ELLIE MAE INC
Form 10-Q
May 10, 2012
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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, 2012

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.)**
4155 Hopyard Road, Suite 200	
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 ¨	Accelerated filer ¨
Non-accelerated filer x (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 April 30, 2012:

Class	**Number of Shares**
Common Stock, $0.0001 par value	21,598,673

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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, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 27,507	$ 23,732
Short-term investments	2,095	1,933
Accounts receivable, net of allowances for doubtful accounts of $60 and $47, as of March 31, 2012 and December 31, 2011, respectively	7,276	6,819
Prepaid expenses and other	1,325	1,381
Note receivable	1,000	1,000
Total current assets	39,203	34,865
Property and equipment, net	5,767	5,539
Deposits and other assets	135	135
Note receivable	14	15
Other intangibles, net	7,757	8,166
Goodwill	51,051	51,051
Total assets	$ 103,927	$ 99,771
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 1,886	$ 2,255
Accrued and other current liabilities	3,713	4,931
Acquisition holdback, net of discount	2,969	2,948
Deferred revenue	4,596	4,548
Deferred rent	221	212
Leases payable	7	6
Total current liabilities	13,392	14,900
Deferred revenue, net of current portion	90	62
Deferred rent, net of current portion	565	624
Acquisition holdback, net of current portion and discount	4,758	4,725
Other long-term liabilities	601	598
Leases payable, net of current portion	2	4
Total liabilities	19,408	20,913
Commitments and contingencies (Note 6)		
Stockholders equity:		
	2	2

Common stock, $0.0001 par value per share; 140,000,000 authorized shares, 21,593,018 and 21,019,590 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		
Additional paid-in capital	118,031	116,012
Accumulated deficit	(33,514)	(37,156)
Total stockholders equity	84,519	78,858
Total liabilities and stockholders equity	$ 103,927	$ 99,771

See accompanying notes to these condensed consolidated financial statements.

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Ellie Mae, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands, except share and per share amounts)

	Three months ended March 31, 2012	2011
Revenues	$ 20,906	$ 10,603
Cost of revenues	5,257	3,363
Gross profit	15,649	7,240
Operating expenses:		
Sales and marketing	4,000	2,451
Research and development	4,133	2,804
General and administrative	3,676	2,805
Total operating expenses	11,809	8,060
Income (loss) from operations	3,840	(820)
Other income (expense), net	(20)	32
Income (loss) before income taxes	3,820	(788)
Income tax provision	178	11
Net income (loss)	$ 3,642	$ (799)
Net income (loss) per share of common stock:		
Basic	$ 0.17	$ (0.22)
Diluted	$ 0.16	$ (0.22)
Weighted average common shares used in computing net income (loss) per share of common stock:		
Basic	21,404,789	3,641,880
Diluted	22,513,854	3,641,880
Comprehensive income (loss)	$ 3,642	$ (799)

See accompanying notes to these condensed consolidated financial statements.

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Ellie Mae, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three months ended March 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 3,642	$ (799)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	611	377
Provision for uncollectible accounts receivable	36	84
Amortization of intangible assets	409	125
Amortization of discount related to holdback	54	
Stock-based compensation	517	363
Excess tax benefit from exercise of stock options	(55)	
Changes in operating assets and liabilities:		
Accounts receivable	(493)	318
Prepaid expenses and other	56	(49)
Deferred offering costs		(145)
Deposits and other assets		525
Accounts payable	(380)	151
Accrued and other liabilities	(1,160)	(796)
Deferred revenue	76	(61)
Deferred rent	(50)	(47)
Net cash provided by operating activities	3,263	46
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(828)	(784)
Purchase of short-term investments	(1,112)	(2,072)
Acquisitions, net of cash acquired		(1,000)
Maturities of short-term investments	950	1,080
Other investing activities, net	1	(19)
Net cash used in investing activities	(989)	(2,795)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capital lease obligations	(1)	(63)
Proceeds from issuance of common stock under employee stock plans	1,447	210
Excess tax benefit from exercise of stock options	55	
Net cash provided by financing activities	1,501	147
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,775	(2,602)
CASH AND CASH EQUIVALENTS, Beginning of period	23,732	14,349
CASH AND CASH EQUIVALENTS, End of period	$ 27,507	$ 11,747

See accompanying notes to these condensed consolidated financial statements.

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Ellie Mae, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Description of Business

Ellie Mae, Inc. (the Company or Ellie Mae) was originally incorporated in California in August 1997 and reincorporated in Delaware in November 2009. The Company provides business automation software for a large segment of the mortgage industry in the United States. Its on-demand, technology-enabled software solutions help streamline and automate the process of originating and funding new mortgage loans, thereby increasing efficiency, facilitating regulatory compliance and reducing documentation errors.

NOTE 2 Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with general accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with 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, which was filed with the Securities and Exchange Commission on March 28, 2012 (2011 Form 10-K).

The condensed consolidated balance sheet as of December 31, 2011, included herein, was derived from the audited financial statements as of that date but does not include all disclosures, including notes required by 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 2012 or any future period.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Ellie Mae, Inc. 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 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Accounting Policies

The Company s significant accounting policies are described in Note 2 of the Notes to Consolidated Financial Statements in its 2011 Form 10-K. There have been no significant changes to these policies. With the exception of goodwill, revenue recognition and comprehensive income (loss) discussed below, there have been no recently adopted accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2012 that are of significance or potential significance to the Company.

Goodwill

Goodwill is evaluated for impairment annually in the fourth quarter of the Company s fiscal year and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate possible impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of goodwill or significant decrease in expected cash flows.

Pursuant to recent authoritative accounting guidance, the Company elects to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If the Company determines that it is

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more likely than not that a reporting unit s fair value is less than its carrying amount, then the two-step assessment is performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying value exceeds its fair value, the second step would need to be conducted; otherwise, no further steps are necessary as no potential impairment exists. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of that goodwill. Any excess of the goodwill carrying value over the respective implied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. Through March 31, 2012, no impairment of goodwill has been identified.

Revenue Recognition

The Company generates revenue primarily from on-demand and on-premise fees for software and related services. The Company re-categorized its revenues beginning with the first quarter of 2012 to on-demand revenues and on-premise revenues to better align with the Company s strategic plan (see Note 10). On-demand revenues are revenues generated from software subscriptions the Company hosts that customers access through the Internet, software services that are sold transactionally and Ellie Mae Network transaction fees. On-premise revenues are revenues generated from customer-hosted software licenses and related implementation, training and maintenance services. Sales taxes assessed by a governmental authority are excluded from revenue.

On-Demand Revenues

Subscription Services and Usage-Based Fee Arrangements. Subscription services and usage-based fee arrangements generally include a combination of the Company s products delivered as software-as-a-service, or SaaS, product updates and support services. These revenues generally include the following:

SaaS Encompass Revenues. The Company offers web-based access to its Encompass software for a monthly recurring fee. The Company provides the right to access its loan origination software and handles the responsibility of managing the servers, providing robust security, backing up the data and applying updates; however, customers under these arrangements may not take possession of the software at any time during the term of the agreement. Associated set-up fees are recognized ratably over the life of the relationship with its customers, which is generally the life of the contract. Contracts generally range from one to three years. Alternatively, customers can elect to pay on a per closed loan, or success, basis subject to monthly base fees. The success basis contracts generally have a term of two to three years. Monthly base fees are recognized as the service is performed and additional amounts arising from closed loans are recognized when the loans close. This offering also includes CenterWise for Encompass as an integrated component, which is a combined element of the arrangement that is delivered in conjunction with the SaaS Encompass offering and therefore is not accounted for separately.

CenterWise for Encompass Licensees. The Company provides a bundled offering of electronic document management and websites used for customer relationship management. Generally, the Company recognizes revenue for CenterWise as the service is performed, except when CenterWise is automatically included as an integrated component of the SaaS Encompass offering, in which case the associated revenue is recognized as described above.

Services Revenues. The Company has entered into agreements with customers that provide mortgage related and other business services, including automated documentation preparation and compliance reports. Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

Transaction Revenues. The Company has entered into agreements with various lenders, service providers and certain government agencies participating in the mortgage origination process that provides them access to, and interoperability with, mortgage originators on the Ellie Mae Network. Under these agreements, the Company has the opportunity to earn transaction fees when transactions are processed through the Company s Ellie Mae Network. Transaction revenues are recognized when there is evidence that the qualifying transactions have occurred on the Ellie Mae Network and collection of the resulting receivable is reasonably assured. Associated set-up fees are recognized ratably, beginning upon completion of the integration and continuing over the remaining estimated life of the relationship with its customer, which generally is the remaining life of the contract.

On-Premise Revenues

Revenue from the sale of software licenses is recognized in the month in which the required revenue recognition criteria are met, generally in the month in which the software is delivered. Revenue is recognized when persuasive evidence of an arrangement exists, which is evidenced by a signed agreement, the product has been downloaded or delivered freight on board shipping point, the fee is fixed or determinable and collection of the resulting receivable is reasonably assured.

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Revenue Recognition Methodologies

For arrangements with multiple elements (e.g., undelivered maintenance and support contra