ELLIE MAE INC
Form 10-Q/A
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No.1)

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35140

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “small reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	o	Smaller reporting company	¨
		Emerging growth company	¨

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

Indicate by check mark whether the registrant is a shell company (as defined 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 October 31, 2018:

Class	Number of Shares
Common Stock, $0.0001 par value	34,841,403

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EXPLANATORY NOTE

Ellie Mae, Inc. ("Ellie Mae," and the "Company") is filing this amended Form 10-Q/A ("Form 10-Q/A") to amend its Quarterly Report on Form 10-Q for the period ended June 30, 2018, that was originally filed with the Securities and Exchange Commission (the "SEC") on August 7, 2018 ("Original Filing"), to restate its unaudited condensed balance sheet as of June 30, 2018, and its unaudited condensed statement of comprehensive income, its unaudited condensed statement of cash flows, and related footnote disclosures for the three and six months ended June 30, 2018. As described in Item 4.02 of our Current Report on Form 8-K filed on October 25, 2018, the previously filed unaudited condensed financial statements for this period should no longer be relied upon. This Form 10-Q/A also amends certain other items in the Original Filing, as listed in "Items Amended in this Form 10 -Q/A" below.

The Company is concurrently filing an amendment to its Quarterly Report on Form 10-Q for the period ended March 31, 2018 to similarly restate its unaudited condensed financial statements and related financial information at March 31, 2018 and to amend certain other items within that report.

The decision to restate the Company's financial statements previously reported on its Quarterly Reports on Forms 10-Q for the first and second quarters of 2018, was approved by, and with the continuing oversight of, the Company's Audit Committee.

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), as amended, ("Topic 606") using the modified retrospective method and applied Topic 606 to those contracts which were not completed as of January 1, 2018. The Company has reassessed its application of certain aspects of Topic 606; and concluded that it did not adequately constrain the variable consideration included in the transaction price such that, at the time of adoption, it was probable that a significant revenue reversal would not occur. The Company also identified additional costs to obtain contracts that should have been recorded to its opening balances upon adoption of Topic 606.

Refer to Note 2 "Restatement of Previously Issued Financial Statements" in the notes to the financial statements for additional information on the impact of the restatement.

In connection with this restatement, the Company's management determined that there were deficiencies in internal control over financial reporting that constituted a material weakness at June 30, 2018. Accordingly, the Company's management concluded that the Company's disclosure controls and procedures were not effective at June 30, 2018, as discussed in Item 4 of this Amendment.

Items Amended in this Form 10-Q/A

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in its entirety, as modified and superseded as necessary to reflect the restatement described above. Accordingly, the Amendment does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures affected by subsequent events. The disclosures impacted by the restatement include, but are not limited to, those related to revenue, contract assets, deferred revenue, deferred costs, tax, and retained earnings. The following items in the Original Filing have been amended as a result of, and to reflect, the restatement:

A. Part I, Item 1. Financial Statements
B. Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation
C. Part I, Item 4. Controls and Procedures
D. Part II, Item 6. Exhibits

The Company also updated the signature page, the certifications from the Chief Executive Officer and Interim Chief Financial Officer in Exhibits 31.1, 31.2, 32.1, and 32.2, and the financial statements formatted in Extensible Business Reporting Language (XBRL).

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PART I—FINANCIAL INFORMATION
ITEM 1—CONDENSED FINANCIAL STATEMENTS
Ellie Mae, Inc.
CONDENSED BALANCE SHEETS
(UNAUDITED)
(in thousands)

	June 30, 2018 (As Restated)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$118,312	$137,698
Short-term investments	124,640	103,345
Accounts receivable, net	50,674	43,121
Prepaid expenses and other current assets	30,404	18,474
Total current assets	324,030	302,638
Property and equipment, net	210,233	186,991
Long-term investments	81,383	107,363
Intangible assets, net	68,374	80,874
Deposits and other assets	32,865	9,290
Goodwill	144,279	144,451
Total assets	$861,164	$831,607
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$18,748	$24,913
Accrued and other current liabilities	33,261	26,188
Deferred revenues	20,306	26,287
Total current liabilities	72,315	77,388
Other long-term liabilities	25,398	18,880
Total liabilities	97,713	96,268
Stockholders' equity:		
Common stock	3	3
Additional paid-in capital	667,032	649,817
Accumulated other comprehensive loss	(1,290)	(880)
Retained earnings	97,706	86,399
Total stockholders' equity	763,451	735,339
Total liabilities and stockholders' equity	$861,164	$831,607

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018 (As Restated)	2017	2018 (As Restated)	2017
Revenues	$125,473	$104,125	$241,255	$197,127
Cost of revenues	50,809	38,267	99,456	73,035
Gross profit	74,664	65,858	141,799	124,092
Operating expenses:				
Sales and marketing	20,355	13,860	44,199	33,240
Research and development	24,586	16,046	47,075	33,453
General and administrative	23,894	18,727	50,208	35,669
Total operating expenses	68,835	48,633	141,482	102,362
Income from operations	5,829	17,225	317	21,730
Other income, net	924	762	1,772	1,263
Income before income taxes	6,753	17,987	2,089	22,993
Income tax benefit	(3,061)	(836)	(7,986)	(5,429)
Net income	$9,814	$18,823	$10,075	$28,422
Net income per share of common stock:				
Basic	$0.29	$0.55	$0.29	$0.84
Diluted	$0.27	$0.52	$0.28	$0.79
Weighted average common shares used in computing net income per share of common stock:				
Basic	34,337	34,029	34,240	33,866
Diluted	35,742	35,909	35,693	35,772
Net income	$9,814	$18,823	$10,075	$28,422
Other comprehensive income, net of taxes:				
Unrealized gain (loss) on investments	127	(103)	(410)	(45)
Comprehensive income	$9,941	$18,720	$9,665	$28,377

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

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

	Six Months Ended June 30, 2018 (As Restated)	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$10,075	$28,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,179	16,282
Amortization of acquisition-related intangibles	12,500	2,156
Stock-based compensation expense	20,194	16,361
Deferred income taxes	(7,986)	(5,662)
Others	287	(139)
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,553)	(6,183)
Prepaid expenses and other current assets	(3,027)	(3,757)
Deposits and other assets	(1,373)	194
Accounts payable	(1,715)	2,677
Accrued, other current and other long-term liabilities	2,537	(10,243)
Deferred revenues	(5,052)	(5,087)
Net cash provided by operating activities	42,066	35,021
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(14,194)	(21,800)
Acquisition of internal-use software	(33,260)	(25,478)
Purchases of investments	(74,084)	(181,760)
Maturities of investments	78,088	28,076
Other investing activities, net	172	—
Net cash used in investing activities	(43,278)	(200,962)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capital lease obligations	(57)	(553)
Proceeds from issuance of common stock under employee stock plans	11,753	10,207
Payment of issuance costs relating to common stock issued in public offering	—	(15)
Payments for repurchase of common stock	(14,740)	—
Tax payments related to shares withheld for vested restricted stock units	(15,130)	(11,401)
Net cash used in financing activities	(18,174)	(1,762)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,386)	(167,703)
CASH AND CASH EQUIVALENTS, Beginning of period	137,698	380,907
CASH AND CASH EQUIVALENTS, End of period	$118,312	$213,204

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

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Ellie Mae, Inc.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
NOTE 1—Description of Business
Ellie Mae, Inc. is the leading cloud-based platform provider for the mortgage finance industry. The Company’s technology solutions enable lenders to originate and close residential mortgage loans. Banks, credit unions and mortgage lenders use the Company’s Encompass® all-in-one mortgage management solution (“Encompass”) to originate and fund mortgages and improve compliance, loan quality and efficiency.
NOTE 2—Restatement of Previously Issued Financial Statements
The Company has restated its quarterly unaudited consolidated financial statements as of and for the periods ended June 30, 2018 to correct misstatements associated with the Company’s adoption of ASU 2014-09 (Topic 606). Specifically, the Company did not adequately constrain the variable consideration included in the transaction price such that, at the time of adoption, it was probable that a significant revenue reversal would not occur. The Company also identified additional costs to obtain contracts that should have been recorded to its opening balances upon adoption of Topic 606.
The following tables summarize the adjustments to the specific line items presented in the Company's condensed financial statements included in the Original Filing as a result of the restatement. The impact of the restatement is reflected throughout the remaining footnotes of the Company's amended Quarterly Report for Form 10-Q/A as of and for the three and six months ended June 30, 2018.
Selected Balance Sheet Line Items

	January 1, 2018		
	As Originally Reported	Adjustments [1]	As Restated
	(in thousands)		
Current assets:			
Prepaid expenses and other current assets	$26,661	$ 713	$27,374
Non-current assets:			
Deposits and other assets	$28,149	$ 3,154	$31,303
Current liabilities:			
Accrued and other current liabilities	$26,998	$ 2,328	$29,326
Deferred revenues	$21,852	$ 2,729	$24,581
Non-current liabilities:			
Other long-term liabilities	$26,871	$ 8,555	$35,426
Stockholders' equity:			
Retained earnings	$109,079	$ (9,745)	$99,334

[1] The adjustments related to variable consideration resulted in a decrease in Prepaid expenses and other current assets of $1.6 million, a decrease in Deposits and other assets of $4.7 million, an increase in Deferred revenues of $2.7 million, an increase in Other long-term liabilities of $3.9 million, and a decrease in Retained earnings of $12.9 million. The tax impact of the adjustments related to variable consideration resulted in an increase in Deposits and other assets of $2.7 million, a decrease in Other long-term liabilities of $0.4 million, and an increase in Retained earnings of $3.1 million. The adjustments related to additional cost to obtain contracts resulted in an increase in Prepaid expenses and other current assets of $2.3 million, an increase in Deposits and other assets of $5.1 million, an increase in Accrued and other current liabilities of $2.3 million, an increase in Other long-term liabilities of $5.0 million, and an increase in Retained Earnings of less than $0.1 million.

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	June 30, 2018		
	As Originally Reported	Adjustments (1)	As Restated
	(in thousands)		
Current assets:			
Prepaid expenses and other current assets	$29,629	$775	$30,404
Non-current assets:			
Deposits and other assets	$31,636	$1,229	$32,865
Current liabilities:			
Accrued and other current liabilities	$30,675	$2,586	$33,261
Deferred revenues	$16,992	$3,314	$20,306
Non-current liabilities:			
Other long-term liabilities	$17,924	$7,474	$25,398
Stockholders' equity:			
Retained earnings	$109,076	$(11,370)	$97,706

(1) The adjustments related to variable consideration resulted in a decrease in Prepaid expenses and other current assets of $1.7 million, a decrease in Deposits and other assets of $6.0 million, an increase in Deferred revenues of $3.3 million, an increase in Other long-term liabilities of $3.5 million, and a decrease in Retained earnings of $14.6 million. The tax impact of the adjustments related to variable consideration resulted in an increase in Deposits and other assets of $2.8 million, a decrease in Other long-term liabilities of $0.4 million, and an increase in Retained earnings of $3.2 million. The adjustments related to additional cost to obtain contracts resulted in an increase in Prepaid expenses and other current assets of $2.5 million, an increase in Deposits and other assets of $4.5 million, an increase in Accrued and other current liabilities of $2.6 million, an increase in Other long-term liabilities of $4.4 million, and a decrease in Retained Earnings of less than $0.1 million.

Selected Statement of Comprehensive Income Line Items

	Three Months Ended June 30, 2018		
	As Originally Reported	Adjustments (1)	As Restated
	(in thousands)		
Revenues	$125,024	$ 449	$125,473
Cost of revenues	$51,640	$ (831)	$50,809
Gross profit	$73,384	$ 1,280	$74,664
Operating expenses:			
Sales and marketing	$19,541	$ 814	$20,355
Income (loss) from operations	$5,363	$ 466	$5,829
Income tax provision (benefit)	$(3,211)	$ 150	$(3,061)
Net income	$9,498	$ 316	$9,814
Basic income per share of common stock	$0.28	$ 0.01	$0.29
Diluted income per share of common stock	$0.27	$ —	$0.27

(1) The adjustments related to variable consideration resulted in an increase in Revenues of $0.4 million. The tax impact of the adjustments related to variable consideration resulted in an increase in Income tax provision of $0.1 million. The adjustments related to additional cost to obtain contracts resulted in a decrease in Cost of revenues of $0.8 million, and an increase in Sales and marketing expense of $0.8 million.

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	Six Months Ended June 30, 2018		
	As Originally Reported	Adjustments [1]	As Restated
	(in thousands)		
Revenues	$242,936	$ (1,681)	$241,255
Cost of revenues	$100,987	$ (1,531)	$99,456
Gross profit	$141,949	$ (150)	$141,799
Operating expenses:			
Sales and marketing	$42,605	$ 1,594	$44,199
Income (loss) from operations	$2,061	$ (1,744)	$317
Income tax provision (benefit)	$(7,869)	$ (117)	$(7,986)
Net income	$11,702	$ (1,627)	$10,075
Basic income per share of common stock	$0.34	$ (0.05)	$0.29
Diluted income per share of common stock	$0.33	$ (0.05)	$0.28

[1] The adjustments related to variable consideration resulted in a decrease in Revenues of $1.7 million. The tax impact of the adjustments related to variable consideration resulted in an increase in Income tax benefit of $0.1 million. The adjustments related to additional cost to obtain contracts resulted in a decrease in Cost of revenues of $1.5 million, and an increase in Sales and marketing expense of $1.6 million.

Selected Statement of Cash Flows Line Items

	Six Months Ended June 30, 2018		
	As Originally Reported	Adjustments [1]	As Restated
	(in thousands)		
Net income	$11,702	$ (1,627)	$10,075
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	$(7,869)	$ (117)	$(7,986)
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	$(2,968)	$ (59)	$(3,027)
Deposits and other assets	$(3,416)	$ 2,043	$(1,373)
Accrued liabilities, other current and other long-term liabilities	$2,968	$ (431)	$2,537
Deferred revenues	$(5,243)	$ 191	$(5,052)
Net cash provided by operating activities	$42,066	$ —	$42,066

[1] The adjustments related to variable consideration resulted in a decrease in Net income of $1.7 million, an increase in the change in Prepaid expenses and other current assets of $0.1 million, an increase in the change in Deposits and other assets of $1.4 million, and an increase in the change in Deferred revenues of $0.2 million. The tax impact of the adjustments related to variable consideration resulted in an increase in Net income of $0.1 million and a decrease in Deferred income taxes of $0.1 million. The adjustments related to additional cost to obtain contracts resulted in a decrease in Net income of $0.1 million, a decrease in the change in Prepaid expenses and other current assets of $0.2 million, an increase in the change in Deposits and other assets of $0.7 million, and a decrease in the change in Accrued liabilities, other current and other long-term liabilities of $0.4 million.

NOTE 3—Basis of Presentation and Significant Accounting Policies—As Restated

The accompanying unaudited condensed 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 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 financial statements should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 1, 2018 (“2017 Form 10-K”).

The condensed balance sheet as of December 31, 2017, 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.

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The presentation of the condensed financial statements in this Quarterly Report on Form 10-Q reflects the merger of all wholly-owned subsidiaries of the Company with and into the Company effective December 31, 2017. The Statements of Condensed Comprehensive Income for the three and six months ended June 30, 2017 and the Condensed Statement of Cash Flow for the six months ended June 30, 2017 are consolidated with Ellie Mae's then subsidiaries Mavent Holding's Inc. and Mavent Inc.

In the opinion of management, the accompanying unaudited condensed financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, 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 fiscal year ending December 31, 2018 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 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 the transaction price of customer contracts, constraints of variable consideration, allowance for doubtful accounts, goodwill, intangible assets, valuation of deferred income taxes, stock-based compensation, and unrecognized tax benefits, among others. Actual results could differ from those estimates, and such differences may have a material impact on the Company's condensed financial statements and footnotes.

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 as a single segment. 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 in the United States.

Significant Accounting Policies

Except for the accounting policies described below that were updated as a result of adopting ASU 2014-09 (Topic 606), there have been no significant changes to the Company's significant accounting policies described in Note 2 of the Notes to Consolidated Financial Statements in its 2017 Form 10-K.

Revenue Recognition

The Company applies the provisions of Topic 606 for revenue recognition on contracts with customers. Pursuant to Topic 606, the Company recognizes revenues under the core principle to depict the transfer of control to the Company's customers in an amount reflecting the consideration to which the Company expects to be entitled. In order to achieve that core principle, the following five step approach is applied:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

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The Company generates revenues primarily from hosted software services, transaction-based fees and related services including professional services and its annual user conference, and recognizes revenues as performance obligations are satisfied. For services where the customer simultaneously receives and consumes the benefit from the Company's performance, revenues are recognized over time using an output method based on the passage of time as this provides a faithful depiction of the transfer of control. Under Company-hosted Encompass software subscriptions that customers access through the Internet, revenues are comprised of fees for software services sold both as a subscription and on a variable basis. Variable fees include fees based on a per closed loan, or success basis, subject to monthly base fees, which the Company refers to as Success-Based Pricing. Other hosted subscription services consist of policy, guideline, data and analytics under the AllRegs brand, lead management, marketing, and customer relationship management. Transaction-based fees are comprised of Ellie Mae Network fees and transaction fees charged for other services, including fees for loan products and the annual user conference. Fees for professional services include consulting, implementation and education and training services. Sales taxes assessed by governmental authorities are excluded from the transaction price.

In contracts where variable consideration is required to be estimated and included in the transaction price, the Company estimates such amounts at contract inception considering historical trends, industry data, and contract specific factors to determine an expected amount to which the Company expects to be entitled. Estimates are included in the transaction price to the extent that it is considered probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The assessment of whether such an estimate is constrained requires the Company to consider methods, inputs, and assumptions relating to the nature of the underlying products, customer-specific trends, and economic factors including industry data. Other forms of variable consideration such as refunds and penalties, which are recorded in accrued and other current liabilities, are estimated at contract inception and are allocated to the performance obligations to which they relate.

The Company enters into arrangements that generally include multiple subscriptions and professional services. For arrangements with multiple services, the Company evaluates whether the individual services qualify as distinct performance obligations. In its assessment of whether a service is a distinct performance obligation, the Company determines whether the customer can benefit from the service on its own or with other readily available resources and whether the service is separately identifiable from other services in the contract. This evaluation requires the Company to assess the nature of each individual service offering and how the services are provided in the context of the contract, including whether the services are significantly integrated, highly interrelated, or significantly modify each other, which may require judgment based on the facts and circumstances of the contract.

When agreements involve multiple distinct performance obligations, the Company allocates arrangement consideration to all performance obligations at the inception of an arrangement based on the relative standalone selling prices of each performance obligation. Where the Company has standalone sales data for its performance obligations which are indicative of the price at which the Company sells a promised good or service separately to a customer, such data is used to establish standalone selling prices. In instances where standalone sales data is not available for a particular performance obligation, the Company estimates standalone selling prices by maximizing the use of observable market and cost-based inputs.

When estimating standalone selling prices, the Company reviews company-specific factors used to determine list price and makes adjustments as appropriate to reflect current market conditions and pricing behavior. The Company’s process for establishing list price includes assessing the cost to provide a particular product or service, surveying customers to determine market expectations, analyzing customer demographics, and taking into account similar products and services historically sold by the Company. The Company continues to review the factors used to establish list price and will adjust standalone selling price methodologies as necessary on a prospective basis.

Hosted Software Subscription Revenues. Hosted software subscription revenues generally include a combination of the Company’s products delivered as software-as-a-service (“SaaS”) subscriptions that are a performance obligation consisting of a series of distinct services and support services. These arrangements are generally non-cancelable and do not contain refund-type provisions. These revenues typically include the following:

Encompass Revenues. The Company offers web-based, on-demand access to its Encompass loan origination software for a monthly recurring fee. Customers under SaaS arrangements do not take control of the underlying software at any time during the term of the agreement. Fixed fees for subscription revenues are recognized over time, using an output method of the passage of time (or ratably) over the contract terms as performance obligations are satisfied as this method best depicts the Company’s pattern of performance for such services. Contracts generally range from one year to five years.

Alternatively, customers can elect to pay on a success basis. Success basis contracts are subject to monthly billing calculations whereby customers are obligated to pay the greater of a contractual base fee or variable closed loan fee, which is based on the number of closed loan transactions processed by the customer in the specific month.

Monthly base fees are recognized ratably over the contract terms as subscription performance obligations are satisfied.

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Closed loan fees in excess of base fees are considered variable consideration. For the majority of contracts that include variable consideration, these fees are recognized in the month in which they are earned because the terms of the variable payments relate specifically to the outcome from transferring the distinct time increment (month) of service, which is consistent with the allocation objective when considering all of the performance obligations and payment terms in the contract (i.e., where “the allocation objective is met”). For certain contracts where the allocation objective would not be met by allocating variable consideration in this way, total variable consideration to be received is estimated at contract inception and recognized ratably over the contract term, with estimates of variable consideration being updated at each reporting date. For these contracts, variable consideration is estimated using the expected value method, utilizing forecast data for each contract to determine the expected value.

The Company evaluates its ability to accurately estimate such variable consideration considering all relevant facts and circumstances associated with both the likelihood of a downward adjustment in the estimate of variable consideration and the potential magnitude of a significant revenue reversal relative to the cumulative revenue recognized to-date under the contract. Because the amount of consideration is highly susceptible to broad economic factors outside the Company’s influence, have a broad range of possible consideration amounts, and the uncertainty is not expected to be resolved for a long period of time, the Company’s ability to accurately estimate the variable consideration is limited. Therefore, the amount of variable consideration included in the transactions price is constrained to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the amount of variable consideration is subsequently resolved.

Other Subscription Revenues. The Company provides a variety of mortgage-related and other business services, including lead management, marketing, compliance services and customer relationship management. Such services include fixed fee subscriptions and are a single performance obligation consisting of a series of distinct services. The fixed fees are recognized ratably over the contract terms as performance obligations are satisfied as this method best depicts the Company’s pattern of performance for such services.

Online Research and Data Resources Subscription Revenues. The Company provides mortgage originators and underwriters with access to online databases of various federal and state laws and regulations and forms as well as investor product guidelines. Fixed fees are recognized over time, using an output method of the passage of time or ratably over the contract terms as performance obligations are satisfied as this method best depicts the Company’s pattern of performance for such services.

Transactional Revenues. Transactional Revenues include the following:

Ellie Mae Network Revenues. The Company has entered into agreements with various lenders, service providers and certain government-sponsored entities participating in the mortgage origination process to provide those suppliers with access to, and ability to interoperate with, mortgage originators on the Ellie Mae Network. The services delivered are comprised of a performance obligation consisting of a series of distinct services. The Company acts as an agent when it arranges for services to be provided by the supplier to the customer. Fixed fees are recognized ratably over the contract terms as performance obligations are satisfied as this method best depicts the Company’s pattern of performance for such services. Variable fees are recognized in the month in which they are earned because the allocation objective is met by allocating the fees to each distinct month in the series.

Other Transactional Revenues. The Company provides other services delivered on a transactional basis including automated documentation; fraud detection, valuation, validation, and risk analysis; income verification; flood zone certifications; website and electronic document management; compliance reports; and the Company’s annual user conference. Fixed fees are recognized at the point in time when control is transferred.

Professional Services Revenues. Professional services, including implementation services for the Company’s subscription products, are performance obligations which are capable of being distinct and are distinct within the context of the contract. Such services are generally provided on a time and materials or fixed price basis. The majority of the Company’s professional services are provided on a fixed price basis and the Company recognizes revenue over time as the performance obligations are satisfied utilizing an input method based on the proportion of hours incurred to total estimated hours. Any changes in the estimate of progress towards completion are accounted for in the period of change using the cumulative catch-up method. Revenues from professional services contracts provided on a time and materials basis are recognized when invoiced as amounts correspond directly with the value of the services.

Deferred Revenues

Deferred revenues represent billings or payments received in advance of revenue recognition and are recognized upon transfer of control. Balances consist primarily of prepaid subscription services and professional and training services not yet provided as of the balance sheet date. Deferred revenues that will be recognized during the succeeding 12-month period are recorded as current deferred revenues, and the remaining portion is recorded as other non-current liabilities.

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Contract Assets

Contract assets represent amounts recognized as revenues for which the Company does not have the unconditional right to consideration. Amounts related to invoices expected to be issued during the succeeding 12-month period are recorded as prepaid expenses and other current assets, and the remaining portion is recorded as deposits and other non-current assets.

Deferred Costs

Deferred costs mainly consist of sales commissions and related fringe benefits that are incremental costs of obtaining contracts with customers, as well as partners' referral fees. The Company amortizes the costs incurred on initial contracts on a straight-line basis over a period of benefit determined to be approximately five years. The period of benefit is determined based on a review of customer churn rates and technological lifecycles of the underlying product offerings. All deferred costs on renewal contracts are amortized on a straight-line basis over the applicable renewal period. Additionally, the Company exercises the practical expedient to expense commissions on arrangements in which the amortization period is expected to be one year or less. Deferred costs that will be recognized during the succeeding 12-month period are recorded as prepaid expenses and other current assets, and the remaining portion is recorded as deposits and other non-current assets.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), as subsequently amended, which requires lessees to put most leases on their balance sheets, but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The standard is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company does not intend to early adopt, and is currently gathering information and evaluating the impact of this accounting standard update on its financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees, with certain exceptions. ASU 2018-07 supersedes the guidance in ASC 505-50, Equity-Based Payments to Non-Employees, which previously included the accounting for non-employee awards. The standard is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company does not intend to early adopt and does not expect the adoption of this standard will have a material impact on its financial statements.

Standards Adopted

ASU No. 2014-09

On January 1, 2018, the Company adopted ASU 2014-09 (Topic 606) using the modified retrospective method and applied Topic 606 to those contracts which were not completed as of January 1, 2018.

On January 1, 2018, the Company recognized the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of retained earnings and the corresponding balance sheet accounts. The impact on the Company's opening balances is primarily related to its straight-line calculations for subscription revenue and the capitalization of additional commission costs under Topic 606. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those prior periods. Refer to the tables below and Note 4 "Revenue Recognition" for additional accounting policy and transition disclosures.

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The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to retained earnings in the balance sheet as of January 1, 2018 as follows:
Selected Balance Sheet Line Items

	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
	(in thousands)	(As Restated)	
Current assets:			
Prepaid expenses and other current assets	$18,474	$8,900	$27,374
Non-current assets:			
Deposits and other assets	$9,290	$22,013	$31,303
Current liabilities:			
Accrued and other current liabilities	$26,188	$3,138	$29,326
Deferred revenues	$26,287	$(1,706)	$24,581
Non-current liabilities:			
Other long-term liabilities	$18,880	$16,546	$35,426
Stockholders' equity:			
Retained earnings	$86,399	$12,935	$99,334

The following tables summarize the impacts of Topic 606 adoption on the Company's condensed financial statements for the periods ended June 30, 2018.
Selected Balance Sheet Line Items

	June 30, 2018 (in thousands)		
	As Restated	Adjustments	Balances without adoption of Topic 606
Current assets:			
Accounts receivable	$50,674	$ (657)	$ 50,017
Prepaid expenses and other current assets	$30,404	$ (9,811)	$ 20,593
Non-current assets:			
Deposits and other assets	$32,865	$ (15,601)	$ 17,264
Current liabilities:			
Accrued and other current liabilities	$33,261	$ (3,389)	$ 29,872
Deferred revenues	$20,306	$ (212)	$ 20,094
Non-current liabilities:			
Other long-term liabilities	$25,398	$ (8,991)	$ 16,407
Stockholders' equity:			
Retained earnings	$97,706	$ (13,477)	$ 84,229

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Selected Statement of Comprehensive Income Line Items

	Three Months Ended June 30, 2018 (in thousands, except per share amounts)		
	As Restated	Adjustments	Balances without adoption of Topic 606
Revenues	$125,473	$ 8	$125,481
Gross profit	$74,664	$ 8	$74,672
Operating expenses:			
Sales and marketing	$20,355	$ 630	$20,985
Income from operations	$5,829	$ (622)	$5,207
Income tax benefit	$(3,061)	$ (105)	$(3,166)
Net income	$9,814	$ (517)	$9,297
Basic income per share of common stock	$0.29	$ (0.02)	$0.27
Diluted income per share of common stock	$0.27	$ (0.01)	$0.26

	Six Months Ended June 30, 2018 (in thousands, except per share amounts)		
	As Restated	Adjustments	Balances without adoption of Topic 606
Revenues	$241,255	$ 209	$241,464
Gross profit	$141,799	$ 209	$142,008
Operating expenses:			
Sales and marketing	$44,199	$ 665	$44,864
Income from operations	$317	$ (456)	$(139)
Income tax benefit	$(7,986)	$ 83	$(7,903)
Net income	$10,075	$ (539)	$9,536
Basic income per share of common stock	$0.29	$ (0.01)	$0.28
Diluted income per share of common stock	$0.28	$ (0.01)	$0.27

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Selected Statement of Cash Flows Line Items

	Six Months Ended June 30, 2018 (in thousands)		
	As Restated	Adjustments	Balances without adoption of Topic 606
Net income	$10,075	$ (539)	$9,536
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	$(7,986)	$ 83	$(7,903)
Changes in operating assets and liabilities:			
Accounts receivable, net	$(7,553)	$ 657	$(6,896)
Prepaid expenses and other current assets	$(3,027)	$ 909	$(2,118)
Deposits and other assets	$(1,373)	$ (227)	$(1,600)
Accrued, other current and other long-term liabilities	$2,537	$ 439	$2,976
Deferred revenues	$(5,052)	$ (1,322)	$(6,374)
Net cash provided by operating activities	$42,066	$ —	$42,066

ASU No. 2018-05

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (“ASU 2018-05”). ASU 2018-05 addresses certain circumstances arising in accounting for the income tax effects of the Tax Cuts and Job Act (“Tax Act”) in conformity with SEC Staff Accounting Bulletin No. 118 (“SAB 118”) including provisional estimates of those effects. The Company adopted SAB 118 in the fourth quarter of 2017 and continues to analyze the impact of the Tax Act on an ongoing basis. Due to the timing of the enactment and the complexity in applying the provisions of the Tax Act, the provisional net charge is subject to revisions as the Company continues to complete its analysis of the Tax Act. Adjustments may materially impact the Company’s provision for income taxes and effective tax rate in the period in which the adjustments are made. The Company expects to finalize the impact analysis in the fourth quarter of 2018. Additional information regarding the accounting for income taxes for the Tax Act is contained in Note 9 “Income Taxes.”

NOTE 4—Revenue Recognition —As Restated

Disaggregation of Revenue

The following table provides information about disaggregated revenue from customers.

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
	(As Restated) (in thousands)	
Hosted software subscription revenues	$91,154	$171,285
Transactional revenues	24,922	53,052
Professional services revenues	9,397	16,918
Revenues	$125,473	$241,255

The Company has redefined its categories of disaggregated revenue to be more clearly aligned with how it communicates its performance. Certain reclassifications of prior period amounts have been made to conform to the current period presentation.

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Contract Balances

The following table provides information about receivables, contract assets and deferred revenues from contracts with customers.

	Balance Sheet Line Reference	June 30, 2018 (As Restated) (in thousands)
Accounts receivables, net	Accounts receivables, net	$ 50,674
Contract assets - current	Prepaid expenses and other current assets	$ 5,060
Contract assets - noncurrent	Deposits and other assets	$ 8,873
Deferred revenues - current	Deferred revenues	$ 20,306
Deferred revenues - noncurrent	Other long-term liabilities	$ 4,336

Changes in the contract assets and the deferred revenues balances during the six months ended June 30, 2018 are as follows:

	January 1, 2018 (As Restated)	June 30, 2018 (As Restated)	$ Change
	(in thousands)		
Contract assets	$13,428	$ 13,933	$505
Deferred revenues	$29,694	$ 24,642	$(5,052)

The increase in contract assets from $13.4 million to $13.9 million as of June 30, 2018 was primarily the result of $2.3 million in increases in estimated transaction price including changes in the assessment of whether estimated variable consideration is constrained and $1.2 million in contract additions, offset by billings of $3.0 million in advance of revenue being recognized. The decrease in deferred revenues from $29.7 million to $24.6 million was due to additional performance on certain arrangements in which billing occurred in advance. During the six months ended June 30, 2018, $17.0 million of revenues recognized were included in the deferred revenues balance at the beginning of the period, which was offset by additional deferrals during the period.

Revenues Allocated to Remaining Performance Obligations

Remaining performance obligations represent contracted revenues that have not yet been recognized, which includes deferred revenues and amounts that will be invoiced and recognized as revenues in future periods.

The Company expects to recognize revenues on the remaining performance obligations as follows:

	June 30, 2018 (As Restated) (in thousands)
Within 1 year	$ 285,301
2-3 years	256,445
Thereafter	65,225
	$ 606,971

Remaining performance obligations exclude variable consideration allocated entirely to future distinct services as well as variable consideration in most arrangements that involve services revenues priced on a transactional basis and professional services invoiced on a time and materials basis as these arrangements include revenue recognized under the as billed practical expedient. Additionally, in instances where an estimate of variable consideration is constrained, the amount of such constraint is not included in revenues allocated to remaining performance obligations.

Deferred Costs

Deferred costs, which consist of deferred sales commissions, were $23.0 million as of June 30, 2018 and $8.5 million for December 31, 2017. For the three and six months ended June 30, 2018, amortization expense for deferred costs were $2.2 million and $4.2 million, respectively. For the three and six months ended June 30, 2017, amortization expense for deferred costs were $0.8 million and $1.6 million, respectively. There was no impairment loss related to the costs capitalized during these periods.

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NOTE 5—Net Income Per Share of Common Stock—As Restated

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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018 (As Restated)	2017	2018 (As Restated)	2017
	(in thousands, except per share amounts)			
Net income	$9,814	$18,823	$10,075	$28,422
Weighted average common shares outstanding used to compute basic net income per share	34,337	34,029	34,240	33,866
Effect of potentially dilutive securities:				
Employee stock options, RSUs, performance-vesting RSUs, Performance Awards and ESPP shares	1,405	1,880	1,453	1,906
Weighted average common shares outstanding used to compute diluted net income per share	35,742	35,909	35,693	35,772
Net income per share:				
Basic	$0.29	$0.55	$0.29	$0.84
Diluted	$0.27	$0.52	$0.28	$0.79

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Employee stock options and awards	12	7	127	111

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, 114,332 and 61,494 shares underlying performance-vesting RSUs and Performance Awards were excluded from the dilutive shares outstanding for each of the three and six months ended June 30, 2018 and 2017, respectively.

NOTE 6—Financial Instruments and Fair Value Measurement

As of June 30, 2018 and December 31, 2017, the Company's cash, cash equivalents and investments were primarily comprised of cash and investment-grade, fixed maturity interest-bearing debt securities, such as money market funds, certificates of deposit, commercial paper, corporate bonds, municipal and government agency obligations, and guaranteed obligations of the United States government. Cash equivalents and investments are recorded at fair value. All investments are considered available for sale.

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The following table summarizes cash and investments in financial instruments that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy by investment type:

	June 30, 2018				December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying or Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying or Fair Value
	(in thousands)							
Cash	$ 94,634	$ —	$ —	$ 94,634	$ 119,035	$ —	$ —	$ 119,035
Level 1:								
Money market funds	924	—	—	924	3,623	—	—	3,623
U.S. government and government agency obligations	68,204	13	(476)	67,741	52,255	—	(266)	51,989
	163,762	13	(476)	163,299	174,913	—	(266)	174,647
Level 2:								
Corporate notes and obligations	74,637	2	(543)	74,096	81,062	—	(304)	80,758
Certificates of deposit	4,735	1	—	4,736	6,527	2	—	6,529
Municipal obligations	6,960	—	(20)	6,940	10,274	—	(46)	10,228
U.S. government and government agency obligations	75,532	—	(268)	75,264	76,510	—	(266)	76,244
Total financial instruments	325,626	16	(1,307)	324,335	349,286	2	(882)	348,406
Less investments	207,314	16	(1,307)	206,023	211,588	2	(882)	210,708
Cash and cash equivalents	$ 118,312	$ —	$ —	$ 118,312	$ 137,698	$ —	$ —	$ 137,698

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.

Valuation of the Company’s marketable securities investments classified as Level 2 is achieved primarily through broker quotes when such investments exist in a non-active market.

At June 30, 2018 and December 31, 2017, the Company did not have any assets or liabilities that were valued using Level 3 inputs.

Realized gains and losses from the sale of investments were immaterial during the three and six months ended June 30, 2018 and 2017.

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The following table shows the gross unrealized losses and the related fair values of the Company's investments that have been in a continuous unrealized loss position. The Company did not identify any investments as other-than-temporarily impaired at June 30, 2018 or December 31, 2017 based on its evaluation of available evidence, such as the Company's intent to hold and whether it is more likely than not that the Company will be required to sell the investment before recovery of the investment's amortized basis. The Company expects to receive the full principal and interest on these investments.

	June 30, 2018					
	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	$52,454	$(487)	$6,357	$(56)	$58,811	$(543)
Certificates of deposit	—	—	1,233	—	1,233	—
U.S. government, government agency, and municipal obligations	112,180	(669)	12,444	(95)	124,624	(764)
	$164,634	$(1,156)	$20,034	$(151)	$184,668	$(1,307)

	December 31, 2017					
	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	$62,099	$(253)	$7,574	$(51)	$69,673	$(304)
Certificates of deposit	482	—	1,348	—	1,830	—
U.S. government, government agency, and municipal obligations	119,456	(492)	13,070	(86)	132,526	(578)
	$182,037	$(745)	$21,992	$(137)	$204,029	$(882)

The following table summarizes the contractual maturities of the Company's investments at June 30, 2018:

	Amortized Cost	Carrying or Fair Value
	(in thousands)	
Due within one year	$124,980	$124,640
Due after one year through three years [(1)]	82,334	81,383
Total	$207,314	$206,023

[(1)] Maximum maturity of individual investments is three years.

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

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NOTE 7—Property and Equipment, net

Property and equipment, net, consisted of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Computer equipment and software	$73,685	$67,068
Internal-use software	141,584	108,710
Furniture and fixtures	9,470	8,311
Leasehold improvements	31,953	27,356
Internal-use software and other assets not placed in service	52,970	52,659
Property and equipment, gross	309,662	264,104
Accumulated depreciation and amortization	(99,429)	(77,113)
Property and equipment, net	$210,233	$186,991

Depreciation and amortization expense for the three and six months ended June 30, 2018 was $11.8 million and $23.2 million, respectively. Depreciation and amortization expense for the three and six months ended June 30, 2017 was $8.9 million and $16.3 million, respectively. These amounts include amortization of assets under capital leases of $0.2 million and $0.9 million for the three and six months ended June 30, 2018, and $0.8 million and $1.5 million for the three and six months ended June 30, 2017, respectively.

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NOTE 8— Intangible Assets, net

Intangible assets, net, consisted of the following:

	June 30, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Weighted Average Remaining Useful Life
	(in thousands)			(in years)
Assets subject to amortization:				
Developed technology	$53,535	$ (13,997)	$ 39,538	7.0
Trade names	1,931	(731)	1,200	2.3
Customer relationships	34,900	(14,924)	19,976	7.4
Order backlog	14,370	(10,749)	3,621	0.3
Total assets subject to amortization	104,736	(40,401)	64,335	6.7
Assets not subject to amortization:				
Trade name	4,039	—	4,039	
	$108,775	$ (40,401)	$ 68,374	

	December 31, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Weighted Average Remaining Useful Life
	(in thousands)			(in years)
Assets subject to amortization:				
Developed technology	$53,535	$ (10,810)	$ 42,725	7.5
Trade names	1,931	(464)	1,467	2.8
Customer relationships	34,900	(13,050)	21,850	7.7
Order backlog	14,370	(3,577)	10,793	0.8
Total assets subject to amortization	104,736	(27,901)	76,835	6.5
Assets not subject to amortization:				
Trade name	4,039	—	4,039	
	$108,775	$ (27,901)	$ 80,874	

Amortization expense associated with intangible assets for the three and six months ended June 30, 2018 was $6.2 million and $12.5 million, respectively. Amortization expense associated with intangible assets for the three and six months ended June 30, 2017 was $1.1 million and $2.2 million, respectively.

Future amortization expense for intangible assets at June 30, 2018 was as follows:

	Amortization
	(in thousands)
Remainder of 2018	$ 8,889
2019	10,499
2020	8,978
2021	7,114
2022	7,055
2023	6,800
Thereafter	15,000
	$ 64,335

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NOTE 9—Income Taxes—As Restated

The Company’s tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates the estimate of the annual effective tax rate and, if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period. The Company’s income tax benefit, and its effective tax rate, for the periods ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018 (As Restated)	2017	2018 (As Restated)	2017
	(dollars in thousands)			
Income tax provision (benefit)	$(3,061)	$(836)	$(7,986)	$(5,429)
Effective tax rate	(45.3)%	(4.7)%	(382.3)%	(23.6)%

For the three and six months ended June 30, 2018, the Company’s effective tax rate differed from the U.S. federal statutory rate of 21% primarily due to the discrete impact of the excess tax benefits from stock-based compensation and the reduced state blended income tax rate as well as federal research and development credits. For the three and six months ended June 30, 2017, the Company’s effective tax rate differed from the U.S. federal statutory rate of 35% primarily due to the discrete impact of excess tax benefits from stock-based compensation as well as non-deductible stock-based compensation and federal research and development credits.

The Company regularly assesses the realizability of the deferred tax assets and establishes a valuation allowance if it is more-likely-than-not that some or all of the Company's deferred tax assets will not be realized. The Company evaluates and weighs all available positive and negative evidence such as historic results, future reversals of existing deferred tax liabilities, as well as projected future taxable income. Generally, more weight is given to objectively verifiable evidence. The Company will continue to assess the realizability of the deferred tax assets in each of the applicable jurisdictions.

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 six months ended June 30, 2018 and 2017.

The SEC staff issued SAB 118, which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Act in the period of enactment. The guidance allows the Company to record provisional amounts to the extent a reasonable estimate can be made and provides the Company with up to one year from enactment date to finalize the accounting for the impact of the Tax Act.

The Tax Act is effective in the Company’s fourth quarter of 2017. As of June 30, 2018, the Company has not completed its accounting for the tax effects of the Tax Act. During the quarter, no material revision has been made to the Company’s provisional assessments made as of December 31, 2017. In order to complete the accounting for the impact of the Tax Act, the Company continues to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service (“IRS”), state taxing jurisdictions, the FASB, and other standard-setting and regulatory bodies. New guidance or interpretations may materially impact the Company’s provision for income taxes in future periods. Additional information that is needed to complete the analysis but is currently unavailable includes, but is not limited to, the final determination of certain net deferred tax assets and liabilities subject to remeasurement and when the related temporary differences will be settled or realized, and the tax treatment of such provisions of the Tax Act by various state tax authorities. In addition, the Company does not currently have sufficient information and guidance to determine the impact of “transition rule” related to the Company’s covered employees’ compensation stemming from written binding contracts entered on or before November 2, 2017. The provisional accounting impacts may change in future reporting periods until the Company’s accounting analysis is finalized, which is expected to be completed by the Company’s fourth quarter of 2018. For additional information related to the impact of the 2017 Tax Act on the Company’s tax provision and tax rate, please see Note 8 of the notes to condensed consolidated financial statements in the Company’s Annual Report on Form 10-K for the calendar year ended December 31, 2017, filed with the SEC on March 1, 2018.

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NOTE 10—Commitments and Contingencies

Leases

As of June 30, 2018, the Company leased nine facilities under operating lease arrangements. The lease expiration dates range from September 2019 to December 2025. Certain leases contain escalation clauses calling for increased rents. The Company recognizes rent expense on a straight-line basis over the lease period.

Legal Proceedings

On December 1, 2017, a pension fund and stockholder purporting to act on the Company's behalf filed a derivative lawsuit in the Superior Court of California for the County of Alameda, captioned United Association of Plumbers and Pipefitters, Journeymen, Local #38 Defined Benefit Pension Plan v. Jonathan H. Corr, et al. (Case No. RG17884445). The lawsuit purported to assert claims against certain of the Company's officers and directors for insider trading under California law, breach of fiduciary duty, corporate waste, and unjust enrichment based on allegations that: (1) the Company overstated its financial prospects in public filings between February 10, 2017 and July 27, 2017; and (2) certain of the Company's officers and directors sold shares during this same period. Plaintiff sought unspecified monetary damages, attorneys' fees and costs, as well as certain changes to the Company's corporate governance and internal procedures. The Company's demurrer to plaintiff's complaint was filed on February 15, 2018. Plaintiff opposed the Company's demurrer and the Company filed a reply in support of its demurrer. On May 8, 2018, the court sustained the Company's demurrer with leave to amend within 30 days. On June 15, 2018, the court entered Plaintiff's voluntary dismissal of the action without prejudice, to which the Company consented. As a result, there is no probable loss for this matter and the Company accordingly has not accrued for any amount.

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 and employment disputes. As of the date of this Quarterly Report on Form 10-Q, the Company is not involved in any other pending legal proceedings whose outcome the Company expects to have a material adverse effect on its financial position, results of operations or cash flows.

NOTE 11—Equity and Stock Incentive Plans

The 2011 Equity Incentive Award Plan (the "2011 Plan") serves as the successor to the Company's 2009 Stock Option and Incentive Plan (together with the 2011 Plan, the "Stock Plans"). The Company recognized stock-based compensation expense related to awards granted under the Stock Plans and ESPP.

Total stock-based compensation expense recognized consisted of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenues	$2,106	$1,675	$4,000	$3,119
Sales and marketing	1,760	1,258	3,316	2,434
Research and development	2,953	2,098	5,487	3,959
General and administrative	3,843	3,479	7,391	6,849
	$10,662	$8,510	$20,194	$16,361

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Stock Plans

Stock Options

The following table summarizes the Company’s stock option activity under the Stock Plans:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2018	1,436,031	$ 27.06	5.43	$ 89,554
Granted	4,641	$ 92.28		
Exercised	(239,215)	$ 25.55		
Forfeited or expired	(5,906)	$ 47.24		
Outstanding at June 30, 2018	1,195,551	$ 27.52	4.98	$ 91,247
Ending vested and expected to vest at June 30, 2018	1,194,346	$ 27.49	4.98	$ 91,192
Exercisable at June 30, 2018	1,107,932	$ 25.22	4.82	$ 87,108

There were no stock options granted during the three months ended June 30, 2018. The aggregate intrinsic value of the stock options outstanding at June 30, 2018 represents the value of the Company’s closing stock price of $103.84 on June 30, 2018 in excess of the exercise price multiplied by the number of options outstanding for options that were in-the-money.

As of June 30, 2018, total unrecognized stock-based compensation expense related to unvested stock options, adjusted for estimated forfeitures, was $2.2 million and is expected to be recognized over a weighted average period of 1.0 year.

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

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, 2018	1,179,458	$ 82.84	294,464	$ 56.17
Granted	575,001	$ 100.53	117,680	$ 92.28
Released	(306,699)	$ 73.55	(125,253)	$ 47.97
Forfeited or expired	(82,060)	$ 85.86	(34,412)	$ 73.75
Outstanding at June 30, 2018	1,365,700	$ 92.19	252,479	$ 74.67
Ending vested and expected to vest at June 30, 2018	1,190,179		252,479	

RSUs, performance-vesting RSUs, and Performance Awards that are expected to vest are presented net of estimated future forfeitures.

RSUs released during the six months ended June 30, 2018 and 2017 had an aggregate intrinsic value of $30.6 million and $29.2 million, respectively, and had an aggregate grant-date fair value of $22.6 million and $15.1 million, respectively.

Performance-vesting RSUs and Performance Awards released during the six months ended June 30, 2018 and 2017 had an aggregate intrinsic value of $11.5 million and $13.7 million, respectively, and had an aggregate grant-date fair value of $6.0 million and $5.8 million, respectively. 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 June 30, 2018, total unrecognized compensation expense related to unvested RSUs, performance-vesting RSUs, and Performance Awards, adjusted for estimated forfeitures, was $108.4 million and is expected to be recognized over a weighted average period of 2.8 years.

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Employee Stock Purchase Plan

For the six months ended June 30, 2018 and 2017, employees purchased 77,339 shares and 52,619 shares, respectively, under the ESPP, resulting in cash proceeds of $5.6 million and $4.3 million, respectively. As of June 30, 2018, unrecognized compensation expense related to the current semi-annual ESPP offering period, which ends on August 31, 2018, was $0.6 million and is expected to be recognized over two months.

Valuation Information

The fair value of stock options and stock purchase rights granted under the Stock Plans, 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock option plans:				
Risk-free interest rate	— %	— %	2.63 %	2.04 %
Expected life of options (in years)	—	—	6.08	6.08
Expected dividend yield	— %	— %	— %	— %
Volatility	— %	— %	45.00 %	48.00 %
Employee Stock Purchase Plan:				
Risk-free interest rate	— %	— %	1.12 %	0.69 %
Expected life of options (in years)	0.00	0.00	0.49	0.50
Expected dividend yield	— %	— %	— %	— %
Volatility	— %	— %	37.25 %	35.00 %

Common Stock

The following numbers of shares of common stock were reserved and available for future issuance under the 2011 Plan and ESPP at June 30, 2018:

	Reserved Shares
Options and awards outstanding under the Stock Plans	2,813,730
Shares available for future grant under the 2011 Plan	6,412,359
Shares available under the ESPP	1,879,626
Total	11,105,715

In March 2018, 342,276 additional shares were reserved under the ESPP, and 1,711,384 additional shares were reserved under the 2011 Plan, pursuant to the automatic increase provisions in each plan.

Stock Repurchase Program

In August 2017, the Company’s audit committee, under the authority delegated to it by the Company’s board of directors, approved a new stock repurchase program under which the Company is authorized to repurchase up to $250.0 million of its common stock. This authorization expires in August 2020. All shares are retired upon repurchase.

During the six months ended June 30, 2018, the Company repurchased a total of 159,141 shares for $14.7 million. During the three months ended June 30, 2018, the Company did not repurchase any shares. As of June 30, 2018, $200.0 million remained available for future repurchases under the program.

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

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. Forward-looking statements may include words such as "may," "will," "should," "expect," "plan," "intend," "target," "anticipa "believe," "estimate," "predict," "potential," "project," "continue," or other wording indicating future results or expectations. T forward-looking statements include, but are not limited to, statements about:

- expectations regarding demand for home purchases;
- the impact of changes in mortgage interest rates, home sale activity and regulatory changes;
- the impact of seasonality of our revenues;
- estimates of the percentage of our revenues that have direct sensitivities to volume;
- changes in mortgage originator, lender, investor or service provider behavior and any related impact on the residential mortgage industry;
- our revenue and cost forecasts and drivers;
- the number of users of Encompass and estimated Encompass closed loans;
- anticipated benefits of our new solutions;
- anticipated timing of roll-out of new solutions and features;
- our planned offerings to address regulatory changes;
- our planned investments;
- the anticipated benefits and growth prospects from our acquisitions;
- the timing of future acquisitions of businesses, solutions or technologies and new product launches;
- our acquisition strategy;
- our belief that 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; and
- our planned stock repurchases.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q. You should not rely upon forward-looking statements as predictions of future events. The outcomes of the events described in these forward-looking statements are subject to substantial risks, uncertainties and other factors described in Part II, Item 1A "Risk Factors," and elsewhere, in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements.

In this report, references to "Ellie Mae," the "Company," "we," "our," or "us" refer to Ellie Mae, Inc., unless the context requir otherwise.

The following information has been adjusted to reflect the restatement of our condensed financial statements as described in the "Explanatory Note" at the beginning of this amended Quarterly Report on Form 10-Q/A and in Note 2, "Restatement of Previously Issued Financial Statements", in Notes to the Condensed Financial Statements (Unaudited) of this amended Quarterly Report on Form 10-Q/A.

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Overview

We are the leading cloud-based platform provider for the mortgage finance industry. Our technology solutions are used by lenders to originate and close residential mortgage loans. Banks, credit unions and mortgage lenders use our Encompass® all-in-one mortgage management solution to originate and fund mortgages and improve compliance, loan quality, and efficiency.

Mortgage originators use our Encompass software, a comprehensive digital mortgage solution that handles key business and management functions involved in running a residential mortgage origination business. Mortgage originators use Encompass as a single tool for marketing, loan origination, processing, 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 approximately 193,000 mortgage professionals using Encompass to the broad array of third-party service providers, mortgage lenders and investors 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 2017, we acquired Velocify, Inc. (“Velocify”), a cloud-based sales engagement platform that provides customers the capabilities to generate and manage leads and customer relationships.

On January 1, 2018, we adopted the Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”) including its subsequent amendments (collectively “Topic 606”) for all open contracts as of January 1, 2018 using the modified retrospective method. Prior period amounts were not adjusted and are reported under Topic 605, Revenue Recognition.

Our revenues are generated primarily from subscriptions to the company-hosted Encompass Software that customers access through the Internet, including customers who pay fees based on the number of loans they close, 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. Our revenues also include software-related services that are sold on a transactional basis; Ellie Mae Network fees; fees for education and training; and loan product, policy and guideline data and analytics services that are provided under the AllRegs brand.

Our 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, regulatory changes and general economic conditions, which can lead to departures from the typical seasonal pattern.

In the first half of 2018, mortgage volumes declined relative to the first half of 2017 due largely to an increase in mortgage interest rates resulting in a lower number of refinancings. This had the effect of reducing the number of closed loans per active user on our platform in the first half of 2018 relative to the same period in 2017. Although the market for mortgages is expected to transition to one in which increasing volumes are driven primarily by demand for home purchases, a tight housing supply in certain markets is currently limiting the rate of growth in purchase volumes. In spite of the lower year-over-year industry volume, we continued to experience period-over-period increases in revenues as our customers use our platform to process an increasing percentage of loans originated in the United States, combined with our ability to increase the revenues we earned per loan in the first half of 2018 compared to the same period in 2017. This was driven by an increase in active users and the adoption of our broader service offerings by our customers.

We currently estimate that approximately 25% to 35% of our revenues have some direct sensitivity to volume. The base fee portion of success based revenues, subscription revenues, and professional services revenues are generally not affected by fluctuations in mortgage origination volume. However, the impact on our revenues from a substantial decline in mortgage volumes is difficult to predict. Please refer to the risks relating to a decline in mortgage lending volumes described in Part II, Item 1A “Risk Factors” for additional information.

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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. Our recent launch of Developer Connect, Data Connect, and Investor Connect will enable developers to create new features for Encompass, easily integrate Encompass with external systems and data, and build and deploy custom applications in the cloud. In addition, lenders are also looking for a technology partner to deliver a better digital mortgage experience to consumers. We recently made generally available Encompass Consumer Connect, which enables our customers to originate loans directly from borrowers by offering an online loan application that can be accessed by anyone with a web browser. Furthermore, our acquisition of Velocify accelerates our vision of offering a fully digital mortgage by combining Velocify's lead management, engagement and distribution capabilities with Encompass Consumer Connect.

In 2017 and the first half of 2018, we increased our investment in our platform, research and development, technology infrastructure, and data security in an effort to support our growing user base. This includes the roll out of our Connect solutions, the development of our hybrid cloud infrastructure, and the development of our next generation Encompass platform and capabilities, which we expect to continue to progressively roll out to customers this year and 2019. The amortization expense of capitalized costs associated with our Connect solutions and intangible assets from the Velocify acquisition resulted in a decrease in our gross margin and increased operating expenses in the first half of 2018 as compared to the same period in 2017. Conversely, capitalized costs associated with solutions that we have not yet introduced are reflected as an asset on our Condensed Balance Sheet.

We have also invested in our sales and client services capabilities to continue to increase sales of our products and to assist our customers in implementing our solutions. To continue to support customers as we grow our business and further differentiate ourselves, we intend to invest in key areas, such as research and development, enterprise sales, services, technical support, data security, and our hybrid cloud infrastructure. We expect that our cost of revenues will continue to increase as our revenues increase, as we make additional and accelerated investments to bolster our infrastructure and enhance our system capacity, reliability, and data security, as we place new internal-use software into service, and as we pursue additional strategic acquisitions. As we continue to invest in these areas, such expenditures may affect our ability to improve our margins.

In addition to our internal initiatives, our business strategy has evolved to address recent industry trends, including:

- greater focus on operational efficiencies;
- customers adopting multi-channel strategies;
- consumer demand for a digital based experience from lenders;
- changes in regulation affecting lenders and investors;
- increased quality standards imposed by regulators, lenders, and investors; and
- greater focus by customers and regulators on data security and consumer privacy.

We are responding to these trends as follows:

Greater focus on operational efficiencies. The average total production cost per loan was $8,957 in the first quarter of 2018 [(1)]. We expect operational costs to continue to be a significant consideration for mortgage originators due to the continuously changing regulatory environment 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 loans 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 encourage adoption of our services through initiatives such as our Encompass Connect Solutions. By integrating and expanding our current and new services, we aim to provide a more comprehensive solution to our users.

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(1) Mortgage Bankers Association, Independent Mortgage Bankers Report Net Production Losses in the First Quarter of 2018, June 6, 2018.

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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. With the introduction of Encompass TPO Connect, Encompass users are able to utilize a customizable and interactive web experience for wholesale and correspondent lending channels, which gives lenders and investors a modern and collaborative web experience for their third-party origination ("TPO") partners that promotes compliance, data integrity, and easy bi-directional communication throughout the entire loan process. Additionally, Encompass Consumer Connect supports our customers' retail channel by enabling our customers to originate loans directly from borrowers by offering an online loan application that can be accessed by anyone with a web browser.

Consumer Demand for a Digital Based Experience from Lenders. Borrowers expect transparency, service and speed, and a human touch. To meet these requirements, lenders must offer a seamless, online experience that continues even after the application has been submitted. It is our goal to provide a true digital mortgage process that enables the lender to originate more loans, lower origination costs, reduce the time to close and make smarter decisions through data and predictive analytics, all while ensuring the highest levels of compliance, quality and efficiency. Our digital mortgage vision encompasses all phases of the mortgage loan lifecycle, with each milestone in the mortgage origination process informing the next.

Changes in regulation affecting lenders and investors. Regulations continue to be subject to change, and many regulatory reforms have significantly increased the complexity and importance of regulatory compliance. We devote considerable resources to continually upgrade our software to help our 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 also alerts users to possible violations of these laws and policies. In addition, we have a staff of attorneys who work with compliance experts and 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 required to address the Ability-to-Repay/Qualified Mortgage and Federal and State High Cost rules that became effective in January 2014. In addition, we updated certain of our products to comply with the TILA-RESPA Integrated Disclosure rule changes that took effect in October 2015 and we will provide a complete offering of readiness initiatives, tools and training programs in advance of the 2018 Home Mortgage Disclosure Act and Regulation C collection and reporting changes. We believe we are well-positioned to help our customers comply with changing regulatory requirements as they are published and become effective. However, 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 so that our customers remain compliant with such laws and regulations.

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 Total Quality Loan Program ("TQL") is designed to further enhance the quality, compliance, and salability of loans that are originated through Encompass. Additionally, TQL is intended to reduce the possibility of 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 many non-Encompass 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 in order to address anticipated demand for our software solutions.

Greater focus by customers and regulators on data security and consumer privacy. Recent high-profile data security incidents affecting financial institutions and their service 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 help 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.

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Acquisition Strategy

We evaluate strategic acquisition and investment opportunities within our core mortgage vertical and across complementary fintech verticals. To date, our acquisitions have been focused on enhancing the delivery of an end-to-end digital mortgage experience for our clients and their customers. The acquisition of Velocify accelerates our vision of offering a fully digital mortgage. We expect to continue to evaluate and explore strategic opportunities that will enhance the breadth and depth of our solutions, and furthers our mission of automating the entire end-to-end mortgage process for our customers.

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.

Our key operating metrics are defined below.

Contracted revenues. Contracted revenues are those revenues that are fixed by the terms of a contract and are generally not affected by fluctuations in mortgage origination volume. These revenues consist of the base fee portion of Success-Based Pricing revenues, monthly per-user subscription revenues, professional services revenues, and subscription revenues paid for products other than Encompass.

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

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

Estimated Encompass closed loans. Estimated Encompass closed loans is an estimate of the number of loans originated by Encompass users, calculated as loans originated by our Success-Based Pricing customers, which does not include certain brokered loans or correspondent purchased loans, plus an estimate of the number of loans originated by Encompass customers who are on purely subscription, or SaaS, licenses, which estimate is derived by applying the ratio of active Success-Based Pricing customers to loans originated by these customers to the number of active SaaS users of Encompass for the same period of time.

Revenues per loan. This is all our revenues for the applicable period of time divided by Estimated Encompass closed loans originated during the same period.

The following table shows these operating metrics as of and for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018 (As Restated)	2017	2018 (As Restated)	2017
Revenues (in thousands):				
Revenues	$125,473	$104,125	$241,255	$197,127
Contracted revenues	$89,451	$67,106	$172,375	$129,964
Users:				
Active users	193,041	177,366	193,041	177,366
Average active users during the period	192,330	175,266	190,358	172,021
Loans:				
Estimated Encompass closed loans	721,000	682,000	1,274,000	1,197,000
Revenues per loan	$174	$153	$189	$165

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Basis of Presentation

Revenue Recognition

Effective January 1, 2018, we apply the provisions of Topic 606 for revenue recognition on contracts with customers. Pursuant to Topic 606, we recognize revenues under the core principle to depict the transfer of control to our customers in an amount reflecting the consideration to which we expect to be entitled. In order to achieve that core principle, the following five step approach is applied:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

We generate revenues primarily from hosted software subscription services, transaction-based fees and related services, including professional services and our annual user conference, and recognizes revenues as performance obligations are satisfied. Sales taxes assessed by governmental authorities are excluded from transaction price.

Our revenues are generated from the Company-hosted Encompass software subscriptions that customers access through the Internet. Our revenues are also comprised of fees for software services sold both as a subscription and on a transactional basis, including fees based on a per closed loan, or success basis, subject to monthly base fees, which we refer to as Success-Based Pricing, as well as Ellie Mae Network fees, fees for loan product, policy and guideline data and analytics services under the AllRegs brand, fees for lead management, marketing and customer relationship management, and fees for professional services which include consulting, implementation, and education and training services.

Cost of Revenues and Operating Expenses

Cost of Revenues

Our cost of revenues consists primarily of: salaries and benefits, including stock-based compensation expense; data center operating costs; depreciation on data center computer equipment; amortization of internal-use software and acquired intangible assets such as developed technology and trade names; customer support; professional services associated with implementation of our software; third-party royalty expenses; 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 data security, as we place new internal-use software into service, as we pursue additional strategic acquisitions, and as we continue to hire personnel in our implementation and customer support departments to support new customers and provide new services. We anticipate that we will continue to invest in key areas such as development of internal-use software, professional services, technical support, data security, and data center infrastructure to better support our customers and further differentiate ourselves. This includes development of our next generation Encompass platform, which we expect to continue to roll out to customers throughout 2018 and 2019.

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, our annual user conference, 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 expenses will continue to increase as we hire additional sales personnel in order to address anticipated demand for our software solutions, as we pursue additional strategic acquisitions, and as our annual user conference continues to increase in size.

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 of the Encompass software, Ellie Mae Network, 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.

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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, administration, information technology, and legal; third-party provider expenses such as general consulting, legal, accounting, and other professional services; and allocated facilities costs. We expect general and administrative expenses to continue to increase in absolute dollars as we expand our facilities and invest in our back-office infrastructure to enhance our system capacity, reliability, and security. We also expect general and administrative expenses to continue to increase 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 and cash accounts, offset by investment discount amortization, and interest expense paid on equipment and software leases.

Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, we update our estimate of the annual effective tax rate and, if the estimated annual effective tax rate changes, we make a cumulative adjustment in such period.

We operate in various tax jurisdictions and are subject to audit by various tax authorities. We recognize the tax benefit of an uncertain tax position only if it is more likely than not that the position is sustainable upon examination by the taxing authority, based on the technical merits. The tax benefit recognized is measured as the largest amount of benefit which is greater than 50 percent likely to be realized upon settlement with the taxing authority. We recognize interest accrued and penalties related to unrecognized tax benefits in our income tax provision.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on estimates of future sources of taxable income for the jurisdictions in which we operate and the periods over which our deferred tax assets will be realizable. To the extent we establish a valuation allowance or change the valuation allowance in a period, we reflect the change with a corresponding increase or decrease to our tax provision in our statements of operations.

Critical Accounting Policies and Estimates

There have been no significant changes during the three and six months ended June 30, 2018 to our critical accounting policies and estimates previously disclosed in our 2017 Form 10-K except in relation to our adoption of Topic 606 as discussed in Notes 3 and 4 of the Notes to Condensed Financial Statements.

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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 June 30,		Six Months Ended June 30,	
	2018 (As Restated)	2017	2018 (As Restated)	2017
	(in thousands)			
Revenues	$125,473	$104,125	$241,255	$197,127
Cost of revenues[(1)]	50,809	38,267	99,456	73,035
Gross profit	74,664	65,858	141,799	124,092
Operating expenses:				
Sales and marketing[(1)]	20,355	13,860	44,199	33,240
Research and development[(1)]	24,586	16,046	47,075	33,453
General and administrative[(1)]	23,894	18,727	50,208	35,669
Total operating expenses	68,835	48,633	141,482	102,362
Income from operations	5,829	17,225	317	21,730
Other income, net	924	762	1,772	1,263
Income before income taxes	6,753	17,987	2,089	22,993
Income tax benefit	(3,061)	(836)	(7,986)	(5,429)
Net income	$9,814	$18,823	$10,075	$28,422

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenues	$2,106	$1,675	$4,000	$3,119
Sales and marketing	1,760	1,258	3,316	2,434
Research and development	2,953	2,098	5,487	3,959
General and administrative	3,843	3,479	7,391	6,849
	$10,662	$8,510	$20,194	$16,361

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	Three Months Ended June 30, 2018 (As Restated)	2017	Six Months Ended June 30, 2018 (As Restated)	2017
	(in thousands)			
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	40.5	36.7	41.2	37.0
Gross profit	59.5	63.3	58.8	63.0
Operating expenses:				
Sales and marketing	16.2	13.3	18.3	16.9
Research and development	19.6	15.4	19.5	17.0
General and administrative	19.0	18.0	20.8	18.1
Total operating expenses	54.8	46.7	58.6	52.0
Income from operations	4.7	16.6	0.2	11.0
Other income, net	0.7	0.7	0.8	0.6
Income before income taxes	5.4	17.3	1.0	11.6
Income tax benefit	(2.4)	(0.8)	(3.3)	(2.8)
Net income	7.8 %	18.1 %	4.3 %	14.4 %

Comparison of the Three and Six Months Ended June 30, 2018 and 2017

Revenues

	Three Months Ended June 30, 2018 (As Restated)	2017	Six Months Ended June 30, 2018 (As Restated)	2017
	(dollars in thousands)			
Revenues	$125,473	$104,125	$241,255	$197,127

Three months ended June 30, 2018. Total revenues increased $21.3 million, or 20.5%, for the three months ended June 30, 2018 as compared to the same period in 2017. The increase in revenues is primarily due to increased adoption of our service offerings including Velocify, an increase in estimated Encompass closed loans to 721,000 from 682,000, and a larger user base.

Six months ended June 30, 2018. Total revenues increased $44.1 million, or 22.4%, for the six months ended June 30, 2018 as compared to the same period in 2017. The increase in revenues is primarily due to increased adoption of our service offerings including Velocify, an increase in estimated Encompass closed loans to 1,274,000 from 1,197,000, and a larger user base.

Gross Profit

	Three Months Ended June 30, 2018 (As Restated)	2017	Six Months Ended June 30, 2018 (As Restated)	2017
	(dollars in thousands)			
Gross profit	$74,664	$65,858	$141,799	$124,092
Gross margin	59.5 %	63.3 %	58.8 %	63.0 %

Gross profit increased by $8.8 million and gross margin decreased by 3.8% during the three months ended June 30, 2018 as compared to the same period in 2017. The decrease in gross margin was primarily the result of a $4.8 million increase in amortization related to intangibles acquired from the Velocify acquisition, a $4.0 million increase in employees related expenses associated with additional headcount, a $2.5 million increase in amortization related to internal-use software and depreciation related to infrastructure hardware and a $1.5 million increase in expenses related to our technology and infrastructure services as we increase capacity to accommodate new customers through our hybrid cloud architecture.

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Gross profit increased by $17.7 million and gross margin decreased by 4.2% during the six months ended June 30, 2018 as compared to the same period in 2017. The decrease in gross margin was the result of a $9.6 million increase in amortization related to intangibles acquired from the Velocify acquisition, a $6.9 million increase in employees related expenses associated with additional headcount, a $5.8 million increase in amortization expense related to internal-use software and depreciation expense related to infrastructure hardware, and a $3.5 million increase in expenses related to our technology and infrastructure services as we increased capacity to accommodate new customers through our hybrid cloud architecture.

Sales and Marketing

	Three Months Ended June 30, 2018 (As Restated)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018 (As Restated)	Six Months Ended June 30, 2017
	(dollars in thousands)			
Sales and marketing	$20,355	$13,860	$44,199	$33,240
Sales and marketing as a % of revenues	16.2 %	13.3 %	18.3 %	16.9 %

Sales and marketing expenses increased by $6.5 million, or 46.9%, for the three months ended June 30, 2018 as compared to the same period in 2017. Sales and marketing expenses as a percentage of revenues increased by 2.9%. The increase in sales and marketing expenses was primarily due to a $3.0 million increase in salaries, employee benefits, and stock-based compensation expenses related to increased headcount as we continued to grow our sales and marketing department in an effort to increase our market share and address anticipated demand for our software solutions, a $1.3 million increase in marketing and promotion expenses, including our user conference and trade shows, and a $1.2 million increase in commissions related to higher amortization of deferred costs and reclassification of certain costs to obtain contracts.

Sales and marketing expenses increased by $11.0 million, or 33.0%, for the six months ended June 30, 2018 as compared to the same period in 2017. Sales and marketing expenses as a percentage of revenues remained relatively flat. The increase in sales and marketing expenses was primarily due to a $5.6 million increase in salaries, employee benefits, and stock-based compensation expenses related to increased headcount as we continued to grow our sales and marketing department in an effort to increase our market share and address anticipated demand for our software solutions, a $2.0 million increase in commissions related to higher amortization of deferred costs and reclassification of certain costs to obtain contracts, and a $1.4 million increase in marketing and promotion expenses, including our user conference and trade shows.

Research and Development

	Three Months Ended June 30, 2018 (As Restated)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018 (As Restated)	Six Months Ended June 30, 2017
	(dollars in thousands)			
Research and development	$24,586	$16,046	$47,075	$33,453
Research and development as a % of revenues	19.6 %	15.4 %	19.5 %	17.0 %

Research and development expenses increased by $8.5 million, or 53.2%, for the three months ended June 30, 2018 as compared to the same period in 2017. Research and development expenses as a percentage of revenues increased by 4.2%. The increase in research and development expenses was primarily driven by salaries, employee benefits, and stock-based compensation expenses related to increased headcount as we continued to invest in our products and services.

Research and development expenses increased by $13.6 million, or 40.7%, for the six months ended June 30, 2018 compared to the same period in 2017. Research and development expenses as a percentage of revenues increased by 2.5%. The increase in research and development expenses was primarily driven by salaries, employee benefits, and stock-based compensation expenses related to increased headcount as we continued to invest in our products and services.

General and Administrative

	Three Months Ended June 30, 2018 (As Restated)	2017	Six Months Ended June 30, 2018 (As Restated)	2017
	(dollars in thousands)			
General and administrative	$23,894	$18,727	$50,208	$35,669
General and administrative as a % of revenues	19.0 %	18.0 %	20.8 %	18.1 %

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General and administrative expenses increased by $5.2 million, or 27.6%, for the three months ended June 30, 2018 as compared to the same period in 2017. General and administrative expenses as a percentage of revenues increased by 1.0%. The increase in general and administrative expenses was primarily due to a $2.3 million increase in salaries, employee benefits, and stock-based compensation related to increased headcount, and a $1.3 million increase in professional services related to the adoption of the new revenue recognition standard.

General and administrative expenses increased by $14.5 million, or 40.8%, for the six months ended June 30, 2018 as compared to the same period in 2017. General and administrative expenses as a percentage of revenues increased by 2.7%. The increase in general and administrative expenses was primarily due to a $5.2 million increase in salaries, stock-based compensation, and employee benefits related to increased headcount, a $4.3 million increase in professional services, and a $1.8 million increase in third-party service fees due to consulting services related to the adoption of the new revenue recognition standard.

Income Tax Provision

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018 (As Restated)	2017	2018 (As Restated)	2017
	(dollars in thousands)			
Income tax provision (benefit)	$(3,061)	$(836)	$(7,986)	$(5,429)
Effective tax rate	(45.3)%	(4.7)%	(382.3)%	(23.6)%

For the three and six months ended June 30, 2018, our effective tax rate differed from the U.S. federal statutory rate of 21% primarily due to the discrete impact of the excess tax benefits from stock-based compensation and the reduced state blended income tax rate as well as federal research and development credits. For the three and six months ended June 30, 2017, our effective tax rate differed from the U.S. federal statutory rate of 35% primarily due to the discrete impact of excess tax benefits from stock-based compensation as well as non-deductible stock-based compensation and federal research and development credits.

The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Job Act (“Tax Act”) in the period of enactment. The guidance allows us to record provisional amounts to the extent a reasonable estimate can be made and provides us with up to one year from enactment date to finalize the accounting for the impact of the Tax Act. Since the Tax Act was passed in our fourth quarter of 2017, we continue to perform an impact analysis on the Tax Act on an ongoing basis. The analysis is expected to be completed within the 12-month measurement period which is our fourth quarter of 2018 and corresponding adjustments may materially impact the Company’s provision for income taxes and effective tax rate in the period in which the adjustments are made.

For further discussion of our income tax provision, see Note 9 of Notes to Condensed Financial Statements.

Liquidity and Capital Resources

As of June 30, 2018, we had cash, cash equivalents, and short-term investments of $243.0 million and long-term investments of $81.4 million. Cash and cash equivalents consist of cash, money market accounts, and highly liquid investments purchased with an original maturity of three months or less. Both short and long-term investments consist of U.S. government notes, and U.S. government agency securities, corporate bonds and obligations, certificates of deposit and municipal obligations.

We believe 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 have used our cash and investments to repurchase our stock and may continue to do so in the future periods. Acquisitions that we enter into are funded by our cash and investments or 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:

Six Months Ended
June 30,

	2018	2017	Net Change
	(in thousands)		
Net cash provided by operating activities	$42,066	$35,021	$7,045
Net cash used in investing activities	(43,278)	(200,962)	157,684
Net cash used in financing activities	(18,174)	(1,762)	(16,412)
Net decrease in cash and cash equivalents	$(19,386)	$(167,703)	$148,317

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Operating Activities

Cash provided by operating activities consists of net income adjusted for non-cash items and changes in operating assets and liabilities.

Cash provided by operating activities for the six months ended June 30, 2018 increased by $7.0 million as compared to the same period in 2017. The increase in cash provided by operating activities was primarily due to increased revenue and related cash collections, partially offset by higher payments for operating expenses primarily driven by increased headcount, costs related to the integration of Velocify, and an increase in professional and consulting services due to the adoption of the new revenue standard.

Investing Activities

Our primary investing activities have consisted of purchases and maturities of investments, and purchases of property and equipment (including costs incurred to develop internal-use software). 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 internal-use software projects subject to capitalization. We plan to continue to invest in the expansion of our operations and facilities as well as the next generation Encompass platform, and we intend to continue pursuing strategic acquisitions.

Cash used in investing activities of $43.3 million for the six months ended June 30, 2018 was primarily the result of $14.2 million in expenditures for purchases of property, including capital improvements to our corporate headquarters, investments to bolster our infrastructure and enhance our system capacity, reliability, and security, and $33.3 million in expenditures incurred to develop internal-use software and website applications, including the development of our next generation Encompass platform. We also incurred $4.0 million in net purchases of investments.

Cash used in investing activities of $201.0 million for the six months ended June 30, 2017 was primarily the result of $21.8 million in expenditures for purchases of property, including capital improvements to our new corporate headquarters, investments to bolster our infrastructure and enhance our system capacity, reliability, and security, and $25.5 million in expenditures incurred to develop internal-use software and website applications, including the development of our next generation Encompass platform. We also incurred $153.7 million in net purchases of investments.

Financing Activities

Financing activities have consisted primarily of cash provided from the exercise of stock options and purchases under the employee stock purchase plan, reduced by the payments related to capital lease obligations, repurchases of common stock and tax payments related to shares withheld for vested restricted stock units, or RSUs. In August 2017, our audit committee, under the authority delegated to it by our board of directors, approved a new stock repurchase program under which we are authorized to repurchase up to $250.0 million of our common stock. This authorization expires in August 2020.

Cash used in financing activities of $18.2 million for the six months ended June 30, 2018 consisted primarily of $14.7 million in common stock repurchases and $15.1 million in tax payments related to shares withheld for vested RSUs, partially offset by $11.8 million in proceeds from employee stock purchases and the exercise of stock options.

Cash used in financing activities of $1.8 million for the six months ended June 30, 2017 consisted primarily of $11.4 million in tax payments related to shares withheld for vested RSUs, partially offset by $10.2 million in proceeds from employee stock purchases and the exercise of stock options.

Off Balance Sheet Arrangements

As of June 30, 2018, we had no off-balance sheet arrangements, and operating leases were the only financing arrangements not reported on our condensed financial statements.

Contractual Obligations

During the six months ended June 30, 2018, there have been no material changes to our contractual obligations outside the ordinary course of business from those specified in the 2017 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 and six months ended June 30, 2018, as compared with those discussed in our 2017 Form 10-K.

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ITEM 4—CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2018. 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. At the time our Quarterly Report on Form 10-Q for the period ended June 30, 2018 was filed on August 7, 2018, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Subsequent to the original evaluation, our Chief Executive Officer and Interim Chief Financial Officer reevaluated the effectiveness of our disclosure controls and procedures and concluded that, as of June 30, 2018, our disclosure controls and procedures were not effective because of the material weakness in internal control over financial reporting described below.

During the third quarter of fiscal year 2018, we identified a material weakness in our controls related to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The following deficiencies primarily contributed to management's assessment:

- We determined that we did not design controls that adequately constrained the variable consideration that is estimated and included in the transaction price for certain customer subscriptions to our Encompass software, such that, at the time we adopted Topic 606, it was probable that a significant revenue reversal would not occur.
- The processes and controls relating to the costs to obtain contracts were not sufficient to identify certain third party costs to obtain contracts which should have been recorded to our opening balances upon adoption of Topic 606.

The material weakness described above resulted in the restatement of our condensed consolidated financial statements for the quarter ended June 30, 2018.

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.

Management's Plan for Remediation of Material Weakness

Management has implemented or is in the process of implementing the following planned actions to address the material weakness described above:

(a) supplementing the accounting and finance function with additional subject matter expertise on complex accounting matters related to Topic 606,

(b) supplemental procedures to review and ensure the adequacy of the constraint on the variable consideration included in the transaction price for certain customer subscriptions to our Encompass software, such that, it is probable that a significant reversal will not occur,

(c) supplemental procedures to ensure the completeness of our evaluation of third party agreements that may be within the scope of costs to obtain or fulfill a contract.

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PART II—OTHER INFORMATION
ITEM 1—LEGAL PROCEEDINGS
On December 1, 2017, a pension fund and stockholder purporting to act on our behalf filed a derivative lawsuit in the Superior Court of California for the County of Alameda, captioned United Association of Plumbers and Pipefitters, Journeymen, Local #38 Defined Benefit Pension Plan v. Jonathan H. Corr, et al. (Case No. RG17884445). The lawsuit purported to assert claims against certain of our officers and directors for insider trading under California law, breach of fiduciary duty, corporate waste, and unjust enrichment based on allegations that: (1) we overstated our financial prospects in public filings between February 10, 2017 and July 27, 2017; and (2) certain of our officers and directors sold shares during this same period. Plaintiff sought unspecified monetary damages, attorneys’ fees and costs, as well as certain changes to our corporate governance and internal procedures. Our demurrer to Plaintiff’s complaint was filed on February 15, 2018. Plaintiff opposed our demurrer and we filed a reply in support of our demurrer. On May 8, 2018, the court sustained our demurrer with leave to amend within 30 days. On June 15, 2018, the court entered the Plaintiff’s voluntary dismissal of the action without prejudice, to which we consented.
From time to time, we are involved in litigations that we believe are of the type common to companies engaged in our line of business, including commercial and employment disputes. As of the date of this Quarterly Report on Form 10-Q, we are not involved in any other pending legal proceedings whose outcome we expect to have a material adverse effect on our 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 we could incur judgments or enter into settlements of claims that could have a material adverse effect on our business.
ITEM 1A.—RISK FACTORS
You should carefully consider the risks described below and the other information in this Quarterly Report on Form 10-Q. 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.
The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Quarterly Report on Form 10-Q. The following information should be read in conjunction with the condensed consolidated financial statements and related notes in Part I, Item 1, “Financial Statements” and Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q.
Because of the following risks, as well as other factors affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.
Any outages or system interruptions that impair access to Encompass, the Ellie Mae Network, or our other services could damage our reputation and brand and may substantially harm our business and operating results.
The satisfactory performance, reliability, and availability of Encompass, the Ellie Mae Network, and our other services are critical to our reputation and our ability to attract and retain Encompass users and Ellie Mae Network participants. Because our services are complex and incorporate a variety of hardware and proprietary and third-party software, our services may have errors or defects that could result in unanticipated downtime for our customers. 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 errors and defects in our services and new errors and defects in our services may be detected in the future. 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.
Moreover, we have experienced and may in the future continue to experience temporary system interruptions to Encompass, the Ellie Mae Network, or our other services for a variety of other reasons, including:
- network or power failures;
- problems with Encompass and other third-party firmware updates;

- an overwhelming number of users trying to access our services during periods of strong demand;
- security or denial of services attacks which result in service interruptions;
- use of our services by our customers in unanticipated ways that may cause a disruption in services for other customers; and

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- disruptions or congestions in the portions of the Internet linking us to our customers.

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 to 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, cause us to incur legal liability or issue refunds or service credits to our customers and cause us to lose current customers, all of which could substantially harm our business and operating results.

We depend on data centers and computing infrastructure operated by third parties and any disruption in these operations could damage our reputation and brand and substantially harm our business and operating results.

We host our applications and serve our customers from third-party data centers located within the United States. We utilize a hybrid cloud approach to our third-party data centers consisting of (i) two primary production data centers, located in Santa Clara, California and Elk Grove (Chicago), Illinois, which are each hosted by a third-party service provider, as well as third party data centers located in St. Louis, Missouri and Richardson, Texas, which host our Encompass CRM and Velocify products, and (ii) a network of Amazon Web Services (“AWS”) data centers within the United States which provides a distributed computing infrastructure platform for business operations. We maintain regular oversight but have little direct control over our third party data centers. In the case of AWS, we do not control any aspects of the AWS data center operations and do not own any of the underlying computing hardware. We rely on these third-party service providers to provide continuous and uninterrupted access to our products and services, including Encompass and the Ellie Mae Network. If for any reason our relationship with any of these third parties were to end unexpectedly, it could require a significant amount of time to transition the hosting of our computing infrastructure to new third-party service providers.

Problems faced by our third-party data center providers or AWS, or with the telecommunications network providers with whom we or they rely, could adversely affect the experience of our customers. Our third-party data center operators or AWS could decide to close their facilities or reduce services to us without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by our third-party data center providers, AWS or any of the other service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data center providers or AWS are unable to keep up with our needs for capacity, this could have an adverse effect on our business. Any changes in third-party service levels at our data centers or at AWS or any errors, defects, disruptions, or other performance problems with our applications or the hosted infrastructure on which they run could adversely affect our reputation and may damage our customers’ stored files or result in lengthy interruptions in our services. Interruptions in our services, as discussed in the preceding risk factor, could substantially harm our business and operating results.

Our failure to maintain the security of the confidential information of the customers of the users of our software and services could damage our reputation and brand and substantially harm our business and operating results.

We collect, process, transmit, and maintain certain confidential information relating to the customers (borrowers and loan applicants) of the users of our software and services, including personally identifiable information. This information resides on data center servers hosted by third-party providers and on AWS, and is transmitted to, across, and from our networks. While we have security measures in place to protect this information and prevent security breaches, these security measures may be compromised as a result of third-party action, including intentional misconduct by computer hackers, advanced persistent cyber-attacks (by hacktivists or cybercriminal organizations), employee error or malfeasance, service provider or vendor error, malfeasance or other intentional or unintentional acts by third parties. Furthermore, our customers’ data, including personally identifiable information, may be lost, exposed, or subject to unauthorized access and/or use as a result of accidents, errors, or malfeasance by our employees, independent contractors, or others working with us or on our behalf. Our servers and systems, and those of our service providers, may also be vulnerable to computer malware, break-ins, denial-of-service attacks, 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. Because the techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. We may also experience security breaches that may remain undetected for an extended period. The possession and use of personally identifiable information in conducting our business subjects us to legislative and regulatory burdens that may require notification to customers in the event of a security breach, restrict our use of personally identifiable 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 or the loss or exposure of confidential information or other information we maintain or process. Any actual or perceived compromise of our security could result in the loss of customer data, intellectual property or trade secrets, and could damage our reputation and brand, negatively affect our ability to attract new customers and retain existing customers, adversely affect investor confidence, and expose us to a risk of litigation or regulatory actions and orders, penalties for violation of applicable laws, regulations, or contractual obligations and/or other liabilities, which would substantially harm our business and operating results. We will need to expend significant resources to protect against and remedy any potential security breaches and their consequences, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants.

Our future performance will be highly dependent on both our ability to continue to attract new customers to our service offerings and our ability to sell additional service offerings to existing customers.

To maintain or increase our revenues, we may need to (i) increase the number of customers of our service offerings, and (ii) increase the adoption of our suite of other and newer service offerings to existing customers, in each case the failure to do so may have a materially adverse impact on our business.

Our success will depend on (i) the willingness of our customers, primarily mortgage lenders, to continue to accept the SaaS model for delivering software applications that they view as critical to the success of their business, (ii) our ability to successfully deliver new and improved SaaS service offerings that meet the needs of our existing customers and potential customers, and (iii) the available market of potential customers of our services and our ability to sell our services to these potential customers.

It is difficult to predict customer adoption rates and demand for our services, the future growth rate and size of the market for our service offerings, or the entry of competitive applications. The growth of the mortgage technology market depends on a number of factors, including the cost, performance, and perceived value associated with product offerings, most notably SaaS offerings such as our own, including the extent to which SaaS companies are successful in continuing to address security and reliability 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 mortgage technology caused by technological challenges, weakening economic conditions, interest rate increases, security or privacy concerns, competing technologies, and products, decreases in spending by mortgage lenders, or a decrease in the number of potential users of our service offerings, this could result in decreased revenues and our business could be adversely affected. In addition, we will need to continue to optimize our sales infrastructure in order to grow our customer base and our business. Identifying and recruiting qualified personnel and training them in the use of our software requires significant time, expense, and attention.

If we are not able to provide successful enhancements, new features, and modifications to our services, our business could be adversely affected. Further, impairment of software-related assets and other assets may materially adversely affect our operating results.

If we are unable to provide enhancements, new features, and modifications of our existing services, including the successful completion and deployment of our next generation Encompass software, the Encompass Lending Platform and our Encompass Connect solutions as well as changes to our services to reflect changes in laws and regulations relating to residential mortgage lending, our business and operating results could be adversely affected. If we do not successfully manage the migration of our customers to our next generation Encompass software or if the transition takes longer than expected, customers may not experience the benefits of new enhancements and features and our business and operating results could be adversely affected. In addition, we will need to continuously modify and enhance our services to keep pace with changes in software, communication, browser, database, and SaaS infrastructure technologies. We may not be successful in either developing these modifications and enhancements or in bringing them to market in a timely fashion, which could increase our costs and adversely affect our business. The failure of our services to operate effectively with future technologies could reduce the demand for our services, result in customer dissatisfaction, and adversely affect our business.

We have invested and continue to invest significant resources to develop and acquire technology related to our services that is capitalized to property and equipment or intangible assets and treated as an asset on our balance sheet. We may not launch this developed and acquired technology, the launch of such technology may result in disruptions to our business operations, or such technology might not meet our and our customers' expectations. Also, changes to any of our implementation strategies or the failure of this technology to meet our and our customers' expectations could result in the impairment of software-related assets, and our future operating results could be materially adversely affected if we are required to write down the carrying value of capitalized software development or other intangible assets.

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Changes in current legislation or new legislation may increase our costs by requiring us to update our products and services and if our products and services fail to address relevant laws and regulations our business could be adversely affected.

Changes to existing laws or regulations or adoption of new laws or regulations relating to the residential mortgage industry or mortgage lending may require us to incur significant costs to update our products and services so that our customers remain compliant with such laws and regulations. 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 Compliance Service, 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 required to address the Ability-to-Repay/Qualified Mortgage and Federal and State High Cost rules that became effective in January 2014. In addition, we have updated certain products to comply with the TILA-RESPA Integrated Disclosure rule changes and the 2013 Loan Originator Rule under the Truth in Lending Act (Regulation Z) that became effective on October 3, 2015. The final rule amending Regulation C to implement amendments to the Home Mortgage Disclosure Act made by section 1094 of the Dodd-Frank Act was published on October 15, 2015. It includes various effective compliance dates, starting with January 1, 2017 through May 30, 2020. The final “Qualified Residential Mortgage” rule which implements the risk retention requirements in the Dodd-Frank Act became effective on December 24, 2015. On August 23, 2016, Fannie Mae and Freddie Mac published the first material updates to the Uniform Residential Loan Application (“URLA”) in more than 20 years. In September 2017, Fannie Mae and Freddie Mac announced that lenders may begin using the redesigned URLA starting in July 2019 and they will require the use of the redesigned URLA for all new loan applications beginning in February 2020. These additions and updates have caused us to incur significant expense, and future updates will likely cause us to incur similar significant expense. For example, if the current U.S. presidential administration and U.S. Congress significantly change or repeal the mortgage lending portions of the Dodd-Frank Act or the Consumer Financial Protection Bureau announces new rules or repeals previously announced rules, we may need to incur significant expense to make updates to our products and services.

In addition, if our products and services fail to adequately address laws or regulations relating to the residential mortgage industry or mortgage lending (including existing laws and regulations or newly introduced laws or regulations), we could be subject to claims by our customers that we have breached our customer contracts as well as potential claims by borrowers or government agencies. Such claims could result from a failure of our product to meet customer expectations regarding functionality or from errors or defects in our products. 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 and operating results. Furthermore, if our products and services fail to address relevant laws and regulations this could result in negative publicity, damage to our reputation and brand, 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.

A decrease in mortgage lending volume could materially adversely affect our business.

Mortgage lending volume decreased in the first half of 2018 relative to 2017 and may continue to decrease materially for the remainder of 2018 and future years due largely to an increase in mortgage interest rates. Such a decrease and a continued decline in mortgage lending volumes could materially adversely affect our business and our operating results. A decline in mortgage lending volume could reduce the closed loan fees we receive as well as fees for transactions on our platform, including Ellie Mae Network transaction fees. In addition, a substantial decline in mortgage lending volumes by our customers could result in a reduction of Encompass users, consolidation of our customers with other lenders that do not use Encompass, or cessation of operations by our customers, in each case which would decrease the base fee portion of success based revenues, subscription revenues and professional services revenues we receive from our customers. Furthermore, the volumes of mortgages originated by our customers may decline more than the volume of mortgages originated by lenders who do not use Encompass. 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 (including the passage of the Tax Act), the number of existing mortgages eligible for refinancing, the available inventory of housing, 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 raised the target federal funds rate by 0.25% in each of March 2017, June 2017, December 2017, March 2018, and June 2018, the most recent increase from 1.75% to 2.00%, and signaled that the federal funds rate could be increased further over the coming months and years. The increase in the federal funds rate since December 2016 has contributed to an increase in mortgage interest rates and may result in future mortgage interest rate increases. Increases in mortgage interest rates reduced the volume of new mortgages originated in the first quarter of 2018 relative to 2017, in particular the volume of mortgage refinancings, and future increases may further decrease the volume of new mortgages originated. Furthermore, changes in tax law may have an impact on the number of mortgages originated. The Tax Act, which was enacted in December 2017 and which limits the deductibility of mortgage interest and local property taxes for federal income tax purposes, as well as increases the standard deduction (reducing the number of United States tax payers who itemize deductions), may have a negative effect on the number of mortgages originated. In addition, our 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. As a result, a higher percentage of our revenues have historically been recognized during those quarters.

A failure in our continued operation of revenue controls and procedures under Topic 606, the new revenue recognition standard, may impact our ability to produce accurate and timely financial statements, which could have a material adverse effect on our business and the market price of our common stock.

Our adoption of Topic 606 required us to make significant updates to our financial information technology systems, significant modifications to our accounting controls and procedures and continues to place a significant burden on our accounting and information technology teams, both financially and through the expenditure of management time. Many of these updates and modifications remain in process as we evolve our systems and controls. We have been able to make timely reporting requirements as of the date of this Quarterly Report on Form 10-Q, however, the significant system and process updates required for the efficient operation of our revenue process under ASC 606 remain an on-going initiative with no assurance that we will continue to be successful in meeting our reporting requirements. Our failure to meet our reporting obligations could have a material adverse effect on our business and the market price of our common stock. Furthermore, due to the implementation of Topic 606 and the changes we are making to our internal control environment to adopt Topic 606, there is an increased risk that we fail to maintain an effective internal control environment. Our failure to maintain an effective internal control environment may, among other things, result in material misstatements in our financial statements and failure to meet our reporting obligations.

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 term, 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 existing customers renewing their subscriptions and purchasing new services after the initial subscription term. It may be more difficult to predict renewal rates as our customer base grows, as we continue to expand suite of offerings, and as we continue to expand the number of multi-year subscription contracts. Our customers' renewal rates may decline or fluctuate because of several factors, including merger and acquisition activity, their satisfaction or dissatisfaction with our services, the prices of our services, changes to the standard 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 may be harmed.

Our future performance will be highly dependent on our ability to expand the third-party services available on, and increase the number of transactions effected through, the Ellie Mae Network.

To grow our base of Ellie Mae Network participants, we must continue to enhance the features and functionality of the Ellie Mae Network, including the Application Program Interfaces ("APIs") we make available to Ellie Mae Network providers. In addition, increasing the number of settlement service and other transactions effected through the Ellie Mae Network will depend, in part, on third-party 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.

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 volume of mortgages originated by Encompass users, especially users on our Success-Based Pricing model;
- the number of Encompass users;
- transaction volume on the Ellie Mae Network and the demand for our services;
- fluctuations in mortgage lending volume and the number of closed loans relative to loan applications;
- the relative mix of purchase and refinance volume handled by Encompass users;
- the timing of the introduction and acceptance of new services and Ellie Mae Network service providers;
- how quickly larger customers implement our services and use our services to originate and close loans;
- continued investment in the Encompass Lending Platform and our Encompass Connect solutions;
- changes in accounting rules applicable to our business;
- any write-downs in the value of our property and equipment, goodwill or intangible assets as a result of our investment or acquisition activities;
- changes in government regulation affecting mortgage lenders and Ellie Mae Network participants or our business, and potential structural changes in the U.S. residential mortgage industry; and
- costs associated with defending intellectual property infringement and other litigation claims.

Due to these and other factors, our future results may not reach our financial 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.

As we sell our services to larger customers, our sales cycle may become longer and more expensive, we may encounter pricing pressure and implementation challenges, and we may have to delay revenue recognition for some complex transactions or experience delays in these customers using our service to originate and close loans, 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 and marketing 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 complex integration services, more comprehensive implementation services, and expanded or modified product functionality, which may result in implementations that take longer than we forecast or plan or result in delays in these customers using our service to originate and close loans. 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. Furthermore, if implementations take longer than planned or these customers delay their use of our service to originate and close loans, we may be required to delay revenue recognition on some of these transactions until the technical or implementation requirements have been met and may not generate revenue from these customers as quickly as we had forecast.

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, technical support, technical operations, research and development, and general and administrative functions 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.

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In addition, professional services, such as implementation services, are a key aspect of on-boarding new customers. The implementation process is complicated and we may 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 growth strategy will require significant expenditures and resources to improve our technology, systems, and operational infrastructure in order to support a growing number of customers. We will need to make such expenditures with no assurance that the volume of our business or revenues will actually increase.

Our strategy of growing our business and increasing the number of Encompass users has placed and may continue to place significant demands on our technology systems and operational infrastructure. As our operations grow in size, scope, and complexity, we will need to expand, improve, and upgrade our technology systems and operational infrastructure, including the data center infrastructure we utilize to offer an increasing number of customers enhanced solutions, features, and functionality, and to ensure that our services are reliable.

Our growth and the improvement of our technology systems and operational infrastructure will require significant lead time and substantial financial, operational and technical resources in advance of the anticipated increase in the volume of business, with no assurance that the volume of business or our revenues will actually increase.

We have experienced rapid growth. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and operational controls, or adequately address competitive challenges.

We have experienced, and are continuing to experience, a period of rapid growth in our customers, headcount, and operations. We have grown from approximately 900 employees as of December 31, 2015 to approximately 1,500 employees as of June 30, 2018, and have also significantly increased the number of customers and loans originated using Encompass. We anticipate that we will significantly expand our operations in the near term and will continue to expand our loans originated on our platform. This growth has placed, and future growth will place, a significant strain on our management, general and administrative resources, and operational infrastructure.

Our success will depend in part on our ability to manage this growth effectively and to scale our operations. To manage the expected growth of our operations, we will need to continue to improve our operational, financial, and management controls and our reporting systems and procedures. As we continue to grow, we also need to ensure that our policies and procedures evolve to reflect our current operations and are appropriately communicated to and observed by employees, and that we appropriately manage our corporate information assets, including confidential and proprietary information. Failure to effectively manage growth could result in difficulty or delays in deploying customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features, or other operational difficulties, and any of these difficulties could adversely impact our business performance and results of operations.

Completing and 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 2017, we purchased Velocify, a leading cloud-based sales engagement platform.

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;
- unanticipated expenses related to acquired technology and its integration into existing technology;
- limitations to our ability to recognize revenue from acquired deferred revenues;
- the potential loss of key employees;

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- depreciation and amortization of amounts related to acquired intangible assets, fixed assets, and deferred compensation; and
- adverse tax consequences of any such acquisitions.

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.

The residential mortgage industry is heavily regulated and changes in current legislation or new legislation 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. In addition, reduced regulatory requirements may reduce the demand for certain of our products and services, including the Encompass Compliance service.

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. There have been numerous executive branch proposals as well as proposed federal legislation which may wind down or recapitalize Fannie Mae and Freddie Mac and/or eliminate or reduce the government's role in the housing market. Any significant structural change to the role of Fannie Mae and Freddie Mac or 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 or if such changes reduce the volume of mortgage lending, 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.

The Real Estate Settlement Procedures Act ("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 intended to comply with 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, court opinions interpreting the provisions of RESPA, or changes in the manner that RESPA is interpreted by the regulatory agencies responsible for enforcing 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 employee 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 we 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.

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Volatility or lack of performance in our stock price may also affect our ability to attract and retain our key employees. Most of our named executive officers are vested in a substantial number of stock options and performance 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.

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 that compete with us by offering loan origination software to mortgage originators. These competitors include: Calyx Technology, Inc.; DH Corporation now Finastra; LendingQB; Mortgage Builder Software, Inc.; Mortgage Cadence, an Accenture Company; Wipro Gallagher Solutions, Inc.; and Black Knight Financial Technology Solutions, LLC (LoanSphere Empower and LoanSphere LendingSpace). Some of these software providers, including Calyx Technology, Inc. and Black Knight Financial Technology Solutions, LLC, also provide connectivity between their software users and lenders and service providers to make such services available to mortgage lenders. We also compete with compliance, document preparation service, and product eligibility and pricing service providers that are more established than us. We also compete with companies that offer “point of sale” or web-based online loan applications services. 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. In addition, some of our competitors are consolidating, which facilitates greater cross-selling of services and 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 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.

There are many service providers that offer our Encompass users competing services, including borrower-facing websites, customer relationship management solutions, document preparation services, compliance services, product eligibility and pricing services, and electronic document management services. 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. 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.

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We must continue to enhance the features and functionality of Encompass, our other services, and the Ellie Mae Network. The effective performance, reliability, and availability of Encompass, our other services, and the Ellie Mae Network infrastructure are critical to our reputation and our ability to attract and retain Encompass users, users of our other services, 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 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.

We are subject to the risks of current and future legal proceedings, which could have a material adverse effect on our business, financial condition, results of operations, and future prospects.

At any given time, we are a defendant in various legal proceedings and litigation matters arising in the ordinary course of business including commercial and employment disputes. We can give no assurance that the outcome of any such matter would not have a material adverse effect on our financial condition, results of operations, or cash flows. We are unable to predict the ultimate outcome of these disputes or the actual impact of these matters on our profitability at this time, and any views we form as to the viability of these claims or the financial exposure in which they could result, could change from time to time as the matters proceed through their course, as facts are established, and as various judicial determinations are made.

If we agree to settle these matters or judgments are secured against us, we may incur charges which may have a material and adverse impact on our business, financial conditions, results of operations, and future prospects.

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 patents, copyrights, trademarks, and trade secret laws, 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,” “Velocify,” and “AllRegs” and certain of our other trademarks as trademarks i 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. 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.

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Our internal information technology systems are critical to our business. System integration and implementation issues could disrupt our operations, which could have a material adverse impact on our business or results in significant deficiencies or material weaknesses in our internal controls.

We rely on the efficient and uninterrupted operation of complex information technology systems, including systems for customer billing, human resources, enterprise resource planning, and customer relationship management. As our business has grown in size and complexity, the growth has placed, and will continue to place, significant demands on our internal information technology systems. To effectively manage this growth, we must commit significant financial resources and personnel to maintain and enhance existing systems and develop or acquire new systems to keep pace with continuing changes in our business and information processing technology as well as evolving industry, regulatory, and accounting standards. If the information we rely upon to run our businesses is determined to be inaccurate or unreliable, or if we fail to properly maintain or enhance our internal information technology systems, we could have operational disruptions, customer disputes, significant deficiencies, or material weaknesses in our internal controls, incur increased operating and administrative expenses, lose our ability to produce timely and accurate financial reports, or suffer other adverse consequences.

For example, as discussed in more detail below, our implementation of Topic 606, a new revenue recognition standard which became effective on January 1, 2018 and as more fully described in Note 3 “Basis of Presentation and Significant Accounting Policies”, required significant updates to our financial technology systems. The timely and precise implementation of necessary systems updates for Topic 606 are critical to our ability to properly record and recognize revenue and any errors resulting from this implementation would have, and may continue in the future to, among other things, result in significant deficiencies or material weaknesses in our internal controls.

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 (“SOX”), which requires that we properly implement and maintain our internal control over financial reporting and disclosure controls and procedures. Ensuring that we have adequate functioning 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 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 (the “FFIEC”), we are subject to an Information Technology (“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 or our products and services 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, product functionality, data integrity, information confidentiality, and service availability, the reviews also assess our financial stability. 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 determination 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.

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Adverse tax laws or regulations could be enacted or existing laws could be applied to us, which could increase the costs of our services and adversely impact our business.

The application of federal, state and local tax laws to services provided electronically is evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services provided over the Internet. These enactments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and ultimately result in a negative impact on our operating results and cash flows.

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us (possibly with retroactive effect), which could require us or our customers to pay additional tax amounts, as well as require us or our customers to pay fines or penalties and interest for past amounts. If we are unsuccessful in collecting such taxes from our customers, we could be held liable for such costs, thereby adversely impacting our operating results and cash flows.

On December 22, 2017, the President of the United States signed into law the Tax Act that significantly revises the Internal Revenue Code of 1986, as amended. The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law on our business and financial condition is uncertain. The Company expects to finalize the impact analysis in the fourth quarter of 2018 and corresponding adjustments may materially impact the Company’s provision for income taxes and effective tax rate in the period in which the adjustments are made.

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 Securities and Exchange Commission (“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.

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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.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and affect the reporting of transactions completed before the announcement of a change. For example, the adoption of Topic 606, a new revenue recognition standard, which became effective for us on January 1, 2018, has an impact on the timing of revenue recognition of our Encompass subscription and professional services revenues. It also has a material impact to the scope of costs deferred to obtain customer contracts and the timing of recognition of these costs. Refer to Note 3 "Basis of Presentation and Significant Accounting Policies" in the notes to our financial statements for additional information on the recent accounting pronouncements and the potential impact on us.

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

In August 2017, our Audit Committee, under authority delegated to it by our Board of Directors, approved a new stock repurchase program granting us authority to repurchase up to $250.0 million of our outstanding common stock through August 2020. Stock repurchases under this program or any future program 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 status of our corporate trading windows, 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 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 may cause our stock price 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:

- 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; 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.

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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.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware is the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors or officers or other employees to us or our stockholders, (3) any action asserting a claim against us or any of our directors or officers or other employee arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or our bylaws or (4) any action asserting a claim against us or any of our directors, officers, stockholders or employees governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits. If a court were to find this choice of forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our results of operations and financial condition.

ITEM 2—UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases Of Equity Securities By The Issuer And Affiliated Purchasers

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as the term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of our common stock during the three months ended June 30, 2018:

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)
April 1, 2018 to April 30, 2018	—	$ ——		$200,016,889
May 1, 2018 to May 31, 2018	—	$ ——		$200,016,889
June 1, 2018 to June 30, 2018	—	$ ——		$200,016,889

(1) In August 2017, our audit committee, under the authority delegated to it by our board of directors, approved a new stock repurchase program under which we are authorized to repurchase up to $250.0 million of our common stock. This stock repurchase program expires in August 2020. All shares are retired upon repurchase.

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
3.1[(1)]	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Ellie Mae, Inc. dated May 18, 2018.
3.2[(2)]	Amended and Restated Bylaws of Ellie Mae, Inc. as of May 18, 2018.
10.1#[(3)]	Separation Agreement, by and between Ellie Mae, Inc. and Matthew LaVay, dated June 19, 2018.
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 Interim 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 Interim 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 3.1 to the Registrant's Current Report on Form 8-K, filed on May 22, 2018, and incorporated herein by reference.

(2) Previously filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed on May 22, 2018, and incorporated herein by reference.

(3) Previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed on August 7, 2018, 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.

Indicated 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:	November 8, 2018	By:	/s/ Popi Heron
			Popi Heron
			Interim Chief Financial Officer
			(Principal Financial and Accounting Officer and duly authorized signatory)