ELLIE MAE INC
Form 10-Q
May 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
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: 001-35140

ELLIE MAE, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-3288780
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4420 Rosewood Drive, Suite 500 Pleasanton, California	94588
(Address of principal executive offices)	(Zip Code)

(925) 227-7000
(Registrant’s telephone number, including area code)

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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of the latest practicable date:

As of May 3, 2016:

Class	Number of Shares
Common Stock, $0.0001 par value	29,989,281

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PART I—FINANCIAL INFORMATION
ITEM 1—CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Ellie Mae, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and per share amounts)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 28,540	$ 34,396
Short-term investments	43,122	48,975
Accounts receivable, net of allowances for doubtful accounts of $141 and $124 as of March 31, 2016 and December 31, 2015, respectively	39,474	28,568
Prepaid expenses and other current assets	11,472	9,874
Total current assets	122,608	121,813
Property and equipment, net	96,673	81,360
Long-term investments	42,292	55,473
Intangible assets, net	21,353	22,810
Deposits and other assets	9,281	8,888
Goodwill	74,547	74,547
Total assets	$ 366,754	$ 364,891
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 8,910	$ 9,911
Accrued and other current liabilities	22,107	37,307
Deferred revenue	17,009	15,864
Total current liabilities	48,026	63,082
Leases payable, net of current portion	571	685
Other long-term liabilities	11,206	10,273
Total liabilities	59,803	74,040
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, $0.0001 par value per share; 140,000,000 authorized shares, 29,971,612 and 29,566,511 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	3	3
Additional paid-in capital	298,607	285,342
Accumulated other comprehensive income (loss)	71	(257)
Retained earnings	8,270	5,763
Total stockholders' equity	306,951	290,851
Total liabilities and stockholders' equity	$ 366,754	$ 364,891

See accompanying notes to these condensed consolidated financial statements (unaudited).

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Ellie Mae, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands, except share and per share amounts)

	Three Months ended March 31,	
	2016	2015
Revenues	$73,625	$ 54,189
Cost of revenues	26,631	17,350
Gross profit	46,994	36,839
Operating expenses:		
Sales and marketing	15,287	9,760
Research and development	12,453	8,297
General and administrative	15,731	12,302
Total operating expenses	43,471	30,359
Income from operations	3,523	6,480
Other income, net	199	132
Income before income taxes	3,722	6,612
Income tax provision	1,216	3,028
Net income	$2,506	$ 3,584
Net income per share of common stock:		
Basic	$0.09	$ 0.12
Diluted	$0.08	$ 0.12
Weighted average common shares used in computing net income per share of common stock:		
Basic	29,471,214	28,768,144
Diluted	31,080,314	30,442,163
Net income	$2,506	$ 3,584
Other comprehensive income, net of taxes:		
Unrealized gain on investments	328	171
Comprehensive income	$2,834	$ 3,755

See accompanying notes to these condensed consolidated financial statements (unaudited).

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Ellie Mae, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Three Months ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$2,506	$3,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,954	1,767
Provision for uncollectible accounts receivable	33	38
Amortization of intangible assets	1,457	1,332
Stock-based compensation expense	6,690	5,007
Excess tax benefit from stock-based compensation	—	(2,906)
Deferred income taxes	1,172	—
Loss on disposal of property and equipment	5	—
Amortization of investment premium	239	275
Changes in operating assets and liabilities:		
Accounts receivable	(10,939)	(5,188)
Prepaid expenses and other current assets	(1,598)	3,007
Deposits and other assets	(1,565)	—
Accounts payable	625	379
Accrued, other current and other liabilities	(13,817)	846
Deferred revenue	1,178	2,805
Net cash provided by (used in) operating activities	(10,060)	10,946
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(13,298)	(10,253)
Acquisition of internal-use software	(7,112)	(5,762)
Purchases of investments	(18,971)	(15,816)
Maturities of investments	18,094	15,665
Sale of investments	20,000	—
Net cash used in investing activities	(1,287)	(16,166)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capital lease obligations	(868)	(1,320)
Proceeds from issuance of common stock under employee stock plans	6,719	5,071
Payments for repurchase of common stock	—	(2,520)
Tax payments related to shares withheld for vested restricted stock units	(360)	(320)
Excess tax benefit from stock-based compensation	—	2,906
Net cash provided by financing activities	5,491	3,817
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,856)	(1,403)
CASH AND CASH EQUIVALENTS, Beginning of period	34,396	26,756
CASH AND CASH EQUIVALENTS, End of period	$28,540	$25,353

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Ellie Mae, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (continued)
(UNAUDITED)
(in thousands)

	Three Months ended March 31,	
	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for interest	$79	$33
Cash paid for income taxes	$97	$50
Supplemental disclosure of non-cash investing and financing activities:		
Fixed asset purchases accrued but not paid	$2,036	$2,628
Stock-based compensation capitalized to property and equipment	$488	$207
Acquisition of property and equipment under capital leases	$—	$5,996

See accompanying notes to these condensed consolidated financial statements (unaudited).

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Ellie Mae, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1—Description of Business

Ellie Mae, Inc. ("Ellie Mae," "the Company," "we," "our" or "us") is a leading provider of innovative on-demand software solutions and services for the residential mortgage industry in the United States. The Company's Encompass all-in-one mortgage management solution provides one system of record that allows banks, credit unions, and mortgage lenders to originate and fund mortgages and improve compliance, loan quality, and efficiency.

NOTE 2—Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on February 25, 2016 ("2015 Form 10-K"). The condensed consolidated balance sheet as of December 31, 2015, included herein, was derived from the audited financial statements as of that date but does not include all disclosures, including notes required by U.S. GAAP.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial positions, results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year 2016 or any future period.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates estimates on a regular basis including those relating to revenue recognition, allowance for doubtful accounts, goodwill, intangible assets, valuation of deferred income taxes, stock-based compensation, and unrecognized tax benefits, among others. Actual results could differ from those estimates and such differences may have a material impact on the Company's condensed consolidated financial statements and footnotes.

Significant Accounting Policies

The Company's significant accounting policies are described in Note 2 of the Notes to Consolidated Financial Statements in its 2015 Form 10-K. There have been no significant changes to these policies during the three months ended March 31, 2016.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income, specifically unrealized gains on available-for-sale investments. Except for net realized gain on investments which was not significant, there were no reclassifications out of accumulated other comprehensive income that affected net income during the three months ended March 31, 2016 and 2015.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This standard also requires significantly expanded disclosures about revenue recognition. In August 2015, the FASB deferred the effective date of this standard by one year. The new effective date for public entities will be for fiscal years, and interim periods within those years, beginning after December 15, 2017, but entities will be permitted to

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early adopt the standard as of the original effective date. The Company has not yet developed an expectation of the impact that adoption will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"), which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software. The company adopted ASU 2015-05 on January 1, 2016, which did not impact the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and early adoption is not permitted. The Company has not yet developed an expectation of the impact that adoption may have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. The Company has not yet developed an expectation of the impact that adoption may have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718) ("ASU 2016-09"). This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The Company has not yet developed an expectation of the impact that adoption may have on its consolidated financial statements.

NOTE 3—Net Income Per Share of Common Stock

Net income per share of common stock is calculated by dividing net income by the weighted average shares of common stock outstanding during the period. Diluted net income per share of common stock is calculated by dividing net income by the weighted average shares of common stock outstanding and potential shares of common stock during the period. Potential shares of common stock include dilutive shares attributable to the assumed exercise of stock options, restricted stock unit awards ("RSUs"), performance-vesting RSUs, performance share awards ("Performance Awards"), and Employee Stock Purchase Plan ("ESPP") shares using the treasury stock method, if dilutive.

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The components of net income per share of common stock were as follows:

	Three Months ended March 31,	
	2016	2015
	(in thousands, except share and per share amounts)	
Net income	$2,506	$ 3,584
Basic shares:		
Weighted average common shares outstanding	29,471,218	28,768,144
Diluted shares:		
Weighted average shares used to compute basic net income per share	29,471,218	28,768,144
Effect of potentially dilutive securities:		
Employee stock options, RSUs, performance-vesting RSUs, Performance Awards and ESPP shares	1,609,100	1,674,019
Weighted average shares used to compute diluted net income per share	31,080,318	30,442,163
Net income per share:		
Basic	$0.09	$ 0.12
Diluted	$0.08	$ 0.12

The following potential weighted average common shares were excluded from the computation of diluted net income per share, as their effect would have been anti-dilutive:

	Three Months ended March 31,	
	2016	2015
Employee stock options and awards	224,366	346,256

Performance-vesting RSUs and Performance Awards are included in the diluted shares outstanding for each period if the established performance criteria have been met at the end of the respective periods. However, if none of the required performance criteria have been met for such awards, the Company includes the number of shares that would be issuable if the end of the reporting period were the end of the contingency period. Accordingly, in addition to the employee stock options and awards noted above, 13,776 and 157,491 shares underlying performance-vesting RSUs and Performance Awards were excluded from the dilutive shares outstanding for each of the three months ended March 31, 2016 and 2015, respectively.

NOTE 4—Financial Instruments and Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are classified and disclosed in one of the following three categories:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2 — Valuations based on other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Valuations based on inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the assets or liabilities.

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The following tables set forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis, according to the valuation techniques the Company used to determine their values:

	Fair Value at March 31, 2016	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	$4,639	$4,639	$—	$ —
Certificates of deposit	9,481	—	9,481	—
Corporate notes and obligations	30,670	—	30,670	—
Municipal obligations	3,655	—	3,655	—
U.S. government and government agency obligations	41,608	12,359	29,249	—
	$90,053	$16,998	$73,055	$ —

	Fair Value at December 31, 2015	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	$6,788	$6,788	$—	$ —
Certificates of deposit	12,928	—	12,928	—
Corporate notes and obligations	28,205	—	28,205	—
Municipal obligations	2,648	—	2,648	—
U.S. government and government agency obligations	60,667	19,429	41,238	—
	$111,236	$26,217	$85,019	$ —

Financial instruments include cash, cash equivalents, and investments including investment-grade interest-bearing securities, such as money market accounts, certificates of deposit, commercial paper, corporate bonds, municipal and government agency obligations, and guaranteed obligations of the U.S. government. The Company classifies its money market funds that are specifically backed by debt securities and U.S. government obligations as Level 1 instruments, due to the use of observable market prices for identical securities that are traded in active markets. When the Company uses observable market prices for identical securities that are traded in less active markets, the Company classifies its marketable financial instruments as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable financial instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. The Company corroborates non-binding market consensus prices with observable market data as such data exists.

At March 31, 2016 and December 31, 2015, the Company did not have any assets or liabilities that were valued using Level 3 inputs. For the three months ended March 31, 2016 and 2015, there were no transfers of financial instruments among Level 1, Level 2 or Level 3 classifications.

For the three months ended March 31, 2016 and 2015, the Company recognized interest income from financial instruments of $0.2 million and $0.2 million, respectively. Gross realized gains and gross realized losses from the sale of investments were not significant during the three months ended March 31, 2016 and 2015.

At March 31, 2016, $47.8 million of the Company's investments had a contractual maturity of one year or less and $42.3 million had a contractual maturity of one to three years.

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The carrying amounts, gross unrealized gains and losses and estimated fair value of cash and cash equivalents and both short-term and long-term investments consisted of the following:

	March 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying or Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$23,901	$ —	$ —	$ 23,901
Money market funds	4,639	—	—	4,639
	$28,540	$ —	$ —	$ 28,540
Investments:				
Corporate notes and obligations	$30,649	$ 42	$ (21)	$ 30,670
Certificates of deposit	9,467	16	(2)	9,481
Municipal obligations	3,648	7	—	3,655
U.S. government and government agency obligations	41,579	39	(10)	41,608
	$85,343	$ 104	$ (33)	$ 85,414

	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying or Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$27,608	$ —	$ —	$ 27,608
Money market funds	6,788	—	—	6,788
	$34,396	$ —	$ —	$ 34,396
Investments:				
Corporate notes and obligations	$28,314	$ 1	$ (110)	$ 28,205
Certificates of deposit	12,945	5	(22)	12,928
Municipal obligations	2,647	1	—	2,648
U.S. government and government agency obligations	60,799	10	(142)	60,667
	$104,705	$ 17	$ (274)	$ 104,448

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The following table shows the gross unrealized losses and the related fair values of the Company's investments that have been in a continuous unrealized loss position. The Company did not identify any investments as other-than-temporarily impaired at March 31, 2016 or December 31, 2015.

	March 31, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Corporate notes and obligations	$10,728	$ (21)	$421	$ —	$11,149	$ (21)
Certificates of deposit	1,576	(1)	200	(1)	1,776	(2)
U.S. government, government agency, and municipal obligations	11,722	(8)	1,113	(2)	12,835	(10)
	$24,026	$ (30)	$1,734	$ (3)	$25,760	$ (33)