

ELLIE MAE INC
Form 8-K
November 08, 2018

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

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): November 8, 2018

ELLIE MAE, INC.
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation)
001-35140 94-3288780
(Commission File Number) (IRS Employer Identification Number)
4420 Rosewood Drive, Suite 500
Pleasanton, California 94588
(Address of principal executive offices, including Zip Code)
Registrant's telephone number, including area code: (925) 227-7000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 7.01 Regulation FD Disclosure.

As previously reported under Item 4.02 of the Current Report on Form 8-K filed by Ellie Mae, Inc. (the “Company”) on October 25, 2018, the Company announced the restatement of its first and second quarter interim financial statements for fiscal year 2018. As a result of the restatement, investors should no longer rely upon the Company's previously issued financial statements for the periods set forth above, earnings releases for these periods, and other communications relating to these financial statements.

The Company amended its Quarterly Reports on Forms 10-Q for the periods ended March 31, 2018 and June 30, 2018 to correct misstatements associated with the Company's adoption of ASU 2014-09 (Topic 606). Specifically, the Company did not adequately constrain the variable consideration included in the transaction price such that, at the time of adoption, it was probable that a significant revenue reversal would not occur. The Company also identified additional costs to obtain contracts that should have been recorded to its opening balances upon adoption of Topic 606.

Use of Non-GAAP Financial Measures

The following tables summarize the adjustments to the non-GAAP financial measures, previously included in the original press releases for the periods set forth above, as a result of the restatement.

The Company provides investors with the non-GAAP financial measures of adjusted net income, adjusted net income per share, adjusted EBITDA, adjusted gross profit, and free cash flow in addition to the traditional GAAP operating performance measure of net income as part of its overall assessment of its performance. In addition, the Company provides investors with the non-GAAP financial measures under ASC 605 to compare against the Company's GAAP financial measures under ASC 606. The Company adopted ASC 606 using the modified retrospective method with the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of retained earnings as of January 1, 2018. The comparative financial information has not been restated and continues to be reported under the accounting standards in effect in those prior periods.

Adjusted net income consists of net income plus stock-based compensation expense, amortization of acquisition-related intangibles, and the non-GAAP income tax adjustments. EBITDA consists of net income plus depreciation and amortization, amortization of acquisition-related intangibles, and income tax provision, less other income, net. Adjusted EBITDA consists of EBITDA plus stock-based compensation expense. Adjusted gross profit consists of gross profit plus stock-based compensation and amortization of acquisition-related intangibles that are included in cost of revenues. Free cash flow consists of net cash provided by (used in) operating activities less acquisition of property and equipment and internal-use software. The Company uses adjusted net income, adjusted net income per share, adjusted EBITDA, and adjusted gross profit as measures of operating performance because they enable period to period comparisons by excluding potential differences caused by variations in the age and depreciable lives of fixed assets, amortization of acquisition-related intangibles, and changes in interest expense and interest income that are influenced by capital market conditions. The Company also believes it is useful to exclude stock-based compensation expense from adjusted net income, adjusted EBITDA, and adjusted gross profit because the amount of non-cash expense associated with stock-based awards made at certain prices and points in time (a) do not necessarily reflect how the Company's business is performing at any particular time and (b) can vary significantly between periods due to the timing of new stock-based awards. The non-GAAP income tax adjustments are calculated based on the annual non-GAAP effective tax rate, which quantifies the tax effects of the non-GAAP adjustments. These non-GAAP financial measures are not measurements of the Company's financial performance under GAAP and have limitations as analytical tools. Accordingly, these non-GAAP financial measures should not be considered a substitute for, or superior to, net income, operating income, gross profit, operating cash flow, or other financial measures calculated in accordance with GAAP. The Company cautions that other companies in the Company's industry may calculate adjusted net income, adjusted net income per share, EBITDA, adjusted EBITDA, adjusted gross profit, and free cash flow differently than the Company does, further limiting their usefulness as comparative measures. A reconciliation of net income to adjusted net income, adjusted net income per share, EBITDA and adjusted EBITDA, gross profit to adjusted gross profit, and operating cash flow to free cash flow is included in the tables below.

The information in Item 7.01 of this Current Report is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of such section. The information in Item 7.01 of this Current Report shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any incorporation by reference language in any such filing.

Ellie Mae, Inc.

NON-GAAP RECONCILIATION

(UNAUDITED)

(in thousands, except per share amounts)

| | Three Months ended March 31, 2018 | | | | | |
|--|-----------------------------------|-------------|------------|------------|-------------|------------|
| | ASC 606 | | ASC 606 | | ASC 605 | |
| | As | Adjustments | As | As | Adjustments | As |
| | Originally | | Restated | Originally | | Restated |
| | Reported | | | Reported | | |
| Revenues | \$117,912 | \$ (2,130) | \$115,782 | \$115,983 | \$ — | \$115,983 |
| Operating expenses: | | | | | | |
| Sales and marketing | \$23,064 | \$ 780 | \$23,844 | \$23,142 | \$ 737 | \$23,879 |
| Total operating expenses | \$71,867 | \$ 780 | \$72,647 | \$71,945 | \$ 737 | \$72,682 |
| Income (loss) before income taxes | \$(2,454) | \$(2,210) | \$(4,664) | \$(4,461) | \$(37) | \$(4,498) |
| Income tax benefit | \$(4,658) | \$(267) | \$(4,925) | \$(4,737) | \$ — | \$(4,737) |
| Net income | \$2,204 | \$(1,943) | \$261 | \$276 | \$(37) | \$239 |
| Depreciation and amortization | 11,366 | — | 11,366 | 11,366 | — | 11,366 |
| Amortization of acquisition-related intangibles | 6,306 | — | 6,306 | 6,306 | — | 6,306 |
| Other income, net | (848) | — | (848) | (848) | — | (848) |
| Income tax benefit | (4,658) | (267) | (4,925) | (4,737) | — | (4,737) |
| EBITDA | 14,370 | (2,210) | 12,160 | 12,363 | (37) | 12,326 |
| Stock-based compensation expense | 9,532 | — | 9,532 | 9,532 | — | 9,532 |
| Adjusted EBITDA | \$23,902 | \$(2,210) | \$21,692 | \$21,895 | \$(37) | \$21,858 |
| Gross profit | \$68,565 | \$(1,430) | \$67,135 | \$66,636 | \$ 700 | \$67,336 |
| Stock-based compensation expense ⁽¹⁾ | 1,894 | — | 1,894 | 1,894 | — | 1,894 |
| Amortization of acquisition-related intangibles ⁽¹⁾ | 5,653 | — | 5,653 | 5,653 | — | 5,653 |
| Adjusted gross profit | \$76,112 | \$(1,430) | \$74,682 | \$74,183 | \$ 700 | \$74,883 |
| Net income | \$2,204 | \$(1,943) | \$261 | \$276 | \$(37) | \$239 |
| Stock-based compensation expense | 9,532 | — | 9,532 | 9,532 | — | 9,532 |
| Amortization of acquisition-related intangibles | 6,306 | — | 6,306 | 6,306 | — | 6,306 |
| Non-GAAP income tax adjustments ⁽²⁾ | (6,043) | 129 | (5,914) | (5,780) | — | (5,780) |
| Adjusted net income | \$11,999 | \$(1,814) | \$10,185 | \$10,334 | \$(37) | \$10,297 |
| Shares used to compute adjusted net income per share | | | | | | |
| Basic | 34,143 | — | 34,143 | 34,143 | — | 34,143 |
| Diluted | 35,602 | — | 35,602 | 35,602 | — | 35,602 |
| Adjusted net income per share | | | | | | |
| Basic | \$0.35 | \$(0.05) | \$0.30 | \$0.30 | \$ — | \$0.30 |
| Diluted | \$0.34 | \$(0.05) | \$0.29 | \$0.29 | \$ — | \$0.29 |

Ellie Mae, Inc.

NON-GAAP RECONCILIATION

(UNAUDITED)

(in thousands, except per share amounts)

| | Three Months ended June 30, 2018 | | | | | |
|--|---|-------------|---------------------------|---|-------------|---------------------------|
| | ASC 606 As Originally Reported | Adjustments | ASC 606 As Restated | ASC 605 As Originally Reported | Adjustments | ASC 605 As Restated |
| Revenues | \$ 125,024 | \$ 449 | \$ 125,473 | \$ 125,481 | \$ — | \$ 125,481 |
| Operating expenses: | | | | | | |
| Sales and marketing | \$ 19,541 | \$ 814 | \$ 20,355 | \$ 20,137 | \$ 848 | \$ 20,985 |
| Total operating expenses | \$ 68,021 | \$ 814 | \$ 68,835 | \$ 68,617 | \$ 848 | \$ 69,465 |
| Income (loss) before income taxes | \$ 6,287 | \$ 465 | \$ 6,752 | \$ 6,148 | \$ (17) | \$ 6,131 |
| Income tax benefit | \$ (3,211) | \$ 150 | \$ (3,061) | \$ (3,166) | \$ — | \$ (3,166) |
| Net income | \$ 9,498 | \$ 316 | \$ 9,814 | \$ 9,314 | \$ (17) | \$ 9,297 |
| Depreciation and amortization | 11,813 | — | 11,813 | 11,813 | — | 11,813 |
| Amortization of acquisition-related intangibles | 6,194 | — | 6,194 | 6,194 | — | 6,194 |
| Other income, net | (924) | — | (924) | (924) | — | (924) |
| Income tax benefit | (3,211) | 150 | (3,061) | (3,166) | — | (3,166) |
| EBITDA | 23,370 | 466 | 23,836 | 23,231 | (17) | 23,214 |
| Stock-based compensation expense | 10,662 | — | 10,662 | 10,662 | — | 10,662 |
| Adjusted EBITDA | \$ 34,032 | \$ 466 | \$ 34,498 | \$ 33,893 | \$ (17) | \$ 33,876 |
| Gross profit | \$ 73,384 | \$ 1,280 | \$ 74,664 | \$ 73,841 | \$ 831 | \$ 74,672 |
| Stock-based compensation expense ⁽¹⁾ | 2,106 | — | 2,106 | 2,106 | — | 2,106 |
| Amortization of acquisition-related intangibles ⁽¹⁾ | 5,528 | — | 5,528 | 5,528 | — | 5,528 |
| Adjusted gross profit | \$ 81,018 | \$ 1,280 | \$ 82,298 | \$ 81,475 | \$ 831 | \$ 82,306 |
| Net income | \$ 9,498 | \$ 316 | \$ 9,814 | \$ 9,314 | \$ (17) | \$ 9,297 |
| Stock-based compensation expense | 10,662 | — | 10,662 | 10,662 | — | 10,662 |
| Amortization of acquisition-related intangibles | 6,194 | — | 6,194 | 6,194 | — | 6,194 |
| Non-GAAP income tax adjustments ⁽²⁾ | (7,219) | 55 | (7,164) | (7,050) | — | (7,050) |
| Adjusted net income | \$ 19,135 | \$ 371 | \$ 19,506 | \$ 19,120 | \$ (17) | \$ 19,103 |
| Shares used to compute adjusted net income per share | | | | | | |
| Basic | 34,337 | — | 34,337 | 34,337 | — | 34,337 |
| Diluted | 35,742 | — | 35,742 | 35,742 | — | 35,742 |
| Adjusted net income per share | | | | | | |
| Basic | \$ 0.56 | \$ 0.01 | \$ 0.57 | \$ 0.56 | \$ — | \$ 0.56 |
| Diluted | \$ 0.54 | \$ 0.01 | \$ 0.55 | \$ 0.53 | \$ — | \$ 0.53 |

Ellie Mae, Inc.

NON-GAAP RECONCILIATION

(UNAUDITED)

(in thousands, except per share amounts)

| | Six Months ended June 30, 2018 | | | | | |
|--|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| | ASC 606 | | ASC 606 | | ASC 605 | |
| | As | Adjustments | As | As | Adjustments | As |
| | Originally | | Restated | Originally | | Restated |
| | Reported | | | Reported | | |
| Revenues | \$242,936 | \$ (1,681) | \$241,255 | \$241,464 | \$ — | \$241,464 |
| Operating expenses: | | | | | | |
| Sales and marketing | \$42,605 | \$ 1,594 | \$44,199 | \$43,279 | \$ 1,585 | \$44,864 |
| Total operating expenses | \$139,888 | \$ 1,594 | \$141,482 | \$140,562 | \$ 1,585 | \$142,147 |
| Income (loss) before income taxes | \$3,833 | \$ (1,744) | \$2,089 | \$1,687 | \$ (54) | \$1,633 |
| Income tax benefit | \$ (7,869) | \$ (117) | \$ (7,986) | \$ (7,903) | \$ — | \$ (7,903) |
| Net income | \$11,702 | \$ (1,627) | \$10,075 | \$9,590 | \$ (54) | \$9,536 |
| Depreciation and amortization | 23,179 | — | 23,179 | 23,179 | — | 23,179 |
| Amortization of acquisition-related intangibles | 12,500 | — | 12,500 | 12,500 | — | 12,500 |
| Other income, net | (1,772) | — | (1,772) | (1,772) | — | (1,772) |
| Income tax benefit | (7,869) | (117) | (7,986) | (7,903) | — | (7,903) |
| EBITDA | 37,740 | (1,744) | 35,996 | 35,594 | (54) | 35,540 |
| Stock-based compensation expense | 20,194 | — | 20,194 | 20,194 | — | 20,194 |
| Adjusted EBITDA | \$57,934 | \$ (1,744) | \$56,190 | \$55,788 | \$ (54) | \$55,734 |
| Gross profit | \$141,949 | \$ (150) | \$141,799 | \$140,477 | \$ 1,531 | \$142,008 |
| Stock-based compensation expense ⁽¹⁾ | 4,000 | — | 4,000 | 4,000 | — | 4,000 |
| Amortization of acquisition-related intangibles ⁽¹⁾ | 11,181 | — | 11,181 | 11,181 | — | 11,181 |
| Adjusted gross profit | \$157,130 | \$ (150) | \$156,980 | \$155,658 | \$ 1,531 | \$157,189 |
| Net income | \$11,702 | \$ (1,627) | \$10,075 | \$9,590 | \$ (54) | \$9,536 |
| Stock-based compensation expense | 20,194 | — | 20,194 | 20,194 | — | 20,194 |
| Amortization of acquisition-related intangibles | 12,500 | — | 12,500 | 12,500 | — | 12,500 |
| Non-GAAP income tax adjustments ⁽²⁾ | (13,261) | 183 | (13,078) | (12,830) | — | (12,830) |
| Adjusted net income | \$31,135 | \$ (1,444) | \$29,691 | \$29,454 | \$ (54) | \$29,400 |
| Shares used to compute adjusted net income per share | | | | | | |
| Basic | 34,240 | — | 34,240 | 34,240 | — | 34,240 |
| Diluted | 35,693 | — | 35,693 | 35,693 | — | 35,693 |
| Adjusted net income per share | | | | | | |
| Basic | \$0.91 | \$ (0.04) | \$0.87 | \$0.86 | \$ — | \$0.86 |
| Diluted | \$0.87 | \$ (0.04) | \$0.83 | \$0.83 | \$ — | \$0.83 |

Ellie Mae, Inc.
NON-GAAP
RECONCILIATION
- (continued)
(UNAUDITED)
(in thousands)

(1) Amount represents the cost of revenues portion of stock-based compensation expense and amortization of acquisition-related intangibles.

(2) The non-GAAP income tax adjustments are calculated based on the annual non-GAAP effective tax rate, which quantifies the tax effects of the non-GAAP adjustments.

For the three months ended March 31, 2018:

- the non-GAAP effective tax rate, as restated, is 8.8% under ASC 606.

- the non-GAAP effective tax rate, as originally reported, was 10.3% under ASC 606.

- the non-GAAP effective tax rate, as originally reported and as restated, is 9.2% under ASC 605.

For the three months ended June 30, 2018:

- the non-GAAP effective tax rate, as restated, is 17.4% under ASC 606.

- the non-GAAP effective tax rate, as originally reported, was 17.3% under ASC 606.

- the non-GAAP effective tax rate, as originally reported and as restated, is 16.9% under ASC 605.

For the six months ended June 30, 2018:

- the non-GAAP effective tax rate, as restated, is 14.6% under ASC 606.

- the non-GAAP effective tax rate, as originally reported, was 14.8% under ASC 606.

- the non-GAAP effective tax rate, as originally reported and as restated, is 14.3% under ASC 605.

SIGNATURES

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

Date: November 8, 2018 Ellie Mae, Inc.

/s/ Popi Heron
Popi Heron
Interim Chief Financial Officer