

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2021

OR

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

For the transition period from _____ to _____

Commission File Number: 001-39449

Duck Creek Technologies, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

Duck Creek Technologies, Inc.
22 Boston Wharf Road, Floor 10

Boston, MA

(Address of principal executive offices)

84-3723837

(I.R.S. Employer
Identification No.)

02210

(Zip Code)

Registrant's telephone number, including area code: (888) 724-3509

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value per share	DCT	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of April 9, 2021, the registrant had 131,588,942 shares of common stock, \$0.01 par value per share, outstanding.

Special Note Regarding Forward-Looking Statements

Some of the information contained in the sections entitled “Item 1. Business” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this Quarterly Report on Form 10-Q contain forward-looking statements that reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “could,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates,” “target,” “projects,” “contemplates” or the negative version of those words or other comparable words. Any forward-looking statements contained in this report are based upon our historical performance and on our current plans, estimates and expectations in light of information currently available to us. The inclusion of this forward-looking information should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business, prospects, growth strategy and liquidity. For more information regarding these risks and uncertainties as well as certain additional risks that we face, refer to Part II, “Item 1A. Risk Factors” as well as the factors more fully described in “Item 2. Management’s Discussion and Analysis of Financial Conditions and Results of Operations,” in our Annual Report on Form 10-K for the year ended August 31, 2020, and those described from time to time in our future reports filed with the Securities and Exchange Commission. Accordingly, there are, or will be, important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to:

- our history of losses;
- changes in our product revenue mix as we continue to focus on sales of our Software-as-a-service (“SaaS”) solutions, which will cause fluctuations in our results of operations and cash flows between periods;
- our reliance on orders and renewals from a relatively small number of customers for a substantial portion of our revenue, and the substantial negotiating leverage customers have in renewing and expanding their contracts for our solutions;
- the success of our growth strategy focused on SaaS solutions and our ability to develop or sell our solutions into new markets or further penetrate existing markets;
- our ability to manage our expanding operations;
- intense competition in our market;
- third-parties may assert we are infringing or violating their intellectual property rights;
- U.S. and global market and economic conditions, particularly adverse in the insurance industry;
- additional complexity, burdens and volatility in connection with our international sales and operations;
- the length and variability of our sales and implementation cycles;
- data breaches, unauthorized access to customer data or other disruptions of our solutions;
- the significant influence that Apax VIII Fund, a global private equity fund (collectively, with its affiliates, “Apax”) and Accenture plc, a public limited company incorporated in Ireland (collectively, with its affiliates, “Accenture”), will have on the composition of our board of directors, our management, business plans and policies, and any conflicts of interest between Apax and Accenture, on the one hand, and our other stockholders, on the other hand;
- our continued reliance on “controlled company” exemptions under Nasdaq listing standards during the applicable phase-in periods;
- impact of pandemics, including the COVID-19 pandemic, on U.S. and global economies, our business, our employees, results of operations, financial condition, demand for our products, sales and implementation cycles, and the health of our customers’ and partners’ businesses; and
- the other risks and uncertainties described under Part II, “Item 1A. Risk Factors.”

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. The forward-looking statements made in this report relate only to events as of the date on which the statements are made. We do not undertake any obligation to publicly update or review any forward-looking statement except as required by law, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we may have expressed or implied by these forward-looking statements. We caution that you should not place undue reliance on any of our forward-looking statements. You should specifically consider the factors identified in this report that could cause actual results to differ before making an investment decision to purchase our common stock. Furthermore, new risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us.

Basis of Presentation

As used in this Quarterly Report on Form 10-Q unless the context otherwise requires, references to “we,” “us,” “our,” the “Company,” “Duck Creek,” and similar references refer to Duck Creek Technologies, Inc. together with its subsidiaries, and the following terms have the meanings or are calculated as set forth below:

- We define “subscription revenue” as the revenue derived from the sale of our SaaS solutions through recurring fee arrangements for the period indicated.
- We define “ACV” as the committed total contract value of new software sales in dollar terms divided by the corresponding minimum number of committed months, with the resultant minimum monthly commitment being multiplied by twelve.
- We define “carriers” as property and casualty (“P&C”) insurance carriers.
- We define “core systems” as the following key functions of carriers: policy administration, claims management and billing.
- We define “customers” as buying entities that contract individually for our products and services. For example, multiple subsidiaries of a single carrier may each constitute a customer if each entity contracts with us separately. By contrast, a carrier that uses our products across multiple subsidiaries under a single enterprise license agreement would constitute a single customer.
- We define “DWP” as the gross dollar value of total premiums paid to carriers by policyholders.

Certain monetary amounts, percentages, and other figures included in this Quarterly Report on Form 10-Q have been subject to rounding adjustments. Percentage amounts included in this Quarterly Report on Form 10-Q have not in all cases been calculated on the basis of such rounded figures, but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this Quarterly Report on Form 10-Q may vary from those obtained by performing the same calculations using the figures in our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Certain other amounts that appear in this Quarterly Report on Form 10-Q may not sum due to rounding. When we state that we are the leading SaaS provider of core systems for the P&C insurance industry, we are basing our leadership on our subscription revenue for fiscal 2020.

Our fiscal year ends on August 31. Unless otherwise noted, any reference to a year preceded by the word “fiscal” refers to the fiscal year ended August 31 of that year. For example, references to “fiscal 2019” refer to the fiscal year ended August 31, 2019. Any reference to a year not preceded by “fiscal” refers to a calendar year. Accordingly, our first three fiscal quarters are the successor three-month periods following August 31 (i.e., November 30, February 28 and April 30).

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

DUCK CREEK TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share information)

(Unaudited)

	February 28, 2021	August 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 76,074	\$ 389,878
Short-term investments	287,906	—
Accounts receivable, net	34,738	29,149
Unbilled revenue	22,143	18,121
Prepaid expenses and other current assets	15,240	12,186
Total current assets	436,101	449,334
Property and equipment, net	16,725	18,113
Operating lease assets	16,632	18,171
Goodwill	272,455	272,455
Intangible assets, net	73,512	81,687
Deferred tax assets	2,065	1,550
Unbilled revenue, net of current portion	2,824	3,487
Other assets	16,983	16,303
Total assets	<u>\$ 837,297</u>	<u>\$ 861,100</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,001	\$ 1,802
Accrued liabilities	40,664	58,202
Contingent earnout liability	5,267	3,701
Lease liability	3,292	3,611
Deferred revenue	28,860	30,397
Total current liabilities	79,084	97,713
Contingent earnout liability, net of current portion	—	3,391
Lease liability, net of current portion	20,196	21,739
Deferred revenue, net of current portion	23	379
Other long-term liabilities	6,058	4,121
Total liabilities	<u>105,361</u>	<u>127,343</u>
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock, 134,081,473 shares issued and 131,524,442 shares outstanding at February 28, 2021, 133,269,301 shares issued and 130,713,745 shares outstanding at August 31, 2020, 300,000,000 shares authorized at February 28, 2021 and August 31, 2020, par value \$0.01 per share	1,341	1,333
Preferred stock, 0 shares outstanding, 50,000,000 shares authorized at February 28, 2021 and August 31, 2020, par value \$0.01 per share	—	—
Treasury stock, common shares at cost; 2,557,031 shares at February 28, 2021 and 2,555,556 shares at August 31, 2020	(64,745)	(64,688)
Accumulated deficit	(35,349)	(24,334)
Accumulated other comprehensive income (loss)	(6)	—
Additional paid in capital	830,695	821,446
Total stockholders' equity	<u>731,936</u>	<u>733,757</u>
Total liabilities and stockholders' equity	<u>\$ 837,297</u>	<u>\$ 861,100</u>

See accompanying notes to consolidated financial statements.

DUCK CREEK TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands, except share and per share information)

(Unaudited)

	For the Three Months Ended February 28 and 29,		For the Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
Revenue:				
Subscription	\$ 30,608	\$ 20,276	\$ 58,517	\$ 37,813
License	3,588	2,226	4,938	3,271
Maintenance and support	5,885	5,801	12,075	11,727
Professional services	22,571	24,524	46,028	46,586
Total revenue	62,652	52,827	121,558	99,397
Cost of revenue:				
Subscription	11,411	8,873	21,495	16,150
License	446	515	834	841
Maintenance and support	859	887	1,701	1,765
Professional services	14,826	13,338	28,542	25,380
Total cost of revenue	27,542	23,613	52,572	44,136
Gross margin	35,110	29,214	68,986	55,261
Operating expenses:				
Research and development	12,681	10,008	23,785	19,227
Sales and marketing	14,165	11,245	26,762	21,816
General and administrative	14,617	9,747	29,035	19,732
Change in fair value of contingent consideration	95	167	98	211
Total operating expenses	41,558	31,167	79,680	60,986
Loss from operations	(6,448)	(1,953)	(10,694)	(5,725)
Other income (expense), net	510	(153)	463	220
Interest expense, net	(38)	(45)	(81)	(326)
Loss before income taxes	(5,976)	(2,152)	(10,312)	(5,832)
Provision for income taxes	388	288	703	622
Net loss	\$ (6,364)	\$ (2,440)	\$ (11,015)	\$ (6,454)
Net loss per share information¹				
Net loss per share of common stock, basic and diluted	\$ (0.05)		\$ (0.08)	
Weighted average shares of common stock, basic and diluted	130,982,116	—	130,851,680	—

1. See Note 8—Net Loss Per Share for additional details.

See accompanying notes to consolidated financial statements.

DUCK CREEK TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statement of Other Comprehensive Loss

(In thousands, except share information)

(Unaudited)

	For the Three Months Ended February 28 and 29,		For the Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
Net loss	\$ (6,364)	\$ (2,440)	\$ (11,015)	\$ (6,454)
Other comprehensive loss:				
Unrealized losses on available-for-sale securities	(6)	—	(6)	—
Total other comprehensive loss	(6)	—	(6)	—
Comprehensive loss	<u>\$ (6,370)</u>	<u>\$ (2,440)</u>	<u>\$ (11,021)</u>	<u>\$ (6,454)</u>

See accompanying notes to consolidated financial statements.

DUCK CREEK TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity/Redeemable Partners' Interest and Partners' Capital
(In thousands, except share information)
(Unaudited)

	Total redeemable partners' interest and partners' capital	Common stock		Treasury Stock		Additional paid-in capital	Accumulated Other Comprehensive Loss	Accumulated deficit	Total stockholders' equity/ redeemable partners' interest and partners' capital
		Shares	Amount	Shares	Amount				
		Balance at August 31, 2020	\$ —	133,269,301	\$ 1,333				
Net loss	—	—	—	—	—	—	—	(4,651)	(4,651)
Repurchase of common stock	—	—	—	1,475	(57)	—	—	—	(57)
Share-based compensation expense	—	—	—	—	—	2,333	—	—	2,333
Vesting of restricted stock awards	—	142,193	1	—	—	(1)	—	—	—
Balance at November 30, 2020	\$ —	133,411,494	\$ 1,334	2,557,031	\$ (64,745)	\$ 823,778	\$ —	\$ (28,985)	\$ 731,382
Net loss	\$ —	—	\$ —	—	\$ —	\$ —	\$ —	\$ (6,364)	\$ (6,364)
Proceeds from follow-on offering, net of issuance costs	—	90,000	1	—	—	3,452	—	—	3,453
Share-based compensation expense	—	—	—	—	—	2,478	—	—	2,478
Issuance of common stock upon exercise of stock options	—	36,809	—	—	—	993	—	—	993
Vesting of restricted stock awards	—	543,170	6	—	—	(6)	—	—	—
Unrealized loss on available-for-sale securities	—	—	—	—	—	—	(6)	—	(6)
Balance at February 28, 2021	\$ —	134,081,473	\$ 1,341	2,557,031	\$ (64,745)	\$ 830,695	\$ (6)	\$ (35,349)	\$ 731,936

See accompanying notes to consolidated financial statements.

DUCK CREEK TECHNOLOGIES, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity/Redeemable Partners' Interest and Partners' Capital
(In thousands, except share information)
(Unaudited)

	Total redeemable partners' interest and partners' capital		Common stock		Treasury Stock	Additional paid-in capital	Accumulated deficit	Non- controlling interests	Total stockholders' equity/ redeemable partners' interest and partners' capital
	Units	Amount	Shares	Amount	Shares				
Balance at August 31, 2019	470,210,869	\$ 389,066	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 389,066
Class A units redeemed	(20,292,029)	(58,800)	—	—	—	—	—	—	(58,800)
Class B units redeemed	(13,528,013)	(39,200)	—	—	—	—	—	—	(39,200)
Class D units and Phantom Units granted	—	—	—	—	—	—	—	—	—
Class D and Phantom Units forfeited	(622,031)	—	—	—	—	—	—	—	—
Class E units issued	41,412,296	115,454	—	—	—	—	—	—	115,454
Equity-based compensation	—	436	—	—	—	—	—	—	436
Net loss	—	(4,014)	—	—	—	—	—	—	(4,014)
Balance at November 20, 2019	<u>477,181,092</u>	<u>\$ 402,942</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 402,942</u>
Class A units redeemed	(18,133,278)	(60,000)	—	—	—	—	—	—	(60,000)
Class B units redeemed	(12,088,848)	(40,000)	—	—	—	—	—	—	(40,000)
Class D units and Phantom Units granted	3,110,000	—	—	—	—	—	—	—	—
Class D and Phantom Units forfeited	(59,375)	—	—	—	—	—	—	—	—
Class E units issued	30,222,126	97,437	—	—	—	—	—	—	97,437
Equity-based compensation	-	488	—	—	—	—	—	—	488
Net loss	-	(2,440)	—	—	—	—	—	—	(2,440)
Balance at February 28, 2020	<u>480,231,717</u>	<u>\$ 398,427</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 398,427</u>

See accompanying notes to consolidated financial statements.

DUCK CREEK TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	For the Six Months Ended February 28 and 29,	
	2021	2020
Operating activities:		
Net loss	\$ (11,015)	\$ (6,454)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation of property and equipment	1,587	1,522
Amortization of capitalized software	996	51
Amortization of intangible assets	8,175	8,535
Amortization of deferred financing fees	57	39
Share-based compensation expense	7,608	924
Loss on change in fair value of contingent earnout liability	98	211
Bad debt expense	10	(72)
Deferred taxes	(515)	23
Changes in operating assets and liabilities		
Accounts receivable	(5,600)	(6,124)
Unbilled revenue	(3,359)	(3,938)
Prepaid expenses and other current assets	(3,111)	(1,601)
Other assets	(679)	(3,636)
Accounts payable	508	168
Accrued liabilities	(10,671)	1,340
Deferred revenue	(1,893)	(1,300)
Operating leases	(323)	249
Cash settlement of vested phantom stock	(6,904)	—
Other long-term liabilities	1,938	115
Net cash used in operating activities	(23,093)	(9,948)
Investing activities:		
Purchase of short-term investments	(287,912)	—
Capitalized internal-use software	(750)	(1,555)
Purchase of property and equipment	(672)	(2,694)
Net cash used in investing activities	(289,334)	(4,249)
Financing activities:		
Proceeds from follow-on offering, net of issuance costs	3,452	—
Payment of deferred IPO costs	(3,650)	—
Payment of deferred Class E offering costs	(192)	(2,072)
Proceeds from issuance of Class E Units, net of issuance costs	—	215,668
Payment on redemption of Class A and Class B Units	—	(198,000)
Purchase of treasury stock	(57)	—
Proceeds from stock option exercises	993	—
Payments of contingent earnout liability	(1,923)	(3,182)
Proceeds from revolving credit facility	—	5,000
Payments on revolving credit facility	—	(9,000)
Payment of deferred financing costs	—	(228)
Net cash (used in) provided by financing activities	(1,377)	8,186
Net decrease in cash and cash equivalents	(313,804)	(6,011)
Cash and cash equivalents – beginning of period	389,878	11,999
Cash and cash equivalents – end of period	\$ 76,074	\$ 5,988
Supplemental disclosure of other cash flow information:		
Cash paid for income taxes	1,209	929
Cash paid for interest	—	265
Fair value of contingent consideration	5,529	7,452
Deferred IPO costs in accounts payable and accrued liabilities	—	825
Unpaid Class E offering costs in accrued expenses	—	2,661

See accompanying notes to consolidated financial statements.

DUCK CREEK TECHNOLOGIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(amounts in thousands except unit and per unit and share and per share amounts)
(Unaudited)

(1) Nature of Business

Duck Creek Technologies, Inc (the Company) is a provider of Software-as-a-Service (SaaS) core systems to the property and casualty (P&C) insurance industry, through *Duck Creek OnDemand*. Products offered include *Duck Creek Policy*, *Duck Creek Billing*, *Duck Creek Claims*, *Duck Creek Rating*, *Duck Creek Insights*, *Duck Creek Distribution Management*, *Duck Creek Reinsurance Management*, *Duck Creek Anywhere Managed Integrations*, and *Duck Creek Industry Content*. The Company also provides its products via perpetual and term license arrangements to customers with legacy systems that have yet to upgrade to SaaS.

The Company was formed as a Delaware corporation on November 15, 2019, with no operating assets or operations for the purpose of facilitating an initial public offering (the IPO) and related Reorganization Transactions (as described below) in order to carry on the business of Disco Topco Holdings (Cayman), L.P. and its subsidiaries (the Operating Partnership). Unless otherwise indicated or the context otherwise requires, references to “Duck Creek Technologies” and the “Company” refer to (a) prior to the consummation of the Reorganization Transactions and the IPO, to Disco Topco Holdings (Cayman), L.P., and its subsidiaries, and (b) after the consummation of the Reorganization Transactions and IPO to Duck Creek Technologies, Inc, and its subsidiaries.

Initial Public Offering

On August 14, 2020, the Company completed its IPO. It sold 17,250,000 shares of common stock (including shares issued pursuant to the exercise in full of the underwriters’ option to purchase additional shares) at a public offering price of \$27.00 per share for net proceeds of \$429.2 million, after deducting underwriting discounts, commissions, and estimated offering expenses.

The Company used (i) \$43.1 million of the net proceeds received from the IPO to redeem all of the outstanding LP Units of the Operating Partnership retained by Accenture plc (Accenture) and RBW Investment GmbH & Co. (RBW), after giving effect to the contributions that were part of the Reorganization Transactions, at a redemption price per LP Unit equal to the IPO price less underwriting discounts and commissions, (ii) \$64.7 million of the net proceeds received from the IPO to repurchase from Apax Partners L.P. (Apax) a portion of the shares in the Company received by Apax in the Reorg Merger (as described below) at a repurchase price per share equal to the IPO price less underwriting discounts and commissions, and (iii) \$6.7 million of net proceeds received from the IPO to cash settle outstanding equity awards of certain international employees.

Reorganization Transactions

The Company and the Operating Partnership completed a series of transactions concurrently with or immediately following the completion of the IPO (Reorganization Transactions) which are described below:

- The Company adopted an amended and restated certification of incorporation that authorized, immediately prior to the IPO, one class of common stock and one class of preferred stock.
- Apax contributed the entity that held all of Apax’s equity interests in the Operating Partnership and all of Apax’s interest in the general partner of the Operating Partnership (General Partner) to a newly-formed Cayman company (the Reorg Subsidiary) in exchange for shares in the Reorg Subsidiary.
- Accenture contributed to the Company, directly or indirectly, (i) a portion of its equity interests in the Operating Partnership and (ii) all of its interest in the General Partner in exchange for newly-issued common stock in the Company.
- Certain members of management contributed to the Company, directly or indirectly, all of their respective equity interests in the Operating Partnership in exchange for (i) newly-issued common stock in the Company or (ii) restricted common stock in the Company and options to acquire common stock in the Company with an exercise price equal to the fair market value on the date of grant.
- All other investors in the Operating Partnership (excluding Apax, Accenture, and RBW) contributed to the Company, directly or indirectly, all of their equity interests in the Operating Partnership in exchange for newly-issued common stock in the Company.

- The Company contributed a portion of the net proceeds received from the IPO to the Operating Partnership and the Operating Partnership redeemed the outstanding LP Units of the Operating Partnership owned by Accenture and RBW that were not contributed to the Company.
- Immediately following the completion of the IPO, (i) Apax exchanged all of its shares in the Reorg Subsidiary for newly-issued common stock in the Company and (ii) the Reorg Subsidiary merged with and into the Company (and subsequently ceased existence) (collectively, the Reorg Merger).
- Following these transactions and the subsequent redemption of the outstanding LP Units owned by Accenture and RBW that were not contributed to the Company, the Company indirectly owns all of the LP Units of the Operating Partnership and all interest in the General Partner.

The Reorganization Transactions are considered transactions between entities under common control. As a result, Disco Topco Holdings (Cayman), L.P., is considered the predecessor of Duck Creek Technologies, Inc. for accounting purposes. This has resulted in the presentation of Disco Topco Holdings (Cayman), L.P.'s historical consolidated financial statements as the historical consolidated financial statements of Duck Creek Technologies, Inc. Duck Creek Technologies, Inc., has accounted for Disco Topco Holdings (Cayman), L.P.'s assets and liabilities at their historical carrying amounts.

(2) **Basis of Presentation, Consolidation, and Summary of Significant Accounting Policies**

(a) ***Basis of Presentation***

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) set by the Financial Accounting Standards Board (FASB), and pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented have been reflected. References to GAAP issued by the FASB in these notes are to the FASB Accounting Standards Codification (FASB ASC).

These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended August 31, 2020 filed with the SEC on November 3, 2020. Operating results for interim periods are not necessarily indicative of the results that may be expected for any future period or the entire fiscal year.

(b) ***Risk and Uncertainties***

The global pandemic resulting from the novel strain of coronavirus known as COVID-19, and certain intensified preventative or protective public health measures undertaken by governments, businesses and individuals to contain the spread of COVID-19, have, and continue to, result in global business disruptions that adversely affect workforces, organizations, economies, and financial markets globally, leading to an economic downturn and increased market volatility. While the Company did not experience a material disruption in bookings or sales from the COVID-19 pandemic in the three and six months ended February 28, 2021, a continued or intensifying outbreak over the short- or medium-term could result in delays in services delivery, delays in implementations, delays in critical development and commercialization activities, including delays in the introduction of new products and services and further international expansion, interruptions in sales and marketing activity, furloughs of employees and disruptions of supply chains. Additionally, the Company may incur increased costs in the future when employees return to work and the Company implements measures to ensure their safety. The magnitude of the effect of COVID-19 on the Company's business will depend, in part, on the length and severity of the restrictions (including the effects of recently announced "re-opening" plans following a recent slowdown of the virus infection rate in certain countries and localities) and other limitations on the Company's ability to conduct its business in the ordinary course. The longer the pandemic continues or resurges, the more severe the impacts of COVID-19 will be on the Company's business. The extent, length and consequences of the pandemic are uncertain and impossible to predict, but could be material. COVID-19 and other similar outbreaks, epidemics or pandemics could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects and could cause significant volatility in the trading prices of the Company's common stock as a result of any of the risks described above and other risks that the Company is not able to predict.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

(d) Significant Accounting Policies

The Company's significant accounting policies are described in Note 2, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended August 31, 2020. There have been no material changes to the significant accounting policies during the six-month period ended February 28, 2021, other than those noted below relating to the adoption of ASU 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) effective September 1, 2020 and the accounting for investments.

Allowance for Credit Losses

The Company maintains an allowance for expected credit losses for its accounts receivable balance. The allowance reflects the expected collectability of the balance and is based on historical losses, customer-specific factors, and current economic conditions. Credit losses are recorded in general and administrative expense while billing and other revenue adjustments are recorded as a reduction to revenue.

Investments

At the time of purchase, the Company determines the appropriate classification of investments based upon its intent with regard to such investments. All of the Company's investments are classified as available-for-sale. The Company classifies investments as short-term when their remaining contractual maturities are one year or less from the balance sheet date, and as long-term when the investment has a remaining contractual maturity of more than one year from the balance sheet date. The Company records investments at fair value with unrealized gains and losses recorded in other income (expense), net in the consolidated statements of operations.

(f) Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). The new standard requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company adopted this new standard on September 1, 2020. The impact to the consolidated financial statements as a result of adoption was not material.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04). This new guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new standard, entities will perform goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The Company adopted this new standard on September 1, 2020. The impact to the consolidated financial statements as a result of adoption was not material.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* (ASU 2018-15). This new guidance requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. ASU 2018-15 generally aligns the guidance on recognizing implementation costs incurred in a cloud computing arrangement that is a service contract with that for implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. The Company adopted this new standard on September 1, 2020. The impact to the consolidated financial statements as a result of adoption was not material.

(g) Recent Accounting Pronouncements Not Yet Effective

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12). The new standard is intended to simplify various aspects related to accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, with early adoption permitted. An entity that elects early adoption must adopt all the amendments in the same period. Most amendments within ASU 2019-12 are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective

basis. The Company does not expect the adoption of this new standard to have a material impact on its consolidated financial statements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (ASU 2020-04). The new standard provides temporary optional expedients and exceptions to GAAP guidance on contract modifications to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) to alternative reference rates. The Company may elect to apply the amendments prospectively through December 31, 2022. The Company does not expect the adoption of this new standard to have a material impact on its consolidated financial statements.

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

(h) Revenue Recognition

The Company derives its revenues primarily from the following four sources, which represent performance obligations of the Company:

- *Sales of hosted software services (SaaS) under subscription arrangements.*
- *Sales of software licenses.* Software license revenue is derived from the sale of perpetual and term license arrangements to customers.
- *Sales of maintenance and support services.* Maintenance and support services include telephone and web-based support, software updates, and rights to unspecified software upgrades on a when-and-if-available basis during the maintenance term.
- *Sales of professional services.* Professional services primarily relate to the implementation of the Company's SaaS offerings and software licenses.

In accordance with ASC 606, the Company recognizes revenue from the identified performance obligations, as determined in its contracts with customers, as control is transferred to the customer in an amount that reflects the consideration the Company expects to receive. The Company applies the following five steps to achieve the core principle of ASC 606:

(1) Identify the contract with the customer

The Company considers the terms and conditions of the contracts and its customary business practices in identifying contracts under ASC 606. The Company has determined that a contract with a customer exists when the contract is approved, each party's rights regarding the services to be transferred can be identified, payment terms for the services can be identified, the customer has the ability and intent to pay, and the contract has commercial substance. The Company applies judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

(2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the products and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third-parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract.

(3) Determine the transaction price

The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for transferring products or services to the customer. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that no significant future reversal of cumulative revenue under the contract will occur. The sale of the Company's software and SaaS products may include variable consideration relating to changes in a customer's direct written premium (DWP) managed by these solutions. The Company estimates variable consideration based on historical DWP usage to the extent that a significant revenue reversal is not probable to occur.

In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that contracts generally do not include a significant financing component. The primary purpose of the

Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from customers or to provide customers with financing.

(4) Allocate the transaction price to the performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price (SSP).

(5) Recognize revenue when (or as) the Company satisfies a performance obligation

Revenue is recognized at the time the related performance obligation is satisfied by transferring the promised product or service to a customer. Revenue is recognized when control of the products or services are transferred to the Company's customers, in an amount that reflects the consideration that it expects to receive in exchange for those products or services.

The Company records revenue net of applicable sales taxes collected. Sales taxes collected from customers are recorded as part of accounts payable in the accompanying consolidated balance sheets and are remitted to state and local taxing jurisdictions based on the filing requirements of each jurisdiction.

Disaggregation of Revenue

The Company provides disaggregation of revenue based on product and service type on the consolidated statements of operations as it believes these categories best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The following table summarizes revenue by geographic area based on the location of the contracting entity, regardless of where the products or services are used, for the three and six months ended February 28, 2021 and February 29, 2020:

	For the Three Months Ended February 28 and 29,		For the Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
United States	\$ 56,668	\$ 49,992	\$ 110,084	\$ 94,146
All other	5,984	2,835	11,474	5,251
Total revenue	\$ 62,652	\$ 52,827	\$ 121,558	\$ 99,397

Subscription Arrangements

The transaction price allocated to subscription arrangements is recognized as revenue over time throughout the term of the contract as the services are provided on a continuous basis, beginning after the SaaS environment is provisioned and made available to customers. The Company's subscription arrangements generally have terms of three to seven years and are generally payable on a monthly basis over the term of the subscription arrangement, which is typically noncancelable. Revenue is recognized ratably using contractual DWP as the measure of progress.

Software Licenses

The Company has concluded that its software licenses provide the customer with the right to functional intellectual property (IP), and are distinct performance obligations as the customer can benefit from the software licenses on their own. The transaction price allocated to perpetual and term license arrangements is recognized as revenue at a point in time when control is transferred to the customer, which generally occurs at the time of delivery. Perpetual software license fees are generally payable when the contract is executed. Term license fees are generally payable in advance on an annual basis over the term of the license arrangement, which is typically noncancelable. Perpetual and term license arrangements are delivered before related services are provided, including maintenance and support services, and are functional without such services.

Maintenance and Support Services

Maintenance and support contracts associated with the Company's software licenses entitle customers to receive technical support and software updates, on a when and if available basis, during the term of the maintenance and support contract. Technical support and software updates are considered distinct from the related software licenses but accounted for as a single performance obligation as they each constitute a series of distinct services that are substantially the same and have

the same pattern of transfer to the customer. The transaction price allocated to software maintenance and support is recognized as revenue over time on a straight-line basis over the term of the maintenance and support contract. Maintenance and support fees are generally payable in advance on a monthly, quarterly, or annual basis over the term of the maintenance and support contract. Maintenance and support contracts are priced as a percentage of the associated software license.

Professional Services

The Company's professional services revenue is primarily comprised of implementation services provided to customers. The majority of professional services engagements are billed to customers on a time and materials basis. The Company has determined that professional services provided to customers represent distinct performance obligations. These services may be provided on a stand-alone basis or bundled with other performance obligations, including subscription arrangements, software licenses, and maintenance and support services. The transaction price allocated to these performance obligations is recognized as revenue over time as the services are performed. In those limited instances where professional services arrangements are sold on a fixed price basis, revenue is recognized over time using an input measure of time incurred to date relative to total estimated time to be incurred at project completion. Professional services arrangements are generally invoiced monthly in arrears.

The Company records reimbursable out-of-pocket expenses associated with professional services contracts in both revenue and cost of revenue.

Contracts with Multiple Performance Obligations

The Company's contracts with customers can include multiple performance obligations, where the transaction price is allocated to each identified performance obligation based on their relative SSP. The Company's contracts may also grant the customer an option to acquire additional products or services, which the Company assesses to determine whether or not any discount on the products or services is in excess of levels normally available to similar customers and, if so, accounts for the optional product or service as an additional performance obligation.

The Company typically determines SSP based on the observable prices of the promised goods or services charged when sold separately to customers, which are determined using contractually stated prices. In instances where SSP is not directly observable, the Company determines SSP based on its overall pricing objectives, taking into consideration market conditions and other factors, including customer size and geography. The various products and services comprising contracts with multiple performance obligations are typically capable of being distinct and accounted for as separate performance obligations. The Company allocates revenue to each of the performance obligations included in a contract with multiple performance obligations at the inception of the contract.

The SSP for perpetual or term license arrangements sold in contracts with multiple performance obligations is determined using the residual approach. The Company utilizes the residual approach because the selling prices for software licenses is highly variable and a SSP is not discernible from past transactions or other observable evidence. Periodically, the Company evaluates whether the use of the residual approach remains appropriate for performance obligations associated with software licenses when sold as part of contracts with multiple performance obligations. As a result, if the SSP analysis illustrates that the selling prices for software licenses are no longer highly variable, the Company will utilize the relative allocation method for such arrangements.

Contract Modifications

The Company may enter into amendments to previously executed contracts which constitute a contract modification. The effect of a contract modification on the transaction price when the remaining products or services are not distinct is recognized to revenue on a cumulative catch-up basis. Contract modifications are accounted for prospectively when it results in the promise to deliver additional products and services that are distinct and the increase in the price of the contract corresponds to the SSP of the additional products or services.

Contract Balances

Contract assets and liabilities are presented net at the contract level for each reporting period. Contract assets consist of unbilled revenue and represent amounts under contracts with customers where revenue recognized exceeds the amount billed to the customer. Contract liabilities consist of deferred revenue and include billings and payments received in advance of revenue recognized. Deferred revenue that will be realized during the succeeding 12-month period is recorded as current, and the remaining balance is recorded as noncurrent.

For the three months ended February 28, 2021 and February 29, 2020 \$2.8 million and \$4.7 million, respectively, and for the six months ended February 28, 2021 and February 28, 2020 \$13.3 million and \$9.6 million, respectively, of the Company's unbilled revenue balance that was included in the corresponding unbilled revenue balance at the beginning of the period became an unconditional right to payment and was billed to its customers.

For the three months ended February 28, 2021 and February 29, 2020 the Company recognized revenue of \$9.2 million and \$4.7 million, respectively, and for the six months ended February 28, 2021 and February 28, 2020 \$24.1 million and \$16.4 million, respectively, that was included in the corresponding deferred revenue balance at the beginning of the period.

Transaction Price Allocated to the Remaining Performance Obligations

Remaining performance obligations represent contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of February 28, 2021, approximately \$471.5 million of revenue is expected to be recognized from remaining performance obligations in the amount of approximately \$74.9 million in fiscal 2021 and approximately \$396.6 million thereafter. The estimated revenues do not include unexercised contract renewals. The Company applied the practical expedient in accordance with ASC 606 to exclude amounts related to professional services contracts that are on a time and materials basis.

(3) Contingent Earnout Liability

The following table summarizes the changes in fair value of the Company's contingent earnout liability during the six months ended February 28, 2021:

	<u>Outline Systems, LLC</u>
Balance at August 31, 2020	\$ 7,092
Change in fair value, including accretion	98
Payments to sellers	(1,923)
Balance at February 28, 2021	<u>\$ 5,267</u>

(4) Fair Value Measurements

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

	<u>February 28, 2021</u>			<u>Estimated Fair Value</u>
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
U.S. Government agency securities - presented in cash and cash equivalents	\$ 31,996	\$ 1	\$ —	\$ 31,997
U.S. Government agency securities - presented in short-term investments	287,912	3	(9)	287,906
Total	<u>\$ 319,908</u>	<u>\$ 4</u>	<u>\$ (9)</u>	<u>\$ 319,903</u>

The Company does not consider any portion of the unrealized losses at February 28, 2021 to be credit losses. The Company has recorded the securities at fair value in its consolidated balance sheet and unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss). The amount of realized gains and losses reclassified into earnings are based on the specific identification of the securities sold or securities that reached maturity date. There were no sales or maturities of securities in the periods presented.

Fair Value

The Company measures certain financial assets and liabilities at fair value. Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market.

Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The following tables present the Company's financial assets and liabilities measured and recorded at fair value on a recurring basis using the above input categories as of February 28, 2021 and August 31, 2020:

	February 28, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government agency securities - presented in cash and cash equivalents	\$ —	\$ 287,906	\$ —	\$ 287,906
U.S. Government agency securities - presented in short term investments	31,997	—	—	31,997
Total assets	\$ 31,997	\$ 287,906	\$ —	\$ 319,903
Liabilities:				
Liability classified awards	\$ 3,234	\$ —	\$ 1,534	\$ 4,768
Contingent earnout liability	—	—	5,267	5,267
Total liabilities	\$ 3,234	\$ —	\$ 6,801	\$ 10,035

	August 31, 2020			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability classified awards	\$ 7,821	\$ —	\$ 879	\$ 8,700
Contingent earnout liability	—	—	7,092	7,092
Total liabilities	\$ 7,821	\$ —	\$ 7,971	\$ 15,792

The contingent earnout liability related to business combinations is recorded at fair value on the acquisition date and is adjusted each reporting period for changes in fair value, which can result from changes in anticipated payments and changes in assumed discount periods and rates. These inputs are unobservable in the market and therefore categorized as level 3 inputs as defined above. Quoted prices for liability classified stock appreciation rights are not readily available. Accordingly, the Company uses a Black-Scholes model to estimate the fair value of these awards, which utilizes level three inputs. The following table summarizes the changes in the estimated fair value of the Company's level 3 categorized liability classified awards for the six months ended February 28, 2021:

Balance as of August 31, 2020	\$ 879
Additions due to new awards	—
Net change in the fair value	655
Cash settlement of awards	—
Balance as of February 28, 2021	\$ 1,534

The Company had no assets measured and recorded at fair value on a recurring basis as of August 31, 2020.

(5) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets as of February 28, 2021 and August 31, 2020 consisted of the following:

	February 28, 2021	August 31, 2020
Prepaid software licenses	\$ 204	\$ 115
Directors and officers insurance	2,434	5,355
Computer and hardware software	2,620	1,994
Other	9,982	4,722
Total prepaid expenses and other current assets	\$ 15,240	\$ 12,186

(6) **Property and Equipment, Net**

Property and equipment, net as of February 28, 2021 and August 31, 2020 consisted of the following:

	February 28, 2021	August 31 2020
Leasehold improvements	\$ 11,113	\$ 11,216
Internal-use software	8,054	7,304
Computer equipment	4,613	4,310
Furniture and fixtures	2,307	2,181
Office equipment	491	478
Assets under construction	111	—
Total property and equipment	\$ 26,689	\$ 25,489
Less accumulated depreciation and amortization	(9,964)	(7,376)
Property and equipment, net	\$ 16,725	\$ 18,113

Depreciation expense related to property and equipment was \$0.8 million and \$0.8 million for the three months ended February 28, 2021 and February 28, 2020, respectively, and \$1.6 million and \$1.5 million, for the six months ended February 28, 2021 and February 29, 2020, respectively.

Amortization expense related to internal-use software was \$0.5 million and \$1.0 million for the three and six months ended February 28, 2021, respectively and immaterial for the three and six months ended February 29, 2020, respectively.

(7) **Goodwill and Intangible Assets**

The Company's goodwill is the result of its acquisitions of other businesses and represents the excess of purchase consideration over the fair value of assets acquired and liabilities assumed. There has been no change to the \$272.5 million carrying amount of goodwill since August 31, 2020.

Intangible assets as of February 28, 2021 and August 31, 2020 consisted of the following:

	February 28, 2021			Weighted average remaining life
	Gross carrying amount	Accumulated amortization	Net carrying amount	
Customer relationships	\$ 103,600	46,675	\$ 56,925	5.9 years
Acquired technology	32,235	21,158	11,077	2.4 years
Trademarks and tradenames	9,400	4,308	5,092	5.4 years
Domain name	100	45	55	5.4 years
Backlog	6,700	6,337	363	1.4 years
	\$ 152,035	\$ 78,523	\$ 73,512	

	August 31, 2020			Weighted average remaining life
	Gross carrying amount	Accumulated amortization	Net carrying amount	
Customer relationships	\$ 103,600	41,535	\$ 62,065	6.5 years
Acquired technology	32,235	18,785	13,450	3.0 years
Trademarks and tradenames	9,400	3,838	5,562	6.0 years
Domain name	100	40	60	6.0 years
Backlog	6,700	6,150	550	2.0 years
	\$ 152,035	\$ 70,348	\$ 81,687	

Amortization expense was \$4.1 million and \$4.3 million for the three months ended February 28, 2021 and February 28, 2020, respectively, and \$8.2 million and \$8.5 million for the six months ended February 28, 2021 and February 29, 2020, respectively. Amortization expense is recorded on a straight-line basis over the estimated useful lives of the assets. Amortization

expense associated with the backlog intangible asset is classified as a reduction of revenue in the accompanying consolidated statements of operations.

As of February 28, 2021, the estimated future amortization of purchased intangible assets is as follows:

Fiscal year:		
2021	\$	8,153
2022		15,793
2023		15,225
2024		11,453
2025 and thereafter		22,888
Total	\$	<u>73,512</u>

(8) Net Loss Per Share

The Company calculates basic earnings per share by dividing the net income (loss) by the weighted average number of shares of common stock outstanding for the period. The diluted earnings per share is computed by assuming the exercise, settlement, and vesting of all potential dilutive common stock equivalents outstanding for the period using the treasury stock method.

The following table sets forth a reconciliation of the numerator and denominator used to compute basic earnings per share of common stock.

	Three Months Ended February 28, 2021	Six Months Ended February 28, 2021
<u>Numerator</u>		
Net loss	\$ (6,364)	\$ (11,015)
<u>Denominator</u>		
Weighted average shares of common stock - basic and diluted	130,982,116	130,851,680
Net loss per share - basic and diluted	\$ (0.05)	\$ (0.08)

Prior to the IPO, there were no shares of common stock outstanding, and the membership structure of Duck Creek Technologies consisted of limited partnership units. The Company analyzed the calculation of earnings per unit for periods prior to the IPO and determined that it resulted in values that would not be meaningful to the users of these consolidated financial statements. Therefore, earnings per share information has not been presented for the three-month and six months periods ended February 29, 2020.

As of February 28, 2021, 3,814,530 shares outstanding of potential common stock, prior to the use of the treasury stock method, were excluded from the computation of diluted weighted-average shares of common stock outstanding because their effect would have been antidilutive.

(9) Other Assets

Other assets as of February 28, 2021 and August 31, 2020 consisted of the following:

	February 28, 2021	August 31, 2020
Deferred contract costs	\$ 13,356	\$ 12,440
Other noncurrent assets	3,627	3,863
Total other assets	<u>\$ 16,983</u>	<u>\$ 16,303</u>

The amortization related to deferred contracts costs was \$1.2 million and \$0.3 million for the three months ended February 28, 2021 and February 28, 2020, respectively, and \$1.8 million and \$0.6 million for the six months ended February 28, 2021 and February 29, 2020, respectively, and there was no impairment loss in relation to the costs capitalized.

(10) Accounts Receivable and Allowance for Credit Losses

Accounts receivable, net as of February 28, 2021 and August 31, 2020, consisted of the following:

	February 28, 2021	August 31, 2020
Accounts receivable	\$ 35,103	\$ 29,504
Allowance for credit losses	(365)	(355)
Accounts receivable, net	<u>\$ 34,738</u>	<u>\$ 29,149</u>

The following table presents changes to the allowance for credit losses during the six months ended February 28, 2020:

Allowance, August 31, 2020	\$ (355)
Net changes to credit losses	(10)
Write-offs, net	—
Allowance, February 28, 2021	<u>\$ (365)</u>

(11) Accrued Liabilities

Accrued liabilities as of February 28, 2021 and August 31, 2020 consisted of the following:

	February 28, 2021	August 31, 2020
Accrued bonuses	\$ 9,133	\$ 18,175
Accrued hosting fees	9,545	11,890
Accrued vacation	9,169	7,560
Accrued commissions	1,166	2,269
Accrued professional service fees	345	1,910
Liability-classified phantom units and SARs	4,768	8,700
Accrued withholding taxes	439	731
Other	6,099	6,967
Total accrued liabilities	<u>\$ 40,664</u>	<u>\$ 58,202</u>

(12) Credit Facility

On October 2, 2019, the Company extended the maturity date of its credit agreement for a revolving credit facility from October 4, 2019 to October 2, 2021. The \$30.0 million maximum borrowing capacity under the revolving credit facility was unchanged.

The revolving credit facility is secured by substantially all of the Company's tangible assets. Interest accrues on the revolving credit facility at a variable rate based upon the type of borrowing made by the Company. Borrowings can either incur interest at a rate of LIBOR plus an applicable margin, or incur interest at the higher of: (i) the Prime Rate, (2) the Fed Funds Rate plus 0.5%, or (3) LIBOR plus 1.0%, plus an applicable margin. The applicable margin ranges from 2.0% to 3.0% depending on the interest rate basis and type of borrowing elected. In addition to interest on the revolving credit facility, the Company pays a commitment fee of 0.5% per annum on the unused portion of the revolving credit facility. Repayment of any amounts borrowed are not required until maturity of the revolving credit facility, however the Company may repay any amounts borrowed at any time, without premium or penalty.

The Company is required to meet certain financial and nonfinancial covenants under the terms of the revolving credit facility. These covenants include limits on the creation of liens, limits on making certain investments, limits on incurring additional indebtedness, maintaining a minimum level of consolidated EBITDA, and maintaining a leverage ratio at or below a maximum level. The Company was in compliance with these financial and nonfinancial covenants as of February 28, 2021.

There was no outstanding balance under the revolving credit facility at February 28, 2021 or August 31, 2020. Letters of credit of \$1.0 million under the revolving credit facility were outstanding at both February 28, 2021 and August 31, 2020.

The Company incurred \$0.2 million of costs directly related to the maturity extension, which were deferred and will be amortized over the term of the extension.

(13) Commitments and Contingencies

(a) *Litigation*

From time to time, the Company is a party to or can be threatened with litigation in the ordinary course of business. The Company regularly analyzes current information, including, as applicable, the Company's defenses and insurance coverage and, as necessary, provides accruals for probable and estimable liabilities for the eventual disposition of any matters. The Company was not a party to any material legal proceedings as of February 28, 2021 or February 29, 2020.

(b) *Guarantees*

The Company's products are typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and substantially in accordance with the Company's product documentation under normal use and circumstances. The Company's services are generally warranted to be performed in a professional manner and to materially conform to the specifications set forth in the related customer contract. The Company's arrangements also include certain provisions for indemnifying customers against liabilities if its products or services infringe a third-party's intellectual property rights.

To date, the Company has not incurred any material costs as a result of such indemnifications or commitments and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

(14) Share-Based Compensation

Share-based compensation expense has been recorded in the accompanying consolidated statements of operations as follows for the three and six months ended February 28, 2021 and February 29, 2020:

	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
Cost of subscription revenue	\$ 132	\$ 10	\$ 212	\$ 10
Cost of maintenance and support revenue	8	1	15	2
Cost of services revenue	1,139	41	1,750	67
Research and development	709	98	1,220	188
Sales and marketing	1,395	87	2,294	164
General and administrative	1,133	251	2,117	494
Total share-based compensation expense	<u>\$ 4,516</u>	<u>\$ 488</u>	<u>\$ 7,608</u>	<u>\$ 924</u>

Upon closing of the underwritten public offering of the Company's common stock on February 2, 2021, a market condition was achieved relating to Class D Restricted Common Stock, Leverage Restoration Options, Class D Phantom Stock and Leverage Restoration SARs. Accordingly, all remaining unrecognized share-based compensation expense associated with these awards totaling \$1.2 million was immediately recognized on that date.

During the three months ended February 28, 2021, the Company modified the vesting conditions for a subset of its share-based awards. The modification resulted in incremental share-based compensation expense of \$0.6 million that will be recognized over the remaining requisite service period of the awards.

(15) Segment Information and Information about Geographic Areas

The Company considers operating segments to be components of the Company for which separate financial information is available and evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the chief executive officer. The chief executive officer reviews financial information presented on a consolidated basis, accompanied by information about revenue by product and geographic region, for purposes of allocating resources and evaluating financial performance. Accordingly, the Company has determined that it has a single operating segment.

Revenues by geographic area presented based upon the location of the customer are included in Note 2(g).

Property and equipment, net by geographic area are as follows:

	February 28, 2021	August 31, 2020
United States	\$ 14,426	\$ 15,715
All other	2,299	2,398
Total property and equipment, net	<u>\$ 16,725</u>	<u>\$ 18,113</u>

(16) Related-Party Transactions

Services Provided on Behalf of and by Accenture

As of February 28, 2021, Accenture held 16.0% of the outstanding shares of common stock of the Company. The Company provides certain professional services and software maintenance services to end customers as a subcontractor to Accenture as part of its typical revenue generating arrangements. During the three and six months ended February 28, 2021 and February 29, 2020, the Company recognized immaterial amounts of revenue relating to services performed in this subcontractor capacity.

In addition, the Company also engages Accenture to provide certain professional services on behalf of the Company as part of its typical revenue generating arrangements. During the three and six months ended February 28, 2021 the Company had incurred no expenditures relating to services performed by Accenture and incurred an immaterial amount of expenditures during the three and six months ended February 29, 2020.

Revenue Contracts with Investors

The Company recognized revenue from customers that invested in the Company's Class E Preferred Units during the year ended 2020 whose shares converted to common stock in our IPO. During the three and six months ended February 28, 2021, the Company recognized aggregate revenue of \$8.1 million and \$15.6 million, respectively, from these customers.

As of February 28, 2021, the Company had deferred revenue of \$2.4 million and outstanding accounts receivables due from these customers of \$8.3 million.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the forward-looking statements included herein. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section entitled Part II, “Item 1A. Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q.

Overview

We are the leading SaaS provider of core systems for the P&C insurance industry. We have achieved our leadership position by combining over twenty years of deep domain expertise with the differentiated SaaS capabilities and low-code configurability of our technology platform. We believe we are the first company to provide carriers with an end-to-end suite of enterprise-scale core system software that is purpose-built as a SaaS solution. Our product portfolio is built on our modern technology foundation, the *Duck Creek Platform*, and works cohesively to improve the operational efficiency of carriers’ core processes (policy administration, claims management and billing) as well as other critical functions. The *Duck Creek Platform* enables our customers to be agile and rapidly capitalize on market opportunities, while reducing their total cost of technology ownership.

Our deep understanding of the P&C insurance industry has enabled us to develop a single, unified suite of insurance software products that is tailored to address the key challenges faced by carriers. Our solutions promote carriers’ nimbleness by enabling rapid integration and streamlining the ability to capture, access and utilize data more effectively. *The Duck Creek Suite* includes several products that support the P&C insurance process lifecycle, such as:

- *Duck Creek Policy*: enables carriers to develop and launch new insurance products and manage all aspects of policy administration, from product definition to quoting, binding and servicing
- *Duck Creek Billing*: supports fundamental payment and invoicing capabilities (such as billing and collections, commission processing, disbursement management and general ledger capabilities) for all insurance lines and bill types
- *Duck Creek Claims*: supports the entire claims lifecycle from first notice of loss through investigation, payments, negotiations, reporting and closure

In addition, we offer other innovative solutions, such as *Duck Creek Rating*, *Duck Creek Insights*, *Duck Creek Digital Engagement*, *Duck Creek Distribution Management*, *Duck Creek Reinsurance Management*, *Duck Creek Anywhere Managed Integrations* and *Duck Creek Industry Content*, which provide additional features and functionalities that further help our customers meet the increasing and evolving demands of the P&C industry. Our customers purchase and deploy *Duck Creek OnDemand*, our SaaS solution, either individually or as a suite.

We sell our SaaS solutions through recurring fee arrangements where revenue is recognized on a monthly basis following deployment to the customer, which we refer to as subscription revenue. Substantially all of our new bookings come from the sale of SaaS subscriptions of *Duck Creek OnDemand*. For the six months ended February 28, 2021 and February 29, 2020, SaaS ACV bookings represented 100% and 97% of our total ACV bookings, respectively. Historically, we have also sold our products through perpetual and term license arrangements, most commonly installed on-premise, where license revenue is typically recognized in full upon delivery of the software to the customer. We generally price our SaaS and license arrangements at individually negotiated rates based on the amount of a customer’s DWP that will be managed by our solutions with pre-determined fee adjustments as the customer’s DWP increases over the term of the contract, which typically ranges from three to seven years for our SaaS arrangements. We typically invoice our customers monthly, in advance, for SaaS fees whereas our term licenses are typically invoiced annually, in advance. The total cost of a perpetual license is billed in full upon contract signing.

We also derive revenue from maintenance and support services on our perpetual and term license products (primarily software updates, rights to unspecified software upgrades on a when-and-if-available basis and remote support services). We recognize revenue on a monthly basis as maintenance and support services are provided to customers. We generate revenue by providing professional services for both our SaaS solutions and perpetual and term license products (primarily related to implementation services) to the extent requested by our customers. The vast majority of our professional services revenue is recognized on a time and materials basis as the work is delivered to our customers. Our customers may also choose to obtain implementation services through our network of third-party SI partners who provide implementation and other related services to our customers. Our partnerships with leading SIs allow us to grow our business more efficiently by giving us scale to service our growing customer base. We continue to grow our services organization, including increasing the number of qualified consultants we employ and investing time and resources to develop relationships with new SI partners in existing and new markets.

We sell our products and services to a wide variety of carriers, including many of the largest and most recognizable brands in the P&C insurance industry, as well as smaller national and regional carriers. Our direct sales team focuses on obtaining new customers, which includes carriers that currently operate internally developed or competing systems, as well as selling into our existing customer base, which includes marketing our SaaS solutions to our term and perpetual license customers to drive adoption of our SaaS solutions and cross-selling additional applications. We are committed to continued training and development in order to increase the productivity of our sales team, with regional sales centers in North America, Europe and Australia. Our sales team is complemented by our partnerships with third-party partners, including leading SIs and solution partners. These partners provide additional market validation to our offerings, enhance our sales force through co-marketing efforts and offer greater speed and efficiency of implementation capabilities and related services to our customers. We also engage in a variety of traditional and online marketing activities designed to provide sales support and build brand recognition and enhance our reputation as an industry leader.

We believe our strong customer relationships are a result of our ability to develop innovative technology and incorporate our deep domain expertise into products that serve mission critical functions in our customers' day-to-day operations. We have over 150 insurance customers, of which over 60 have purchased one or more of our SaaS solutions. For customer concentration purposes, customers are assessed two ways: individual entities (customers) and combining customers that are under common control (consolidated entities). We had one consolidated entity that accounted for approximately 10% of our total revenue in the second quarter of fiscal 2021 and a different consolidated entity that represented approximately 11% of our total revenue during the second quarter of fiscal 2020. These consolidated entities are large multinational corporations that do business with us through multiple subsidiaries.

Key Factors and Trends Affecting Our Results of Operations

Increased focus on the sale of our SaaS solutions and resulting changing revenue mix. A central part of our strategy is to continue to grow our subscription revenue by signing new SaaS customers and increasing sales to our existing SaaS customers. Additionally, over time we also expect to migrate existing term and perpetual license customers to our SaaS solutions. As a result, our software revenue mix will continue to change over time as the portion of license revenue (primarily recognized up-front) decreases and the portion of subscription revenue (recognized monthly) increases, which may make our results in any one period difficult to compare to any other period. For the three months ended February 28, 2021 and February 29, 2020, subscription revenue was 76% and 72% of software revenue, respectively. For the six months ended February 28, 2021 and February 29, 2020, subscription revenue was 77% and 72% of software revenue, respectively.

Continued and increased adoption of our solutions by customers. Strong customer relationships are a key driver of our success given the importance of customer references for new sales. Our long-term relationships with existing customers provide us with significant opportunities to reach customer decision-makers and sell our product offerings that address the specific customer's needs, allowing us to recognize incremental sales with lower sales and marketing spend than for a new customer. With the continued launch of new functionality for the *Duck Creek Suite*, we have the opportunity to realize incremental value by selling additional functionality to customers that do not currently utilize our full product portfolio and by encouraging existing term and perpetual license customers to adopt our SaaS solutions. As we demonstrate our value to customers, we believe we will have the opportunity to sell them additional solutions. Moreover, because our products are priced on the basis of the amount of DWP generated by our customers, we expect our revenue will grow as our customers grow their businesses.

Timing of license revenue recognition and changing contract terms. Because our offerings are typically priced based on a customer's DWP, and our business relies on a relatively small number of high-value contracts, the license revenues recognized in any fiscal period in which we sign a term license with a large global carrier may be disproportionately higher than revenues recognized in a period in which we only sign term licenses with smaller carriers. We generally experience lengthy sales cycles because potential customers typically undertake a rigorous pre-purchase decision-making and evaluation process. Additionally, our license revenue may significantly increase in any given period in which a new license contract is signed. In fiscal 2018, we revised our contracting practices and began to sell our term licenses with an initial two-year committed term and optional annual renewals instead of our historical three to six year committed terms. This contracting change has impacted historical period-over-period revenue comparisons. However, because of our revenue mix shift to subscription and since our existing newer contracts have, and our contracts going forward are expected to have, initial two-year committed terms, this change has not had, and is not expected to have a material impact on the comparability of our results presented herein and in future periods. Our term license revenue accounted for 9% and 8% of software revenue during the three months ended February 28, 2021 and February 29, 2020, respectively, and for 7% and 6% of software revenue during the six months ended February 28, 2021 and February 29, 2020, respectively.

Investment in sales and marketing organization. We plan to continue to invest in our sales and marketing efforts to grow our customer base, increase sales of additional functionality to existing customers and encourage carriers who currently operate legacy systems or use one or more of our competitor's applications to adopt our SaaS solutions. We expect to add sales personnel and expand our marketing activities. We also intend to continue to expand our international sales and marketing organization, which we believe will be an important factor in our continued growth. Our sales and marketing expenses totaled \$14.2 million and \$11.2 million in the

three months ended February 28, 2021 and February 29, 2020, respectively, and \$26.8 million and \$21.8 million in the six months ended February 28, 2021 and February 29, 2020, respectively. We expect sales and marketing expenses to continue to increase in absolute dollars for the foreseeable future.

Investment in SaaS operations. We will continue to invest in *Duck Creek OnDemand*, including through our SaaS operations center and continued growth in the number of our cloud and SaaS operations experts, to further our goal of delivering the best experience for our SaaS customers. Personnel related costs of our SaaS operations team is the fastest growing component of our cost of subscription revenue. Our cost of subscription revenue totaled \$11.4 million and \$8.9 million in the three months ended February 28, 2021 and February 29, 2020, respectively, and \$21.5 million and \$16.2 million for the six months ended February 28, 2020 and February 29, 2021, respectively.

Investment in technology and research and development efforts. We are committed to continuing to deliver market-leading software to carriers and believe that maintaining our product leadership is critical to driving further revenue growth. As a result, we intend to continue to make significant investments in our research and development efforts to extend the functionality and breadth of our current solutions as well as develop and launch new products and tools to address the evolving needs of the P&C insurance industry. Our research and development expenses totaled \$12.7 million and \$10.0 million during the three months ended February 28, 2021 and February 29, 2020, respectively, and \$23.8 million and \$19.2 million for the six months ended February 28, 2021 and February 29, 2020. We expect research and development expenses to increase in absolute dollars for the foreseeable future.

Mix of professional services revenue. Our professional services teams ensure the successful configuration and integration of our solutions and provide continuous support to our customers. We recognize most of our professional services revenue during initial deployment and recognize additional revenue for services provided over the lifetime of a customer's use of our software. Over time, a customer's spend on professional services decreases as a percentage of their overall spend with us. In addition, although we plan on increasing our professional services headcount in the long-term, we expect to shift an increasing percentage of implementation work to our network of third-party SIs to better enable us to meet growing market demand. As a result, we expect our overall professional services revenue to increase in absolute dollars due to the growth in the number of our SaaS customers, but to decrease as a percentage of total revenue. During the three months ended February 28, 2021 and February 29, 2020, our professional services revenue was \$22.6 million and \$24.5 million, respectively. During the six months ended February 28, 2021 and February 29, 2020, our professional services revenues was \$46.0 million and \$46.6 million, respectively.

COVID-19 expenses. In March 2020, we implemented various measures in response to the ongoing COVID-19 pandemic to ensure the safety of our employees. Over a two-day period, we shifted 100% of our employee base to work from home and suspended international and domestic travel. As a result, we have experienced a decrease in our sales and marketing expenses since the onset of the pandemic, primarily related to a decrease in travel costs. We expect this trend to continue at least in the near term, however such savings may be offset by increased costs when employees return to work and we implement measures to ensure their safety.

Components of Results of Operations

Revenue

We generate our revenue from selling subscriptions to our SaaS solutions, licensing our term and perpetual software applications, providing maintenance and support services (primarily software updates, rights to unspecified software upgrades on a when-and-if-available basis and remote support services) to our term and perpetual license customers and providing professional services (primarily related to implementation services) to the extent requested by either our SaaS or term and perpetual license customers. We generally price our SaaS and licenses arrangements based on the amount of a customer's DWP that will be managed by our software solutions and may include volume-based pricing for customers managing a higher amount of DWP with our solutions. Our SaaS and license contracts generally include provisions for additional fees when the amount of the customer's DWP managed by our software solutions exceed agreed-upon caps within defined reporting periods, which are recognized on an as incurred basis. Software revenue is comprised of subscription revenue and revenue from licenses and maintenance and support services. Total revenue is comprised of software revenue plus revenue from our professional services.

Subscription

Our subscription revenue is comprised of fees from customers accessing our *Duck Creek OnDemand* platform and other SaaS solutions. Revenue for a reporting period is generally recognized ratably in proportion to the total contractual DWP, beginning when the service has been made available to the customer. Our subscription revenue accounted for 76% and 72% of software revenue during the three months ended February 28, 2021 and February 29, 2020, respectively, and 77% and 72% during the six months ended February 28, 2021 and February 29, 2020, respectively.

Licenses

On an increasingly limited basis, we sell licenses for our solutions on either a renewable term basis or a perpetual basis. The total contractual consideration allocated to the license is recognized as revenue upon delivery of the software to a customer, assuming all other revenue recognition criteria are satisfied. Historically, our term license contracts had terms of three to six years. We began revising our contracting practices in fiscal 2018 by selling our term licenses with an initial two-year committed term and optional annual renewals, with the revenue allocated to the initial two-year license period recognized in full upon delivery of the license. As a result of our revenue mix shift to subscription, this change did not have, and is not expected to have a material impact on our results presented herein or going forward. There is potential volatility across quarters for our license revenue due to the timing of license sales and renewals. Our license revenue accounted for 9% and 8% of software revenue during the three months ended February 28, 2021 and February 29, 2020, respectively and 7% and 6% during the six months ended February 28, 2021, and February 29, 2020, respectively.

Maintenance and Support

In connection with our term and perpetual license arrangements, we offer maintenance and support under renewable, fee-based contracts that include unspecified software updates and upgrades released when and if available, software patches and fixes and email and phone support. Our maintenance and support fees are typically priced as a fixed percentage of the associated license fees. We recognize maintenance and support revenue from customers ratably over the committed term of the contract. Substantially all term and perpetual license customers purchase an agreement for maintenance and support. We expect to continue to generate a relatively consistent stream of revenue from the maintenance and support services we provide to our existing license customers. However, we expect revenue from maintenance and support services to decrease as a percentage of software revenue as we continue to deemphasize license sales in favor of our SaaS solutions. Our maintenance and support revenue accounted for 15% and 20% of software revenue during the three months ended February 28, 2021 and February 29, 2020, respectively, and 16% and 22% during the six months ended February 28, 2021 and February 29, 2020.

Professional Services

We offer professional services, primarily related to implementation of our products, in connection with both our SaaS solutions and software license products. The vast majority of professional services engagements are billed to customers on a time and materials basis and revenue is generally recognized upon delivery of our services. We expect our professional services revenue to grow over time in absolute dollars due to customer growth and an increasing need for implementation services, but decrease as a percentage of total revenue. We believe the rate at which we sell our software will drive a greater need for implementation services that will support both an increase in our professional services revenue and an increase in demand for the services provided by our third-party SIs. Our professional services revenue generates lower gross margins than our software revenue and accounted for 36% and 46% of our total revenue the three months ended February 28, 2021 and February 29, 2020, respectively. It accounted for 38% and 47% of our total revenue during the six months ended February 28, 2021 and February 29, 2020.

Cost of Revenue

Our cost of revenue has fixed and variable components and depends on the type of revenue earned in each period. Cost of revenue includes amortization expense associated with acquired technology and other operating expenses directly related to the cost of products and services, including depreciation expense. We expect our cost of revenue to increase in absolute dollars as we continue to hire personnel, to provide hosting services, technical support and consulting services to our growing customer base.

Cost of Subscriptions

Our cost of subscription revenue is primarily comprised of cloud infrastructure costs, royalty fees paid to third-parties, amortization of acquired technology intangible assets and personnel-related expenses for our SaaS operations teams, including salaries and other direct personnel-related costs.

Cost of Licenses

Our cost of license revenue is primarily comprised of royalty fees paid to third-parties and amortization of acquired technology intangible assets.

Cost of Maintenance and Support

Our cost of maintenance and support revenue is comprised of personnel-related expenses for our technical support team, including salaries and other direct personnel-related costs. While we expect the cost of maintenance and support revenue will increase in the near term, it may decrease in the future if we successfully transition our term and perpetual license customers to our SaaS solutions.

Cost of Professional Services

Our cost of professional services revenue is primarily comprised of personnel-related expenses for our professional service employees and contractors, including salaries and other direct personnel-related costs.

Gross Margins

Gross margins have been and will continue to be affected by a variety of factors, including the average sales price of our products and services, DWP volume growth, the mix of revenue between SaaS solutions, software licenses, maintenance and support and professional services and changes in cloud infrastructure and personnel costs. We expect near term gross margin declines based on investments in additional personnel in both SaaS operations and professional services. Over time, we expect gross margins to increase as we onboard additional customers, achieve growth within existing customers and realize greater economies of scale.

Operating Expenses

Research and Development

Our research and development expenses consist primarily of costs incurred for personnel-related expenses for our technical staff, including salaries and other direct personnel-related costs. Additional expenses include consulting and professional fees for third-party development resources. We expect our research and development expenses to increase in absolute dollars for the foreseeable future as we continue to dedicate substantial resources to develop, improve and expand the functionality of our solutions. Costs incurred in the preliminary design and development stages of our SaaS projects are generally expensed as incurred in accordance with FASB ASC 350-40, *Internal-Use Software*. Once a SaaS project has reached the application development stage, certain internal, external, direct and indirect costs may be subject to capitalization. Generally, costs are capitalized until the technology is available for its intended use. Subsequent costs incurred for the development of future upgrades and enhancements, which are expected to result in additional functionality, follow the same protocol for capitalization.

Sales and Marketing Expenses

Our sales and marketing expenses consist primarily of personnel related costs for our sales and marketing functions, including salaries and other direct personnel-related costs. Additional expenses include marketing program costs, including costs related to our annual Formation conference and amortization of acquired customer relationships intangible assets. While we expect our sales and marketing expenses to increase on an absolute dollar basis in the near term as we continue to increase investments to support our growth, we also anticipate that sales and marketing expenses will remain relatively consistent as a percentage of total revenue.

General and Administrative Expenses

Our general and administrative expenses consist primarily of personnel-related costs for our executive, finance, human resources, information technology and legal functions, including salaries and other direct personnel-related costs. Additional expenses include professional fees, amortization of acquired trademarks, tradenames and domain name intangible assets, insurance and acquisition-related costs. While we expect other general and administrative expense to increase on an absolute dollar basis in the near term as we continue to increase investments to support our growth and as a result of our becoming a public company, we also anticipate that general and administrative expenses will decrease as a percentage of total revenue.

Change in Fair Value of Contingent Consideration

Certain of our acquisitions have included a component of contingent consideration to be paid to the sellers if certain performance levels are achieved by the acquired entity over a specific period of time. Contingent consideration is initially recorded at fair value on the acquisition date based, in part, on a range of estimated probabilities for achievement of these performance levels. The fair value is periodically adjusted as actual performance levels become known and updates are made to the estimated probabilities for future performance. A gain or loss is recognized in the income statement for fair value adjustments. As a result of additional acquisitions, it is possible that we will incur gains or losses in the future due to the change in the fair value of contingent consideration.

Other Income (Expense), Net

Other income (expense), net consists primarily of foreign exchange gains and losses resulting from fluctuations in foreign exchange rates on receivables and payables denominated in currencies other than the U.S. dollar.

Interest Expense, Net

Interest expense, net comprise interest expense accrued or paid on our indebtedness, net of interest income earned on our cash balances. We expect interest income (expense) to vary each reporting period depending on the amount of outstanding indebtedness, average cash balances, and prevailing interest rates.

Provision for 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. Due to cumulative losses, we maintain a valuation allowance against our deferred tax assets, except in certain foreign subsidiaries that generate income. We consider all available evidence, both positive and negative, in assessing the extent to which a valuation allowance should be applied against our deferred tax assets. Realization of our U.S. deferred tax assets depends upon future earnings, the timing and amount of which are uncertain.

Results of Operations

Comparison of the Three Months Ended February 28, 2021 and February 29, 2020

The following table sets forth our consolidated results of operations for the periods indicated, expressed in total dollar terms and as a percentage of total revenue:

(dollars in thousands)	Three Months Ended February 28 and 29,			
	2021	Percent of Total Revenue	2020	Percent of Total Revenue
Revenue				
Subscription	\$ 30,608	49%	\$ 20,276	38%
License	3,588	6	2,226	4
Maintenance and support	5,885	9	5,801	11
Professional services	22,571	36	24,524	47
Total revenue	62,652	100	52,827	100
Cost of revenue				
Subscription	11,411	18	8,873	17
License	446	1	515	1
Maintenance and support	859	1	887	2
Professional services	14,826	24	13,338	25
Total cost of revenue	27,542	44	23,613	45
Gross margins	35,110	56	29,214	55
Operating expenses				
Research and development	12,681	20	10,008	19
Sales and marketing	14,165	23	11,245	21
General and administrative	14,617	23	9,747	19
Change in fair value of contingent consideration	95	—	167	—
Total operating expense	41,558	66	31,167	59
Loss from operations	(6,448)	(10)	(1,953)	(4)
Other income (expense), net	510	—	(153)	1
Interest expense, net	(38)	—	(45)	(1)
Loss before income taxes	(5,976)	(10)	(2,152)	(4)
Provision for income taxes	388	—	288	1
Net loss	\$ (6,364)	(10)%	\$ (2,440)	(5)%

The following table sets forth share-based compensation expense included in our results of operations for the periods indicated:

	Three Months Ended February 28 and 29,	
	2021	2020
Cost of subscription revenue	\$ 132	\$ 10
Cost of license revenue	—	—
Cost of maintenance and support revenue	8	1
Cost of services revenue	1,139	41
Research and development	709	98
Sales and marketing	1,395	87
General and administrative	1,133	251
Total share-based compensation expense	<u>\$ 4,516</u>	<u>\$ 488</u>

Revenue

Subscription

Subscription revenue increased \$10.3 million, or 51%, during the three months ended February 28, 2021 versus the three months ended February 29, 2020, due to a combination of sales to new customers and increased revenue generated from existing customers, which includes sales of new services and contractual growth.

License

License revenue increased \$1.4 million, or 61%, during the three months ended February 28, 2021 versus the three months ended February 29, 2020 primarily due to a term license renewal of \$1.3 million that was not up for renewal in the prior year period.

Maintenance and Support

Maintenance and support revenue increased 1%, during the three months ended February 28, 2021 versus the three months ended February 29, 2020 primarily due to a \$0.2 million decrease in backlog revenue amortization, a contra-revenue purchase accounting adjustment.

Professional services

Professional services revenue decreased \$2.0 million, or (8%), during the three months ended February 28, 2021 versus the three months ended February 29, 2020 primarily due to a net \$1.5 million decrease as many of our larger services are not scheduled to start until the second half of the year, as well as a \$0.5 million decrease in travel and entertainment expenses.

Cost of Revenue

Cost of revenue increased \$3.9 million, or 17%, in the three months ended February 29, 2021 compared to the three months ended February 29, 2020.

Cost of Subscriptions

Cost of subscription revenue increased \$2.5 million, or 29%, during the three months ended February 28, 2021 versus the three months ended February 29, 2020 primarily due to an increase in SaaS customers, and is comprised of a \$0.9 million increase in payroll and related costs as we added employees to build out the SaaS operations team, a \$0.5 million increase in amortization expense associated with capitalized internal-use software costs, a \$0.5 million increase in professional services, a \$0.4 million increase in hosting costs, and a \$0.3 million increase in computer software. These increases were partially offset by a reduction in travel and entertainment expense.

Cost of License

Cost of license revenue decreased \$0.1 million, or (13%) in the three months ended February 28, 2021 versus the three months ended February 29, 2020 primarily due to a decrease in royalties paid to third parties.

Cost of Maintenance and Support

Cost of maintenance and support revenue decreased (3%), in the three months ended February 28, 2021 versus the three months ended February 29, 2020 primarily due to a decrease in personnel-related costs required to support our term and perpetual license customers, and a decrease in travel and entertainment expenses.

Cost of Professional Services

Cost of professional services revenue increased \$1.5 million, or 11%, in the three months ended February 28, 2021 versus the three months ended February 29, 2020. Payroll-related costs increased \$1.6 million, driven by increased headcount and bonuses, share-based compensation expense increased \$1.1 million, and, and million in the three months ended February 28, 2021 compared to the prior year period. These increases were offset by a \$0.6 million decrease in contingent labor, as well as a \$0.6 million decrease in travel and entertainment expenses.

Gross Margins

Gross margins increased \$5.9 million, or 20%, in the three months ended February 28, 2021 versus the three months ended February 29, 2020, primarily due to a \$7.8 million increase in subscription gross margin, a \$1.4 million increase in license gross margin, and a \$0.1 million increase in maintenance and support gross margin partially offset by a \$3.4 million decrease in professional services gross margin. The increase in subscription gross margins was driven by scale benefits from strong growth in subscription revenue, as well as cost growth below expected levels based on the timing of new hires.

Our gross margin percentage increased from 55% for the three months ended February 29, 2020 to 56% for the three months ended February 28, 2021 due to increases in subscription gross margin percentage, license gross margin percentage, and maintenance and support gross margin percentage, partially offset by a decrease in professional services gross margin percentage.

Operating Expenses

Research and Development Expense

Research and development expense increased \$2.7 million, or 27%, during the three months ended February 28, 2021 versus the three months ended February 29, 2020, primarily due to a \$1.7 million increase in salaries and payroll-related costs from increased headcount and bonuses, a \$0.6 million increase in share-based compensation, and a \$0.5 million increase in capitalized software costs. These increases were partially offset by a \$0.1 million reduction in travel and entertainment expenses.

Sales and Marketing Expense

Sales and marketing expense increased \$2.9 million, or 26%, during the three months ended February 28, 2021 versus the three months ended February 29, 2020 primarily due to a \$1.8 million increase in salaries and payroll-related costs from increased headcount, a \$1.3 million increase in share-based compensation, a \$0.3 million increase in marketing programs, and a \$0.2 million increase in commission expense, partially offset by a \$0.7 million decrease in travel and entertainment expenses.

General and Administrative Expense

General and administrative expense increased \$4.9 million, or 50%, in the three months ended February 28, 2021 versus the three months ended February 29, 2020 primarily due to a \$1.6 million increase in salaries and payroll-related costs from increased headcount, a \$1.5 million increase in insurance expense as a result of becoming a public company, a \$0.9 million increase in share-based compensation, a \$0.8 million increase in professional fees, of which \$0.5 million related to legal fees associated with being a public company, a \$0.1 million increase in computer software, and \$0.1 million of increases across various expenses, including telecommunication expense, partially offset by a \$0.2 million reduction in travel and entertainment expenses.

Change in Fair Value of Contingent Consideration

Change in fair value of contingent consideration reflected minor expense values in both comparison periods and is due to present value calculations related to the contingent consideration of the acquisition of Outline Systems LLC, a provider of P&C distribution channel management software and longstanding member of our partner ecosystem (now *Duck Creek Distribution Management*).

Other Income (Expense), Net

Other income (expense), net increased \$0.7 million during the three months ended February 28, 2021 as compared to the three months ended February 29, 2020, primarily due to fluctuations in foreign exchange rates on receivables and payables denominated in currencies other than the U.S. dollar. Foreign currencies fluctuated more during the current period as compared to the prior year.

Interest Expense, Net

Interest expense, net was relatively consistent in the three months ended February 28, 2021 versus the three months ended February 29, 2020. Interest expense consists of fees paid to maintain the revolving credit facility, though there were no outstanding borrowings in either period.

Provision for Income Taxes

Provision for income taxes increased \$0.1 million or 35% in the three months ended February 28, 2021 versus the three months ended February 29, 2020 due to the impact of higher profits in foreign subsidiaries.

Results of Operations

Comparison of the Six Months Ended February 28, 2021 and February 29, 2020

The following table sets forth our consolidated results of operations for the periods indicated, expressed in total dollar terms and as a percentage of total revenue:

(dollars in thousands)	Six Months Ended February 28 and 29,			
	2021		2020	
Revenue				
Subscription	\$ 58,517	48%	\$ 37,813	38%
License	4,938	4	3,271	3
Maintenance and support	12,075	10	11,727	12
Professional services	46,028	38	46,586	47
Total revenue	121,558	100	99,397	100
Cost of revenue				
Subscription	21,495	18	16,150	16
License	834	1	841	1
Maintenance and support	1,701	1	1,765	2
Professional services	28,542	23	25,380	25
Total cost of revenue	52,572	43	44,136	44
Gross margins	68,986	57	55,261	56
Operating expenses				
Research and development	23,785	20	19,227	19
Sales and marketing	26,762	22	21,816	22
General and administrative	29,035	24	19,732	20
Change in fair value of contingent consideration	98	—	211	—
Total operating expense	79,680	66	60,986	61
Loss from operations	(10,694)	(9)	(5,725)	(5)
Other (expense) income, net	463	—	220	—
Interest expense, net	(81)	—	(326)	—
Loss before income taxes	(10,312)	(9)	(5,832)	(5)
Provision for income taxes	703	—	622	1
Net loss	\$ (11,015)	(9)%	\$ (6,454)	(6)%

The following table sets forth share-based compensation expense included in our results of operations for the periods indicated:

	Six Months Ended February 28 and 29,	
	2021	2020
Cost of subscription revenue	\$ 212	\$ 10
Cost of license revenue	—	—
Cost of maintenance and support revenue	15	2
Cost of services revenue	1,750	67
Research and development	1,220	188
Sales and marketing	2,294	164
General and administrative	2,117	494
Total share-based compensation expense	\$ 7,608	\$ 924

Revenue

Subscription

Subscription revenue increased \$20.7 million, or 55%, during the six months ended February 28, 2021 versus the six months ended February 29, 2020, due to a combination of sales to new customers and increased revenue generated from existing customers, sales of new services to existing customers and contractual growth.

License

License revenue increased \$1.7 million, or 51%, during the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to the timing of multi-year term license sales and renewals.

Maintenance and Support

Maintenance and support revenue increased \$0.3 million, or 3%, during the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to a \$0.2 million decrease in backlog revenue amortization, a contra-revenue purchase accounting adjustment.

Professional services

Professional services revenue decreased (\$0.6) million, or (1%) , during the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to the absence of reimbursable expenses in 2021 due to the halt of travel during the COVID-19 pandemic.

Cost of Revenue

Cost of revenue increased \$8.4 million, or 19%, in the six months ended February 29, 2021 compared to the six months ended February 29, 2020.

Cost of Subscriptions

Cost of subscription revenue increased \$5.3 million, or 33%, during the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to an increase in SaaS customers, and is comprised of a \$2.0 million increase in payroll and related costs as we added employees to build out the SaaS operations team, a \$1.3 million increase in hosting costs, a \$0.9 million increase in amortization expense associated with capitalized internal-use software costs, a \$0.6 million increase in professional services fees, a \$0.3 million increase in computer software, and a \$0.2 million increase in share-based compensation.

Cost of License

Cost of license revenue decreased (1%) in the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to a decrease in amortization expense related to acquired technology intangible assets.

Cost of Maintenance and Support

Cost of maintenance and support revenue decreased (3%), in the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to a decrease in personnel-related costs required to support our term and perpetual license customers, and a decrease in travel and entertainment expenses.

Cost of Professional Services

Cost of professional services revenue increased \$3.2 million, or 12%, in the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily driven by a \$3.2 million increase in payroll-related costs from increased headcount and bonuses, and a \$1.7 million increase in share-based compensation. These increases were offset by a \$1.2 million decrease in travel and entertainment expenses and a \$0.6 million decrease in contingent labor.

Gross Margins

Gross margins increased \$13.7 million, or 25%, in the six months ended February 28, 2021 versus the six months ended February 29, 2020, primarily due to a \$15.4 million increase in subscription gross margin, a \$1.7 million increase in license gross margin, and a \$0.4 million increase in maintenance and support gross margin, partially offset by a \$3.7 million decrease in

professional services gross margin. The increase in subscription gross margins was driven by scale benefits from strong growth in subscription revenue, as well as cost growth below expected levels based on the timing of new hires.

Our gross margin percentage increased from 56% for the six months ended February 29, 2020 to 57% for the six months ended February 28, 2021 due to increases in subscription gross margin percentage, license gross margin percentage, and maintenance and support gross margin percentage, partially offset by a decrease in professional services gross margin percentage.

Operating Expenses

Research and Development Expense

Research and development expense increased \$4.6 million, or 24%, during the six months ended February 28, 2021 versus the six months ended February 29, 2020, primarily due to a \$2.8 million increase in salaries and payroll-related costs from increased headcount and bonuses, a \$1.0 million increase in share-based compensation, \$0.8 million in capitalized software costs, a \$0.2 million in contingent labor costs. These increases were partially offset by a \$0.2 million reduction in travel and entertainment expenses.

Sales and Marketing Expense

Sales and marketing expense increased \$4.9 million, or 23%, during the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to a \$3.5 million increase in salaries and payroll-related costs from increased headcount, a \$2.1 million increase in share-based compensation, and a \$0.7 million increase in marketing programs, partially offset by a \$1.3 million decrease in travel and entertainment expenses.

General and Administrative Expense

General and administrative expense increased \$9.3 million, or 47%, in the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to a \$3.0 million increase in insurance expense as a result of becoming a public company, a \$1.6 million increase in salaries and payroll-related costs from increased headcount, a \$1.6 million increase in share-based compensation, a \$1.5 million increase in professional fees related to the follow-on offering of our common stock in the first quarter, a \$1.2 million increase in legal, audit and professional fees primarily due to being a publicly held company, a \$0.2 million increase in facilities due to increased property taxes and repairs and maintenance, and \$0.6 million of increases across various expenses, including depreciation expense, partially offset by a \$0.4 million reduction in travel and entertainment expenses.

Change in Fair Value of Contingent Consideration

Change in fair value of contingent consideration reflected minor expense values in both comparison periods and is due to present value calculations related to the contingent consideration of the acquisition of Outline Systems LLC, a provider of P&C distribution channel management software and longstanding member of our partner ecosystem (now *Duck Creek Distribution Management*).

Other Income (Expense), Net

Other income (expense), net increased \$0.2 million during the six months ended February 28, 2021 as compared to the six months ended February 29, 2020, primarily due to fluctuations in foreign exchange rates on receivables and payables denominated in currencies other than the U.S. dollar. Foreign currencies fluctuated more during the six months ended February 28, 2021 as compared to the prior year.

Interest Expense, Net

Interest expense, net decreased \$0.2 million in the six months ended February 28, 2021 versus the six months ended February 29, 2020 primarily due to no outstanding net revolver borrowings during the six months ended February 28, 2021.

Provision for Income Taxes

Provision for income taxes increased 13% in the six months ended February 28, 2021 versus the six months ended February 29, 2020 due to the impact of higher profits in foreign subsidiaries.

Liquidity and Capital

To date, we have financed our operations primarily through cash provided by operating activities, our revolving credit facility, and, most recently, through net proceeds received from our IPO. As of February 28, 2021, we had \$76.1 million in cash, \$287.9 million of short-term investments, no outstanding borrowings under our revolving credit facility and \$1.0 million of outstanding letters of credit. We also had \$29.0 million of additional principal availability under our revolving credit facility. We believe that our existing cash and short-term investments, together with cash provided by operating activities and amounts available under our revolving credit

facility, will be sufficient to meet our operating working capital and capital expenditure requirements over at least the next twelve months. Our future cash requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of our spending to support our research and development efforts, investments in cloud infrastructure and operating costs, and expansion into other markets. At any given time, we may be evaluating one or more potential investments in, or acquisitions of, businesses or technologies, which could require us to seek additional equity or debt financing. Additional sources of liquidity and capital resources, including equity or debt financing, may not be available on terms favorable to us or at all.

As of February 28, 2021, \$23.9 million of cash was held by our foreign subsidiaries. We currently do not anticipate a need to repatriate these funds to finance our U.S. operations and it is our intention to indefinitely reinvest these funds outside the United States.

Summary of Cash Flows for the Six Months Ended February 28, 2021 and February 29, 2020

The following summarizes our cash flows from operating, investing and financing activities for the periods indicated:

(\$ in thousands)	Six Months Ended February 28 and 29,	
	2021	2020
Net cash used in operating activities	\$ (23,093)	\$ (9,948)
Net cash used in investing activities	(289,334)	(4,249)
Net cash (used in) provided by financing activities	(1,377)	8,186
Net decrease in cash and cash equivalents	(313,804)	(6,011)
Cash and cash equivalents, beginning of period	389,878	11,999
Cash and cash equivalents, end of period	\$ 76,074	\$ 5,988

Operating Activities

We used \$23.3 million of cash from operating activities during the six months ended February 28, 2021, compared to cash used in operating activities of \$10.0 million during the six months ended February 29, 2020. This \$13.1 million decrease in operating cash was primarily due to an increase in annual employee bonus payments of \$7.6 million and the \$6.9 million cash settlement of phantom equity awards that vested as a result of our IPO.

Non-cash charges in all periods include depreciation and amortization, share-based compensation expense, deferred taxes, and change in fair value of contingent earn-out liability.

Investing Activities

Net cash used in investing activities consists of purchases of property and equipment, capitalization of internal use software costs, and investments in short-term, government backed securities.

We used \$289.3 million of cash in investing activities during the six months ended February 28, 2021 compared to \$4.2 million in the six months ended February 29, 2020. During the second quarter of 2021, we invested \$287.9 million of the cash received in the IPO in short-term, government-backed securities. Such investing did not occur in the prior year period. In the six months ended February 28, 2021, we spent approximately \$0.7 million on purchases of property, plant and equipment, compared to \$2.7 million during the six months ended February 29, 2020. Additionally, our capitalized costs for internal use software were \$0.8 million less during the six months ended February 28, 2021 compared to the prior year period.

Financing Activities

We used \$1.4 million in financing activities during the six months ended February 28, 2021, compared to cash generated from financing activities of \$8.2 million during the six months ended February 29, 2020. Cash used in financing activities during the six months ended February 28, 2021 primarily related to \$3.7 million in payments of deferred IPO costs, a \$1.9 million payment of contingent earnout liability and a \$0.2 million payment for deferred Class E units offering costs. These payments were offset by net proceeds of \$3.5 million from the February 2021 follow-on offering and \$1.0 million received from stock option exercises.

Cash generated from financing activities during the six months ended February 29, 2020 consisted of \$215.7 million of net proceeds from the issuance of Class E Units and borrowings under our revolving credit facility of \$5.0 million partially offset by a \$118.8 million payment for the redemption of Class A Units and a \$79.2 million payment for the redemption of Class B Units,

payments of principal on our revolving credit facility of \$9.0 million, payments of contingent earnout liabilities of \$3.2 million and costs of \$2.1 million relating to proceeding with our initial public offering.

Other Financial Data and Key Metrics

Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States (“GAAP”); however, management believes evaluating the Company’s ongoing operating results may be enhanced if investors have additional non-GAAP financial measures. Specifically, management reviews Adjusted EBITDA, Free Cash Flow, Non-GAAP Gross Margin, Non-GAAP Income from Operations and Non-GAAP Net Income (Loss), each of which is a non-GAAP financial measure, to manage our business, make planning decisions, evaluate our performance and allocate resources and, for the reasons described below, considers them to be effective indicators, for both management and investors, of our financial performance over time.

We believe that Adjusted EBITDA, Free Cash Flow, Non-GAAP Gross Margin, Non-GAAP Income from Operations and Non-GAAP Net Income (Loss) help investors and analysts in comparing our results across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, the analysis of other GAAP financial measures, including net income and cash flows from operating activities. For example, with respect to Adjusted EBITDA, some of these limitations include:

- it does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness;
- it does not reflect our income tax expense or the cash requirements to pay our taxes; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

These non-GAAP financial measures are not universally consistent calculations, limiting their usefulness as comparative measures. Other companies may calculate similarly titled financial measures differently than we do or may not calculate them at all. Additionally, these non-GAAP financial measures are not measurements of financial performance or liquidity under GAAP. In order to facilitate a clear understanding of our consolidated historical operating results, you should examine our non-GAAP financial measures in conjunction with our historical combined financial statements and notes thereto included elsewhere in this 10-Q.

The non-GAAP financial measures and principal metrics we use in managing our business are set forth below:

Adjusted EBITDA. We define Adjusted EBITDA as net loss before interest expense, net; other income (expense), net; provision for income taxes; depreciation of property and equipment; amortization of intangible assets; share-based compensation expense; and the change in fair value of contingent consideration. We believe Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations. Adjusted EBITDA was \$3.0 million and \$3.5 million for the three months ended February 28, 2021 and February 29, 2020, respectively and \$6.6 million and \$4.9 million for the six months ended February 28, 2021 and February 29, 2020, respectively.

A reconciliation of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
GAAP Net Loss	\$ (6,364)	\$ (2,440)	\$ (11,015)	\$ (6,454)
Provision for income taxes	388	288	703	622
Other (income) expense	(510)	153	(463)	(220)
Interest expense, net	38	45	81	326
Depreciation of property and equipment	800	785	1,587	1,522
Amortization of intangible assets	3,994	3,994	7,988	7,988
Share-based compensation expense	4,516	488	7,608	924
Change in fair value of contingent earnout liability	95	167	98	211
Adjusted EBITDA	<u>\$ 2,957</u>	<u>\$ 3,480</u>	<u>\$ 6,587</u>	<u>\$ 4,919</u>
Adjusted EBITDA as a percent of total revenue	5%	7%	5%	5%

Free Cash Flow. We define Free Cash Flow as net cash provided by operating activities, less purchases of property and equipment and capitalized internal use software. We consider Free Cash Flow to be an important measure in facilitating period-to-period comparisons of liquidity. We use Free Cash Flow in conjunction with traditional GAAP measures as part of our overall assessment of liquidity. Free Cash Flow was (\$1.6) million and (\$3.6) million for the three months ended February 28, 2021 and February 29, 2020, respectively, and (\$24.5) million and (\$14.2) million for the six months ended February 28, 2021 and February 29, 2020, respectively. A reconciliation of Free Cash Flow to net cash provided by operating activities, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
Net cash used in operating activities	\$ (921)	\$ (1,807)	\$ (23,093)	\$ (9,948)
Purchases of property and equipment	(484)	(1,058)	(672)	(2,694)
Capitalized internal-use software	(214)	(693)	(750)	(1,555)
Free Cash Flow	<u>\$ (1,619)</u>	<u>\$ (3,558)</u>	<u>\$ (24,515)</u>	<u>\$ (14,197)</u>

Non-GAAP Gross Margin. We define Non-GAAP Gross Margin as GAAP gross margin before the portion of share-based compensation expense; amortization of intangible assets; and amortization of capitalized internal-use software that is included in cost of revenue. We believe Non-GAAP Gross Margin provides investors and other users of our financial information consistency and comparability with our past financial performance and facilitates period-to-period comparisons of gross margin. Non-GAAP Gross Margin was \$38.1 million and \$30.6 million for the three months ended February 28, 2021 and February 29, 2020, respectively, and \$74.3 million and \$57.8 million for the six months ended February 28, 2021 and February 29, 2020, respectively. A reconciliation of Non-GAAP Gross Margin to gross margin, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
GAAP Gross Margin	\$ 35,110	\$ 29,214	\$ 68,986	\$ 55,261
Share-based compensation expense	1,280	50	1,977	77
Amortization of intangible assets	1,186	1,186	2,372	2,372
Amortization of capitalized internal-use software	498	51	996	51
Non-GAAP Gross Margin	<u>\$ 38,074</u>	<u>\$ 30,501</u>	<u>\$ 74,331</u>	<u>\$ 57,761</u>

Non-GAAP Income from Operations. We define Non-GAAP Income from Operations as GAAP loss from operations before share-based compensation expense; amortization of intangible assets; and the change in fair value of contingent consideration. We believe Non-GAAP Income from Operations provides investors and other users of our financial information consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations. Non-GAAP Income from Operations was \$2.2 million and \$2.7 million for the three months ended February 28, 2021 and February 29, 2020, respectively, and \$5.0 million and \$3.4 million for the six months ended February 28, 2021 and February 29, 2020. A reconciliation of Non-GAAP Income from Operations to loss from operations, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
GAAP Loss from Operations	\$ (6,448)	\$ (1,953)	\$ (10,694)	\$ (5,725)
Share-based compensation expense	4,516	488	7,608	924
Amortization of intangible assets	3,994	3,994	7,988	7,988
Change in fair value of contingent earnout liability	95	167	98	211
Non-GAAP Income from Operations	\$ 2,157	\$ 2,696	\$ 5,000	\$ 3,398

Non-GAAP Net Income (Loss). We define Non-GAAP Net Income as GAAP net loss before share-based compensation expense; amortization of intangible assets; and change in fair value of contingent earnout liability. We believe Non-GAAP Net Income provides investors and other users of our financial information consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations. Non-GAAP Net Income was \$2.0 million and \$1.9 million for the three months ended February 28, 2021 and February 29, 2020, respectively, and \$4.1 million and \$2.5 million for the six months ended February 28, 2021 and February 29, 2020, respectively. A reconciliation of Non-GAAP Net Income to net loss, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,			Six Months Ended February 28 and 29,		
	2021	Per Share	2020	2021	Per Share	2020
GAAP Net Loss (1)	\$ (6,364)	\$ (0.05)	\$ (2,440)	\$ (11,015)	\$ (0.08)	\$ (6,454)
Add: GAAP tax provision	388		288	703		622
GAAP pre-tax loss	(5,976)		(2,152)	(10,312)		(5,832)
Share-based compensation expense	4,516		488	7,608		924
Amortization of intangible assets	3,994		3,994	7,988		7,988
Change in fair value of contingent earnout liability	95		167	98		211
Non-GAAP pre-tax income	2,629		2,497	5,382		3,291
Non-GAAP tax provision applied at a 24% tax rate (2)	631		599	1,292		790
Non-GAAP Net Income (1)	\$ 1,998	\$ 0.01	\$ 1,898	\$ 4,090	\$ 0.03	\$ 2,501

Shares used in computing Non-GAAP income per share amounts:

(1)						
GAAP weighted-average shares - basic and diluted	130,982,116			130,851,680		
Non-GAAP dilutive shares excluded from GAAP income (loss) per share calculation	3,814,530			3,814,530		
Non-GAAP weighted-average shares - diluted	134,796,646			134,666,210		

- Prior to the IPO, there were no shares of common stock outstanding, and the membership structure of Duck Creek Technologies consisted of limited partnership units. The Company analyzed the calculation of earnings per unit for periods prior to the IPO and determined that it resulted in values that would not be meaningful to the users of the Company's consolidated financial statements.
- Our GAAP tax provision is primarily related to state taxes and income taxes in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the U.S. For purposes of determining our Non-GAAP Net Income, we have applied a tax rate of 24% which represents our estimated effective tax rate once we are profitable on a GAAP basis.

SaaS Net Dollar Retention Rate. We calculate SaaS Net Dollar Retention Rate by annualizing SaaS revenue recorded in the last month of the measurement period for those revenue-generating customers in place throughout the entire measurement period (the

latest twelve-month period). We divide the result by annualized SaaS revenue from the month that is immediately prior to the beginning of the measurement period, for all revenue-generating customers in place at the beginning of the measurement period. Our SaaS Net Dollar Retention Rate was 120.7% and 114.8% as of February 28, 2021 and February 29, 2020, respectively. Our calculation excludes one existing contract for a service no longer offered on a standalone basis by the Company. We believe SaaS Net Dollar Retention Rate is an important metric for the Company because, in addition to providing a measure of retention, it indicates our ability to grow revenue within existing customer accounts. SaaS Net Dollar Retention Rate is included in a set of metrics that we calculate quarterly to review with management as well as periodically with members of our board of directors.

SaaS Annual Recurring Revenue (“SaaS ARR”). We calculate SaaS ARR by annualizing the recurring subscription revenue recognized in the last month of the measurement period (the latest twelve-month period). Our SaaS ARR was \$118.1 million and \$67.6 million as of February 28, 2021 and February 29, 2020, respectively. Our calculation excludes one existing contract for a service no longer offered on a standalone basis by the Company. We believe SaaS ARR provides important information about our ability to acquire new subscription SaaS customers and to maintain and expand our relationship with existing subscription SaaS customers. SaaS ARR is included in a set of metrics that we calculate quarterly to review with management as well as periodically with members of our board of directors.

Non-GAAP Gross Margins

We define Non-GAAP gross margins as GAAP gross margin before the portion of amortization of intangible assets, amortization of capitalized internal-use software (where applicable) and share-based compensation expense that is included in GAAP gross margins. We believe Non-GAAP gross margins provide investors and other users of our financial information consistency and comparability with our past financial performance and facilitates period-to-period comparisons of gross margin.

Non-GAAP Subscription Gross Margin. Non-GAAP Subscription Gross Margin was \$20.7 million and \$12.3 million for the three months ended February 28, 2021 and February 29, 2020, respectively, and \$40.0 million and \$23.5 million for the six months ended February 28, 2021 and February 29, 2020, respectively. A reconciliation of Non-GAAP Subscription Gross Margin to subscription gross margin, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
Subscription gross margin	\$ 19,197	\$ 11,403	\$ 37,022	\$ 21,663
Amortization of intangible assets	890	885	1,780	1,770
Amortization of capitalized internal-use software	498	51	996	51
Share-based compensation expense	132	10	212	10
Non-GAAP Subscription Gross Margin	\$ 20,717	\$ 12,349	\$ 40,010	\$ 23,494

Non-GAAP Professional Services Gross Margin. Non-GAAP Professional Services Gross Margin was \$8.9 million and \$11.2 million for the three months ended February 28, 2021 and February 29, 2020, respectively, and \$19.2 million and \$21.3 million for the six months ended February 28, 2021 and February 29, 2020, respectively. A reconciliation of Non-GAAP Professional Services Gross Margin to professional services gross margin, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
Professional services gross margin	\$ 7,745	\$ 11,186	\$ 17,486	\$ 21,206
Share-based compensation expense	1,140	41	1,750	67
Non-GAAP Professional Services Gross Margin	\$ 8,885	\$ 11,227	\$ 19,236	\$ 21,273

Non-GAAP Sales and Marketing Expense. Non-GAAP Sales and Marketing Expense was \$10.2 million and \$8.6 million for the three months ended February 28, 2021 and February 29, 2020, respectively, and \$19.3 million and \$16.5 million for the six months

ended February 28, 2021 and February 29, 2020, respectively. A reconciliation of Non-GAAP Sales and Marketing Expense to sales and marketing expense, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
Sales and marketing expense	\$ 14,165	\$ 11,245	\$ 26,762	\$ 21,816
Amortization of intangible assets	(2,570)	(2,570)	(5,140)	(5,140)
Share-based compensation expense	(1,395)	(87)	(2,294)	(164)
Non-GAAP Sales and Marketing Expense	<u>\$ 10,200</u>	<u>\$ 8,588</u>	<u>\$ 19,328</u>	<u>\$ 16,512</u>

Non-GAAP Research and Development Expense. Non-GAAP Research and Development Expense was \$12.0 million and \$9.9 million for the three months ended February 28, 2021 and February 29, 2020, respectively, and \$22.6 million and \$19.0 million for the six months ended February 28, 2021 and February 29, 2020, respectively. A reconciliation of Non-GAAP Research and Development Expense to research and development expense, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
Research and development expense	\$ 12,681	\$ 10,008	\$ 23,785	\$ 19,227
Share-based compensation expense	(709)	(98)	(1,220)	(188)
Non-GAAP Research and Development Expense	<u>\$ 11,972</u>	<u>\$ 9,910</u>	<u>\$ 22,565</u>	<u>\$ 19,039</u>

Non-GAAP General and Administrative Expense. Non-GAAP General and Administrative Expense was \$13.2 million and \$9.3 million for the three months ended February 28, 2021 and February 29, 2020, respectively, and \$26.4 million and \$18.8 million for the six months ended February 28, 2021 and February 29, 2020, respectively. A reconciliation of Non-GAAP General and Administrative Expense to general and administrative expense, the most directly comparable GAAP financial measure, is presented below for the periods indicated.

(\$ in thousands)	Three Months Ended February 28 and 29,		Six Months Ended February 28 and 29,	
	2021	2020	2021	2020
General and administrative expense	\$ 14,617	\$ 9,747	\$ 29,035	\$ 19,732
Amortization of intangible assets	(238)	(238)	(476)	(476)
Share-based compensation expense	(1,133)	(251)	(2,117)	(494)
Non-GAAP General and Administrative Expense	<u>\$ 13,246</u>	<u>\$ 9,258</u>	<u>\$ 26,442</u>	<u>\$ 18,762</u>

Indebtedness

On October 4, 2016, we entered into a credit agreement with a group of lenders for a revolving credit facility with a maximum borrowing capacity of \$30.0 million that was originally scheduled to mature on October 4, 2019. On October 2, 2019, we amended certain of the financial covenants and extended our credit agreement for two years to a maturity date of October 2, 2021. Our revolving credit facility is guaranteed by the Company and certain of its domestic subsidiaries and secured by substantially all of our tangible and intangible assets. Interest accrues on our revolving credit facility at a variable rate based upon the type of borrowing made by us. Loans under our revolving credit facility bear interest at a rate of LIBOR plus an applicable margin, or incur interest at the higher of: (i) the Prime Rate, (2) the Fed Funds Rate plus 0.5%, or (3) LIBOR plus 1.0%, plus an applicable margin. The applicable margin ranges from 2.0% to 3.0% depending on the interest rate basis and type of borrowing elected (eurocurrency rate loan, base rate loan, swing rate loan or letter of credit). For the six months ended February 28, 2021, the effective interest rate under our revolving credit agreement was 6.9%. In addition to interest on our revolving credit facility, we pay a commitment fee of 0.5% per annum on the unused portion of our revolving credit facility, as well as customary letter of credit fees. Repayment of any amounts borrowed are not required until maturity of our revolving credit facility, however we may repay any amounts borrowed at any time, without premium or penalty.

The credit agreement contains a number of customary restrictive covenants, including limits on additional indebtedness, the creation of liens and limits on making certain investments. Limits on our revolving credit facility also require compliance with the following ratios: maintaining a minimum level of consolidated EBITDA (ranging from \$5.0 million to \$12.0 million depending on the

applicable four quarter period), and maintaining a leverage ratio that does not exceed 3.25:1.00. We were in compliance with these financial and nonfinancial covenants as of February 28, 2021.

We incurred \$0.3 million of costs directly related to obtaining our revolving credit facility which have been recorded as deferred financing fees and are amortized to interest expense on a straight-line basis over the term of our revolving credit facility. During fiscal 2017, we executed an irrevocable standby letter of credit totaling \$0.8 million against our revolving credit facility in lieu of a cash security deposit for one of our office leases. Two additional irrevocable standby letters of credit were executed during fiscal 2019 for \$0.2 million and \$0.1 million, respectively, against our revolving credit facility in lieu of cash deposits for two of our office leases. In fiscal 2020, the \$0.2 million letter of credit was reduced by \$0.1 million. Apart from the letters of credit, we did not have any borrowings outstanding on our revolving credit facility as of February 28, 2021, and had \$4.0 million outstanding as of February 29, 2020.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements, as defined in Regulation S-K, Item 303(a)(4)(ii) promulgated by the SEC under the Securities Act, in the six months ended February 28, 2021 and February 29, 2020, respectively.

Critical Accounting Policies and Estimates

The process of preparing our financial statements in conformity with U.S. GAAP requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and judgments are based on historical experience, future expectations and other factors and assumptions we believe to be reasonable under the circumstances. The most significant estimates and judgments are reviewed on an ongoing basis and are revised when necessary. Actual amounts may differ from these estimates and judgments. A summary of our significant accounting policies is contained in Note 2 of our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. There have been no material changes in our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended August 31, 2020 filed with the SEC on November 3, 2020.

Recent Accounting Pronouncements

A summary of recent accounting pronouncements and our assessment of any expected impact of these pronouncements if known is included in Note 2 of our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

JOBS Act

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements under the JOBS Act. Subject to certain conditions, as an emerging growth company, we intend to rely on certain of these exemptions, including without limitation, not having to (1) provide an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act or (2) comply with any requirement that may be adopted by PCAOB regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year in which we have more than \$1.07 billion in annual revenue; (2) the date we qualify as a “large accelerated filer,” which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of the most recently completed second fiscal quarter; (3) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities; and (4) the last day of the fiscal year ending after the fifth anniversary of the IPO.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks in the ordinary course of our business, including interest rate and foreign currency exchange risks.

Interest Rate Risk

As of February 28, 2021, our cash and cash equivalents balance included one U.S. Treasury bill and no restricted cash, and we had no outstanding indebtedness under our revolving credit facility.

To date, we have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Foreign Currency Exchange Risk

Our reporting currency is the U.S. dollar, and the functional currency of each of our subsidiaries is the U.S. dollar. Gains or losses due to transactions in foreign currencies are included in "Other Income (Expense)" in our consolidated statements of operations. We have not engaged in the hedging of foreign currency transactions to date, although we may choose to do so in the future. We do not believe that a 10% increase or decrease in the relative value of the U.S. dollar to other currencies would have a material effect on operating results.

Our market risks, and the way we manage them, are summarized in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the fiscal year ended August 31, 2020 (filed November 3, 2020). There have been no material changes to our market risks or to our management of such risks as of February 28, 2021.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our CEO and CFO, 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 ("Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of February 28, 2021, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of conducting our business, we have in the past and may in the future become involved in various legal actions and other claims. We may also become involved in other judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our businesses. Some of these matters may involve claims of substantial amounts. These legal proceedings may be subject to many uncertainties and there can be no assurance of the outcome of any individual proceedings. Although the outcomes of legal proceedings are inherently difficult to predict, we are not currently involved in any material legal proceedings that, if determined adversely to us, would have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

Our business involves significant risks. You should carefully consider the risks described in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended August 31, 2020, as updated in the Quarterly Report on Form 10-Q for the quarter ended February 28, 2021, and in our other public filings. If any of these risks or uncertainties actually occur, our business, financial condition, prospects, results of operations and cash flow could be materially and adversely affected. In that case, the market price of our common stock could decline. These risks are not the only risks we face. Additional risks or uncertainties not currently known to us, or that we currently deem immaterial, may also have a material adverse effect on our business, financial condition, prospects, results of operations or cash flows, as well as the market price of our securities. We cannot assure you that any of the events discussed in the risk factors will not occur.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit Number	Description
31.1*	<u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

† Compensatory plan or arrangement.

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 thereunto duly authorized.

Company Name

Date: April 12, 2021

By: _____
/s/ Michael A. Jackowski
Michael A. Jackowski
Chief Executive Officer

Date: April 12, 2021

By: _____
/s/ Vincent A. Chippari
Vincent A. Chippari
Chief Financial Officer

**Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael Jackowski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Duck Creek Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: April 12, 2021

/s/ Michael A. Jackowski

Michael A. Jackowski
Chief Executive Officer
(principal executive officer)

**Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Vincent Chippari, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Duck Creek Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: April 12, 2021

/s/ Vincent A. Chippari
Vincent A. Chippari
Chief Financial Officer
(principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Duck Creek Technologies, Inc. (the "Company") for the period ended February 28, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 12, 2021

/s/ Michael A. Jackowski

Michael A. Jackowski
Chief Executive Officer
(principal executive officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Duck Creek Technologies, Inc. (the "Company") for the period ended February 28, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 12, 2021

/s/ Vincent A. Chippari
Vincent A. Chippari
Chief Financial Officer
(principal financial officer)