016, we acquired EagleEye Analytics Inc. ("EagleEye"), a provider of cloud-based predictive analytics products specifically designed for property and casualty insurers for cash consideration of approximately $42 million. The acquisition added Guidewire Predictive Analytics to our product offerings. We believe that, over time, the acquisition will enable our customers to apply predictive analytics to make better decisions across the insurance lifecycle.

In August 2016, we added Guidewire Underwriting Management through the acquisition of FirstBest, a provider of underwriting management systems and related applications to P&C insurers for total consideration of approximately $37.8 million. We believe that, over time, the acquisition will allow us to expand our insurance platform by providing insurers in the U.S. and Canada writing complex commercial, specialty, and workers' compensation lines greater support for their risk assessment and decision-making processes. The results of FirstBest's operations have been included in our results of operations since the date of acquisition.

We partner with leading SIs to assist in the implementation of our products in a manner that increases efficiency and scale while reducing customer implementation costs. Our extensive relationships with SIs and industry partners have strengthened and expanded in line with the interest in and adoption of our products. We encourage our partners to co-market, pursue joint sales initiatives and drive broader adoption of our technology, helping us grow our business more efficiently and focus our engineering resources on continued innovation. Our track record of success with customers and their implementations are central to our strategy. We continue to focus and invest time and resources in increasing the number of qualified consultants employed by our SI partners, develop relationships with new SIs in existing and new markets, and ensure that all partners are ready to assist with implementing our products.

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

Seasonality

We have historically experienced seasonal variations in our license and other revenues as a result of increased customer orders in our second and fourth fiscal quarters. We generally see increased orders in our second fiscal quarter, which is the quarter ended January 31, due to customer buying patterns. We also see increased orders in our fourth fiscal quarter, which is the quarter ended July 31, due to efforts by our sales team to achieve annual incentives. This seasonal pattern, however, may be absent in any given year. On an annual basis, our maintenance revenues which are recognized ratably, may also be impacted in the event that seasonal patterns change significantly.

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

Key Business Metrics

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

Four-Quarter Recurring Revenues

We measure four-quarter recurring revenues by adding the total term license and other revenues and total maintenance revenues recognized under GAAP in the preceding four quarters ended in the stated period. This metric excludes perpetual license revenues, revenues from perpetual buyout rights and services revenues. This metric allows us to better understand the trends in our recurring revenues because it typically reduces the variations in any particular quarter caused by seasonality, the effects of the annual invoicing of our term licenses and certain effects of contractual provisions that may accelerate or delay revenue recognition in some cases. This metric applies revenue recognition rules under GAAP and does not substitute

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individually tailored revenue recognition and measurement methods. Our four-quarter recurring revenues for each of the nine periods presented were:

	Four quarters ended October 31, 2016	July 31, 2016	April 30, 2016	January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015	January 31, 2015	October 31, 2014
	(in thousands)								
Term license and other revenues	$210,278	$208,430	$194,458	$184,647	$173,232	$169,366	$160,114	$157,542	$150,309
Maintenance revenues	62,451	59,931	56,103	53,610	51,516	50,024	48,785	47,041	44,768
Total four-quarter recurring revenues	$272,729	$268,361	$250,561	$238,257	$224,748	$219,390	$208,899	$204,583	$195,077

Adjusted EBITDA

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

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

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

Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do. We compensate for the inherent limitations associated with using Adjusted EBITDA through disclosure of these limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net income (loss).

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

	Three Months Ended October 31, 2016	2015
	(in thousands)	
Reconciliation of Adjusted EBITDA:		
Net loss	$(7,858)	$(1,630)
Non-GAAP adjustments:		
Benefit from income taxes	(9,783)	(6,420)
Interest income	(1,342)	(696)
Other expense (income), net	681	(217)
Depreciation and amortization	3,074	1,791
Stock-based compensation	17,877	15,147
Adjusted EBITDA	$2,649	$7,975

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Operating Cash Flows

We monitor our cash flows from operating activities, or operating cash flows, as a key measure of our overall business performance, which enables us to analyze our financial performance without the effects of certain non-cash items such as depreciation and amortization and stock-based compensation expenses. Additionally, operating cash flows takes into account the impact of changes in deferred revenues, which reflects the receipt of cash payment for products before they are recognized as revenues. Our operating cash flows are significantly impacted by timing of invoicing and collections of accounts receivable, annual bonus payment, as well as payments of payroll and other taxes. As a result, our operating cash flows fluctuate significantly on a quarterly basis. Cash used by operations was $12.9 million and $10.9 million for the three months ended October 31, 2016 and 2015, respectively. For a further discussion of our operating cash flows, see "Liquidity and Capital Resources—Cash Flows from Operating Activities."

Critical Accounting Policies and Estimates

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

- Revenue recognition policies;
- Stock-based compensation;
- Income taxes; and
- Business combinations, intangible assets and goodwill impairment

As described in Stock-Based Compensation in Note 1 "The Company and Summary of Significant Accounting Policies", we granted TSR PSUs in the first quarter of fiscal year 2017. The fair value of our TSR PSUs are estimated at the grant date using a Monte Carlo simulation method. The assumptions utilized in this simulation require judgment and estimates. Changes in these inputs and assumptions could affect the measurement of the estimated fair value of the related compensation expense. Compensation expense associated with these TSR PSUs will be recognized 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 will fluctuate depending on the achievement of the performance conditions. All TSR PSUs will vest at the end of a three-year period.

Other than stock-based compensation, there were no significant changes in our critical accounting policies and estimates during the three months ended October 31, 2016. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K filed on September 15, 2016 for a more complete discussion of our critical accounting policies and estimates.

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Results of Operations

The following tables set forth our results of operations for the periods presented. The data has been derived from the unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q which, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the interim periods presented. The operating results for any period should not be considered indicative of results for any future period. This information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K filed with the SEC on September 15, 2016.

	Three Months Ended October 31,	
	2016	2015
	(in thousands)	
Revenues:		
License and other	$38,721	$32,340
Maintenance	16,532	14,013
Services	38,874	35,927
Total revenues	94,127	82,280
Cost of revenues:		
License and other	2,430	1,164
Maintenance	3,325	2,475
Services	36,264	31,531
Total cost of revenues	42,019	35,170
Gross profit:		
License and other	36,291	31,176
Maintenance	13,207	11,538
Services	2,610	4,396
Total gross profit	52,108	47,110
Operating expenses:		
Research and development	30,750	25,672
Sales and marketing	25,500	19,291
General and administrative	14,160	11,110
Total operating expenses	70,410	56,073
Loss from operations	(18,302)	(8,963)
Interest income	1,342	696
Other income (expense), net	(681)	217
Loss before income taxes	(17,641)	(8,050)
Benefit from income taxes	(9,783)	(6,420)
Net loss	$(7,858)	$(1,630)

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	Three Months Ended October 31,	
	2016	2015
	(percentage of total revenues)	
Revenues:		
License and other	41 %	39 %
Maintenance	18 %	17 %
Services	41 %	44 %
Total revenues	100 %	100 %
Cost of revenues:		
License	3 %	1 %
Maintenance	4 %	3 %
Services	38 %	39 %
Total cost of revenues	45 %	43 %
Gross profit:		
License	38 %	38 %
Maintenance	14 %	14 %
Services	3 %	5 %
Total gross profit	55 %	57 %
Operating expenses:		
Research and development	33 %	31 %
Sales and marketing	27 %	23 %
General and administrative	15 %	14 %
Total operating expenses	75 %	68 %
Loss from operations	(20)%	(11)%
Interest income	1 %	1 %
Other income (expense), net	— %	— %
Loss before income taxes	(19)%	(10)%
Benefit from income taxes	(11)%	(8)%
Net loss	(8)%	(2)%

Revenues

We derive our revenues from licensing our software applications, providing maintenance support, and professional services.

Our license and other revenues are comprised primarily of term license fees. We also recognize revenue from sales of perpetual licenses and subscription fees from software we deliver as a service. Our term license revenues are primarily generated through annual license fees that recur during the contract term. In fiscal 2016, a majority of our term based licenses were sold with a two year committed term and optional annual renewals. In certain cases, when required by a customer, we license our software on a perpetual basis. In addition, certain of term licenses provide the customer with the option to purchase a perpetual license at the end of the initial contract term, which we refer to as a perpetual buyout right. We generally price our licenses based on the amount of direct written premiums, or DWP, that will be managed by our solutions. We typically invoice our customers annually in advance or quarterly for both term license and maintenance fees, and we invoice our perpetual license customers either in full at contract signing or on an installment basis and invoice related maintenance fees annually in advance. Our license revenues have generally been recognized when payment is due or cash is received from our customers. Revenues derived from software as a service subscriptions are recognized ratably over the contract term.

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

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

We will adopt ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" on August 1, 2018, which provides revenue recognition guidance. We currently expect that we will apply the cumulative effect method. In evaluating the

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potential impacts that this guidance will have on our consolidated financial statements, we have begun revising our contracting practices primarily by shortening the initial non-refundable term of our licenses.
Refer to Note 1 of Notes to Condensed Consolidated Financial Statements for a description of our accounting policy related to revenue recognition.

	Three Months Ended October 31,					
	2016		2015		Change	
	Amount	% of total revenues	Amount	% of total revenues	($)	(%)
	(in thousands, except percentages)					
Revenues:						
License and other	$38,721	41 %	$32,340	39 %	$6,381	20%
Maintenance	16,532	18 %	14,013	17 %	2,519	18%
Services	38,874	41 %	35,927	44 %	2,947	8 %
Total revenues	$94,127	100 %	$82,280	100 %	$11,847	14%

License and Other Revenues

License and other revenues increased by $6.4 million during the three months ended October 31, 2016, as compared to the same period a year ago. The increase in license and other revenues was primarily driven by the continued sale of our products.

	Three Months Ended October 31,					
	2016		2015		Change	
	Amount	% of license revenues	Amount	% of license revenues	($)	(%)
	(in thousands, except percentages)					
License and other revenues:						
Term and other	$34,500	89 %	$32,652	101 %	$1,848	6 %
Perpetual	4,221	11 %	(312)	(1)%	4,533	1,453%
Total license and other revenues	$38,721	100 %	$32,340	100 %	$6,381	20 %

Term license and other revenues increased by $1.8 million during the three months ended October 31, 2016, as compared to the same period a year ago, as an increase of $3.6 million in revenues recognized primarily from current quarter orders was partially offset by a $1.8 million decrease in revenues attributable to the timing of invoices and corresponding due dates, payments received, and other contractual terms that affect revenue recognition from existing orders.

Perpetual license revenues increased by $4.5 million during the three months ended October 31, 2016, as compared to the same period a year ago. While term license remains our predominant licensing model, revenues from the sale and delivery of perpetual licenses will continue to represent a small percentage of our total license revenues. Nevertheless, we expect perpetual license revenues to remain volatile on a sequential quarter basis due to the large amount of perpetual revenue from a single customer order, whether the customer purchases new licenses or exercises their perpetual buyout rights.
Additionally, our license revenues may fluctuate if our customers pay their annual license fees in advance of the invoice due date which may cause an unexpected increase in revenues in one quarter which can reduce revenue growth rates in future periods.

Maintenance Revenues

Maintenance revenues increased by $2.5 million during the three months ended October 31, 2016, as compared to the same period a year ago primarily due to our increased license revenues as a result of our growing customer base.

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

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Services Revenues

Services revenues increased by $2.9 million during the three months ended October 31, 2016, as compared to the same period a year ago primarily due to an increase of $1.9 million in billings for new and existing customer engagements performed in the current period and an increase of $1.0 million attributable to services performed in prior periods for which the recognition of revenue was contingent upon the acceptance of our software.

Services revenues in the three months ended October 31, 2016 exclude $4.7 million of services billings deferred in the current period which we have delivered through our work with a large, national insurer to implement Guidewire InsurancePlatform™ in a cloud-delivered format. As a result of our agreement to develop new digital portal functionality in conjunction with the implementation, all services revenues and direct services costs will be deferred until revenue recognition criteria are met, which we currently project to occur during the second half of fiscal 2017. At such point, revenue will be recognized ratably. As a result of this arrangement, we anticipate deferred service revenues to increase significantly above historical norms.

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

Deferred Revenues

	As of October 31, 2016	July 31, 2016	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Deferred revenues:				
Deferred license and other revenues	$22,672	$19,841	$2,831	14 %
Deferred maintenance revenues	30,881	38,928	(8,047)	(21)%
Deferred services revenues	15,258	11,246	4,012	36 %
Total deferred revenues	$68,811	$70,015	$(1,204)	(2)%

The $2.8 million increase in deferred license and other revenues compared to the prior fiscal year end was primarily driven from an aggregate increase of $4.9 million for new customer contracts that are being deferred due to the timing of the invoices and the corresponding due dates, billings that are recognized on a ratable basis, or acceptance criteria that have not been met for revenue recognition. This $4.9 million was partially offset by the recognition of $2.1 million in license revenues from contracts executed in prior periods.

The $8.0 million decrease in deferred maintenance revenues compared to the prior fiscal year end was primarily driven by revenues recognized in excess of new billings during the three months ended October 31, 2016, and reflects the seasonal nature of the billings of maintenance revenues.

The $4.0 million increase in deferred services revenues compared to the prior fiscal year end was primarily due to the net effect from an increase of $5.5 million of services billings deferred in the current period, partially offset by the recognition of $1.5 million from prior fiscal year billings which were recognized in the current period upon the fulfillment of certain contractual obligations. The $5.5 million in deferred service billings includes $4.7 million related to an arrangement entered into during fiscal 2016 with a large, national insurer to implement Guidewire InsurancePlatform™ in a cloud-delivered format which includes InsuranceSuite and our data products together with a new version of our digital portal product. As a result of our agreement to develop new digital portal functionality in conjunction with the implementation, all license and services revenues will be deferred until the implementation is complete, which we currently project to occur during the second half of fiscal 2017. At such point, revenue will be recognized ratably. As a result of this arrangement, we anticipate deferred revenues to increase significantly above historical norms until such time that we can recognize revenue generated by this arrangement. Total service revenue deferred for this contract was $9.9 million as of October 31, 2016 and is included in our accompanying condensed consolidated balance sheet.

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

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Cost of Revenues and Gross Profit

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

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

	Three Months Ended October 31,			
	2016	2015	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Cost of revenues:				
License and other	$2,430	$1,164	$1,266	109%
Maintenance	3,325	2,475	850	34 %
Services	36,264	31,531	4,733	15 %
Total cost of revenues	$42,019	$35,170	$6,849	19 %
Includes stock-based awards of:				
Cost of license and other revenues	$51	$89	$(38)	
Cost of maintenance revenues	413	339	74	
Cost of services revenues	4,695	4,363	332	
Total	$5,159	$4,791	$368	

The $6.8 million increase in cost of revenues during the three months ended October 31, 2016 was primarily driven by increases from increased cost of license revenues of $1.3 million, increased cost of maintenance revenues of $0.9 million, and a $4.7 million increase in costs of service revenues. The $1.3 million increase in cost of license revenues was primarily attributable to increased amortization of intangible assets and royalty expense, and to a lesser extent the aggregate effect of increased headcount and related expenses. The $0.9 million increase in cost of maintenance revenues was primarily attributable to increased costs for headcount and consulting expenses. The $4.7 million increase in cost of services revenues was primarily attributable to an increase in costs for headcount and related expenses, including stock-based compensation expense. We had 610 professional service employees and 71 technical support and licensing operations employees at October 31, 2016 compared with 498 professional services employees and 58 technical support and licensing operations employees at October 31, 2015. The increase in hiring was driven by our anticipated need to staff a large, cloud-based deployment, our need to meet demand for new implementations of our data products and to minimize capacity constraints in the Americas.

Services costs in the three months ended October 31, 2016 exclude $2.4 million of direct costs which we have incurred through our work with a large, national insurer to implement Guidewire InsurancePlatform™ in a cloud-delivered format. We will begin recognizing these costs on a ratable basis at such time as we recognize the related revenues.

Three Months Ended October 31,					
2016		2015		Change	
Amount	Margin %	Amount	Margin %	($)	(%)
(in thousands, except percentages)					

Gross profit:						
License	$36,291	94 %	$31,176	96 %	$5,115	16 %
Maintenance	13,207	80 %	11,538	82 %	1,669	14 %
Services	2,610	7 %	4,396	12 %	(1,786)	(41)%
Total gross profit	$52,108	55 %	$47,110	57 %	$4,998	11 %

Gross profit margin was 55% for the three months ended October 31, 2016, as compared with 57% for the same period a year ago. The decrease was primarily due to increased costs in the current period resulting from headcount increases for our services organization, as well as costs for new employees added from our recent acquisitions of FirstBest and EagleEye which were completed in August 2016 and March 2016, respectively.

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We expect our gross margin to vary in percentage terms as we experience changes in the mix between higher gross margin license revenues and lower gross margin service revenues. We anticipate that our services margin will continue to decline significantly during fiscal 2017 as we continue to realize the aggregate effect from our recent acquisitions, our sizable hiring and training requirements, and our sizable deferral of services revenues during the current year which when combined will depress our services profitability. We believe that this impact will be limited to fiscal 2017 as the recognition of deferred amounts and the potential increase in sales of newly acquired products may increase services margins in fiscal 2018.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses. The largest components of our operating expenses are compensation and benefit expenses for our employees, including stock-based awards, and, to a lesser extent, professional services, and rent and facility costs.

	Three Months Ended October 31,							
	2016			2015				
	Amount	% of total revenues		Amount	% of total revenues		Change ($)	(%)
	(in thousands, except percentages)							
Operating expenses:								
Research and development	$30,750	33	%	$25,672	31	%	$5,078	20%
Sales and marketing	25,500	27	%	19,291	23	%	6,209	32%
General and administrative	14,160	15	%	11,110	14	%	3,050	27%
Total operating expenses	$70,410	75	%	$56,073	68	%	$14,337	26%
Includes stock-based compensation of:								
Research and development	$4,467			$3,672			$795	
Sales and marketing	4,223			3,430			793	
General and administrative	4,028			3,254			774	
Total	$12,718			$10,356			$2,362	

Research and Development

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

The $5.1 million increase in research and development expenses during the three months ended October 31, 2016, as compared to the same period a year ago was primarily related to increased compensation and related headcount expenses of $4.8 million which included increased stock-based compensation costs of $0.8 million. Our research and development headcount was 486 at October 31, 2016 compared with 397 at October 31, 2015. The increase in headcount reflects our continued investment in data management and analytics, digital engagement, our early investments in our cloud platform team, and employees from the acquisitions of FirstBest and EagleEye in August 2016 and March 2016, respectively.

We expect our research and development expenses to continue to increase in absolute dollars as we continue to dedicate substantial internal resources to develop, improve and expand the functionality of our solutions.

Sales and Marketing

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

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The $6.2 million increase in sales and marketing expenses during the three months ended October 31, 2016, compared to the same period a year ago was primarily related to the aggregate effect from increased headcount and related expenses, increased commission expenses and marketing expenses. The increase in headcount and related expenses was primarily due to increased compensation and related headcount costs of $4.2 million which included increased costs for stock-based compensation of $0.8 million. The increase in our commission expenses was $0.3 million and was a result of increased expenses for customer orders. The increase in our marketing expenses was $1.8 million and was primarily a result of expenses for our annual Connections User Conference which was held during the three months ended October 31, 2016, as compared to the prior year when the Connections User Conference was held during the three months ended January 31, 2016. Our sales and marketing headcount was 283 at October 31, 2016 compared with 242 at October 31, 2015. The increase in headcount was required to support the growth in our revenue base.

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

General and Administrative

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

The $3.1 million increase in general and administrative expenses during the three months ended October 31, 2016, compared to the same period a year ago was primarily due to the effect from increased expenses for headcount and related costs of $2.1 million and increased expenses of $0.9 million in transaction costs related to the FirstBest acquisition. Our general and administrative headcount was 169 at October 31, 2016 compared with 151 at October 31, 2015. The increase in headcount was required to support the growth of our business and our strategic objectives.

We expect our general and administrative expense to continue to increase in absolute dollars due to increases in personnel costs and infrastructure costs to support the growth of our business.

Other Income (Expense)

	Three Months Ended October 31,			
	2016	2015	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Interest income	$1,342	$ 696	$646	93 %
Other income (expense), net	$(681)	$ 217	$(898)	(414)%

Interest Income

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

Interest income increased by $0.6 million during the three months ended October 31, 2016, as compared to the same period a year ago primarily due to higher yields on our cash equivalents and investments.

Other Income (Expense), Net

Other income (expense), net consists primarily of foreign exchange gains (losses) resulting from fluctuations in foreign exchange rates on our receivables and payables denominated in currencies other than the U.S. dollar, mainly British Pound, Euro, Australia and Canadian Dollar, Japanese Yen and Brazilian Real.

Other income (expense), net decreased by $0.9 million during the three months ended October 31, 2016, as compared to the same period a year ago primarily as a result of net currency exchange losses of $0.7 million realized in the current period from transactions denominated in British Pound, Euro, Australia and Canadian Dollar, and Japanese Yen, compared to a net currency exchange gain of $0.2 million realized in the year ago period. The change was due to the U.S. dollar strengthening against these foreign currencies compared to the same period a year ago.

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Benefit from Income Taxes

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

	Three Months Ended October 31,			
	2016	2015	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Benefit from income taxes	(9,783)	(6,420)	$(3,363)	52%

We recognized income tax benefits of $9.8 million and $6.4 million for the three months ended October 31, 2016 and 2015, respectively. The increase in tax benefits for the three months ended October 31, 2016 was primarily due to an increase in the net loss in the period, as compared to the same period a year ago. Our effective tax rates of 55% for the three months ended October 31, 2016, differ from the statutory U.S. federal income tax rate of 35% mainly due to permanent differences for stock-based compensation, research and development credits, domestic manufacturing deduction, the tax rate differences between the United States and foreign countries, and certain non-deductible expenses.

Liquidity and Capital Resources

As of October 31, 2016 and July 31, 2016, we had $686.2 million and $735.8 million of cash, cash equivalents and investments, respectively, and working capital of $505.4 million and $588.6 million, respectively. As of October 31, 2016, approximately $20.7 million of our cash and cash equivalents were domiciled in foreign tax jurisdictions. While we have no plans to repatriate these funds to the United States in the short term, if we choose to do so, we would be required to accrue and pay additional taxes on any portion of the repatriation where no United States income tax had been previously provided.

In August 2016, we acquired FirstBest, a provider of underwriting management systems and related applications to P&C insurers for total cash consideration of $37.8 million. Net of $4.2 million cash acquired, we utilized $33.6 million of our cash to complete the acquisition.

Our cash flows from operations are significantly impacted by timing of invoicing and collections of accounts receivable, annual bonus payment, as well as payments of payroll and other taxes. We expect that we will continue to generate positive cash flows from operations on an annual basis, although this may fluctuate significantly on a quarterly basis. In particular, we typically use more cash during the first fiscal quarter ended October 31, as we generally pay cash bonuses to our employees for the prior fiscal year during that period and pay seasonally higher sales commissions from increased orders in our fourth fiscal quarter. We believe that our existing cash and cash equivalents and sources of liquidity will be sufficient to fund our operations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities and the timing and extent of our spending to support our research and development efforts and expansion into other markets. We also anticipate investing in, or acquiring complementary businesses, applications or technologies, which may require the use of significant cash resources and may require incremental financing.

Cash Flows

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

	Three Months Ended October 31,	
	2016	2015

	(in thousands)	
Net cash used in operating activities	$(12,910)	$(10,890)
Net cash used in investing activities	$(79,797)	$(9,485)
Net cash provided by financing activities	$1,112	$1,064

Cash Flows from Operating Activities

Net cash used in operating activities increased by $2.0 million for the three months ended October 31, 2016, compared to the three months ended October 31, 2015. The increase in operating cash outflow was primarily attributable to a $5.8 million decrease in profitability after excluding the impact of non-cash charges and income such as deferred taxes, stock-based compensation, depreciation and amortization expense, and other non-cash items, partially offset by a $3.7 million decrease in

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cash used for working capital activity as compared to the same period a year ago, primarily due to timing of payments to vendors and higher cash collections from customers.

Cash Flows from Investing Activities

Net cash used in investing activities increased by $70.3 million for the three months ended October 31, 2016, as compared to the same period a year ago primarily due to increases in outflows of $33.6 million used for the acquisition of FirstBest and an increase of $37.3 million in net outflows resulting from sales and purchases of marketable securities.

Cash Flows from Financing Activities

Net cash provided by financing activities was $1.1 million for the three months ended October 31, 2016 and 2015, respectively. The 2016 inflows were a result of proceeds received from the exercise of stock options.

Contractual Obligations

Our primary contractual obligations are from operating leases for office space and letters of credit related to those leases. See Note 6 to the Condensed Consolidated Financial Statements for a discussion of our lease commitments and letters of credit.

Other than the lease commitments and letters of credit discussed in Note 6 to the Condensed Consolidated Financial Statements, we do not have commercial commitments under lines of credit, standby repurchase obligations or other such debt arrangements. We do not have any material non-cancellable purchase commitments as of October 31, 2016.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements or transactions with unconsolidated limited purpose entities, nor do we have any undisclosed material transactions or commitments involving related persons or entities.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our cash, cash equivalents and investments as of October 31, 2016 and July 31, 2016. Our cash, cash equivalents and investments as of October 31, 2016 and July 31, 2016 were $686.2 million and $735.8 million, respectively, consisted primarily of cash, money market funds, commercial paper, corporate bonds, U. S. agency debt securities, and U.S. government bonds. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of our interest-bearing securities, a ten percent change in market interest rates would not be expected to have a material impact on our consolidated financial condition or results of operations.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Canadian dollar, Australian dollar, Euro, British Pound, Japanese Yen and Brazilian Real. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure because we typically collect revenues and incur costs in the currency in the location in which we provide our application, our contracts with our customers are long term in nature so it is difficult to predict if our operating activities will provide a natural hedge in the future. Additionally, changes in foreign currency exchange rates can affect our financial results due to transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. For example, for the three months ended October 31, 2016, we recorded a foreign currency loss of $0.7 million as other expense in our statement of operations due to unfavorable currency exchange rate movement during the fiscal quarter. We expect to continue to experience fluctuations in foreign currency exchange rates. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Fair Value of Financial Instruments

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

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 Securities Exchange Act of 1934, as amended (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.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, 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.

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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 or management time.

Although the outcomes of legal proceedings are inherently difficult to predict, we are not currently involved in any legal proceeding in which the outcome, in our judgment based on information currently available, is likely to have a material adverse effect on our business or financial position.

ITEM 1A. Risk Factors

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

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

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

Factors that may affect our results of operations include:

- the timing of new orders and revenue recognition for new and prior year orders;
- seasonal buying patterns of our customers;
- our ability to increase sales to and renew agreements with our existing customers, particularly larger customers with substantial negotiating leverage, at comparable prices;
- our ability to renew existing contracts for multiple year terms versus annual automatic renewals;
- our ability to attract new customers in both domestic and international markets;
- structure of our licensing contracts, including fluctuations in perpetual licenses from period to period;
- our ability to enter into contracts on favorable terms, including terms related to price, payment timing and product delivery;
- volatility in the sales of our products and timing of the execution of new and renewal agreements within such periods;
- introduction of new, or the increase of existing, licensing models that feature ratable revenue recognition;
- the impact of a recession or any other adverse global economic conditions on our business, including uncertainties that may cause a delay in entering into or a failure to enter into significant customer agreements;
- the lengthy and variable nature of our product implementation cycles;
- reductions in our customers' budgets for information technology purchases and delays in their purchasing cycles;
- erosion in services margins or significant increase or decrease in services revenues both in absolute terms and as a percentage of total revenues;
- our ability to realize expected benefits from our acquisitions;
- timing of commissions expense related to large transactions;
- bonus expense based on the bonus attainment rate;
- the timing and cost of hiring personnel and of large expenses such as third-party professional services;

- stock-based compensation expenses, which vary along with changes to our stock price;

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- fluctuations in foreign currency exchange rates;
- unanticipated trade sanctions and other restrictions that may impede our ability to sell internationally;
- general domestic and international economic conditions, in the insurance industry in particular; and
- future accounting pronouncements or changes in accounting rules or our accounting policies.

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

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly and annual results of operations. We believe our ability to adjust spending quickly enough to compensate for a revenues shortfall is very limited and our inability to do so could magnify the adverse impact of such revenues shortfall on our results of operations. If we fail to achieve our quarterly forecasts, if our forecasts fall below the expectations of research analysts or investors, or if our actual results fail to meet the expectations of research analysts or investors, our stock price may decline.

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

We sign a significantly higher percentage of software license orders in the second and fourth quarters of each fiscal year. We generally see increased orders in our second fiscal quarter, which is the quarter ended January 31, due to customer buying patterns. We also see increased orders in our fourth fiscal quarter due to efforts by our sales team to achieve annual incentives. As a result, a significantly higher percentage of our annual license revenues have historically been recognized during those quarters. Since a substantial majority of our license revenues recur annually under our multi-year contracts, we expect to continue to experience this seasonality effect in subsequent years.

Notwithstanding the fact that we generally see increased licensing orders in our second and fourth fiscal quarters, we expect to see additional quarterly revenue fluctuations that may, in some cases, mask the impact of these expected seasonal variations. Our quarterly growth in license revenues also may not match up to new orders we receive in a given quarter. This mismatch is primarily due to the following reasons:

- for the initial year of a multi-year term license, we generally recognize revenues when payment is due and payment may not be due until a subsequent fiscal quarter;
- we may enter into license agreements with future product delivery requirements or specified terms for product upgrades or functionality, which may require us to delay revenue recognition for the initial period;
- our term licenses may include payment terms that are modest at the outset and increase over time; and
- we may enter into license agreements with other contractual terms that may affect the timing of revenue recognition.

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

Our revenues may fluctuate versus comparable prior periods or prior quarters within the same fiscal year based on when new orders are executed in the quarter and the payment terms of each order. Additionally, our revenues may fluctuate if our customers make an early payment of their annual license fees in advance of the invoice due date. Our ability to renew existing contracts for multiple year terms versus annual automatic renewals may also impact revenue recognition.

We generally charge annual software license fees for our multi-year term licenses and price our licenses based on the amount of direct written premiums (“DWP”) that will be managed by our solutions. However, in certain circumstances, our customers desire the ability to purchase our products on a perpetual license basis, resulting in an acceleration of revenue recognition. Milestone payments in a perpetual license order also cause seasonal variations. Our perpetual license revenues are not consistent from period to period. In addition, a few of our multi-year term licenses provide the customer with the option to purchase a perpetual license at the end of the initial contract term, which we refer to as a perpetual buyout right. The mix of our contract terms for our licenses and the exercise of perpetual buyout rights at the end of the initial contract term by our customers may lead to variability in our results of operations. Increases in perpetual license sales and exercises of perpetual buyout rights by our customers may affect our ability to show consistent growth in license revenues in subsequent periods. Reductions in perpetual licenses in future periods could cause adverse period-to-period comparisons of our financial results.

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In addition, because we price our products based on the amount of DWP that will be managed by our solutions, license revenues from each customer may fluctuate up or down based upon insurance policies sold by the customer in the preceding year. If we enter into a new territory, our revenue recognition pattern may change, depending on the contractual terms and local laws and regulations. Seasonal and other variations related to our revenue recognition may cause significant fluctuations in our results of operations and cash flows, may make it challenging for an investor to predict our performance on a quarterly basis and may prevent us from achieving our quarterly or annual forecasts or meeting or exceeding the expectations of research analysts or investors, which may cause our stock price to decline.

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

Our revenues are dependent on orders from customers in the P&C insurance industry, which may be adversely affected by economic, environmental and world political conditions. A relatively small number of customers have historically accounted for a significant portion of our revenues. While the composition of our individual top customers will vary from year to year, in fiscal 2016, 2015 and 2014, our ten largest customers accounted for 27%, 31% and 35% of our revenues, respectively. While we expect this reliance to decrease over time, we expect that we will continue to depend upon a relatively small number of customers for a significant portion of our revenues for the foreseeable future. As a result, if we fail to successfully sell our products and services to one or more anticipated customers in any particular period or fail to identify additional potential customers or an anticipated customer purchases fewer of our products or services, defers or cancels orders, fails to renew its license agreements or terminates its relationship with us, our business, results of operations and financial condition would be harmed. Some of our orders are realized at the end of the quarter or are subject to delayed payment terms. As a result of this concentration and timing, if we are unable to complete one or more substantial sales or achieve any required performance or acceptance criteria in any given quarter, our quarterly results of operations may fluctuate significantly.

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

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

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

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

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

Although we believe that our products and services do not infringe upon the intellectual property rights of third parties, we cannot assure that third parties will not assert infringement or misappropriation claims against us with respect to current or future products or services, or that any such assertions will not require us to enter into royalty arrangements or result in costly

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litigation, or result in us being unable to use certain intellectual property. We cannot assure that we are not infringing or otherwise violating any third-party intellectual property rights. Infringement assertions from third parties may involve patent holding companies or other patent owners who have no relevant product revenues, and therefore our own issued and pending patents may provide little or no deterrence to these patent owners in bringing intellectual property rights claims against us.

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

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

Our business strategy includes the potential acquisitions of the shares or assets of companies with complementary software, technologies or businesses or alliances with such companies. For example, in March 2016, we acquired EagleEye Analytics Inc., a provider of cloud-based predictive analytics products designed for property and casualty insurers, and in August 2016, we acquired FirstBest Systems, Inc., a provider of an underwriting management system for property and casualty insurers. Acquisitions and alliances may result in unforeseen operating difficulties and expenditures and may not result in the benefits anticipated by such corporate activity. In particular, we may fail to: assimilate or integrate the businesses, technologies, services, products, personnel or operations of the acquired companies; retain key personnel necessary to favorably execute the combined companies business plan; retain existing customers or sell acquired products to new customers. Acquisitions and alliances may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for ongoing development of our current business. We also may be required to use a substantial amount of our cash or issue debt or equity securities to complete an acquisition or realize the potential of an alliance, which could deplete our cash reserves and/or dilute our existing stockholders. Following an acquisition or the establishment of an alliance offering new products, we may be required to defer the recognition of revenues that we receive from the sale of products that we acquired or that result from the alliance, or from the sale of a bundle of products that includes such new products, if we have not established vendor-specific objective evidence ("VSOE") for the undelivered elements in the arrangement. In addition, our ability to maintain favorable pricing of new products may be challenging if we bundle such products with sales of existing products. A delay in the recognition of revenues from sales of acquired or alliance products, or reduced pricing due to bundled sales, may cause fluctuations in our quarterly financial results, may adversely affect our operating margins and may reduce the benefits of such acquisitions or alliances.

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

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

The market for our core insurance system software is intensely competitive. We compete with legacy systems, many of which have been in operation for decades. Maintaining these legacy systems may be so time consuming and costly for our customers that they do not have adequate resources to devote to the purchase and implementation of our products. Our implementation cycle is lengthy, variable and requires the investment of significant time and expense by our customers. We also compete against technology consulting firms that offer software and systems or develop custom, proprietary products for the P&C insurance industry. These consulting firms generally have greater name recognition, larger sales and marketing budgets and greater resources than we do and may have pre-existing relationships with our potential customers, including relationships with, and access to, key decision makers within these organizations. Since sales of software products may be a small part of their business and they may be more focused on related services revenues, they may offer their software products at significantly reduced prices or under terms that we cannot match. The competitors we face in any sale may change depending, among other things, on the line of business purchasing the software, the application being sold, the geography in which we're operating and the size of the insurance carrier to which we are selling. For example, we are more likely to face

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competition from small independent firms when addressing the needs of small insurers. These competitors compete on the basis of price, the time and cost required for software implementation, custom developments, or unique product features or functions. Outside of the United States, we are more likely to compete against vendors that may differentiate themselves based on local advantages in language, market knowledge and pre-built content applicable to that jurisdiction. We also complete with vendors of horizontal software products that may be customized to address needs of the P&C insurance industry.

We expect the intensity of competition to remain high in the future as new or existing companies obtain new capital, consolidate with other vendors, improve product or sales capabilities, or create and expand partnerships with systems integrators. Such intense competition could result in increased pricing pressure, increased sales and marketing expenses, and greater investments in research and development, each of which could negatively impact our profitability. In addition, failure to increase, or the loss of, market share, would harm our business, results of operations, financial condition or future prospects. Our larger competitors may be able to devote greater resources to the development, promotion and sale of their products than we can devote to ours, which could allow them to respond more quickly than we can to new technologies and changes in customer needs leading to wider market acceptance. We may not be able to compete effectively and competitive pressures may prevent us from acquiring and maintaining the customer base necessary for us to increase our revenues and profitability.

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

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

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

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

Our current and predominant business model does not significantly collect and transfer personal information from our customers to us, however, a limited number of our product solutions may collect, process, store, and use transaction-level data aggregated across insurers using our common data model. We anticipate that over time we may expand our business model to include greater collection and transfer of personal information from our customers to us and we recognize that personal privacy has become a significant issue in the United States, Europe, and many other jurisdictions where we operate. Many federal, state, and foreign legislatures and government agencies have imposed or are considering imposing restrictions and requirements about the collection, use, and disclosure of personal information.

In the European Community, Directive 95/46/EC (the “Directive”) has required European Union member states to implement data protection laws to meet the strict privacy requirements of the Directive. Among other requirements, the Directive regulates transfers of personally identifiable data that is subject to the Directive (“Personal Data”) to third countries, such as the United States, that have not been found to provide adequate protection to such Personal Data. We have in the past relied upon adherence to the U.S. Department of Commerce’s Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European

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Union and Switzerland, which established a means for legitimating the transfer of Personal Data collected by US companies doing business in the European Economic Area (or "EEA"), to the United States. As a result of the October 6, 2015 European Union Court of Justice, or ECJ, opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) regarding the adequacy of the U.S.-EU Safe Harbor Framework, the U.S. - EU Safe Harbor Framework was no longer deemed to be a valid method of compliance with requirements set forth in the Directive (and member states' implementations thereof) regarding the transfer of Personal Data outside of the EEA.

However, on July 12, 2016, the EU Commission formally adopted a new mechanism for the transfer of personal data from the European Union (the "EU") to the United States, branded the "EU-US Privacy Shield" ("Privacy Shield"). We are currently preparing for the process of certifying with the U.S. Department of Commerce ("DOC") to comply with the framework's terms. While the EU Commission and the U.S. have formally adopted the Privacy Shield, we will continue to face uncertainty to the limited extent we may transfer any Personal Data and as to whether our efforts to comply with our obligations under European privacy laws will be sufficient. If we are investigated by a European data protection authority, we could face fines and other penalties. Any such investigation or charges by European data protection authorities could have a negative effect on our existing business and on our ability to attract and retain new customers.

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

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

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

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

Changes to laws or regulations affecting privacy could impose additional costs and liabilities on us and could limit our use of such information to add value for customers. If we were required to change our business activities or revise or eliminate services, or to implement burdensome compliance measures, our business and results of operations could be harmed. In addition, we may be subject to fines, penalties, and potential litigation if we fail to comply with applicable privacy and/or data security laws, regulations, standards and other requirements. The costs of compliance with and other burdens imposed by privacy-related laws, regulations and standards may limit the use and adoption of our product solutions and reduce overall demand.

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

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

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To address the trends of the industry, we will likely offer customers the use of our software products through a cloud-based offering in addition to our on-premises offering. Any such transition requires a considerable investment of technical, financial, legal and sales resources. Such transition will divert our resources and may increase our costs in a given period and such investments may not improve our long term growth and results of operations. The revenue that we would recognize under widely adopted cloud-based licensing models is more likely to be ratable. That transition may reduce license revenue in those periods in which the portion of our revenues attributable to ratable recognition grows. In addition, market acceptance of our cloud-based offerings may be affected by a variety of factors, including but not limited to: security, reliability, performance, customer preference and public concerns regarding privacy and the enactment of restrictive laws or regulations. We are in the early stages of rearchitecting our existing products and developing new products in an effort to offer customers greater choices on how they would prefer to consume software. We will also be required to develop the associated subscription agreements in connection with this effort. Whether our product development efforts or business model transition will prove successful and will accomplish our business and financial objectives is subject to numerous uncertainties and risks, including but not limited to: customer demand, impact on our customers, our ability to further develop and scale infrastructure, our ability to include functionality and usability in such offerings that address customer requirements, tax and accounting implications, pricing and our costs. In addition, the metrics we use to gauge the status of our business model transition may evolve over the course of the transition as significant trends emerge. It may be difficult, therefore, to accurately determine the impact of such transition on our business on a contemporaneous basis or communicate clearly the appropriate metrics to our investors. If we are unable to successfully establish these new cloud offerings and navigate our business model transition in light of the foregoing risks and uncertainties, our results of operations could be harmed.

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

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

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

Factors outside of our control including but not limited to natural catastrophes and terrorism may adversely impact the P&C insurance industry, preventing us from expanding or maintaining our existing customer base and increasing our revenues.

Our customers are P&C insurance carriers which have experienced, and will likely experience in the future, losses from catastrophes or terrorism that may adversely impact their businesses. Catastrophes can be caused by various events, including, amongst others, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tornadoes, explosions, severe weather and fires. Global warming trends are contributing to an increase in erratic weather patterns globally and intensifying the impact of certain types of catastrophes. Moreover, acts of terrorism or war could cause disruptions in our or our customers' businesses or the economy as a whole. The risks associated with natural catastrophes and terrorism are inherently unpredictable, and it is difficult to predict the timing of such events or estimate the amount of loss they will generate. Future events may adversely impact our current or potential customers, which may prevent us from maintaining or expanding our customer base and increasing our revenues as such events may cause customers to postpone purchases of new products and professional service engagements or discontinue projects.

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

The typical sales cycle for our products and services is lengthy and unpredictable, requires pre-purchase evaluation by a significant number of employees in our customers' organizations, and often involves a significant operational decision by our customers. Our sales efforts involve educating our customers about the use and benefits of our products, including the technical capabilities of our products and the potential cost savings achievable by organizations deploying our products. Customers typically undertake a significant evaluation process, which frequently involves not only our products, but also those of our competitors and can result in a lengthy sales cycle. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will produce any sales. Even if we succeed at completing a sale, we may be unable to predict the size of an initial license until very late in the sales cycle. In addition, we sometimes commit to include specific functions in our base product offering at the request of a customer or group of customers and are unable to recognize license revenues until the specific functions have been added to our products. Providing this additional functionality may be time consuming and may involve factors that are outside of our control.

The implementation and testing of our products by our customers typically lasts 6 to 24 months or longer and unexpected implementation delays and difficulties can occur. Implementing our products typically involves integration with our customers' systems, as well as adding their data to our platform. This can be complex, time consuming and expensive for our customers and can result in delays in the implementation and deployment of our products. Failing to meet the expectations of our customers for the implementation of our products could result in a loss of customers and negative publicity regarding us and our products and services. Such failure could result from our product capabilities or service engagements by us, our system integrator partners or our customers' IT employees, the latter two of which are beyond our direct control. The consequences could include, and have included: monetary credits for current or future service engagements, reduced fees for additional product sales, and a customer's refusal to pay their contractually-obligated license, maintenance or service fees. In addition, time-consuming implementations may also increase the amount of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

The lengthy and variable sales and implementation cycles may have a negative impact on the timing of our revenues, causing our revenues and results of operations to vary significantly from period to period.

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

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

We believe our future growth also will depend on the expansion of successful relationships with system integrators. Our system integrators as channel partners help us reach additional customers. Our growth in revenues, particularly in international markets, will be influenced by the development and maintenance of this indirect sales channel which, in some cases, may require the establishment of effective relationships with regional systems integrators. Although we have established relationships with some of the leading system integrators, our products and services may compete directly against products and services that such leading system integrators support or market. We are unable to control the quantity or quality of resources that our system integrator partners commit to implementing our products, or the quality or timeliness of such implementation. If our partners do not commit sufficient or qualified resources to these activities, our customers will be less satisfied, be less supportive with references, or may require the investment of our resources at discounted rates. These, and other failures by our partners to successfully implement our products, will have an adverse effect on our business and our results of operations could fail to grow in line with our projections.

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

Some of our customers include the largest P&C insurance carriers. These customers have significant bargaining power when negotiating new licenses or renewals of existing licenses, and have the ability to buy similar products from other vendors or develop such systems internally. These customers have and may continue to seek advantageous pricing and other commercial terms and may require us to develop additional features in the products we sell to them. We have and may continue to be required to reduce the average selling price, or increase the average cost, of our products in response to these pressures. If we are unable to avoid reducing our average selling prices or increasing our average costs, our results of operations could be harmed.

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

We derive a significant majority of our revenues and cash flows from software licenses, support and services related to our InsuranceSuite product or its individual component applications: ClaimCenter, PolicyCenter and BillingCenter. We expect to continue to derive a substantial portion of our revenues from these sources. As such, continued market acceptance of these products is critical to our growth and success. Demand for our products is affected by a number of factors, some of which are beyond our control, including the successful implementation of our products, the timing of development and release of new products by us and our competitors, technological advances which reduce the appeal of our products, and the growth or contraction in the worldwide market for technological solutions for the P&C insurance industry. If we are unable to continue to meet customer demands, to achieve and maintain a technological advantage over competitors, or to maintain market acceptance of our products, our business, results of operations, financial condition and growth prospects may be adversely affected.

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

Our customers have no obligation to renew their term licenses after their license period expires, and these licenses may not be renewed on the same or more favorable terms. Moreover, under certain circumstances, our customers have the right to cancel their license agreements before they expire. We have limited historical data with respect to rates of customer license renewals, upgrades and expansions so we may not accurately predict future trends in customer renewals. In addition, our term and perpetual license customers have no obligation to renew their maintenance arrangements after the expiration of the initial contractual period. Our customers’ renewal rates may fluctuate or decline because of several factors, including their satisfaction or dissatisfaction with our products and services, the prices of our products and services, the prices of products and services offered by our competitors or reductions in our customers’ spending levels due to the macroeconomic environment or other factors, or the sale of their operations to a buyer that is not a current customer. For example, in fiscal 2016, two customers, each with DWP of less than $150 million, informed us of their intention to not renew their license upon their expiration. In the first case, the reason not to renew was due to the licensee being acquired. In the second case, the non-renewal was as a result of our decision to discontinue support for the licensee’s legacy product, which we had acquired through the Millbrook acquisition in fiscal 2013.

In addition, in some cases, our customers have a right to exercise a perpetual buyout of their term licenses at the end of the initial contract term. If our customers do not renew their term licenses for our solutions or renew on less favorable terms, our revenues may decline or grow more slowly than expected and our profitability may be harmed.

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

Our success depends on our continued ability to develop, introduce and market new and enhanced versions of our products to meet evolving customer requirements. Because our products are complex and require rigorous testing, development cycles can be lengthy, taking us multiple years to develop and introduce new products or provide updates to our existing products. Additionally, market conditions may dictate that we change the technology platform underlying our existing products or that new products be developed on different technology platforms, potentially adding material time and expense to our development cycles. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses.

If we fail to develop new products or enhancements to our existing products, our business could be adversely affected, especially if our competitors are able to introduce products with enhanced functionality. It is critical to our success for us to anticipate changes in technology, industry standards and customer requirements and to successfully introduce new, enhanced and competitive products to meet our customers' and prospective customers' needs on a timely basis. We have invested and intend to increase investments in research and development to meet these challenges. Revenues may not be sufficient to support the future product development that is required for us to remain competitive. If we fail to develop products in a timely manner that are competitive in technology and price or develop products that fail to meet customer demands, our market share will decline and our business and results of operations could be harmed.

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

Because we offer complex products, undetected errors or failures may exist or occur, especially when products are first introduced or when new versions are released. Our products are often installed and used in large-scale computing environments with different operating systems, system management software and equipment and networking configurations, which may cause errors or failures in our products or may expose undetected errors, failures or bugs in our products. Despite testing by us, we may not identify all errors, failures or bugs in new products or releases until after commencement of commercial sales or installation. In the past, we have discovered software errors, failures and bugs in some of our product offerings after their introduction.

We provide our customers with upfront estimates regarding the duration, resources and costs associated with the implementation of our products. Failure to meet these upfront estimates and the expectations of our customers could result from our product capabilities or service engagements by us, our system integrator partners or our customers' IT employees, the latter two of which are beyond our direct control. The consequences could include, and have included: monetary credits for current or future service engagements, reduced fees for additional product sales, and a customer's refusal to pay their contractually-obligated license, maintenance or service fees. In addition, time-consuming implementations may also increase the amount of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

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

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

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

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

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

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

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the United States, and many foreign countries do not enforce these laws as diligently as governmental agencies and private parties in the United States. Moreover, policing our intellectual property rights is difficult, costly and may not always be effective.

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

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

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

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

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

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

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

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

We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to many of the restrictions in an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. Additionally, we rely on multiple software programmers to design our proprietary technologies, and although we take steps to prevent our programmers from including objectionable open source software in the technologies and software code that they design, write and modify, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated such open source software into our proprietary products and technologies or that they will not do so in the future. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly

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release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our services and technologies and materially and adversely affect our business, results of operations and prospects.

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

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

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

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

If we or our system integration providers do not effectively assist our customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing support, our ability to sell additional products and services to existing customers would be adversely affected and our reputation with potential customers could be damaged. Once our products are deployed and integrated with our customers' existing information technology investments and data, our customers may depend on our technical support services and/or the support of system integrators or internal resources to resolve any issues relating to our products. High-quality support is critical for the continued successful marketing and sale of our products. In addition, as we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. Many enterprise customers require higher levels of support than smaller customers. If we fail to meet the requirements of our larger customers, it may be more difficult to increase our penetration with larger customers, a key group for the growth of our revenues and profitability. As we rely more on system integrators to provide deployment and on-going services, our ability to ensure a high level of quality in addressing customer issues is diminished. Our failure to maintain high-quality implementation and support services, or to ensure that system integrators provide the same, could have a material adverse effect on our business, results of operations, financial condition and growth prospects.

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

Our future success depends upon our ability to continue to attract, train, integrate and retain highly skilled employees, particularly our management team, including Marcus Ryu, one of our co-founders and our current president and chief executive officer, sales and marketing personnel, professional services personnel and software engineers. Our inability to attract and retain qualified personnel, or delays in hiring required personnel, may seriously harm our business, results of operations and financial condition.

Each of our executive officers and other key employees could terminate his or her relationship with us at any time. The loss of any member of our senior management team might significantly delay or prevent the achievement of our business or development objectives and could materially harm our business.

We face competition for qualified individuals, who are in high demand, from numerous software and other technology companies. Competition for qualified personnel is particularly intense in the San Francisco Bay Area, where our headquarters are located. Often, significant amounts of time and resources are required to train technical, sales and other personnel. We may incur significant costs to attract and retain them, and we may lose new employees to our competitors or other technology companies before we realize the benefit of our investment in recruiting and training them. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other

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confidential information. We have a limited number of sales people and the loss of several sales people within a short period of time could have a negative impact on our sales efforts. We may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational and managerial requirements, or we may be required to pay increased compensation in order to do so.

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

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

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

We have recently experienced rapid growth and expect to continue to expand our operations, among other factors, in the number of employees and in the locations and scope of our international operations. This expansion has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future operational expansion effectively, we must continue to maintain and may need to enhance our information technology infrastructure, financial and accounting systems and controls and manage expanded operations and employees in geographically distributed locations. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new products. If we increase the size of our organization without experiencing an increase in sales of our products and services, we will experience reductions in our gross and operating margins and net income. If we are unable to effectively manage our expanding operations, our expenses may increase more than expected, our revenues could decline or grow more slowly than expected and we may be unable to implement our business strategy.

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

We sell our products and services to customers located outside the United States and Canada, and we are continuing to expand our international operations as part of our growth strategy. In fiscal 2016, 2015 and 2014, 35%, 35% and 31% of our revenues, respectively, were derived from outside of the United States and Canada. Our current international operations and our plans to expand our international operations subject us to a variety of risks, including:

- increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- unique terms and conditions in contract negotiations imposed by customers in foreign countries;
- longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable;
- the need to localize our products and licensing programs for international customers;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- increased exposure to fluctuations in currency exchange rates;
- the burdens and costs of complying with a wide variety of foreign laws and legal standards;
- compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended ("FCPA"), the U.K. Bribery Act and other anti-corruption regulations, particularly in emerging market countries;
- compliance by international staff with accounting practices generally accepted in the United States, including adherence to our accounting policies and internal controls;
- import and export license requirements, tariffs, taxes and other trade barriers;
- increased financial accounting and reporting burdens and complexities;
- weaker protection of intellectual property rights in some countries;
- multiple and possibly overlapping tax regimes;
- government sanctions that may interfere with our ability to sell into particular countries, such as Russia; and

- political, social and economic instability abroad, terrorist attacks and security concerns in general.

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

Our revenues, results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Canadian dollar, Australian dollar, Euro, British Pound, Japanese Yen and Brazilian Real.

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

The nature of our business requires the application of complex revenue and expense recognition rules that require management to make estimates and assumptions. Additionally, the current legislative and regulatory environment affecting U.S. Generally Accepted Accounting Principles ("GAAP") is uncertain and significant changes in current principles could affect our financial statements going forward.

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

While we believe that our financial statements have been prepared in accordance with accounting principles generally accepted in the United States, we cannot predict the impact of future changes to accounting principles or our accounting policies on our financial statements going forward. In addition, were we to change our critical accounting estimates, including the timing of recognition of license revenue and other revenue sources, our reported revenues and results of operations could be significantly impacted.

The accounting rules and regulations that we must comply with are complex. Recent actions and public comments from the Financial Accounting Standards Board (the "FASB") and the Securities and Exchange Commission have focused on the integrity of financial reporting. In addition, many companies' accounting policies are being subject to heightened scrutiny by regulators and the public. Further, the accounting rules and regulations are continually changing in ways that could materially impact our financial statements.

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

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If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.

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

If a material misstatement occurs in the future, we may fail to meet our future reporting obligations. For example, we may fail to file periodic reports in a timely manner or may need to restate our financial results, either of which may cause the price of our common stock to decline. Any failure of our internal controls could also adversely affect the results of the periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act. Effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. Furthermore, any potential transition in enterprise resource planning or other major operational system could impact the timely generation of our financial statements. If we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

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

We are subject to federal, state and local income taxes in the United States and in foreign jurisdictions. Our future effective tax rates and the value of our deferred tax assets could be adversely affected by changes in tax laws. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. Significant judgment is required in determining our worldwide provision for income taxes. Although we believe we have made appropriate provisions for taxes in the jurisdictions in which we operate, changes in the tax laws or challenges from tax authorities under existing tax laws could adversely affect our business, financial condition and results of operations.

We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.

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

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

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems such as computer viruses.

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

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

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

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

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may become the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

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

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

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

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

- providing for a classified board of directors with staggered three-year terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- not providing for cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- authorizing our board of directors to issue, without stockholder approval, preferred stock rights senior to those of common stock, which could be used to significantly dilute the ownership of a hostile acquirer;
- prohibiting stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- limiting the persons who may call special meetings of stockholders, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- requiring advance notification of stockholder nominations and proposals, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

The affirmative vote of the holders of at least 66 $^{2}/3$% 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 being lower than it would be without these provisions.

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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 14, 2012
3.2	Amended and Restated Bylaws	8-K	3.1	January 22, 2013
4.1	Form of Common Stock certificate of the Registrant	S-1/A	4.1	January 9, 2012
10.10	Long-Term Incentive Plan	Filed herewith		
10.11	CEO Long-Term Incentive Plan	Filed herewith		
10.12	Form of Restricted Stock Unit Award Agreement (Long-Term Incentive Plan under the 2011 Stock Plan)	Filed herewith		
10.13	Form of Restricted Stock Unit Award Agreement (CEO Long-Term Incentive Plan under the 2011 Stock Plan)	Filed herewith		
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith		
32.1*	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act	Furnished herewith		
101.INS	XBRL Instance Document	Filed herewith		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this 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.

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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:	November 30, 2016	GUIDEWIRE SOFTWARE, INC.
		By: /s/ Richard Hart
		Richard Hart
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

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