ELLIE MAE INC
Form 10-Q
August 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if smaller reporting company)	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 July 31, 2018:

Class	Number of Shares
Common Stock, $0.0001 par value	34,639,962

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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	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	29,629	18,474
Total current assets	323,255	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	31,636	9,290
Goodwill	144,279	144,451
Total assets	$859,160	$831,607
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$18,748	$24,913
Accrued and other current liabilities	30,675	26,188
Deferred revenues	16,992	26,287
Total current liabilities	66,415	77,388
Other long-term liabilities	17,924	18,880
Total liabilities	84,339	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	109,076	86,399
Total stockholders' equity	774,821	735,339
Total liabilities and stockholders' equity	$859,160	$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	2017	2018	2017
Revenues	$125,024	$104,125	$242,936	$197,127
Cost of revenues	51,640	38,267	100,987	73,035
Gross profit	73,384	65,858	141,949	124,092
Operating expenses:				
Sales and marketing	19,541	13,860	42,605	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	68,021	48,633	139,888	102,362
Income from operations	5,363	17,225	2,061	21,730
Other income, net	924	762	1,772	1,263
Income before income taxes	6,287	17,987	3,833	22,993
Income tax benefit	(3,211)	(836)	(7,869)	(5,429)
Net income	$9,498	$18,823	$11,702	$28,422
Net income per share of common stock:				
Basic	$0.28	$0.55	$0.34	$0.84
Diluted	$0.27	$0.52	$0.33	$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	$9,498	$18,823	$11,702	$28,422
Other comprehensive income, net of taxes:				
Unrealized gain (loss) on investments	127	(103)	(410)	(45)
Comprehensive income	$9,625	$18,720	$11,292	$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	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$11,702	$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	(7,869)	(5,662)
Others	287	(139)
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,553)	(6,183)
Prepaid expenses and other current assets	(2,968)	(3,757)
Deposits and other assets	(3,416)	194
Accounts payable	(1,715)	2,677
Accrued, other current and other long-term liabilities	2,968	(10,243)
Deferred revenues	(5,243)	(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. ("Ellie Mae," and the "Company") 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—Basis of Presentation and Significant Accounting Policies

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 Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed 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.

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 revenue recognition, allowance for doubtful accounts, goodwill, intangible assets, valuation of deferred income taxes, stock-based compensation, and unrecognized tax benefits, among others. Actual results could differ from those estimates, and such differences may have a material impact on the Company's condensed 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 Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), as amended ("Topic 606"), there have been

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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.

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 and guideline data and analytics services under the AllRegs brand, fees for 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.

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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. Closed loans 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.

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.

Other Transactional Revenues. The Company provides other services delivered transactionally 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. Both fixed and variable fees are recognized at the point in time in which control is transferred.

Professional Services Revenues. Professional services, including implementation services for our 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

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Deferred revenues represent billings or payments received in advance of revenue recognition and is 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.

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. 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”), as subsequently amended 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 3 “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)		
Current assets:			
Prepaid expenses and other current assets	$18,474	$ 8,187	$26,661
Non-current assets:			
Deposits and other assets	$9,290	$ 18,859	$28,149
Current liabilities:			
Accrued and other current liabilities	$26,188	$ 810	$26,998
Deferred revenues	$26,287	$ (4,435)	$21,852
Non-current liabilities:			
Other long-term liabilities	$18,880	$ 7,991	$26,871
Stockholders' equity:			
Retained earnings	$86,399	$ 22,680	$109,079

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 Reported	Adjustments	Balances without adoption of Topic 606
Current assets:			
Accounts receivable	$50,674	$ (657)	$ 50,017
Prepaid expenses and other current assets	$29,629	$ (9,036)	$ 20,593
Non-current assets:			
Deposits and other assets	$31,636	$ (14,372)	$ 17,264
Current liabilities:			
Accrued and other current liabilities	$30,675	$ (858)	$ 29,817
Deferred revenues	$16,992	$ 3,102	$ 20,094
Non-current liabilities:			
Other long-term liabilities	$17,924	$ (1,517)	$ 16,407
Stockholders' equity:			
Retained earnings	$109,076	$ (24,792)	$ 84,284

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Selected Statement of Comprehensive Income Line Items

	Three Months Ended June 30, 2018 (in thousands, except per share amounts)		
	As Reported	Adjustments	Balances without adoption of Topic 606
Revenues	$125,024	$ 457	$125,481
Gross profit	$73,384	$ 457	$73,841
Operating expenses:			
Sales and marketing	$19,541	$ 596	$20,137
Income from operations	$5,363	$ (139)	$5,224
Income tax benefit	$(3,211)	$ 45	$(3,166)
Net income	$9,498	$ (184)	$9,314
Basic income per share of common stock	$0.28	$ (0.01)	$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 Reported	Adjustments	Balances without adoption of Topic 606
Revenues	$242,936	$ (1,472)	$241,464
Gross profit	$141,949	$ (1,472)	$140,477
Operating expenses:			
Sales and marketing	$42,605	$ 674	$43,279
Income from operations	$2,061	$ (2,146)	$(85)
Income tax benefit	$(7,869)	$ (34)	$(7,903)
Net income	$11,702	$ (2,112)	$9,590
Basic income per share of common stock	$0.34	$ (0.06)	$0.28
Diluted income per share of common stock	$0.33	$ (0.06)	$0.27

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Selected Statement of Cash Flows Line Items

	Six Months Ended June 30, 2018 (in thousands)		
	As Reported	Adjustments	Balances without adoption of Topic 606
Net income	$11,702	$ (2,112)	$9,590
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	$(7,869)	$ (34)	$(7,903)
Changes in operating assets and liabilities:			
Accounts receivable, net	$(7,553)	$ 657	$(6,896)
Prepaid expenses and other current assets	$(2,968)	$ 851	$(2,117)
Deposits and other assets	$(3,416)	$ 1,816	$(1,600)
Accrued, other current and other long-term liabilities	$2,968	$ (47)	$2,921
Deferred revenues	$(5,243)	$ (1,131)	$(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 8 “Income Taxes.”

NOTE 3—Revenue Recognition

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
	(in thousands)	(in thousands)
Hosted software subscription revenues	$ 92,706	$ 176,967
Transactional revenues	22,922	49,052
Professional services revenues	9,396	16,917
Revenues	$ 125,024	$ 242,936

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. Such reclassifications did not materially change previously reported financial statements.

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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 (in thousands)
Accounts receivables, net	Accounts receivables, net	$ 50,674
Contract assets - current	Prepaid expenses and other current assets	$ 6,750
Contract assets - noncurrent	Deposits and other assets	$ 14,910
Deferred revenues - current	Deferred revenue	$ 16,992
Deferred revenues - noncurrent	Other long-term liabilities	$ 827

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

	January 1, 2018	June 30, 2018	$ Change
	(in thousands)		
Contract assets	$19,667	$21,660	$1,993
Deferred revenues	$23,062	$17,819	$(5,243)

The increase in contract assets from $19.7 million to $21.7 million as of June 30, 2018 was primarily the result of the recognition of $3.8 million of ratably recognized revenues that have not yet been billed, offset by $1.8 million in adjustments arising from a change in the estimate of the transaction price of certain contracts. The decrease in deferred revenues from $23.1 million to $17.8 million was due to additional performance on certain arrangements in which billing occurred in advance. During the six months ended June 30, 2018, $17.6 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 (in thousands)
Within 1 year	$ 292,858
2-3 years	292,409
Thereafter	59,298
	$ 644,565

Remaining performance obligations exclude variable consideration allocated entirely to future distinct services as well as variable consideration in arrangements in which revenue recognition under the as-billed practical expedient corresponds directly to the amount the Company has the right to invoice, which includes most arrangements that involve services revenues priced on a transactional basis and professional services invoiced on a time and materials basis. Additionally, in instances where an estimate of variable consideration is constrained, such estimate of variable consideration is not included in revenues allocated to remaining performance obligations.

Deferred Costs

Deferred costs, which consist of deferred sales commissions, were $16.1 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 $1.5 million and $3.0 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 4—Net Income Per Share of Common Stock

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Net income	$9,498	$18,823	$11,702	$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	$0.28	$0.55	$0.34	$0.84
Diluted	$0.27	$0.52	$0.33	$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 5—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

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(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 6—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 7— 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 8—Income Taxes

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	2017	2018	2017
	(dollars in thousands)		(dollars in thousands)	
Income tax provision (benefit)	$(3,211)	$(836)	$(7,869)	$(5,429)
Effective tax rate	(51.1)%	(4.7)%	(205.3)%	(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 9—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 10—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.

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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.

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.

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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.

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.

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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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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.

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.

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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	2017	2018	2017
Revenues (in thousands):				
Revenues	$125,024	$104,125	$242,936	$197,127
Contracted revenues	$89,778	$67,106	$172,702	$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	$173	$153	$191	$165

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.

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

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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 2 and 3 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	2017	2018	2017
	(in thousands)			
Revenues	$125,024	$104,125	$242,936	$197,127
Cost of revenues[(1)]	51,640	38,267	100,987	73,035
Gross profit	73,384	65,858	141,949	124,092
Operating expenses:				
Sales and marketing[(1)]	19,541	13,860	42,605	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	68,021	48,633	139,888	102,362
Income from operations	5,363	17,225	2,061	21,730
Other income, net	924	762	1,772	1,263
Income before income taxes	6,287	17,987	3,833	22,993
Income tax benefit	(3,211)	(836)	(7,869)	(5,429)
Net income	$9,498	$18,823	$11,702	$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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	41.3	36.7	41.6	37.0
Gross profit	58.7	63.3	58.4	63.0
Operating expenses:				
Sales and marketing	15.6	13.3	17.5	16.9
Research and development	19.7	15.4	19.4	17.0
General and administrative	19.1	18.0	20.7	18.1
Total operating expenses	54.4	46.7	57.6	52.0
Income from operations	4.3	16.6	0.8	11.0
Other income, net	0.7	0.7	0.8	0.6
Income before income taxes	5.0	17.3	1.6	11.6
Income tax benefit	(2.6)	(0.8)	(3.2)	(2.8)
Net income	7.6 %			