

ELLIE MAE INC  
Form 10-Q  
May 07, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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 (I.R.S. Employer  
incorporation or organization) Identification No.)

4420 Rosewood Drive, Suite 500 94588  
Pleasanton, California (Zip Code)  
(Address of principal executive offices)  
(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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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  (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

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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 5, 2015:

Class	Number of Shares
Common Stock, \$0.0001 par value	29,405,140

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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, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$25,353	\$26,756
Short-term investments	48,724	49,352
Accounts receivable, net of allowances for doubtful accounts of \$102 and \$66 as of March 31, 2015 and December 31, 2014, respectively	25,553	20,403
Prepaid expenses and other current assets	13,014	16,021
Total current assets	112,644	112,532
Property and equipment, net	50,851	28,694
Long-term investments	59,354	58,679
Intangible assets, net	20,120	21,452
Goodwill	65,338	65,338
Deposits and other assets	3,425	3,425
Total assets	\$311,732	\$290,120
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$8,811	\$6,726
Accrued and other current liabilities	16,953	16,822
Acquisition holdback, net of discount	522	522
Deferred revenue	12,486	9,729
Total current liabilities	38,772	33,799
Leases payable, net of current portion	2,241	443
Other long-term liabilities	3,729	2,994
Total liabilities	44,742	37,236
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.0001 par value per share; 140,000,000 authorized shares, 29,274,686 and 28,907,147 shares issued and outstanding as of March 31, 2015 and December 31, 2014, respectively		3
Additional paid-in capital	254,984	242,527
Accumulated other comprehensive income (loss)	76	(95
Retained earnings	11,927	10,449
Total stockholders' equity	266,990	252,884
Total liabilities and stockholders' equity	\$311,732	\$290,120

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,	
	2015	2014
Revenues	\$54,189	\$32,178
Cost of revenues	17,350	9,318
Gross profit	36,839	22,860
Operating expenses:		
Sales and marketing	9,760	6,095
Research and development	8,297	6,815
General and administrative	12,302	8,993
Total operating expenses	30,359	21,903
Income from operations	6,480	957
Other income, net	132	100
Income before income taxes	6,612	1,057
Income tax provision	3,028	275
Net income	\$3,584	\$782
Net income per share of common stock:		
Basic	\$0.12	\$0.03
Diluted	\$0.12	\$0.03
Weighted average common shares used in computing net income per share of common stock:		
Basic	28,768,144	27,339,394
Diluted	30,442,163	29,070,130
Net income	\$3,584	\$782
Other comprehensive income, net of taxes:		
Unrealized gain (loss) on investments	171	(3 )
Comprehensive income	\$3,755	\$779

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,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$3,584	\$782
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,767	1,275
Provision for uncollectible accounts receivable	38	64
Amortization of intangible assets	1,332	505
Amortization of discount related to acquisition holdback	—	14
Stock-based compensation expense	5,007	3,310
Excess tax benefit from stock-based compensation	(2,906)	(373)
Amortization of investment premium	275	352
Changes in operating assets and liabilities:		
Accounts receivable	(5,188)	(1,747)
Prepaid expenses and other current assets	3,007	(648)
Deposits and other assets	—	76
Accounts payable	379	(562)
Accrued, other current and other liabilities	846	(902)
Deferred revenue	2,805	(23)
Net cash provided by operating activities	10,946	2,123
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(16,015)	(2,548)
Purchases of investments	(15,816)	(21,346)
Maturities of investments	15,665	16,750
Acquisitions, net of cash acquired	—	(4,500)
Net cash used in investing activities	(16,166)	(11,644)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of capital lease obligations	(1,320)	(464)
Proceeds from issuance of common stock under employee stock plans	5,071	2,613
Payments for repurchase of common stock	(2,520)	—
Tax payments related to shares withheld for vested restricted stock units	(320)	(40)
Excess tax benefit from stock-based compensation	2,906	373
Net cash provided by financing activities	3,817	2,482
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,403)</b>	<b>(7,039)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of period</b>	<b>26,756</b>	<b>33,462</b>
<b>CASH AND CASH EQUIVALENTS, End of period</b>	<b>\$25,353</b>	<b>\$26,423</b>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$33	\$24
Cash paid for income taxes	\$50	\$18
Supplemental disclosure of non-cash investing and financing activities:		
Fixed asset purchases not yet paid	\$2,628	\$1,069
Stock-based compensation capitalized to property and equipment	\$207	\$54
Acquisition of property and equipment under capital leases	\$5,996	\$1,195

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 end-to-end Encompass 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 normally 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, 2014, which was filed with the SEC on March 2, 2015 (“2014 Form 10-K”).

The condensed consolidated balance sheet as of December 31, 2014, 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 2015 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, the allowance for doubtful accounts, goodwill, intangible assets, the 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 2014 Form 10-K. There have been no significant changes to these policies.



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## Other Income, Net

Other income, net consisted of the following:

	Three Months ended March 31,	
	2015	2014
	(in thousands)	
Interest income	\$159	\$122
Net realized gain on investments	—	1
Interest expense	(27	) (23
Total other income, net	\$132	\$100

## Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in equity that are excluded from net income, specifically unrealized gains (losses) 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 (loss) that affected net income during the three months ended March 31, 2015 and 2014.

## 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. ASU 2014-09 also requires significantly expanded disclosures about revenue recognition. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. On April 29, 2015, the FASB issued a proposed ASU to defer the effective date of ASU 2014-09. Under the proposal, ASU 2014-09 will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, but entities will be permitted to 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 (“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. ASU 2015-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company has not yet developed an expectation of the impact that adoption will 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,	
	2015	2014
	(in thousands, except share and per share amounts)	
Net income	\$3,584	\$782
Basic shares:		
Weighted average common shares outstanding	28,768,144	27,339,394
Diluted shares:		
Weighted average shares used to compute basic net income per share	28,768,144	27,339,394
Effect of potentially dilutive securities:		
Employee stock options, RSUs, performance-vesting RSUs, Performance Awards and ESPP shares	1,674,019	1,730,736
Weighted average shares used to compute diluted net income per share	30,442,163	29,070,130
Net income per share:		
Basic	\$0.12	\$0.03
Diluted	\$0.12	\$0.03

The following potential 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,	
	2015	2014
Employee stock options and awards	346,256	910,812

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, 157,491 and 90,625 shares underlying performance-vesting RSUs and Performance Awards were excluded from the dilutive shares outstanding for each of the three months ended March 31, 2015 and 2014, 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, 2015 (in thousands)	Fair value measurements using inputs considered as		
		Level 1	Level 2	Level 3
Money market funds	\$3,119	\$3,119	\$—	\$—
Certificates of deposit	13,962	—	13,962	—
Corporate notes and obligations	28,040	—	28,040	—
Municipal obligations	3,045	—	3,045	—
U.S. government and government agency obligations	63,031	16,619	46,412	—
	\$111,197	\$19,738	\$91,459	\$—

  

	Fair value at December 31, 2014 (in thousands)	Fair value measurements using inputs considered as		
		Level 1	Level 2	Level 3
Money market funds	\$3,220	\$3,220	\$—	\$—
Certificates of deposit	14,962	—	14,962	—
Corporate notes and obligations	29,035	—	29,035	—
Municipal obligations	3,155	—	3,155	—
U.S. government and government agency obligations	60,879	16,946	43,933	—
	\$111,251	\$20,166	\$91,085	\$—

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, 2015 and December 31, 2014, the Company did not have any assets or liabilities that were valued using Level 3 inputs. For the three months ended March 31, 2015 and 2014, there were no transfers of financial instruments among Level 1, Level 2 or Level 3 classifications.

For the three months ended March 31, 2015 and 2014 the Company recognized interest income from financial instruments of \$0.2 million and \$0.1 million, respectively. Gross realized gains and gross realized losses from the sale of investments were not significant during the three months ended March 31, 2015 and 2014.



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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, 2015			
	Amortized cost (in thousands)	Unrealized gains	Unrealized losses	Carrying or fair value
Cash and cash equivalents:				
Cash	\$22,234	\$—	\$—	\$22,234
Money market funds	3,119	—	—	3,119
	\$25,353	\$—	\$—	\$25,353
Investments:				
Corporate notes and obligations	\$28,019	\$36	\$(15)	) \$28,040
Certificates of deposit	13,951	17	(6)	) 13,962
Municipal obligations	3,038	7	—	3,045
U.S. government and government agency obligations	62,994	56	(19)	) 63,031
	\$108,002	\$116	\$(40)	) \$108,078
	December 31, 2014			
	Amortized cost (in thousands)	Unrealized gains	Unrealized losses	Carrying or fair value
Cash and cash equivalents:				
Cash	\$23,536	\$—	\$—	\$23,536
Money market funds	3,220	—	—	3,220
	\$26,756	\$—	\$—	\$26,756
Investments:				
Corporate notes and obligations	\$29,071	\$4	\$(40)	) \$29,035
Certificates of deposit	14,972	11	(21)	) 14,962
Municipal obligations	3,149	6	—	3,155
U.S. government and government agency obligations	60,934	18	(73)	) 60,879
	\$108,126	\$39	\$(134)	) \$108,031

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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:

	March 31, 2015					
	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	\$9,791	\$(15 )		\$—	\$9,791	\$(15 )
Certificates of deposit	5,052	(6 )		—	5,052	(6 )
U.S. government and government agency obligations	15,745	(19 )		—	15,745	(19 )
	\$30,588	\$(40 )	\$—	\$—	\$30,588	\$(40 )
	December 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses

The following table summarizes the maturities of the Company's investments at March 31, 2015:

	Carrying or fair value (in thousands)
Remainder of 2015	\$34,895
2016	44,468
2017	26,259
2018	2,456
Total	\$108,078

Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations.

## NOTE 5— Goodwill and Intangible Assets

There were no changes in the carrying value of goodwill during the three months ended March 31, 2015.

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Other intangible assets, net, consisted of the following:

	March 31, 2015			Weighted
	Gross	Accumulated	Net	Average
	carrying	amortization	intangibles	Remaining
	amount			Useful Life
	(in thousands)			(in years)
Assets subject to amortization:				
Developed technology	\$7,035	\$(3,329)	) \$3,706	2.1
Customer relationships	17,200	(4,841)	) 12,359	5.1
Trade names	301	(285)	) 16	0.8
Total assets subject to amortization:	24,536	(8,455)	) 16,081	4.4
Assets not subject to amortization:				
Trade names	4,039	—	4,039	
	\$28,575	\$(8,455)	) \$20,120	

	December 31, 2014			Weighted
	Gross	Accumulated	Net	Average
	carrying	amortization	intangibles	Remaining
	amount			Useful Life
	(in thousands)			(in years)
Assets subject to amortization:				
Developed technology	\$7,035	\$(2,759)	) \$4,276	2.3
Customer relationships	17,200	(4,085)	) 13,115	5.3
Trade names	\$301	\$(279)	) \$22	1.1
Total assets subject to amortization:	\$24,536	\$(7,123)	) \$17,413	4.6
Assets not subject to amortization:				
Trade names	\$4,039	\$—	\$4,039	
	\$28,575	\$(7,123)	) \$21,452	

Amortization expense associated with intangible assets was \$1.3 million for the three months ended March 31, 2015 and \$0.5 million for the three months ended March 31, 2014, respectively.

Minimum future amortization expense for intangible assets at March 31, 2015 was as follows:

	Amortization
	(in thousands)
Remainder of fiscal 2015	\$3,536
2016	4,182
2017	2,943
2018	2,093
2019	1,863
2020	1,464
	\$16,081

## NOTE 6—Income Taxes

The Company computes its interim provision for income taxes by applying the estimated annual effective tax rate to the year-to-date income from recurring operations and adjust the provision for discrete tax items recorded in the period. The Company evaluates and updates its estimated annual effective income tax rate on a quarterly basis. The estimated annual effective tax rate as of March 31, 2015 and 2014 was 45.8% and 26.0%, respectively.

The difference between the federal statutory rate of 35% and the Company's estimated effective tax rate for the three months ended March 31, 2015 was primarily due to the Company's state income tax provision and non-deductible

stock-based compensation expenses, offset by the domestic production activities deduction under Internal Revenue Code (“IRC”) Section

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199. The Company's annual estimated effective tax rate fluctuates quarterly due to the impact of stock based compensation deductions on the IRC Section 199 deduction.

The Company accounts for stock-based compensation pursuant to ASC 718 and uses ASC 740 ordering when determining when excess tax benefits have been realized. The Company realized a tax benefit of \$2.9 million for the three months ended March 31, 2015 related to the exercise of employee stock options and the vesting of RSUs, performance-vesting RSUs and Performance Awards. The net income tax benefit in excess of the expenses recorded for financial reporting purposes has been recorded as an increase to additional paid-in capital and is reflected as a financing cash inflow in the condensed consolidated statements of cash flows.

The Company's tax positions are subject to income tax audits by multiple tax jurisdictions. The Company accounts for uncertain tax positions and believes that it has provided adequate reserves for its unrecognized tax benefits for all tax years still open for assessment. The Company also believes that it does not have any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company has a policy to classify accrued interest and penalties associated with uncertain tax positions together with the related liability in the balance sheet, and to include the expenses incurred related to such accruals in the provision for income taxes. There were no interest or penalties included in the provision for income taxes during the three months ended March 31, 2015 and 2014, respectively.

NOTE 7—Commitments and Contingencies

Leases

The Company leases certain fixed assets under non-cancelable capital leases with various expiration dates. In January 2015, the Company entered into a lease agreement to finance the purchase of computer equipment for the Company's data centers with payments of \$0.3 million per month over the 24 month term of the agreement. In January 2015, the Company entered into an amendment to the Company's existing lease of office space in Irvine, California, in which the Company will make payments of \$8,800 per month over the 12 month term of the lease agreement.

Legal Proceedings

From time to time, the Company is involved in litigation that it believes is of the type common to companies engaged in the Company's line of business, including commercial disputes and employment issues. As of the date of this Quarterly Report on Form 10-Q, the Company is not involved in any pending legal proceedings whose outcome the Company expects to have a material adverse effect on its financial position, results of operations or cash flows. However, litigation is unpredictable and excessive verdicts, both in the form of monetary damages and injunctions, could occur. In the future, litigation could result in substantial costs and diversion of resources and the Company could incur judgments or enter into settlements of claims that could have a material adverse effect on its business.

NOTE 8—Equity and Stock Incentive Plans

The Company recognized stock-based compensation related to awards granted under our 2009 Stock Option and Incentive Plan (the "2009 Plan"), 2011 Equity Incentive Award Plan (the "2011 Plan") and ESPP.

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Total stock-based compensation expense recognized consisted of:

	Three Months ended March 31,	
	2015	2014
	(in thousands)	
Cost of revenues	\$615	\$238
Sales and marketing	517	333
Research and development	1,147	736
General and administrative	2,728	2,003
	\$5,007	\$3,310

2009 Stock Option and Incentive Plan and 2011 Equity Incentive Award Plan

Stock Options

The following table summarizes the Company's stock option activity under the 2009 Plan and 2011 Plan:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	3,050,301	\$17.41		
Granted	172,532	\$45.27		
Exercised	(332,796 )	\$10.06		
Forfeited or expired	(10,846 )	\$23.52		
Outstanding at March 31, 2015	2,879,191	\$19.91	7.57	\$101,932
Ending vested and expected to vest at March 31, 2015	2,767,415	\$19.54	7.52	\$98,998
Exercisable at March 31, 2015	1,352,600	\$12.50	6.42	\$57,911

Stock options granted during the three months ended March 31, 2015 were made under the 2011 Plan. There were no grants under the 2009 Plan during the three months ended March 31, 2015.

Intrinsic value of an option is the difference between the fair value of the Company's common stock at the time of exercise and the exercise price to be paid. The aggregate intrinsic value for options outstanding at March 31, 2015 in the table above represents the total intrinsic value, based on the Company's closing stock price of \$55.31 as of March 31, 2015, which would have been received by option holders had all option holders exercised their in-the-money options as of that date. Options outstanding that are expected to vest are net of estimated future option forfeitures.

Following is additional information pertaining to the Company's stock option activity:

	Three Months ended March 31,	
	2015	2014
	(in thousands, except per option amounts)	
Weighted average fair value per option granted	\$ 21.66	\$ 13.30
Grant-date fair value of options vested	\$ 1,729	\$ 1,467
Intrinsic value of options exercised	\$ 12,829	\$ 6,425
Proceeds received from options exercised	\$ 3,349	\$ 1,448

As of March 31, 2015, total unrecognized stock-based compensation expense related to unvested stock options, adjusted for estimated forfeitures, was \$16.9 million and is expected to be recognized over a weighted average period of 2.6 years.

Restricted Stock Units, Performance-Vesting Restricted Stock Units and Performance Awards

The Performance Awards granted represent the right to receive shares of the Company's common stock, contingent upon the achievement of certain of the Company's performance metrics during the performance period. Subsequent to the performance period, the Compensation Committee of the Board of Directors (the "Compensation Committee")

determines and approves the achievement of the performance goals (the “Determination Date”) and the earned shares are issued, with 25% of the shares vested

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upon issuance and the remaining shares to vest 25% on each of the first three anniversaries of the Determination Date, subject to the continuous employment of the participant through such dates.

In August 2012, the Company granted 147,000 Performance Awards with a performance period of July 1, 2012 through June 30, 2013. On the Determination Date in August 2013, the Compensation Committee determined that 588,000 shares of common stock had been earned.

In February 2013, the Company granted 113,000 Performance Awards with a performance period of January 1, 2013 through December 31, 2013. On the Determination Date in March 2014, the Compensation Committee determined that 124,300 shares of common stock had been earned.

In February 2014, the Company granted 62,500 Performance Awards with a performance period of January 1, 2014 through December 31, 2014. On the Determination Date in March 2015, the Compensation Committee determined that 107,350 shares of common stock had been earned.

In February 2015 and March 2015, the Company granted 24,766 and 10,324 Performance Awards with a performance period of January 1, 2015 through December 31, 2015. The designated participants may earn between zero and 2.0 shares of common stock for each award. As of March 31, 2015, the Company expects that each award will convert to 1.3 shares of common stock on the Determination Date.

In December 2014, the Company granted Sigmund Anderman, then Chief Executive Officer and current Chairman of the Board of Directors of the Company, an option to purchase 76,648 shares of Company common stock and 37,203 performance-vesting RSUs. In January 2015, the Company granted Mr. Anderman an option to purchase 71,648 shares of Company common stock and 34,714 performance-vesting RSUs. The options will have a four-year, employment-based vesting schedule with 25% of the total number of options to vest on the first anniversary of the grant date and 1/48th of the total number of options to vest monthly thereafter. The performance-vesting RSUs will vest based upon the achievement of the corporate goals for fiscal year 2015 and continued employment. On the date the board of directors or the compensation committee certifies the achievement of the Company's corporate goals for fiscal year 2015 (the "2015 RSU Determination Date"), Mr. Anderman may earn up to 2.0 shares of common stock for each of the performance-vesting RSUs. 25% of the total number of performance-vesting RSUs will vest and be issued on the 2015 RSU Determination Date, and the remaining shares will vest and be issued 25% on each of December 31, 2016, 2017 and 2018, subject to the continuous employment of Mr. Anderman through such dates. As of March 31, 2015, the Company expects that each of the performance-vesting RSUs will convert to 1.6 shares of common stock on the 2015 RSU Determination Date.

The following table summarizes the Company's RSU, Performance Award and performance-vesting RSU activity:

	RSUs		Performance Awards and performance-vesting RSUs	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at January 1, 2015	585,858	\$27.20	485,177	\$25.61
Granted	49,898	49.76	120,288	43.46
Released	(31,094 )	24.32	(28,873 )	19.60
Forfeited or expired	(4,091 )	31.30	—	—
Outstanding at March 31, 2015	600,571	\$29.20	576,592	\$29.63
Ending vested and expected to vest at March 31, 2015	535,976		576,592	

RSUs, performance-vesting RSUs and Performance Awards that are expected to vest are presented net of estimated future forfeitures. RSUs released during the three months ended March 31, 2015 and 2014 had an aggregate intrinsic value of \$1.6 million and \$0.1 million, respectively, and had an aggregate grant-date fair value of \$0.8 million and \$28 thousand, respectively. Performance-vesting RSUs and Performance Awards released during the three months

ended March 31, 2015 had an aggregate intrinsic value of \$1.6 million and had an aggregate grant-date fair value of \$0.6 million. There were no performance-vesting RSUs and Performance Awards released during the three months ended March 31, 2014. The number of RSUs released includes shares that the Company withheld on behalf of employees to satisfy the minimum statutory tax withholding requirements.

As of March 31, 2015, total unrecognized compensation expense related to unvested RSUs, performance-vesting RSUs and Performance Awards was \$22.5 million and is expected to be recognized over a weighted average period of 2.5 years.

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## Employee Stock Purchase Plan

For the three months ended March 31, 2015 and 2014, employees purchased 58,239 shares and 45,746 shares, respectively, under the ESPP for a total of \$1.7 million and \$1.2 million, respectively. As of March 31, 2015, unrecognized compensation expense related to the current ESPP period, which ends on August 31, 2015, was \$0.6 million and is expected to be recognized over five months.

## Valuation Information

The fair value of stock options and stock purchase rights granted under the 2009 Plan, the 2011 Plan and the ESPP were estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Three Months ended March 31,			
	2015		2014	
Stock option plans:				
Risk-free interest rate	1.75	%	1.92	%
Expected life of options (in years)	6.08		6.08	
Expected dividend yield	—	%	—	%
Volatility	48	%	52	%
Employee Stock Purchase Plan:				
Risk-free interest rate	0.13	%	0.08	%
Expected life of options (in years)	0.50		0.50	
Expected dividend yield	—	%	—	%
Volatility	35	%	39	%

## Common Stock

The following numbers of shares of common stock were reserved and available for future issuance at March 31, 2015:

	Reserved Shares
Options and awards outstanding under stock incentive plans	4,056,354
Shares available for future grant under the stock incentive plan	3,394,299
Shares available under the Employee Stock Purchase Plan	1,257,353
Total	8,708,006

In February 2015, 289,071 additional shares were reserved under the ESPP and 1,445,357 additional shares were reserved under the 2011 Plan, pursuant to the automatic increase provisions in each plan.

## Stock Repurchase Program

In May 2014, the Company's board of directors approved a stock repurchase program under which the Company is authorized to repurchase up to \$75.0 million of its common stock, which expires in May 2017. All shares are retired upon repurchase. During the three months ended March 31, 2015, the Company repurchased a total of 48,450 shares for \$2.5 million. As of March 31, 2015, \$72.5 million remained available for future repurchases under the program.

## NOTE 9—Segment Information

The Company operates in one industry—mortgage-related software and services. The Company's chief operating decision maker is its chief executive officer, who makes decisions about resource allocation and reviews financial information presented on a consolidated basis. Accordingly, the Company has determined that it has a single reporting segment and operating unit structure, specifically technology-enabled solutions to help streamline and automate the residential mortgage origination process for its network participants.

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The Company is organized primarily on the basis of service lines. Supplemental disclosure of revenues by type is as follows:

	Three Months ended March 31,	
	2015	2014
	(in thousands)	
On-demand revenues	\$52,672	\$30,146
On-premise revenues	1,517	2,032
	\$54,189	\$32,178

On-demand revenue is generated from company-hosted software subscriptions that customers access through the Internet and from customers that pay fees based on a per closed loan, or success, basis subject to monthly base fees, which we refer to as Success-Based Pricing. Additionally, on-demand revenue is comprised of software services sold transactionally; Ellie Mae Network transaction fees; education and training, loan product and guideline data and analytics services under the AllRegs brand; and professional services which include consulting, implementation and training services.

On-premise revenue is generated from maintenance services, sales of customer-hosted software licenses, and related professional services.

## ITEM 2—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q, including this Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements relate to future events or our future financial performance. Forward-looking statements may include words such as “may,” “will,” “should,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue” or other wording indicating future results or expectations. Forward-looking statements are subject to risks and uncertainties and actual events or results may differ materially. Factors that could cause our actual results to differ materially include, but are not limited to, those discussed under “Risk Factors” in this report. We also face risks and uncertainties relating to our business including: outages and other system interruptions in the Ellie Mae Network service, our hosted Encompass software and any related impact on our reputation; fluctuations in mortgage lending volume; the volume of mortgages originated by our Encompass users; the impact of changes in mortgage interest rates; changes in mortgage originator, lender, investor or service provider behavior and any related impact on the residential mortgage industry; our ability to accurately forecast revenues and appropriately plan our expenses; the number of Encompass users, including contracted SaaS Encompass users; the effectiveness of our marketing and sales efforts to attract new and retain existing SaaS Encompass users and Ellie Mae Network participants; transaction volume on the Ellie Mae Network; the level of demand for our Encompass Docs Solution and other services we offer; the level of adoption of our Total Quality Loan, or TQL, program; the timing of the introduction and acceptance of new Ellie Mae Network offerings and new on-demand services; our ability to protect the confidential information of our Encompass users, Ellie Mae Network participants and their respective customers; customer renewal and upgrade rates; the increased time, cost and complexity that may be required to successfully target larger customers; our ability to scale our operations and increase productivity to support our existing and growing customer base; our ability to successfully manage our growth and any future acquisitions of businesses, solutions or technologies; the risk that the anticipated benefits and growth prospects expected from the MortgageCEO and AllRegs acquisition may not be fully realized or may take longer to realize than expected; the timing of future acquisitions of businesses, solutions or technologies and new product launches; the impact of uncertain domestic and worldwide economic conditions, including the resulting effect on residential mortgage volumes; changes in government regulation affecting Ellie Mae Network participants or our business, and potential structural changes in the U.S. residential mortgage industry; the attraction and retention of qualified employees and key personnel; our ability to compete effectively in a highly competitive market and adapt to technological changes; our ability to enhance the features and functionality of our Encompass software and the Ellie Mae Network; our ability to protect our intellectual property, including our proprietary Encompass software; costs associated with

defending intellectual property infringement and other claims; our ability to maintain effective internal controls and the risk of natural and man-made catastrophic interruptions to our business. We undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstance that arises after the date of this report, or to conform such statements to actual results or changes in our expectations.

This discussion should be read in conjunction with the condensed consolidated financial statements and notes presented in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes in our Annual Report on Form 10-K for the year ended December 31, 2014, or 2014 Form 10-K.



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### Overview

We are a leading provider of innovative on-demand software solutions and services for the residential mortgage industry in the United States. Our end-to-end Encompass 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.

Mortgage originators use our Encompass software, a comprehensive mortgage management system that handles key business and management functions involved in running a mortgage origination business. Mortgage originators use Encompass as a single tool for loan processing, marketing and customer communication and to interact electronically with lenders, investors and service providers over the Ellie Mae Network. Our software also enables enforcement of rules and business practices designed to ensure loan quality, adherence to processing standards and regulatory compliance.

The Ellie Mae Network electronically connects the approximately 119,000 mortgage professionals using Encompass to the broad array of mortgage lenders, investors and third-party service providers integral to the origination and funding of residential mortgages. During the mortgage origination process, mortgage originators may order various services through the Ellie Mae Network, including credit reports; product eligibility and pricing services; automated underwriting services; appraisals; title reports; insurance; flood certifications and flood insurance; compliance reviews; fraud detection; document preparation; and verification of income, identity and employment. Mortgage originators can also initiate secure data transmission to and from lenders and investors.

In October 2014, we acquired substantially all the assets of Mortgage Resource Center, Inc., dba AllRegs, a provider of research and reference, education, documentation and data and analytics products relating to the mortgage industry. The write-down of acquired deferred revenue in accordance with applicable purchase accounting rules under generally accepted accounting principles in the United States, or U.S. GAAP, has resulted in us realizing lower amounts of revenues than would normally be expected from the AllRegs business since the acquisition date and will continue to do so through 2015. Operating costs generated by the AllRegs business and the amortization of acquired intangible assets has increased our operating expenses since the acquisition date and will continue to do so for the foreseeable future.

Our revenues consist of on-demand and on-premise revenues. On-demand revenues are generated primarily from software subscriptions we host that customers access through the Internet, including customers who pay fees based on the number of loans they fund, or success basis, subject to monthly base fees, which we refer to as Success-Based Pricing, and related professional services such as consulting, implementation and training services. On-demand revenues also include software services that are sold transactionally; Ellie Mae Network transaction fees paid by lender-investors, service providers and certain government-sponsored entities participating on the Ellie Mae Network; education and training; and loan product and guideline data and analytics services that are provided under the AllRegs brand. On-premise revenues are generated from customer-hosted software licenses and related professional services and maintenance services. In February 2015, we announced that effective May 1, 2016, we will no longer provide software releases or technical support for the on-premise version of Encompass. We expect that this will decrease the amount of on-premise revenues in 2015 and we do not expect significant on-premise revenues after May 1, 2016. Our on-demand revenues typically, but not always, track the seasonality of the residential mortgage industry, with increased activity in the second and third quarters and reduced activity in the first and fourth quarters as home buyers tend to purchase their homes during the spring and summer in order to move to a new home before the start of the school year. Mortgage volumes are also impacted by other factors such as interest rate fluctuations, home sale activity and general economic conditions, which can lead to departures from the typical seasonal pattern. For example, increases in mortgage interest rates could reduce the volume of new mortgages originated and, in particular, the volume of mortgage refinancings. We currently estimate that approximately 30% to 40% of our revenues have some sensitivity to volume. The base fee portion of success-based SaaS Encompass revenues, subscription revenues, professional services revenues and revenues from sales of AllRegs services are not affected by fluctuations in mortgage origination volume.

We are investing aggressively in initiatives that we believe will help us continue to grow our business, improve our products and services and strengthen our competitive advantage while bringing sustainable, long-term value to our

customers. During 2014 and in the first quarter of 2015, we increased our investments in our sales and client services capabilities, research and development and technology infrastructure to support our user additions and overall business growth. These investments include expanding our talent across the organization by hiring additional personnel. To support customers and further differentiate ourselves, we currently anticipate that throughout 2015 we will continue to increase our investment in key areas such as research and development, enterprise sales, services, technical support, security and data center infrastructure. We currently anticipate that this investment will include development of our next generation Encompass platform, which will be incrementally introduced over the coming quarters and throughout 2016. The costs associated with this investment decreased our gross margin percentage and increased our operating expenses in the first quarter of 2015 as compared to the same period in 2014. We expect that continued investment in key areas will further decrease our gross margin percentage and increase our operating expenses for the remainder of 2015.

In addition to our internal initiatives, our business strategy has evolved to address recent industry trends, including: increased quality standards imposed by regulators, lenders and investors;

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- increased regulation affecting lenders and investors;
- greater focus by our customers on operational efficiencies;
- customers adopting multi-channel strategies; and
- greater focus by customers and regulators on data security and consumer privacy

We are responding to these trends as follows:

Increased quality standards imposed by regulators, lenders and investors. Encompass is designed to automate and streamline the process of originating mortgages to, among other things, satisfy increased quality requirements of investors. Relevant features of Encompass include enabling customers' management to impose processing rules and formats, and providing milestone and process reminders, automated population of forms with accurate data, and accurate and automated transmission of loan files and data from originators to investors and lenders. Our TQL program is designed to further enhance the quality, compliance and saleability of loans that are originated through Encompass. Additionally, TQL is intended to reduce the opportunities for errors in the process of transferring information from originator to investor and to give investors confidence in the accuracy and regulatory compliance of the information that is underlying loan files.

In response to the increased quality standards and compliance mandates affecting the industry, we expect an increased number of mortgage lenders to assess new platform options and replace their legacy systems. We have increased the size of our customer acquisition, implementation and support teams by approximately 40% from 239 employees at March 31, 2014 to 335 employees on March 31, 2015 in order to address anticipated demand for our software solutions.

Increased regulation affecting lenders and investors. Regulatory reforms have significantly increased the complexity and importance of regulatory compliance. We devote considerable resources to continually upgrading software to help customers address regulatory changes. We offer Encompass Compliance Service, which analyzes mortgage loan data for compliance with consumer protection laws and institutionally mandated compliance policies and alerts users to possible violations of these laws and policies. In addition, we have a staff of attorneys and work with compliance experts who help ensure that documents prepared using our software and the processes recommended by the Encompass workflow comply with applicable rules and regulations. For example, additional tools and product updates were recently required to address the Ability-to-Repay, or ATR, / Qualified Mortgage, or QM, and Federal and State High Cost rules that became effective in January 2014. In addition, we are updating certain of our products to comply with the TILA-RESPA Integrated Disclosure rule changes that take effect in August 2015. We believe we are also well-positioned to help our customers meet future Dodd-Frank Act requirements as they are published and become effective.

Greater focus on operational efficiencies. The average total production cost per loan was \$5,603 in the fourth quarter of 2012<sup>1</sup>, \$6,959 in the fourth quarter of 2013<sup>2</sup>, and \$7,000 in the fourth quarter of 2014<sup>3</sup>. We expect costs to continue to be a significant consideration for mortgage originators due to continued increased regulation and heightened quality standards. By automating many of the functions of mortgage origination, we enable our users to comply with regulations and process quality loans more efficiently and effectively. This reduces the cost of originating a loan and lowers the risk of buy back demands from investors resulting from poorly originated or documented loans or loans that fail to comply with applicable regulations. We continually address the changing needs of our customers by developing and enhancing tools to allow for simplified regulatory compliance, increased availability of information, and enhanced system functionality and performance.

With an eye towards providing customers with ever-improving tools to enhance efficiency, we currently anticipate that we will continue to develop new service offerings through the Ellie Mae Network and pursue adoption of our services through initiatives such as our TQL program. By integrating and expanding our current and new services, we aim to provide a more comprehensive benefit to our users.

Mortgage Bankers Association, Despite Higher Volumes, Independent Mortgage Banker Per-Loan Profits Decrease in the Fourth Quarter as the Cost to Originate Rises, April 2, 2013.

2 Mortgage Bankers Association, Independent Mortgage Banker Profits Reach New Lows in the Fourth Quarter of 2013, March 26, 2014

3 Mortgage Bankers Association, Independent Mortgage Banks' Profits in 4th Quarter 2014 Down from Previous Quarter; Up on Year-Over-Year Basis, March 31, 2015.

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Customers adopting multi-channel strategies. Customers are developing multi-channel strategies beyond a single retail, correspondent or wholesale mortgage lending channel in order to grow their businesses. The requirements of these different channels vary and in order to maintain a single operating system, customers must use a robust system with customizable functionality. Encompass includes support for multi-channel workflows, allowing our customers to drive efficiencies and boost productivity by creating distinct workflows for each channel that map to our customers' business needs. Encompass users can customize workflows based on channel, loan purpose or specific loan criteria; all of which can vary between lending channels. Additionally, Encompass Consumer Direct gives our customers the ability to originate loans directly from borrowers by offering an online loan application that can be accessed by anyone with a web browser.

Greater focus by customers and regulators on data security and consumer privacy. Recent high-profile data security incidents affecting banking institutions and cloud-service software providers have resulted in an increased focus on data security by our customers and our customers' regulators. We are making significant investments in the security of the Encompass service, as well as our internal systems, processes and monitoring capabilities to protect our customers' data and minimize the risk of data security loss. We expect the industry focus on data security to continue to increase, and we anticipate that our investments in data security will increase substantially over time.

### Acquisition Strategy

Our industry is highly fragmented, and we believe there are strategic opportunities available to acquire competing software companies or software providers that offer mortgage origination functionality that will complement and increase the attractiveness of our solutions. In October 2014, we acquired substantially all the assets of Mortgage Resource Center, Inc. (dba AllRegs), or AllRegs, a provider of research and reference, education, documentation and data and analytics products relating to the mortgage industry. The assets that we acquired from AllRegs will allow us to strengthen our products through product integration and introduce new products related to training, compliance management systems and loan product eligibility. In January 2014, we acquired substantially all the assets of ARG Interactive, LLC (dba MortgageCEO), or MortgageCEO, a SaaS company specializing in customer relationship management and marketing solutions for the residential mortgage industry. We intend to continue pursuing additional strategic acquisitions.

### Operating Metrics

We use certain operational metrics to evaluate our business, determine allocation of our resources and make decisions regarding corporate strategy. We focus on these metrics to determine our success in leveraging our user base to increase our revenues and to gauge the degree of our market penetration.

These metrics are defined below.

**Contracted revenues.** Contracted revenues are those revenues that are fixed by the terms of a contract and are not affected by fluctuations in mortgage origination volume. These revenues consist of the base fee portion of success-based SaaS Encompass revenues, monthly per-user subscription SaaS Encompass revenues, professional services revenues, on-premise revenues, revenues from sales of AllRegs services and subscription revenues paid for products other than Encompass.

**SaaS Encompass revenues.** SaaS Encompass revenues are those revenues earned from the customer's usage of the SaaS version of Encompass. These revenues consist of success-based SaaS Encompass revenues and subscription-based SaaS Encompass revenues.

**Active Encompass users.** An active Encompass user is a mortgage origination professional who has used Encompass at least once within a 90-day period preceding the measurement date. An Encompass user is a mortgage origination professional working at an Encompass mortgage lender, such as a mortgage bank, commercial bank, thrift or credit union, which sources and funds loans and generally sells these funded loans to investors; or a mortgage brokerage, which typically processes and submits loan files to a mortgage lender or mega lender that funds the loan.

**Contracted SaaS users.** A contracted SaaS user is a mortgage origination professional who has a license to use SaaS Encompass and has an obligation to pay for this license, but who is not necessarily an active user.

**Active SaaS Encompass users.** An active SaaS Encompass user is a mortgage origination professional who has used SaaS Encompass at least once within a 90-day period preceding the measurement date.

Average active Encompass users. Average active Encompass users during a period is calculated by averaging the monthly active Encompass users during a period.

Average active SaaS Encompass users. Average active SaaS Encompass users during a period is calculated by averaging the monthly active SaaS Encompass users during a period.

Revenue per average active Encompass user. Revenue per average active Encompass user is calculated by dividing total revenues by average active Encompass users during a period.

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SaaS Encompass revenue per average active SaaS Encompass user. SaaS Encompass revenue per average active SaaS Encompass user is calculated by dividing total SaaS Encompass revenues by average active SaaS Encompass users during the period.

The following table shows these operating metrics as of and for the three months ended March 31, 2015 and 2014:

	Three Months ended March 31,			
	2015	2014		
Revenues (in thousands):				
Total revenues	\$54,189	\$32,178		
Total contracted revenues	\$31,886	\$22,542		
Total SaaS Encompass revenues	\$32,481	\$19,775		
Users at end of period:				
Contracted SaaS users	133,581	99,089		
Active Encompass users	118,672	94,971		
Active SaaS Encompass users	94,537	67,416		
Active SaaS Encompass users as a percentage of active Encompass users	80	% 71		%
Active SaaS Encompass users as a percentage of contracted SaaS Encompass users	71	% 68		%
Average users during period:				
Active Encompass users	114,413	93,702		
Active SaaS Encompass users	90,368	66,160		
Active SaaS Encompass users as a percentage of active Encompass users	79	% 71		%
Revenue per average user during period:				
Revenue per average active Encompass user	\$474	\$343		
SaaS Encompass revenue per average active SaaS Encompass user	\$359	\$299		

In February 2015, we announced that effective May 1, 2016, we will no longer provide software releases or technical support for the on-premise version of Encompass. Some on-premise Encompass users may not convert to SaaS Encompass, which could affect the number of active Encompass users in future periods.

**Basis of Presentation****General**

Our consolidated financial statements include the accounts of Ellie Mae, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation.

**Revenue Recognition**

We generate revenue primarily from transaction-based fees and fees for software and related services. Our software can be accessed either through a company-hosted subscription or a customer-hosted license. Accordingly, our revenues is described as on-demand and on-premise. Sales taxes assessed by governmental authorities are excluded from revenue.

**On-demand Revenue**

On-demand revenue is generated from company-hosted software subscriptions that customers access through the Internet and from customers that pay fees based on a per closed loan, or success, basis subject to monthly base fees, which we refer to as Success-Based Pricing. Additionally, on-demand revenue is comprised of software services sold transactionally; Ellie Mae Network transaction fees; education and training, loan product and guideline data and analytics services under the AllRegs brand; and professional services which include consulting, implementation and training services.

**On-premise Revenue**

On-premise revenue is generated from maintenance services, sales of customer-hosted software licenses, and related professional services.

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### Cost of Revenues and Operating Expenses

#### Cost of Revenues

Our cost of revenues consists primarily of: salaries and benefits, including stock-based compensation expense; expenses for document preparation, income verification and compliance services; customer support; data centers; depreciation on computer equipment used in supporting the Ellie Mae Network, SaaS Encompass and Encompass CenterWise offerings; amortization of acquired intangible assets such as developed technology and trade names; amortization of internal-use software; professional services associated with implementation of our software and allocated facilities costs. We expect that our cost of revenues will continue to increase in absolute dollars as our revenues increase, as we make additional and accelerated investments to bolster our infrastructure and enhance our system capacity, reliability and security, as we pursue additional strategic acquisitions, as we place new internal-use software into service and as we continue to hire additional personnel in our implementation and customer support departments to support new customers.

#### Sales and Marketing

Our sales and marketing expenses consist primarily of: salaries, benefits and incentive compensation, including stock-based compensation expense and commissions; allocated facilities costs; expenses for trade shows, public relations and other promotional and marketing activities; expenses for travel and entertainment; and amortization of acquired intangible assets such as customer relationships. We expect that our sales and marketing expense will continue to increase as we continue to hire additional sales personnel in order to address anticipated demand for our software solutions and as we pursue additional strategic acquisitions. We also intend to increase marketing activities focused on SaaS Encompass, our Ellie Mae Network offerings and our other Encompass services.

#### Research and Development

Our research and development expenses consist primarily of: salaries and benefits, including bonuses and stock-based compensation expense; fees to contractors engaged in the development and support of the Ellie Mae Network, Encompass software and other products; and allocated facilities costs. We expect that our research and development expenses will continue to increase in absolute dollars as we continue to invest in our products and services and related next-generation enhancements, including hiring additional engineering and product development personnel, and as we pursue additional strategic acquisitions.

#### General and Administrative

Our general and administrative expenses consist primarily of: salaries and benefits, including bonuses and stock-based compensation expense for employees involved in finance, accounting, human resources, administrative, information technology and legal roles; consulting, legal, accounting and other professional services by third-party providers; and allocated facilities costs. We expect general and administrative expenses to continue to increase in absolute dollars as we hire additional personnel and grant stock-based awards to attract and retain the employees needed to continue to grow our business and as we pursue additional strategic acquisitions.

#### Other Income, Net

Other income, net consists of interest income earned on investments, cash accounts and notes receivable, offset by investment discount amortization and imputed interest expense related to our acquisition holdback payments and interest expense paid on equipment and software leases.

#### Income Taxes

On a quarterly basis, we evaluate our expected income tax expense or benefit based on our year-to-date operations, and we record an adjustment in the current quarter. The net tax provision is the result of the mix of profits earned by us and our subsidiaries in tax jurisdictions with a broad range of income tax rates. We are required to estimate deferred tax assets and liabilities based on the differences between the financial reporting and tax bases of assets and liabilities measured using the enacted tax rates that will be in effect when the differences are expected to reverse. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in our consolidated statements of operations become deductible expenses under applicable income tax laws or loss or credit carry forwards are utilized. Accordingly, realization of our deferred tax assets is dependent on future taxable income against which these deductions, losses and credits can be utilized. We use management judgment to assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that



recovery is not more likely than not, we must establish a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

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## Critical Accounting Policies and Estimates

There have been no material changes during the three months ended March 31, 2015 to our critical accounting policies and estimates previously disclosed in our 2014 Form 10-K.

## Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our revenues for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months ended March 31,	
	2015	2014
	(in thousands)	
Revenues	\$54,189	\$32,178
Cost of revenues (1)	17,350	9,318
Gross profit	36,839	22,860
Operating expenses:		
Sales and marketing (1)	9,760	6,095
Research and development (1)	8,297	6,815
General and administrative (1)	12,302	8,993
Total operating expenses	30,359	21,903
Income from operations	6,480	957
Other income, net	132	100
Income before income taxes	6,612	1,057
Income tax provision	3,028	275
Net income	\$3,584	\$782

(1) Stock-based compensation included in the above line items:

	Three Months ended March 31,			
	2015	2014		
	(in thousands)			
Cost of revenues	\$615	\$238		
Sales and marketing	517	333		
Research and development	1,147	736		
General and administrative	2,728	2,003		
	\$5,007	\$3,310		
	Three Months ended March 31,			
	2015	2014		
Revenues	100.0	100.0	%	%
Cost of revenues	32.0	29.0		
Gross margin	68.0	71.0		
Operating expenses:				
Sales and marketing	18.0	18.9		
Research and development	15.3	21.2		
General and administrative	22.7	27.9		
Total operating expenses	56.0	68.0		
Income from operations	12.0	3.0		
Other income, net	0.2	0.3		
Income before income taxes	12.2	3.3		

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Income tax provision	5.6	0.9	
Net income	6.6	% 2.4	%

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## Comparison of the Three Months Ended March 31, 2015 and 2014

## Revenue

The following table sets forth our revenue by type for the periods presented:

	Three Months ended March 31, 2015		2014	
	(dollars in thousands)			
Revenue by type:				
On-demand	\$52,672		\$30,146	
On-premise	1,517		2,032	
Total	\$54,189		\$32,178	

	Three Months ended March 31, 2015		2014	
Revenue by type:				
On-demand	97.2	%	93.7	%
On-premise	2.8	%	6.3	%
Total	100.0	%	100.0	%

Three months ended March 31, 2015. Total revenues increased \$22.0 million, or 68.4%, for the three months ended March 31, 2015 as compared to the same period of 2014.

On-demand revenue increased by \$22.5 million, or 75% during the three months ended March 31, 2015, consisting primarily of a \$12.7 million increase in SaaS Encompass revenue. The increase in SaaS Encompass revenue resulted partially from a \$5.1 million, or 29%, increase in base fees due to a 35% increase in contracted SaaS Encompass users as of March 31, 2015 compared to the same period in 2014. In addition, SaaS Encompass revenue increased by \$7.6 million due to additional closed loan fees, which are assessed for loans closed in excess of base fees under our Success-Based Pricing model. The closed loan fee increases were driven by higher mortgage origination volumes, and resulted in a 20% increase in SaaS Encompass revenue per average active SaaS Encompass user.

Additional contributors to the growth in on-demand revenue were a \$3.2 million increase in revenues from network transactions due to increased network usage of third party Flood, Appraisal, Credit and Fraud services to process loans, \$2.6 million of revenues from AllRegs products and services, a \$1.5 million increase in revenues from professional services driven primarily by implementation and training services provided to new customers and to customers that upgraded from on-premise to SaaS users, and a \$1.5 million increase in revenues from other software and services due to an increase in TQL adoption and usage by Encompass users.

On-premise revenue decreased by \$0.5 million for the three months ended March 31, 2015 compared to the same period of 2014, primarily due to a \$0.9 million decrease in software license and maintenance fees as a number of our on-premise customers converted to SaaS Encompass Success-Based Pricing users, offset by \$0.4 million in training revenues related to our annual user conference which was held in the first quarter of 2015 but not in the first quarter of 2014.

## Gross Profit

	Three Months ended March 31, 2015		2014	
	(dollars in thousands)			
Gross profit	\$36,839		\$22,860	
Gross margin	68.0	%	71.0	%

Gross profit increased by \$14.0 million and gross margin percentage decreased by 3.0 percentage points during the three months ended March 31, 2015 as compared to the same period of 2014 as revenues increased by \$22.0 million and cost of revenues increased by \$8.0 million. The decrease in the gross margin percentage was primarily a result of an increase in fixed costs associated with headcount added to our implementation, professional services and customer support organizations, investments we have made in expanding our data centers and amortization of intangible assets acquired in business combinations. The increase in costs include a \$3.8 million increase in salary, employee benefit

and stock-based compensation expenses associated with headcount added to our professional services and customer support organizations in anticipation of continued increasing demand for our software solutions, a \$1.5 million increase in third-party royalty expenses arising from the increased revenues, a \$0.9 million

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increase in expenses related to our data centers and technology and a \$0.8 million increase in amortization expenses related to the intangible assets acquired from AllRegs.

## Sales and Marketing

	Three Months ended March 31,		
	2015	2014	
	(dollars in thousands)		
Sales and marketing	\$9,760	\$6,095	
Sales and marketing as % of revenues	18.0	% 18.9	%

Sales and marketing expenses increased by \$3.7 million, or 60.1%, for the three months ended March 31, 2015 as compared to the same period of 2014. Sales and marketing expenses as a percentage of revenues decreased by 0.9% of revenues. The increase to expense was primarily due to a \$1.6 million increase in salary, employee benefit and stock-based compensation expenses as we continued to grow our sales and marketing teams in an effort to increase our market share and address anticipated demand for our software solutions and from additions to headcount from the AllRegs acquisition, a \$1.0 million increase in marketing expenses related to our annual user conference which was held in the first quarter of 2015 but not in the first quarter of 2014, and a \$0.5 million increase in commissions paid to our sales representatives.

## Research and Development

	Three Months ended March 31,		
	2015	2014	
	(dollars in thousands)		
Research and development	\$8,297	\$6,815	
Research and development as % of revenues	15.3	% 21.2	%

Research and development expenses increased by \$1.5 million, or 21.7%, in the three months ended March 31, 2015 compared to the same period of 2014. Research and development expenses as a percentage of revenues decreased by 5.9% of revenues. The increase in expense was due to a \$4.7 million increase in total research and development costs, primarily driven by salary, benefits, and stock compensation costs from additions to headcount as we continued to invest in our products and services and additions to headcount from the AllRegs acquisition, offset by a \$3.2 million decrease because more costs related to internal use software and website development projects were capitalized to property and equipment in the three months ended March 31, 2015 than in the same period of 2014. Costs associated with the development of internal-use software and website development are capitalized to property and equipment rather than expensed, and amortized over their respective useful lives when the related assets are placed into service.

## General and Administrative

	Three Months ended March 31,		
	2015	2014	
	(dollars in thousands)		
General and administrative	\$12,302	\$8,993	
General and administrative as % of revenues	22.7	% 27.9	%

General and administrative expenses increased by \$3.3 million, or 36.8%, in the three months ended March 31, 2015 as compared to the same period of 2014. General and administrative expenses as a percentage of revenues decreased by 5.2% of revenues. The increase in expense was primarily due to a \$1.8 million increase in salaries and employee benefits related to increased headcount from both hiring and the AllRegs acquisition, a \$0.6 million increase in professional fees and a \$0.7 million increase in stock-based compensation expense primarily resulting from increased headcount.

## Income Tax Provision

Income tax provision was \$3.0 million for the three months ended March 31, 2015, compared to \$0.3 million for the three months ended March 31, 2014. The increase in income tax provision was primarily due to the increase of pre-tax income from \$1.1 million for the three months ended March 31, 2014 to \$6.6 million for the three months ended March 31, 2015, an increase in nondeductible compensation and the suspension of federal R&D credits for 2014.



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## Liquidity and Capital Resources

At March 31, 2015, we had cash, cash equivalents and short-term investments of \$74.1 million and long-term investments of \$59.4 million. Cash and cash equivalents consist of cash and money market accounts. Both short and long-term investments consist of corporate bonds and obligations, certificates of deposit, municipal obligations, U.S. government notes and U.S. government agency securities.

We believe that our existing cash, cash equivalents and short-term investments will be sufficient to fund capital expenditures, operating expenses and other cash requirements for at least the next 12 months. We may enter into acquisitions in the future, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

The following table sets forth our statement of cash flows data for the periods presented:

	Three Months ended March		Net
	31,		Change
	2015	2014	
	(in thousands)		
Net cash provided by operating activities	\$10,946	\$2,123	\$8,823
Net cash used in investing activities	(16,166 )	(11,644 )	(4,522 )
Net cash provided by financing activities	3,817	2,482	1,335
Net decrease in cash and cash equivalents	\$(1,403 )	\$(7,039 )	\$5,636

## Operating Activities

Cash provided by operating activities increased by \$8.8 million from \$2.1 million for the three months ended March 31, 2014 to \$10.9 million for the three months ended March 31, 2015. In the condensed consolidated statements of cash flows, cash provided by operating activities is presented as net income adjusted for non-cash items and changes in operating assets and liabilities. Net income increased by \$2.8 million for the three months ended March 31, 2015 as compared to the same period of 2014. The net contribution of non-cash items to cash provided by operating activities increased by \$0.4 million for the three months ended March 31, 2015 as compared to the same period of 2014. The net contribution of changes in operating assets and liabilities to cash provided by operating activities increased by \$5.7 million for the three months ended March 31, 2015 as compared to the same period of 2014.

The \$0.4 million increase in the net contribution of non-cash items to cash provided by operating activities was primarily due to a \$2.5 million decrease in excess tax benefits from stock-based compensation, a \$1.7 million increase in stock-based compensation expense due to increased headcount, a \$0.8 million increase in amortization of intangible assets as a result of the acquisition of AllRegs and a \$0.5 million increase in depreciation from property and equipment placed into service.

Changes in operating assets and liabilities resulted in a net increase of \$5.7 million to cash provided by operating activities for the three months ended March 31, 2015 as compared to the same period in 2014. Our net accounts receivable balance fluctuates from period to period, depending on the amount and timing of sales and billing activity, our customers' payment method, and cash collections. The change in prepaid expenses and other current assets was primarily due to the timing of payments for computer software licenses and marketing events. The change in accounts payable and accrued and other liabilities was due to the timing of additional liabilities and payments in general, and does not reflect any significant change in the nature of accrued liabilities. The increase in deferred revenue is primarily the result of continued sales of publishing subscriptions following the acquisition of AllRegs as well as an increase in sales of professional services, offset by a decrease in undelivered software maintenance as more customers adopt our SaaS platform which does not include the sale of stand-alone maintenance.

## Investing Activities

Our primary investing activities have consisted of purchases and maturities of investments, purchases of property and equipment (including costs incurred to develop internal-use software) and payments for acquisitions (including holdback payments). Purchases of property and equipment may vary from period to period due to the timing of the expansion of our operations and the timing of our software development projects subject to capitalization. We plan to continue to increase investments in hardware and software to support our growth and corporate infrastructure, and we intend to continue pursuing strategic acquisitions.



Cash used in investing activities of \$16.2 million for the three months ended March 31, 2015 was primarily the result of \$16.0 million for purchases of property and equipment and costs incurred to develop internal-use software and website applications, including capital improvements to our new corporate headquarters, investments to bolster our infrastructure and enhance our system capacity, reliability and security and costs to develop our next generation Encompass platform. We also incurred \$0.2 million in net purchases of investments.

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Cash used in investing activities of \$11.6 million for the three months ended March 31, 2014 was the result of \$4.6 million in net purchases of investments, \$2.5 million for purchases of property and equipment and costs incurred to develop internal-use software and website applications and \$4.5 million cash paid for the MortgageCEO acquisition.

### Financing Activities

Financing activities have consisted primarily of cash provided from the exercise of stock options and purchases under the employee stock purchase plan, excess tax benefits from stock-based compensation, payments related to capital lease obligations and tax payments related to shares withheld for vested restricted stock units, or RSUs. In May 2014, our board of directors approved a stock repurchase program under which we are authorized to repurchase up to \$75.0 million of our common stock over a 36-month period, \$72.5 million of which remains available as of March 31, 2015. Under the program, purchases may be made from time to time on the open market, and will be funded from available working capital.

Cash provided by financing activities of \$3.8 million for the three months ended March 31, 2015 consisted primarily of \$5.1 million in proceeds from the exercise of stock options and \$2.9 million in excess tax benefits from stock-based compensation, offset in part by \$2.5 million in common stock repurchases, payments on capital leases of \$1.3 million and tax payments of \$0.3 million related to shares withheld for vested RSUs.

Cash provided by financing activities of \$2.5 million for the three months ended March 31, 2014 consisted primarily of \$2.6 million in proceeds from the exercise of stock options and \$0.4 million in excess tax benefits from stock-based compensation, offset in part by payments on capital leases of \$0.5 million and \$40 thousand related to shares withheld for vested RSUs.

### Off Balance Sheet Arrangements

As of March 31, 2015, we had no off-balance sheet arrangements and operating leases were the only financing arrangements not reported on our condensed consolidated financial statements.

### Contractual Obligations

During the three months ended March 31, 2015, there have been no material changes to our contractual obligations outside the ordinary course of business from those specified in the 2014 Form 10-K.

As described in Note 7 to the Condensed Consolidated Financial Statements, in January 2015, we entered into a lease agreement to finance the purchase of computer equipment for our data centers with payments of \$0.3 million per month over the 24 month term of the agreement. We disclosed the payments associated with this lease as a purchase obligation in the 2014 Form 10-K.

## ITEM 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe that there have been no significant changes in our market risk exposures for the three months ended March 31, 2015, as compared with those discussed in our 2014 Form 10-K.

## ITEM 4—CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.



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Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1—LEGAL PROCEEDINGS

For a description of the material legal proceedings, please see Note 7 of the Notes to Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below and the other information in this report. If any of the following risks materialize, our business could be materially harmed, and our financial condition and results of operations could be materially and adversely affected. The risks described below are not the only ones facing us. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business, results of operations, financial condition and liquidity.

Any future system interruptions that impair access to the Ellie Mae Network or SaaS Encompass could damage our reputation and brand and may substantially harm our business.

The satisfactory performance, reliability and availability of SaaS Encompass, the Ellie Mae Network, our website, our services, including our Encompass Compliance Service, and our network infrastructure are critical to our reputation and our ability to attract and retain Ellie Mae Network participants and Encompass users. Because our service is complex and incorporates a variety of hardware and proprietary and third-party software, our service may have errors or defects that could result in unanticipated downtime for our subscribers. Internet-based services frequently contain undetected errors when first introduced or when new versions or enhancements are released, and we have from time to time found defects in our service and new errors in our service may be detected in the future. In addition, our customers may use our service in unanticipated ways that may cause a disruption in service for other customers attempting to access their data.

Moreover, we have experienced and may in the future continue to experience temporary system interruptions, either to the Ellie Mae Network or to SaaS Encompass hosting locations, for a variety of reasons, including network failures, power failures, software errors, problems with Encompass and other third-party firmware updates, as well as an overwhelming number of Ellie Mae Network participants and Encompass users trying to access our network during periods of strong demand. Since our customers use our service for important aspects of their business, any errors, defects, disruptions in service or other performance problems could result in negative publicity, damage our reputation and brand, reduce our revenue, increase our operating expenses, negatively impact our ability to run our business, hinder our ability to enroll new customers and cause us to lose current customers, all of which could substantially harm our business and operating results.

In addition, our two primary data centers, located in Santa Clara, California and Chicago, Illinois, are hosted by a third-party service provider over which we maintain regular oversight but have little direct control. We depend on this third-party service provider to provide continuous and uninterrupted access to the Ellie Mae Network and SaaS Encompass. If for any reason our relationship with this third party were to end unexpectedly, it could require a significant amount of time to transition the hosting of our data centers to a new third-party service provider. We are also subject to interruptions beyond our and our third party service provider's control, such as disruptions or congestion in the portions of the Internet linking us to our customers. Since we are dependent on third parties for the implementation and maintenance of certain aspects of our systems and because some of the causes of system interruptions may be outside of our control, we may not be able to remedy such interruptions in a timely manner. Our future performance will be highly dependent on our ability to continue to attract SaaS Encompass customers and grow revenues from new on-demand services.

To maintain or increase our revenues, we must increase the number of users of our software and the percentage of our software users who choose our on-demand SaaS Encompass offering, from which we generate greater revenues than from our on-premise license offering for which we will no longer provide software releases or technical support beginning in May 2016. We cannot guarantee our on-demand SaaS strategy, including our Success-Based Pricing model, will continue to be successful. If we are unable to increase the number of SaaS Encompass customers, our business may be materially adversely affected.

Our success will depend, to a large extent, on the willingness of mortgage lenders to continue to accept the SaaS model for delivering software applications that they view as critical to the success of their business. Our success will

substantially depend on our ability to convince enterprises using on-premise enterprise software solutions to invest significant personnel and financial resources to migrate to our SaaS offering. It is difficult to predict customer adoption rates and demand for our services, the future growth rate and size of the SaaS market or the entry of competitive applications. The growth of the SaaS market depends on a number of factors, including the cost, performance and perceived value associated with SaaS offerings, as well as the ability of SaaS companies to address security and privacy concerns. If other SaaS providers experience security incidents, loss of customer data, disruptions in delivery or other problems, the market for SaaS applications as a whole, including our own products and services, may be negatively affected. If there is a reduction in demand for SaaS caused by technological challenges, weakening

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economic conditions, security or privacy concerns, competing technologies and products, decreases in corporate spending or otherwise, it could result in decreased revenues and our business could be adversely affected.

In order to grow our business, we must expand the use of settlement services on, and increase the number of transactions effected through, the Ellie Mae Network.

To grow our base of Ellie Mae Network participants, we and settlement service providers must continue to enhance the features and functionality of offerings to them. In addition, increasing the number of settlement service transactions effected through the Ellie Mae Network will depend, in part, on settlement service providers enhancing their technical capabilities, which is largely beyond our control.

We must also convince a variety of potential Ellie Mae Network participants, including mortgage lenders, originators, settlement service providers and mega lenders, of the benefits of electronic origination and network participation as compared to traditional mortgage origination methods including paper, facsimile, courier, mail and email.

We cannot guarantee that our Ellie Mae Network and other service offerings will achieve market acceptance. In the event these efforts are not successful, our business and growth prospects would be adversely affected.

Our failure to protect the confidential information of our Encompass users, our Ellie Mae Network participants and their respective customers could damage our reputation and brand and substantially harm our business.

Certain confidential information relating to our Encompass users, our Ellie Mae Network participants and their respective customers resides on our third-party hosted data center servers and is transmitted over our network. We rely on encryption as well as authentication technology licensed from third parties to effect secure transmission of confidential information over public networks, including personal information and credit card numbers. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, service provider error, malfeasance or otherwise. Customer data or our confidential information may be lost as a result of employee error or malfeasance. Our servers may also be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems, which could result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our IT systems. Because the techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. The possession and use of personal information in conducting our business subject us to legislative and regulatory burdens that may require notification to customers in the event of a security breach, restrict our use of personal information and hinder our ability to acquire new customers or market to existing customers.

We cannot guarantee that our security measures will prevent security breaches. Any such compromise of our security could damage our reputation and brand and expose us to a risk of loss or litigation or regulatory actions and potential liability, which would substantially harm our business and operating results. We may need to expend significant resources to protect against and remedy any potential security breaches and their consequences.

We cannot accurately predict subscription renewal or upgrade rates and the impact these rates may have on our future revenues and operating results.

Our customers have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period, which ranges from one to five years. They may also choose to renew their subscriptions at lower levels. In addition, in the first year of a subscription, customers often purchase a higher level of professional services than they do in renewal years. As a result, our ability to grow is dependent in part on customers purchasing additional subscriptions and services after the initial subscription term. We cannot accurately predict renewal rates given our varied customer base and the number of multi-year subscription contracts. Our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our services, the prices of our services, the prices of services offered by our competitors or reductions in our customers' spending levels due to the macroeconomic environment or other factors. If our customers do not renew their subscriptions for our services, renew on less favorable terms or do not purchase additional subscriptions or services, our revenues may grow more slowly than expected or decline and our profitability and gross margin percentage may be harmed.

Mortgage lending volume was significantly lower in 2014 than in 2013, and may decrease further in 2015 and future years, which would materially adversely affect our business.

Mortgage lending volume was significantly lower in 2014 than in 2013, and may decrease further in 2015 and future years. Factors that adversely impact mortgage lending volumes include increasing mortgage interest rates, reduced consumer and investor demand for mortgages, more stringent underwriting guidelines, decreased liquidity in the secondary mortgage market, high levels of unemployment, high levels of consumer debt, lower consumer confidence, changes in tax and other regulatory policies, the number of existing mortgages eligible for refinancing and other macroeconomic factors.



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Mortgage interest rates are influenced by a number of factors, including monetary policy. The Federal Reserve Bank may raise the federal funds rate, which would likely cause mortgage interest rates to rise. Increases in mortgage interest rates could reduce the volume of new mortgages originated, in particular the volume of mortgage refinancings. Additionally, because the ratio of applications to closed loans typically is greater with refinancings than with purchase loans, a continued decrease in refinancings would result in fewer mortgage applications per funded loan. Since we generate some Ellie Mae Network revenues during the application process, regardless of whether the loan is eventually funded, this may continue to negatively impact our transaction based revenue.

We currently estimate that approximately 30% to 40% of our revenues have some sensitivity to volume. To the extent there is an additional decrease in residential mortgage volumes in 2015 compared to 2014, we would need to increase our user base and/or our revenue per loan processed by our customers in order to maintain our financial performance. We cannot guarantee we will be successful in these efforts, which could materially adversely affect our business.

A significant decline in mortgage origination volume, such as the significant drop in mortgage volume that occurred in 2014, could also negatively impact our customers, resulting in a reduction of their Encompass users, consolidation with other lenders or cessation of operations. If any of these occurs, it could materially adversely affect our business. We expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.

Our revenues and operating results have in the past varied and could in the future vary significantly from quarter-to-quarter and year-to-year because of a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be indicative of future operating results. In addition to other risk factors discussed in this section, factors that may contribute to the variability of our quarterly and annual results include:

- the number of Encompass users;
- the volume of mortgages originated by Encompass users, especially users on our Success-Based Pricing model;
- transaction volume on the Ellie Mae Network;
- fluctuations in mortgage lending volume;
- the relative mix of purchase and refinance volume handled by Encompass users;
- the level of demand for our services;
- the timing of the introduction and acceptance of Ellie Mae Network offerings and new on-demand services;
- any write-downs in the value of our property and equipment or intangible assets as a result of our investment or acquisition activities;
- costs associated with defending intellectual property infringement and other claims; and
- changes in government regulation affecting Ellie Mae Network participants or our business.

Due to these and other factors, our future results may not reach our internal projections. In addition, our operating results in future periods may not meet the expectations of investors or public market analysts who follow our company, which could cause our stock price to decline rapidly and significantly. The results of any prior quarterly or annual periods should not be relied upon as indications of our future operating performance.

Since part of our sales efforts are targeted at larger customers, our sales cycle may become longer and more expensive, we may encounter pricing pressure and implementation and customization challenges, and we may have to delay revenue recognition for some complex transactions, all of which could harm our business and operating results. Part of our business strategy is to target larger mortgage lenders that handle greater volumes of loans. As we target more of our sales efforts at larger customers, we could face greater costs, longer sales cycles and less predictability in completing some of our sales. In this market, the customer's decision to use our products and services may be an enterprise-wide decision and, if so, this type of sale could require us to provide greater levels of education regarding the use and benefits of our products and services. In addition, larger customers may demand more customization, implementation services and features. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting our own sales and professional services resources to a smaller number of larger transactions, while potentially requiring us to delay revenue recognition on some of these transactions until the technical or implementation requirements have been met.



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Supporting our existing and growing customer base could strain our personnel resources, and if we are unable to scale our operations and increase productivity, we may not be able to successfully implement our business plan.

We continue to experience significant growth in our customer base, which has placed a strain on our management and administrative, operational and financial infrastructure. Additional investments in our implementation capabilities and research and development and general and administrative spending will be required to scale our operations and increase productivity, address the needs of our customers, further develop and enhance our products and services and scale with the overall growth of our company.

In addition, professional services, such as implementation services, are a key aspect of on-boarding new customers. The implementation process is complicated and we will need to scale our capabilities in this area to meet future revenue targets. If a customer is not satisfied with the quality of work performed by us or with the type of services or solutions delivered, then we could incur additional costs to address the situation, the profitability of that work might be impaired, and the customer's dissatisfaction with our products and services could damage our ability to obtain additional work from that customer. In addition, negative publicity related to our customer relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

Our business strategy will place significant demands on our management and our infrastructure and will require significant expenditures and resources.

Our strategy of growing our business has placed and may continue to place significant demands on our management and our administrative, operational and financial infrastructure. As our operations grow in size, scope and complexity, we will need to improve and upgrade our systems and infrastructure, including our data centers and financial reporting systems. These upgrades and improvements are necessary in order to offer an increasing number of customers enhanced solutions, features and functionality and to ensure continued adequate controls over financial reporting.

In addition, the expansion of our systems and infrastructure and improvements to our products will require us to commit substantial financial, operational and technical resources in advance of any anticipated increase in the volume of business, with no assurance that the volume of business or our revenues will actually increase. For example, during 2015, we currently anticipate that we will increase our investment in research and development, enterprise sales, services, technical support, security and our data center infrastructure, including in connection with the development of our next generation Encompass platform. Continued growth could also strain our ability to maintain reliable service levels for our customers, develop and improve our operational, financial and management controls, enhance our reporting systems and procedures and recruit, train and retain highly skilled personnel.

Managing our growth will require significant expenditures and allocation of valuable management resources. We have been aggressively hiring talent in all areas of our business, which has significantly increased our expenses. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business would be harmed. We periodically upgrade and/or replace various software systems to support our growth, including our new enterprise resource planning, or ERP, system. Unanticipated problems impacting the implementation of these systems could significantly increase the expenditures and resources allocated to them, divert the attention of management and harm our business. If the implementations of new applications are delayed, or if we encounter unforeseen problem with our new systems or in migrating away from our existing applications and systems, our operations and our ability to manage our business could be negatively impacted.

Integrating future acquisitions could disrupt our business, harm our financial condition and operating results or dilute or adversely affect the price of our common stock.

Our success will depend in part on our ability to expand our solutions and services and to grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may pursue growth through the acquisition of complementary businesses, solutions or technologies rather than through internal development. For example, in October 2014, we acquired substantially all the assets of Mortgage Resource Center, Inc., dba AllRegs, a provider of research and reference, education, documentation and data and analytics products relating to the mortgage industry. In January 2014, we acquired substantially all the assets of ARG Interactive, LLC (dba MortgageCEO), a SaaS company specializing in customer relationship management and marketing solutions for the residential mortgage industry.

The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to complete acquisitions successfully. Moreover, if such acquisitions require us to seek additional debt or equity financing, we may not be able to obtain such financing on terms favorable to us or at all. Acquisitions and investments involve numerous risks which may have a negative impact on our results of operations, including:

- write-offs of acquired assets or investments;
- potential financial and credit risks associated with acquired customers;
- unknown liabilities associated with the acquired businesses;

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unanticipated expenses related to acquired technology and its integration into existing technology;  
limitations to our ability to recognize revenue from acquired deferred revenue;  
depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation; and  
adverse tax consequences of any such acquisitions.

For example, during the fourth quarter of 2014, we recorded a non-cash impairment charge to intangible assets acquired from MortgageCEO.

Even if we successfully complete an acquisition, we may not be able to assimilate and integrate effectively the acquired business, technologies, solutions, assets, personnel or operations, particularly if key personnel of an acquired company decide not to work for us. We may encounter difficulty in incorporating acquired technologies into our service and maintaining the quality standards that are consistent with our brand and reputation. In addition, we may issue debt or equity securities to complete an acquisition, which could dilute our stockholders' ownership and adversely affect the price of our common stock.

Events similar to the extreme turmoil in the residential mortgage industry that occurred from 2007 to 2009 could adversely affect our business.

From 2007 to 2009, the worldwide credit market was severely disrupted by the global financial crisis due to the precipitous rise of sub-prime mortgage delinquencies and resulting failure of securities backed by mortgages, including these sub-prime mortgages. This crisis resulted in extreme turmoil in the residential mortgage industry and caused many mortgage originators and other mortgage industry participants to go out of business. If the residential mortgage industry were to experience another similar disruptive event, our business could be materially adversely affected.

The residential mortgage industry is heavily regulated and changes in current legislation or new legislation could adversely affect our business.

Changes in the regulations that govern our customers could adversely affect our business.

The U.S. mortgage industry is heavily regulated. Federal and state governments and agencies could enact legislation or other policies that could negatively impact the business of our Encompass users and other Ellie Mae Network participants. Any changes to existing laws or regulations or adoption of new laws or regulations that increase restrictions on the residential mortgage industry may decrease residential mortgage volume or otherwise limit the ability of our Encompass users and Ellie Mae Network participants to operate their businesses, resulting in decreased usage of our solutions.

Changes in current legislation or new legislation may increase our costs by requiring us to update our products and services.

Changes to existing laws or regulations or adoption of new laws or regulations relating to the residential mortgage industry could require us to incur significant costs to update our products and services. Our Encompass Compliance Service analyzes mortgage loan data for compliance with consumer protection laws and institutionally mandated compliance policies and must continually be updated to incorporate changes to such laws and policies. The Dodd-Frank Act has caused and will continue to cause us to make similar updates to Encompass, Encompass Product and Pricing Service, Encompass Docs Solution, TQL and the Ellie Mae Network to address, among other things, regulations that protect consumers against unfair, deceptive and abusive practices by lenders. For example, additional tools and product updates were recently required to address the Ability-to-Repay, or ATR, / Qualified Mortgage, or QM, and Federal and State High Cost rules that became effective in January 2014. In addition, we are updating certain of our products to comply with the TILA-RESPA Integrated Disclosure rule changes that take effect in August 2015. These additions and updates have caused us to incur significant expense, and future updates will likely similarly cause us to incur significant expense. In addition, if our products and services fail to address relevant laws and regulations, we could be subject to claims by our customers that we have breached the warranty provisions in our customer contracts. Such claims could result in substantial costs and we could incur judgments or enter into settlements of claims that could have a material adverse effect on our business.

Potential structural changes in the U.S. residential mortgage industry, in particular plans to diminish the role of Fannie Mae and Freddie Mac, could disrupt the residential mortgage market and have a material adverse effect on our

business.

Fannie Mae and Freddie Mac play a very important role in providing liquidity, stability and affordability in the current U.S. residential mortgage market. In particular, they participate in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities for investment and by issuing guaranteed mortgage-related securities. In February 2011, the Obama administration delivered a report to Congress which proposed the winding down of Fannie Mae and Freddie Mac and shrinking the federal government's role in the housing market. This proposal includes the withdrawal of government guarantees currently available for certain residential loans and increasing the down payment requirements for borrowers, both of which could reduce mortgage lending volume. In February 2012, the Federal Housing Finance Agency sent Congress a strategic plan to wind down

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Fannie Mae and Freddie Mac over the next several years. This proposal includes building a new infrastructure for the secondary mortgage market, continuing to shrink Fannie Mae's and Freddie Mac's operations by eliminating the direct funding of mortgages and shifting mortgage credit risk to private investors and maintaining foreclosure prevention activities and credit availability. In August 2012, the U.S. Department of the Treasury announced it would require Fannie Mae and Freddie Mac to reduce their investment portfolios more quickly, at an annual rate of 15% versus the previous rate of 10%. In June 2013, the U.S. Senate introduced a bill to wind down Fannie Mae and Freddie Mac over five years. This legislation would replace Fannie Mae and Freddie Mac with a new Federal Mortgage Insurance Corporation that would continue to guarantee mortgages, but only after private capital absorbs the first 10% of any losses. In July 2013, the U.S. House of Representatives also unveiled draft legislation to similarly wind down Fannie Mae and Freddie Mac over a five year period. In 2014, four Fannie Mae and Freddie Mac reform measures were active in Congress: the Senate's Johnson-Crapo and Corker-Warner, and the House's PATH Act and HOME Forward Act. In 2015, two Fannie Mae and Freddie Mac reform measures are active in Congress: the Partnership to Strengthen Homeownership Act of 2015 and the Mortgage Finance Act of 2015. The Federal Housing Finance Agency released in March 2015 its report on progress with the 2014 Strategic Plan for Fannie Mae and Freddie Mac Conservatorships. The effects of these proposals, the passage of any of these bills into law or any significant structural change to the U.S. residential mortgage industry may cause significant disruption to the residential mortgage market. If we are unable to react effectively and quickly to changes in the residential mortgage industry, our business could be harmed. We may be limited in the way in which we market our business or generate revenue by U.S. federal law prohibiting referral fees in real estate transactions, and if we are found to be in violation of such laws we would be subject to significant liability.

RESPA generally prohibits the payment or receipt of fees or any other thing of value for the referral of business related to a residential real estate settlement service and prohibits fee shares or splits or unearned fees in connection with the provision of such services. Encompass software and services and the Ellie Mae Network were designed with payment methods that are not currently prohibited by the restrictions under RESPA. Nonetheless, RESPA may restrict our ability to enter into marketing and distribution arrangements with third parties for existing or newly developed products and services, particularly to the extent that such arrangements may be characterized as involving payments for the referral of residential real estate settlement service business. Additionally, any amendments to RESPA or court opinions interpreting the provisions of RESPA that result in restrictions on our current payment methods, or any determination that our payment methods have been and currently are subject to the restrictions under RESPA, could have a material adverse effect on our business. If we were found to be in violation of RESPA rules, we would be exposed to significant potential liability that could have a material adverse effect on our reputation and business.

We depend on key and highly skilled personnel to operate our business, and if we are unable to retain our current or hire additional personnel, our ability to develop and successfully market our business could be harmed.

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, technical, finance, creative and sales and marketing personnel. Moreover, we believe that our future success is highly dependent on the contributions of our named executive officers. All of our officers and other employees are at-will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. In addition, the loss of any key employees or the inability to attract or retain qualified personnel could delay the development and introduction of, and harm our ability to sell, our solutions and harm the market's perception of us. Competition for qualified personnel is particularly intense in the San Francisco Bay Area, where our headquarters are located. Qualified individuals are in high demand, and we may incur significant costs to attract them. We may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing sales, operational and managerial requirements, or may be required to pay increased compensation in order to do so. If we are unable to attract and retain the qualified personnel we need to succeed, our business will suffer.

Volatility or lack of performance in our stock price may also affect our ability to attract and retain our key employees. Our named executive officers are vested in a substantial amount of stock options and performance share awards. Employees may be more likely to leave us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the

vested options, or if the exercise prices of the options that they hold are significantly above the market price of our common stock. If we are unable to retain our named executive officers or other key employees, our business will be harmed.



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We operate in a highly competitive market, which could make it difficult for us to attract and retain Encompass users and Ellie Mae Network participants.

The mortgage origination software market is highly competitive. There are many software providers, such as: Byte Software Inc., a subsidiary of CBCInnovis; Calyx Technology, Inc.; DH Corporation; Mortgage Builder Software, Inc., a subsidiary of Altisource Portfolio Solutions SA; Mortgage Cadence LLC, a subsidiary of Accenture PLC; and Wipro Gallagher Solutions, which is owned by Wipro, Ltd., that compete with us by offering loan origination software to mortgage originators. Some software providers, including Calyx Technology, Inc., also provide connectivity between their software users and lenders and service providers. Other connectivity alternatives are provided by services such as Black Knight Financial Services, LLC, a subsidiary of Fidelity National Financial, Inc., which aggregate service providers to make available such services to mortgage lenders. We also compete with compliance and document preparation service providers that are more established than us. There is vigorous competition among providers of these services and we may not succeed in convincing potential customers using other services to switch to ours. Many service providers connect directly to mortgage originators without using any loan origination software. In addition, some of our competitors are consolidating which facilitates greater cross-selling of services, which could weaken our ability to differentiate our offering in the market. Some of our competitors also offer services on a per closed loan basis, which could adversely impact the effectiveness of our Success-Based Pricing strategy for increasing the number of SaaS Encompass customers. If we are unsuccessful in competing effectively by providing attractive functionality, customer service or value, we could lose existing Encompass users to our competitors and our ability to attract new Encompass users could be harmed.

We only offer our Encompass services to Encompass users. There are many other service providers that offer our Encompass users competing services, including borrower-facing websites, document preparation services, compliance services and EDM. We may be unsuccessful in continuing to differentiate our Encompass service offerings to the extent necessary to effectively compete in some or all of these markets.

The Ellie Mae Network is only available to mortgage originators using Encompass. The principal alternative to the use of the Ellie Mae Network by Encompass users remains traditional methods of exchanging data and documents among mortgage industry participants by email, facsimile, phone, courier and mail. In addition, mortgage originators may use standalone web browsers to go individually to each investor, lender or service provider's website and then manually upload loan data or enter information into the website. Mortgage originators may continue to use these methods due to habit, personal business relationships or otherwise. The success of the Ellie Mae Network depends on our ability to achieve and offer access to both the critical mass of investors, lenders and service providers necessary to attract and retain mortgage originators using Encompass on the Ellie Mae Network and the critical mass of active mortgage originators necessary to attract and retain investors, lenders and service providers on our network. Some of our actual and potential competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do and, as a result, these companies may be able to respond more quickly to changes in regulations, new technologies or customer demands, or devote greater resources to the development, promotion and sale of their software and services than we can. In addition, we may face increased competition as a result of continuing industry consolidation, such as: Altisource Portfolio Solutions SA's acquisition of Mortgage Builder Software, Inc. in July 2014; Accenture PLC's acquisition of Mortgage Cadence LLC in August 2013; DH Corporation's acquisitions of Harland Financial Solutions in August 2013, Mortgagebot LLC in April 2011 and Avista Solutions, Inc. in May 2012; Optimal Blue, Inc.'s acquisition of LoanSifter, Inc. in December 2013 and Fidelity National Financial, Inc.'s acquisition of Lender Processing Services, Inc. in January 2014. We expect the mortgage origination market to continue to attract new competitors and there can be no assurance that we will be able to compete successfully against current or future competitors or that competitive pressures we face will not materially adversely affect our business.

Failure to adapt to technological changes may render our technology obsolete or decrease the attractiveness of our solutions to our customers.

If new industry standards and practices emerge, or if competitors introduce new solutions embodying new services or technologies, Encompass and the Ellie Mae Network technology may become obsolete. Our future success will depend on our ability to:

- enhance our existing solutions;
- develop and potentially license new solutions and technologies that address the needs of our prospective customers;
- and
- respond to changes in industry standards and practices on a cost-effective and timely basis.

We must continue to enhance the features and functionality of Encompass, other Encompass services and the Ellie Mae Network. The effective performance, reliability and availability of Encompass, Encompass services and the Ellie Mae Network infrastructure are critical to our reputation and our ability to attract and retain Encompass users and Ellie Mae Network participants. If we do not continue to make investments in product development and, as a result, or due to other reasons, fail to attract new and

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retain existing mortgage originators, lenders, investors and service providers, we may lose existing Ellie Mae Network participants, which could significantly decrease the value of the Ellie Mae Network to all participants and materially adversely affect our business.

Failure to adequately protect our intellectual property could harm our business.

The protection of our intellectual property rights, including our proprietary Encompass software and Ellie Mae Network technology, is crucial to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret law and contractual restrictions to protect our intellectual property. Our present and future patents may provide only limited protection for our technology and may not be sufficient to provide competitive advantage to us. Furthermore, we cannot guarantee any patents will be issued to us as a result of our patent applications. We also rely in part on confidentiality and invention assignment agreements with our employees, independent contractors and consultants. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our Ellie Mae Network and Encompass features and functionality or obtain and use information that we consider proprietary. Enforcing our proprietary rights is difficult and may not always be effective. We have registered “Ellie Mae,” “Encompass” and “AllRegs” and certain of our other trademarks as trademarks in the United States. Competitors may adopt service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to customer confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of the terms Ellie Mae, Encompass or our other trademarks.

Litigation or proceedings before the U.S. Patent and Trademark Office or other governmental authorities and administrative bodies in the United States and abroad may be necessary in the future to enforce our intellectual property rights, protect our patent and copyright rights, trade secrets and domain names and determine the validity and scope of the proprietary rights of others. Our efforts to enforce or protect our proprietary rights may be ineffective and could result in substantial costs and diversion of resources and could harm our business.

Assertions that we infringe third-party intellectual property rights could result in significant costs and substantially harm our business.

Other parties have asserted, and may in the future assert, that we have infringed their intellectual property rights. For example, on March 25, 2011, we were named a defendant in a patent infringement lawsuit filed by Industry Access Incorporated alleging that our Encompass loan management software system and related operations infringes a patent and on March 19, 2013, Industry Access filed a second patent infringement lawsuit against us alleging that our products and services infringe two additional patents. We settled this matter in the third quarter of 2014. In addition, we generally agree to indemnify our customers against legal claims that our software products infringe intellectual property rights of third parties and, in the event of an infringement, to modify or replace the infringing product or, if those options are not reasonably possible, to refund the cost of the software, as pro-rated over a period of years. We cannot predict whether assertions of third-party intellectual property rights or claims arising from such assertions will substantially harm our business and operating results. If we are forced to defend against any infringement claims, whether they are with or without merit or are determined in our favor, we may face costly litigation and diversion of technical and management personnel. Furthermore, an adverse outcome of a dispute may require us to: pay damages, potentially including treble damages and attorneys’ fees if the infringement were found to be willful; cease providing solutions that allegedly incorporate the intellectual property of others; expend additional development resources to redesign or re-engineer our solutions and products, if feasible; and enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies. We cannot be certain of the outcome of any litigation. Any royalty or licensing agreement, if required, may not be available to us on acceptable terms or at all. Our failure to obtain the necessary licenses or other rights could prevent the sale or distribution of some of our products and services and, therefore, could have a material adverse effect on our business.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could result in a loss of investor confidence in our financial reports, significant expenses to remediate any internal control deficiencies and ultimately have an adverse effect on the market price of our common stock.

As a publicly-traded company, we are subject to compliance with, among other regulations, Section 404 of the Sarbanes-Oxley Act of 2002, or SOX, which requires that we test our internal control over financial reporting and disclosure controls and procedures. Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our compliance with SOX requires that we incur substantial expense and expend significant management time on compliance-related issues. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could harm our operating results and lead to a decline in our stock price. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to

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potential delisting from the New York Stock Exchange, regulatory investigations, civil or criminal sanctions and class action litigation.

As a third-party technology service provider of mission-critical products and services to many financial institutions that are regulated by one or more member agencies of the Federal Financial Institutions Examination Council, or FFIEC, we are subject to an IT examination by the member agencies of the FFIEC. As a result, the FFIEC conducts recurring IT Examinations in order to identify existing or potential risks associated with our operations that could adversely affect the financial institutions to whom we provide products and services, evaluate our risk management systems and controls and determine our compliance with applicable laws that affect the products and services we provide to financial institutions. In addition to examining areas such as our management of technology, data integrity, information confidentiality and service availability, the reviews also assess our financial stability. In June 2014 the FDIC, a member agency of the FFIEC, completed its IT examination, and found that, while the services we provide to our client banks are satisfactory, several matters required further attention, some of which were repeat findings and recommendations from the FDIC's 2012 examination. Although management has developed a plan for addressing these matters, we cannot be assured that the plan will satisfy the FDIC or applicable law. A sufficiently unfavorable review from the FFIEC in the future could have a material adverse effect on our business and financial condition.

If one or more U.S. states or local jurisdictions successfully assert that we should have collected or in the future should collect additional sales or use taxes on our fees, we could be subject to additional liability with respect to past or future sales, and the results of our operations could be adversely affected.

We do not collect state and local sales and use taxes on all sales in all jurisdictions in which our customers are located, based on our belief that such taxes are not applicable. Sales and use tax laws and rates vary by jurisdiction and such laws are subject to interpretation. Jurisdictions in which we do not collect sales and use taxes may assert that such taxes are applicable, which could result in the assessment of such taxes, interest and penalties, and we could be required to collect such taxes in the future. This additional sales and use tax liability could adversely affect the results of our operations.

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

Our systems and operations are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war and similar events. For example, a significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, operating results and financial condition, and our insurance coverage may be insufficient to compensate us for losses that may occur. Our corporate offices and one of the facilities we lease to house our computer and telecommunications equipment are located in the San Francisco Bay Area, a region known for seismic activity. In addition, acts of terrorism, which may be targeted at metropolitan areas with higher population density than rural areas, could cause disruptions in our or our customers' businesses or the economy as a whole. We may not have sufficient protection or recovery plans in certain circumstances, such as natural disasters affecting the San Francisco Bay Area, and our business interruption insurance may be insufficient to compensate us for losses that may occur.

Our stock price is volatile and purchasers of our common stock could incur substantial losses.

The trading price of our common stock may be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition to the factors discussed in this "Risk Factors" section and elsewhere in our filings with the SEC, these factors include:

- our operating performance and the operating performance of similar companies;
- the overall performance of the equity markets;
- the number of shares our common stock publicly owned and available for trading;
- threatened or actual litigation;
- changes in laws or regulations relating to our solutions;
- any major change in our board of directors or management;
- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- large volumes of sales of our shares of common stock by existing stockholders; and

general political and economic conditions.

In addition, the stock market in general has experienced extreme price and volume fluctuations. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business.

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Our stock repurchase program may be suspended or terminated at any time, which may result in a decrease in the trading price of our common stock.

Our board of directors previously approved a stock repurchase program under which we are authorized to repurchase up to \$75.0 million of our common stock over a 36-month period, \$72.5 million of which remains available as of March 31, 2015. Such stock repurchases may be limited, suspended, or terminated at any time without prior notice. There can be no assurance that we will repurchase additional shares of our common stock under our stock repurchase program or that any future repurchases will have a positive impact on the trading price of our common stock or earnings per share. Important factors that could cause us to limit, suspend or terminate our stock repurchase program include, among others, unfavorable market conditions, the trading price of our common stock, the nature of other investment or strategic opportunities presented to us from time to time, the rate of dilution of our equity compensation programs, the availability of adequate funds, and our ability to make appropriate, timely, and beneficial decisions as to when, how, and whether to purchase shares under the stock repurchase program. If we limit, suspend or terminate our stock repurchase program, our stock price may be negatively affected.

If securities or industry analysts discontinue publishing research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Certain provisions in our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our board of directors. These provisions include:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, the president or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

We are also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction.





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ISSUER PURCHASES OF EQUITY SECURITIES

	(a)	(b)	(c)	(d)
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value or Shares that May Yet be Purchased Under the Plans or Programs (1)
January 1, 2015 to January 31, 2015	—	\$—	—	\$75,000,000
February 1, 2015 to February 28, 2015	—	\$—	—	\$75,000,000
March 1, 2015 to March 31, 2015	48,450	\$52.00	48,450	\$72,480,576
Total	48,450	\$52.00	48,450	

(1) In May 27, 2014, our board of directors approved a stock repurchase program under which we are authorized to repurchase up to \$75.0 million of our common stock, which expires in May 2017.

## ITEM 3—DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4—MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5—OTHER INFORMATION

Not applicable.

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ITEM 6—EXHIBITS

Exhibit Number	Description of Document
10.1(1)#	Fourth Amended and Restated Employment Agreement, dated January 5, 2015, between Ellie Mae, Inc. and Sigmund Anderman.
10.2(2)#	Employment Agreement, dated January 5, 2015, between Ellie Mae, Inc. and Jonathan H. Corr.
10.3#	Amended and Restated 2015 Senior Executive Performance Share Program, dated as of March 23, 2015.
10.4#	Promotion Letter with Cathleen Schreiner Gates, dated as of March 23, 2015.
10.5#	Promotion Letter with Joseph Tyrrell, dated as of March 23, 2015.
10.6(3)#	Form of Change of Control Severance Agreement by and between Ellie Mae, Inc. and each of Jonathan Corr, Limin Hu, Cathleen Schreiner Gates, Edgar Luce, and Joseph Tyrrell.
10.7#	Non-Employee Director Equity Compensation Policy.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

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(1) Previously filed as exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on January 5, 2015 and incorporated herein by reference.

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- (2) Previously filed as exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on January 5, 2015 and incorporated herein by reference.
- (3) Previously filed as exhibit 10.5 to the Registrant's Annual Report on Form 10-K, filed on March 2, 2015 and incorporated herein by reference.
- \* Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.

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# Indicates management contract or compensatory plan.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ELLIE MAE, INC.

Date: May 7, 2015

By: /s/ Edgar A. Luce  
Edgar A. Luce  
Executive Vice President, Finance and  
Administration and  
Chief Financial Officer  
(Principal Financial and Accounting Officer and  
duly authorized signatory)