ELLIE MAE INC
Form 10-Q
November 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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<br>(State or other jurisdiction of incorporation or organization) | 94-3288780<br>(I.R.S. Employer Identification No.) |
| 4420 Rosewood Drive, Suite 500<br>Pleasanton, California | 94588 |
| (Address of principal executive offices) | (Zip Code) |

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

As of November 3, 2015:

| Class | Number of Shares |
| --- | --- |
| Common Stock, $0.0001 par value | 29,822,037 |

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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)

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $52,417 | $26,756 |
| Short-term investments | 57,933 | 49,352 |
| Accounts receivable, net of allowances for doubtful accounts of $77 and $66 as of September 30, 2015 and December 31, 2014, respectively | 28,924 | 20,403 |
| Prepaid expenses and other current assets | 16,419 | 16,021 |
| Total current assets | 155,693 | 112,532 |
| Property and equipment, net | 72,440 | 28,694 |
| Long-term investments | 48,930 | 58,679 |
| Intangible assets, net | 17,763 | 21,452 |
| Deposits and other assets | 6,183 | 3,425 |
| Goodwill | 65,338 | 65,338 |
| Total assets | $366,347 | $290,120 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $9,162 | $6,726 |
| Accrued and other current liabilities | 28,652 | 16,822 |
| Acquisition holdback, net of discount | 522 | 522 |
| Deferred revenue | 13,392 | 9,729 |
| Total current liabilities | 51,728 | 33,799 |
| Leases payable, net of current portion | 1,303 | 443 |
| Other long-term liabilities | 19,736 | 2,994 |
| Total liabilities | 72,767 | 37,236 |
| Commitments and contingencies (Note 9) | | |
| Stockholders' equity: | | |
| Common stock, $0.0001 par value per share; 140,000,000 authorized shares, 29,796,381 and 28,907,147 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively | 3 | 3 |
| Additional paid-in capital | 273,171 | 242,527 |
| Accumulated other comprehensive income (loss) | 62 | (95) |
| Retained earnings | 20,344 | 10,449 |
| Total stockholders' equity | 293,580 | 252,884 |
| Total liabilities and stockholders' equity | $366,347 | $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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | $68,939 | $42,798 | $189,070 | $114,960 |
| Cost of revenues | 22,441 | 11,669 | 60,653 | 31,563 |
| Gross profit | 46,498 | 31,129 | 128,417 | 83,397 |
| Operating expenses: | | | | |
| Sales and marketing | 9,082 | 6,245 | 27,646 | 18,791 |
| Research and development | 11,138 | 6,456 | 28,717 | 19,348 |
| General and administrative | 16,658 | 9,556 | 43,109 | 28,100 |
| Total operating expenses | 36,878 | 22,257 | 99,472 | 66,239 |
| Income from operations | 9,620 | 8,872 | 28,945 | 17,158 |
| Other income, net | 154 | 134 | 439 | 343 |
| Income before income taxes | 9,774 | 9,006 | 29,384 | 17,501 |
| Income tax provision | 3,552 | 3,989 | 11,948 | 6,978 |
| Net income | $6,222 | $5,017 | $17,436 | $10,523 |
| Net income per share of common stock: | | | | |
| Basic | $0.21 | $0.18 | $0.60 | $0.38 |
| Diluted | $0.20 | $0.17 | $0.57 | $0.36 |
| Weighted average common shares used in computing net income per share of common stock: | | | | |
| Basic | 29,363,621 | 28,007,770 | 29,076,820 | 27,657,217 |
| Diluted | 31,005,651 | 29,661,211 | 30,773,353 | 29,332,162 |
| | | | | |
| Net income | $6,222 | $5,017 | $17,436 | $10,523 |
| Other comprehensive income, net of taxes: | | | | |
| Unrealized gain (loss) on investments | 27 | (75) | 157 | (3) |
| Comprehensive income | $6,249 | $4,942 | $17,593 | $10,520 |

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)

| | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $17,436 | $10,523 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 7,324 | 3,933 |
| Provision for uncollectible accounts receivable | 14 | 12 |
| Amortization of intangible assets | 3,689 | 1,575 |
| Amortization of discount related to acquisition holdback | — | 36 |
| Stock-based compensation expense | 17,604 | 10,540 |
| Excess tax benefit from stock-based compensation | (3,828) | (5,306) |
| Deferred income taxes | 9,977 | (37) |
| Loss on disposal of property and equipment | 91 | — |
| Amortization of investment premium | 778 | 972 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (8,535) | (5,856) |
| Prepaid expenses and other current assets | (394) | 644 |
| Deposits and other assets | (985) | (632) |
| Accounts payable | 303 | 1,172 |
| Accrued, other current and other liabilities | 17,366 | 7,258 |
| Deferred revenue | 3,696 | (54) |
| Net cash provided by operating activities | 64,536 | 24,780 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (20,677) | (4,523) |
| Acquisition of internal-use software | (20,706) | (8,316) |
| Proceeds from sale of property and equipment | 58 | — |
| Purchases of investments | (39,243) | (49,662) |
| Maturities of investments | 39,790 | 42,965 |
| Acquisitions, net of cash acquired | — | (6,500) |
| Net cash used in investing activities | (40,778) | (26,036) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of capital lease obligations | (2,891) | (987) |
| Proceeds from issuance of common stock under employee stock plans | 12,770 | 8,002 |
| Payments for repurchase of common stock | (8,830) | — |
| Tax payments related to shares withheld for vested restricted stock units | (2,974) | (668) |
| Excess tax benefit from stock-based compensation | 3,828 | 5,306 |
| Net cash provided by financing activities | 1,903 | 11,653 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 25,661 | 10,397 |
| CASH AND CASH EQUIVALENTS, Beginning of period | 26,756 | 33,462 |
| CASH AND CASH EQUIVALENTS, End of period | $52,417 | $43,859 |

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $101 | $41 |
| Cash paid for income taxes | $15 | $43 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Fixed asset purchases accrued but not paid | $3,055 | $664 |
| Stock-based compensation capitalized to property and equipment | $705 | $350 |
| Acquisition of property and equipment under capital leases | $6,998 | $1,269 |

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 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 during the nine months ended September 30, 2015.

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Other Income, Net

Other income, net consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Interest income | $181 | $146 | $512 | $412 |
| Net realized loss on investments | — | — | — | (7) |
| Interest expense | (27) | (12) | (73) | (62) |
| Total other income, net | $154 | $134 | $439 | $343 |

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 loss on investments which was not significant, there were no reclassifications out of accumulated other comprehensive income (loss) that affected net income during the three and nine months ended September 30, 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. This standard also requires significantly expanded disclosures about revenue recognition. In August 2015, the FASB deferred the effective date of this standard by one year. The new effective date for public entities will be for fiscal years, and interim periods within those years, beginning after December 15, 2017, but entities will be permitted to early adopt the standard as of the original effective date. The Company has not yet developed an expectation of the impact that adoption will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles—Goodwill and Other—Internal-Use Software: Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (“ASU 2015-05”), which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software. This standard 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.

In September 2015, the FASB issued ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”), which requires that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. This standard 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands, except share and per share amounts) | | | |
| Net income | $6,222 | $5,017 | $17,436 | $10,523 |
| Basic shares: | | | | |
| Weighted average common shares outstanding | 29,363,621 | 28,007,770 | 29,076,820 | 27,657,217 |
| Diluted shares: | | | | |
| Weighted average shares used to compute basic net income per share | 29,363,621 | 28,007,770 | 29,076,820 | 27,657,217 |
| Effect of potentially dilutive securities: | | | | |
| Employee stock options, RSUs, performance-vesting RSUs, Performance Awards and ESPP shares | 1,642,030 | 1,653,441 | 1,696,533 | 1,674,945 |
| Weighted average shares used to compute diluted net income per share | 31,005,651 | 29,661,211 | 30,773,353 | 29,332,162 |
| Net income per share: | | | | |
| Basic | $0.21 | $0.18 | $0.60 | $0.38 |
| Diluted | $0.20 | $0.17 | $0.57 | $0.36 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Employee stock options and awards | 306,377 | 840,161 | 230,106 | 914,197 |

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, 214,014 and 106,250 shares underlying performance-vesting RSUs and Performance Awards were excluded from the dilutive shares outstanding for each of the three and nine months ended September 30, 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 | Fair Value Measurements Using Inputs Considered as | | |
|---|---|---|---|---|
| | September 30, 2015 | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| Money market funds | $4,444 | $4,444 | $— | $— |
| Certificates of deposit | 12,552 | — | 12,552 | — |
| Corporate notes and obligations | 30,252 | — | 30,252 | — |
| Municipal obligations | 1,740 | — | 1,740 | — |
| U.S. government and government agency obligations | 62,319 | 17,313 | 45,006 | — |
| | $111,307 | $21,757 | $89,550 | $— |

| | Fair Value at | Fair Value Measurements Using Inputs Considered as | | |
|---|---|---|---|---|
| | December 31, 2014 | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| 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 September 30, 2015 and December 31, 2014, the Company did not have any assets or liabilities that were valued using Level 3 inputs. For the three and nine months ended September 30, 2015 and 2014, there were no transfers of financial instruments among Level 1, Level 2 or Level 3 classifications.

For the three and nine months ended September 30, 2015, the Company recognized interest income from financial instruments of $0.2 million and $0.5 million, respectively. For the three and nine months ended September 30, 2014, the Company recognized interest income from financial instruments of $0.1 million and $0.4 million, respectively.

Gross realized gains and gross realized losses from the sale of investments were not significant during the three and nine months ended September 30, 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:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Carrying or Fair Value |
| | (in thousands) | | | |
| Cash and cash equivalents: | | | | |
| Cash | $47,973 | $— | $— | $47,973 |
| Money market funds | 4,444 | — | — | 4,444 |
| | $52,417 | $— | $— | $52,417 |
| Investments: | | | | |
| Corporate notes and obligations | $30,269 | $21 | $(38) | $30,252 |
| Certificates of deposit | 12,544 | 17 | (9) | 12,552 |
| Municipal obligations | 1,737 | 3 | — | 1,740 |
| U.S. government and government agency obligations | 62,251 | 81 | (13) | 62,319 |
| | $106,801 | $122 | $(60) | $106,863 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Carrying or Fair Value |
| | (in thousands) | | | |
| 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:

| | September 30, 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 | $9,102 | $(30) | $4,232 | $(8) | $13,334 | $(38) |
| Certificates of deposit | 3,634 | (9) | 245 | — | 3,879 | (9) |
| U.S. government and government agency obligations | 6,392 | (11) | 1,928 | (2) | 8,320 | (13) |
| | $19,128 | $(50) | $6,405 | $(10) | $25,533 | $(60) |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $19,535 | $(40) | $— | $— | $19,535 | $(40) |
| Certificates of deposit | 5,735 | (21) | — | — | 5,735 | (21) |
| U.S. government and government agency obligations | 34,899 | (73) | — | — | 34,899 | (73) |
| | $60,169 | $(134) | $— | $— | $60,169 | $(134) |

The following table summarizes the maturities of the Company's investments at September 30, 2015:

| | Carrying or Fair Value |
|---|---|
| | (in thousands) |
| Remainder of 2015 | $19,696 |
| 2016 | 46,378 |
| 2017 | 27,898 |
| 2018 | 12,891 |
| Total | $106,863 |

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

NOTE 5—Acquisitions

Subsequent to September 30, 2015 , the Company acquired substantially all the assets of Mortgage Returns, LLC, a company based in St. Louis, Missouri, which provides on-demand customer relationship management, and marketing automation solutions for the mortgage industry on October 14, 2015. The Company paid approximately $16.0 million in cash, of which $2.4 million has been placed in escrow to cover any indemnity claims. Any amount remaining in escrow 18 months after the date of acquisition will be repatriated to the seller. The transaction will be accounted for as a business combination and the total purchase price will be allocated to the assets acquired and liabilities assumed based on their respective fair values.

Given the timing of the completion of the acquisition, we are currently in the process of valuing the assets acquired and liabilities assumed in the acquisition. As a result, we are unable to provide the amount recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed. We will provide these disclosures in our Annual Report on Form 10-K for the fourth quarter of 2015.

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NOTE 6—Balance Sheet Components

Property and Equipment

Property and equipment, net, consisted of the following:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in thousands) | |
| Computer equipment and software[1] | $43,995 | $24,014 |
| Furniture and fixtures[1] | 4,924 | 1,929 |
| Leasehold improvements | 14,405 | 2,289 |
| Property and equipment[1] | 63,324 | 28,232 |
| Accumulated depreciation and amortization[1] | (25,047) | (17,838) |
| Net property and equipment | 38,277 | 10,394 |
| Internal-use software and other assets not placed in service | 34,163 | 18,300 |
| | $72,440 | $28,694 |

[1] Certain reclassifications of prior period amounts have been made, such reclassifications did not materially change previously reported consolidated financial statements.

The cost of property and equipment at September 30, 2015 included a total of $8.4 million of computer equipment and $1.5 million of software under capital leases. Accumulated amortization relating to computer equipment and software under capital leases totaled $2.5 million at September 30, 2015. The cost of property and equipment at December 31, 2014 included a total of $2.0 million of computer equipment and $0.5 million of software under capital leases. Accumulated amortization relating to computer equipment and software under capital leases totaled $0.9 million at December 31, 2014.

Depreciation expense for the three months ended September 30, 2015 and 2014 was $3.0 million and $1.5 million, respectively, and for the nine months ended September 30, 2015 and 2014 was $7.3 million and $3.9 million, respectively. Amortization of assets under capital leases which is included in depreciation expense for the three months ended September 30, 2015 and 2014 was $0.7 million and $0.2 million, respectively, and for the nine months ended September 30, 2015 and 2014 was $1.6 million and $1.5 million, respectively.

Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in thousands) | |
| Accrued payroll and related expenses | $19,898 | $11,071 |
| Accrued commissions | 766 | 917 |
| Accrued professional fees | 353 | 362 |
| Accrued royalties | 1,033 | 919 |
| Sales and other taxes | 1,109 | 357 |
| Current portion of leases payable | 3,669 | 422 |
| Other accrued expenses | 1,824 | 2,774 |
| | $28,652 | $16,822 |

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NOTE 7— Goodwill and Intangible Assets

There were no changes in the carrying value of goodwill during the three and nine months ended September 30, 2015. Other intangible assets, net, consisted of the following:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Intangibles | Weighted Average Remaining Useful Life |
| | (in thousands) | | | (in years) |
| Assets subject to amortization: | | | | |
| Developed technology | $7,035 | $(4,360) | $2,675 | 1.7 |
| Customer relationships | 17,200 | (6,157) | 11,043 | 4.6 |
| Trade names | 301 | (295) | 6 | 0.3 |
| Total assets subject to amortization: | 24,536 | (10,812) | 13,724 | 4.1 |
| Assets not subject to amortization: | | | | |
| Trade names | 4,039 | — | 4,039 | |
| | $28,575 | $(10,812) | $17,763 | |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Intangibles | Weighted Average Remaining 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 $1.2 million and $3.7 million for the three and nine months ended September 30, 2015, respectively. Amortization expense associated with intangible assets was $0.5 million and $1.6 million for the three and nine months ended September 30, 2014, respectively.

Minimum future amortization expense for intangible assets at September 30, 2015 was as follows:

| | Amortization |
|---|---|
| | (in thousands) |
| Remainder of fiscal 2015 | $1,179 |
| 2016 | 4,182 |
| 2017 | 2,943 |
| 2018 | 2,093 |
| 2019 | 1,863 |
| 2020 | 1,464 |
| | $13,724 |

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NOTE 8—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 adjusts 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 September 30, 2015 and 2014 was 40.7% and 39.9%, respectively.

The difference between the federal statutory rate of 35% and the Company's estimated effective tax rate for the three and nine months ended September 30, 2015 was primarily due to the Company's state income tax provision and non-deductible stock-based compensation expenses.

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 recognized a charge of $24,000 for the three months ended September 30, 2015 related to the adjustments made to the tax benefit for the exercise of employee stock options and the vesting of RSUs, performance-vesting RSUs and Performance Award. The Company recorded a tax benefit of $3.8 million for the nine months ended September 30, 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 nine months ended September 30, 2015 and 2014, respectively.

NOTE 9—Commitments and Contingencies

Leases

As of September 30, 2015, the Company leased seven facilities under operating lease arrangements. The lease expiration dates range from January 2016 to December 2024. Certain leases contain escalation clauses calling for increased rents. The Company recognizes rent expense on a straight-line basis over the lease period and has recorded deferred rent for the difference between rent payments and rent expense recognized. In July 2015, the Company entered into an amendment to the Company's existing office lease in Pleasanton, California to expand its office space. The term of the lease for the expanded office space in Pleasanton, California commences on January 1, 2016 and ends on December 31, 2024, with payments ranging from $79,000 per month to $103,500 per month.

The Company leases certain fixed assets under noncancelable capital leases with various expiration dates.

Future minimum lease payments under noncancelable operating and capital leases at September 30, 2015 consisted of the following:

| | Capital Leases | Operating Leases |
|---|---|---|
| | (in thousands) | |
| 2015 | $855 | $ 162 |
| 2016 | 3,704 | 4,531 |
| 2017 | 473 | 4,852 |
| 2018 | — | 4,896 |
| 2019 | — | 4,844 |
| 2020 | — | 4,834 |
| Thereafter | — | 20,407 |
| Total minimum lease payments | 5,032 | $ 44,526 |
| Less amount representing interest | (60) | |
| Present value of minimum lease payments | 4,972 | |

| | |
|---|---|
| Less current portion | (3,669 ) |
| Long-term portion of lease obligations | $1,303 |

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

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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.

The Company was recently engaged in an arbitration proceeding with the founder of MortgageCEO, a business the Company purchased in the first quarter of 2014. The proceeding involved an employment claim against the Company with respect to, among other things, the vesting of certain restricted stock units granted to the founder of MortgageCEO, and a breach of contract counterclaim and other causes of action. In October 2015, the arbitrator ruled in favor of the Company and awarded the Company contractual damages and attorneys' fees.

NOTE 10—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.

Total stock-based compensation expense recognized consisted of:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Cost of revenues | $761 | $441 | $2,189 | $1,065 |
| Sales and marketing | 783 | 247 | 1,973 | 1,127 |
| Research and development | 1,438 | 1,038 | 3,961 | 2,610 |
| General and administrative | 3,538 | 1,326 | 9,481 | 5,738 |
| | $6,520 | $3,052 | | |