ELLIE MAE INC
Form 10-Q
August 03, 2017
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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, 2017
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 (State or other jurisdiction of incorporation or organization)	94-3288780 (I.R.S. Employer Identification No.)
4420 Rosewood Drive, Suite 500 Pleasanton, California (Address of principal executive offices)	94588 (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. Yes ¨ No ¨

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 August 1, 2017:

Class	Number of Shares
Common Stock, $0.0001 par value	34,378,495

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PART I—FINANCIAL INFORMATION
ITEM 1—CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Ellie Mae, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and per share amounts)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$213,204	$ 380,907
Short-term investments	120,454	41,841
Accounts receivable, net of allowance for doubtful accounts of $249 and $45 as of June 30, 2017 and December 31, 2016, respectively	45,542	39,358
Prepaid expenses and other current assets	18,965	15,209
Total current assets	398,165	477,315
Property and equipment, net	156,698	126,297
Long-term investments	121,096	45,931
Intangible assets, net	15,133	17,289
Deposits and other assets	22,705	10,138
Goodwill	74,547	74,547
Total assets	$788,344	$ 751,517
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$15,831	$ 15,942
Accrued and other current liabilities	22,901	39,809
Deferred revenue	17,985	23,126
Total current liabilities	56,717	78,877
Leases payable, net of current portion	28	85
Other long-term liabilities	16,424	17,647
Total liabilities	73,169	96,609
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, $0.0001 par value per share; 140,000,000 authorized shares, 34,320,850 and 33,685,649 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	3	3
Additional paid-in capital	629,443	612,098
Accumulated other comprehensive loss	(264)	(219)
Retained earnings	85,993	43,026
Total stockholders' equity	715,175	654,908
Total liabilities and stockholders' equity	$788,344	$ 751,517

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

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

	Three Months ended June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
Revenues	$104,125	$ 90,098	$197,127	$ 163,723
Cost of revenues	38,267	28,453	73,035	55,084
Gross profit	65,858	61,645	124,092	108,639
Operating expenses:				
Sales and marketing	13,860	12,506	33,240	27,792
Research and development	16,046	14,662	33,453	27,115
General and administrative	18,727	17,793	35,669	33,525
Total operating expenses	48,633	44,961	102,362	88,432
Income from operations	17,225	16,684	21,730	20,207
Other income, net	762	162	1,263	361
Income before income taxes	17,987	16,846	22,993	20,568
Income tax provision (benefit)	(836)	6,258	(5,429)	7,474
Net income	$18,823	$ 10,588	$28,422	$ 13,094
Net income per share of common stock:				
Basic	$0.55	$ 0.36	$0.84	$ 0.44
Diluted	$0.52	$ 0.34	$0.79	$ 0.42
Weighted average common shares used in computing net income per share of common stock:				
Basic	34,028,553	29,578,630	33,866,233	29,643,779
Diluted	35,908,813	31,188,599	35,771,565	31,279,512
Net income	$18,823	$ 10,588	$28,422	$ 13,094
Other comprehensive income, net of taxes:				
Unrealized gain (loss) on investments	(103)	101	(45)	429
Comprehensive income	$18,720	$ 10,689	$28,377	$ 13,523

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

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

	Six Months ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$28,422	$13,094
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,282	8,679
Amortization of intangible assets	2,156	2,949
Stock-based compensation expense	16,361	14,708
Deferred income taxes	(5,662)	6,153
Loss on disposal of property and equipment	—	5
Amortization (accretion) of investments	(139)	490
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,183)	(15,738)
Prepaid expenses and other current assets	(3,757)	(1,388)
Deposits and other assets	194	(1,580)
Accounts payable	2,677	(432)
Accrued, other current and other liabilities	(10,243)	(6,629)
Deferred revenue	(5,087)	2,895
Net cash provided by operating activities	35,021	23,206
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(21,800)	(15,566)
Acquisition of internal-use software	(25,478)	(16,373)
Purchases of investments	(181,760)	(35,615)
Maturities of investments	28,076	31,551
Sale of investments	—	20,000
Net cash used in investing activities	(200,962)	(16,003)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capital lease obligations	(553)	(2,080)
Proceeds from issuance of common stock under employee stock plans	10,207	9,127
Payment of issuance costs relating to common stock issued in public offering	(15)	—
Tax payments related to shares withheld for vested restricted stock units	(11,401)	(4,037)
Net cash provided by (used in) financing activities	(1,762)	3,010
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(167,703)	10,213
CASH AND CASH EQUIVALENTS, Beginning of period	380,907	34,396
CASH AND CASH EQUIVALENTS, End of period	$213,204	$44,609
Supplemental disclosure of cash flow information:		
Cash paid for interest	$370	$145
Cash paid for income taxes	$463	$129
Supplemental disclosure of non-cash investing and financing activities:		
Fixed asset purchases accrued but not paid	$3,172	$3,709
Stock-based compensation capitalized to property and equipment	$2,178	$1,125

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

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Ellie Mae, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1—Description of Business

Ellie Mae, Inc. (“Ellie Mae,” the “Company,” “we,” “our” or “us”) is a leading provider of innovative on-demand software solutions and services for the residential mortgage industry in the United States. 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 consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 22, 2017 (“2016 Form 10-K”). The condensed consolidated balance sheet as of December 31, 2016, included herein, was derived from the audited financial statements as of that date but does not include all disclosures, including notes, required by U.S. GAAP.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial 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, 2017, or any future period.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates estimates on a regular basis including those relating to revenue recognition, 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 consolidated financial statements and footnotes.

Significant Accounting Policies

The Company’s significant accounting policies are described in Note 2 of the Notes to Consolidated Financial Statements in its 2016 Form 10-K. There have been no significant changes to these policies during the six months ended June 30, 2017, except in relation to the Company’s adoption of ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting (“ASU 2016-09”) on January 1, 2017, whereby the Company now records excess tax benefits and tax deficiencies as an income tax benefit or expense when stock awards vest or settle, and the Company no longer classifies the cash flow from excess tax benefits as a reduction from operating cash flows. This resulted in a $1.2 million increase in net cash provided by operating activities and a corresponding $1.2 million decrease in net cash provided by financing activities for the six months ended June 30, 2016.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income, specifically unrealized gains on marketable securities. Except for net realized gain on investments, which was not significant, there were no reclassifications out of accumulated other comprehensive income that affected net income during the three and six months ended June 30, 2017 and 2016.

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Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This standard also requires significantly expanded disclosures about revenue recognition. The effective date for public entities is fiscal years beginning after December 15, 2017 and early adoption is allowed. The Company will adopt the new standard as of January 1, 2018. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method).

The Company is continuing to evaluate the impact of the new standard on its accounting policies, processes, and systems, including impacts from guidance issued by the FASB Transition Resource Group as part of its November 2016 meeting. The Company has assigned internal resources, engaged a third-party service provider, and is in the process of finalizing the evaluation and completing the implementation.

The Company expects an impact to certain revenue streams due to the removal of the current limitation on contingent revenue, which may affect the timing of revenues being recognized for certain contracts. The Company has also identified potential impacts to the costs to obtain contracts, which is primarily comprised of sales commissions and the related fringe benefits associated with non-cancelable contracts. The Company expects to capitalize certain costs that are expensed under the current standard, and the Company expects an increase in the amortization period over which the capitalized costs will be recognized. The Company is continuing to evaluate the impact to the expected period of benefit under ASU 2014-09.

The Company is evaluating the adoption method based on various factors including the significance of the impact of the new standard on the Company’s financial results and system capabilities. This evaluation is in process, and the adoption method has not been determined.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is not permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), 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 currently does not intend to early adopt and is evaluating the impact of this accounting standard update on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”), which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

New Standards Adopted

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This standard clarifies the definition of a business and is intended to help companies evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted under certain circumstances. The standard should be applied prospectively as of the beginning of the period of adoption. The

Company has elected to early adopt the standard on April 1, 2017. The adoption did not have an impact on the Company's consolidated financial statements as there have been no business combinations in fiscal year 2017 to date.

NOTE 3—Net Income Per Share of Common Stock

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

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

	Three Months ended June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
	(in thousands, except share and per share amounts)			
Net income	$18,823	$ 10,588	$28,422	$ 13,094
Basic shares:				
Weighted average common shares outstanding	34,028,553	29,578,630	33,866,233	29,643,779
Diluted shares:				
Weighted average shares used to compute basic net income per share	34,028,553	29,578,630	33,866,233	29,643,779
Effect of potentially dilutive securities:				
Employee stock options, RSUs, performance-vesting RSUs, Performance Awards and ESPP shares	1,880,260	1,609,969	1,905,332	1,635,733
Weighted average shares used to compute diluted net income per share	35,908,813	31,188,599	35,771,565	31,279,512
Net income per share:				
Basic	$0.55	$ 0.36	$0.84	$ 0.44
Diluted	$0.52	$ 0.34	$0.79	$ 0.42

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,	
	2017	2016	2017	2016
Employee stock options and awards	6,601	31,721	110,587	237,177

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, 61,494 and 136,598 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, 2017 and 2016, respectively.

NOTE 4—Financial Instruments and Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are classified and disclosed in one of the following three categories:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2 — Valuations based on other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Valuations based on inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the assets or liabilities.

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The following tables set forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis:

	June 30, 2017			December 31, 2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(in thousands)			(in thousands)		
Cash equivalents:						
Money market funds	$122,123	$—	$122,123	$2,733	$—	$2,733
Corporate notes and obligations	—	18,367	18,367	—	—	—
U.S. government and government agency obligations	9,898	7,094	16,992	151,660	149,976	301,636
Investments:						
Certificates of deposit	—	9,975	9,975	—	12,088	12,088
Corporate notes and obligations	—	73,647	73,647	—	28,892	28,892
Municipal obligations	—	10,915	10,915	—	11,361	11,361
U.S. government and government agency obligations	46,497	100,516	147,013	4,579	30,852	35,431
	$178,518	$220,514	$399,032	$158,972	$233,169	$392,141

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, 2017 and December 31, 2016, the Company did not have any assets or liabilities that were valued using Level 3 inputs. For the three and six months ended June 30, 2017 and 2016, there were no transfers of financial instruments between the levels.

Realized gains and losses from the sale of investments were not significant during the three and six months ended June 30, 2017 and 2016.

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The carrying amounts, gross unrealized gains and losses and estimated fair value of cash and cash equivalents and both short-term and long-term investments consisted of the following:

	June 30, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying or Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying or Fair Value
	(in thousands)				(in thousands)			
Cash and cash equivalents:								
Cash	$55,722	$ —	$ —	$55,722	$76,538	$ —	$ —	$76,538
Money market funds	122,123	—	—	122,123	2,733	—	—	2,733
Corporate notes and obligations	18,367	—	—	18,367	—	—	—	—
U.S. government and government agency obligations	16,992	—	—	16,992	301,631	8	(3)	301,636
	$213,204	$ —	$ —	$213,204	$380,902	$ 8	$ (3)	$380,907
Investments:								
Corporate notes and obligations	$73,756	$ 5	$ (114)	$73,647	$28,978	$ 1	$ (87)	$28,892
Certificates of deposit	9,973	3	(1)	9,975	12,094	13	(19)	12,088
Municipal obligations	10,919	10	(14)	10,915	11,422	1	(62)	11,361
U.S. government and government agency obligations	147,166	3	(156)	147,013	35,502	8	(79)	35,431
	$241,814	$ 21	$ (285)	$241,550	$87,996	$ 23	$ (247)	$87,772

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, 2017 or December 31, 2016.

	June 30, 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	$63,252	$ (108)	$659	$ (6)	$63,911	$ (114)
Certificates of deposit	3,150	—	485	(1)	3,635	(1)
U.S. government, government agency, and municipal obligations	146,580	(165)	839	(5)	147,419	(170)
	$212,982	$ (273)	$1,983	$ (12)	$214,965	$ (285)

	December 31, 2016					
	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	$26,076	$ (87)	$—	$ —	$26,076	$ (87)
Certificates of deposit	5,651	(19)	—	—	5,651	(19)
U.S. government, government agency, and municipal obligations	180,138	(144)	385	—	180,523	(144)
	$211,865	$ (250)	$385	$ —	$212,250	$ (250)

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The following table summarizes the maturities of the Company's investments at June 30, 2017:

	Carrying or Fair Value (in thousands)
Remainder of 2017	$ 66,031
2018	87,471
2019	64,577
2020	23,471
Total	$ 241,550

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

NOTE 5—Balance Sheet Components

Property and Equipment

Property and equipment, net, consisted of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Computer equipment and software[(1)]	$156,390	$116,602
Furniture and fixtures	8,960	6,838
Leasehold improvements	28,229	18,532
Property and equipment	193,579	141,972
Accumulated depreciation and amortization[(1)]	(65,273)	(48,991)
Subtotal	128,306	92,981
Internal-use software and other assets not placed in service	28,392	33,316
Property and equipment, net	$156,698	$126,297

(1) Includes computer equipment and software under capital leases

Computer equipment and software under capital leases, net, consisted of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Computer equipment	$8,715	$ 8,715
Software	1,517	1,517
Accumulated depreciation and amortization	(8,033)	(6,522)
Net computer equipment and software under capital leases	$2,199	$ 3,710

Depreciation and amortization expense for the three and six months ended June 30, 2017 was $8.9 million and $16.3 million, respectively. Depreciation and amortization expense for the three and six months ended June 30, 2016 was $4.7 million and $8.7 million, respectively. Depreciation and amortization of assets under capital leases which is included in the depreciation and amortization expense for the three and six months ended June 30, 2017 was $0.8 million and $1.5 million, respectively. Depreciation and amortization of assets under capital leases which is included in depreciation and amortization expense for the three and six months ended June 30, 2016 was $0.8 million and $1.6 million, respectively.

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Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Accrued payroll and related expenses	$16,400	$ 31,848
Accrued commissions	1,036	1,832
Accrued royalties	2,264	1,395
Sales and other taxes	1,328	2,327
Other accrued liabilities[1]	1,873	2,407
	$22,901	$ 39,809

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

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NOTE 6— Goodwill and Intangible Assets

The carrying value of goodwill at June 30, 2017 was $74.5 million. There were no changes in the carrying value of goodwill during the three and six months ended June 30, 2017.

Intangible assets, net, consisted of the following:

	June 30, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Weighted Average Remaining Useful Life
	(in thousands)			(in years)
Assets subject to amortization:				
Developed technology	$11,535	$ (8,849)	$ 2,686	2.3
Trade names	331	(331)	—	0.0
Customer relationships	19,400	(11,206)	8,194	3.6
Order backlog	370	(156)	214	2.3
Total assets subject to amortization:	31,636	(20,542)	11,094	3.2
Assets not subject to amortization:				
Trade name	4,039	—	4,039	
	$35,675	$ (20,542)	$ 15,133	

	December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Weighted Average Remaining Useful Life
	(in thousands)			(in years)
Assets subject to amortization:				
Developed technology	$11,535	$ (8,183)	$ 3,352	2.7
Trade names	331	(331)	—	0.0
Customer relationships	19,400	(9,762)	9,638	4.0
Order backlog	370	(110)	260	2.8
Total assets subject to amortization:	31,636	(18,386)	13,250	3.6
Assets not subject to amortization:				
Trade name	4,039	—	4,039	
	$35,675	$ (18,386)	$ 17,289	

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. Amortization expense associated with intangible assets for the three and six months ended June 30, 2016 was $1.5 million and $2.9 million, respectively.

Future amortization expense for intangible assets at June 30, 2017 was as follows:

	Amortization
	(in thousands)
Remainder of 2017	$ 2,138
2018	3,443
2019	3,166
2020	1,778
2021	314
2022	255
	$ 11,094

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NOTE 7—Income Taxes

The Company computes its interim provision for income taxes by applying the estimated annual effective tax rate to the year-to-date income from recurring operations and adjusts the provision for discrete tax items recorded in the period. The Company evaluates and updates its estimated annual effective income tax rate on a quarterly basis. The estimated annual effective tax rate as of June 30, 2017 and 2016 was 35.8% and 37.4%, respectively.

	Three Months ended June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)		(dollars in thousands)	
Income tax provision (benefit)	$(836)	$6,258	$(5,429)	$7,474
Effective tax rate[(1)]	(4.7)%	37.2%	(23.6)%	36.3%

(1) The impact to the effective tax rate due to the benefit of excess stock award deductions allowable under ASU 2016-09 is 40.9% and 60.1% for the three and six months ended June 30, 2017, respectively.

The difference between the federal statutory rate of 35% and the Company's estimated effective tax rate for the three and six months ended June 30, 2017 was primarily due to the benefit of excess stock award deductions in tax expense allowable under ASU 2016-09, R&D credits, and non-deductible stock-based compensation expenses.

As described in Note 2 "Basis of Presentation and Significant Accounting Policies", the Company adopted ASU 2016-09 on January 1, 2017, which requires the excess tax benefits or deficiencies to be reflected in the Consolidated Statements of Comprehensive Income as a component of the provision for income taxes, which were previously recognized in equity. Total excess tax benefits recognized for the three and six months ended June 30, 2017 was $7.3 million and $13.8 million, respectively.

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, 2017 and 2016.

NOTE 8—Commitments and Contingencies

Leases

As of June 30, 2017, the Company leased eight 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 and has recorded deferred rent for the difference between rent payments and rent expense recognized.

Legal Proceedings

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

NOTE 9—Equity and Stock Incentive Plans

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

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Total stock-based compensation expense recognized consisted of:

	Three Months ended June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Cost of revenues	$1,675	$1,132	$3,119	$2,102
Sales and marketing	1,258	1,059	2,434	1,937
Research and development	2,098	1,944	3,959	3,448
General and administrative	3,479	3,883	6,849	7,221
	$8,510	$8,018	$16,361	$14,708

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

Stock Options

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2017	1,885,332	$ 26.21	6.34	$ 108,356
Granted	6,601	94.66		
Exercised	(249,214			