



Dear Stockholders,

2012 was an outstanding year for Ellie Mae. We broke a number of records, including growth in revenue, net income, adjusted net income and free cash flow. Revenue rose 84% to \$101.8 million. Profit increased more than five-fold, with net income of \$19.5 million and adjusted net income of \$27.9 million<sup>1</sup>. And we generated \$19.6 million in free cash flow for the year. Our results clearly demonstrate that our business strategy is working. Our market leadership and scale advantages are laying the foundation for achieving our vision for the future of Ellie Mae.

#### *Our Vision*

Fifteen years ago, we founded Ellie Mae with the vision that we could automate the business of making new mortgages and wring wasted effort, time and costs out of the origination process. Today, the mortgage industry is increasingly embracing that concept as more lenders utilize technology to deal with ever more complex processes, regulatory demands and investor requirements – while at the same time gaining efficiency. We believe we have the most comprehensive technology in the market place to help lenders meet these challenging regulatory standards. And our performance supports that belief, with more than 20,000 Encompass users activated in 2012.

#### *Delivering Strong Growth*

Our strong 2012 performance was driven by the continued adoption of the software-as-a-service (SaaS) version of our Encompass 360<sup>®</sup> enterprise software. Our SaaS platform enables us to deliver more functionality and value to our customers, and at the same time generate more revenue per user than ever before. With our “land and expand” strategy, once we secure an Encompass customer, our SaaS model lets us continue to deliver additional on-demand services that lenders use to run their origination operations. This too is a win-win model as we can offer lenders greater efficiencies and cost savings while continuing to drive additional revenue for Ellie Mae.

At the end of 2012, we had a record 73,687 active Encompass users, which we believe is the largest user base in our industry. Of these users, 41,458, or 56%, subscribed to our SaaS offering, an increase of 71% year over year. In addition, we have approximately two-thirds of our DataTrac users still left to migrate to our SaaS platform.

Extending our drive toward automation, we continued to gain traction with our Total Quality Loan<sup>™</sup> (TQL) initiative. The TQL program defines and applies best practices to loan origination. When fully developed and adopted, our vision is that every loan on the Encompass platform will be perfectly originated, with rules and processes built into the software and with all data and documentation secured electronically over the Ellie Mae Network. Quality will be assured at the point of origination, rather than at the back end of the process, with every loan packaged strictly in accordance with investor and regulatory demands – so that every ounce of waste will be eliminated. And everyone else in the value chain – investor, servicer, and securitizer – will trust the process and no step will have to be duplicated. While we are at the early stages of TQL adoption, we remain very enthusiastic about the long-term potential for this initiative.

#### *Laying the Foundation for Future Growth*

In light of the almost 40% increase in our user base and the nearly doubling of our revenues in 2012, we have undertaken a number of initiatives to support our growth and accommodate our expanding user base. In 2012, we redesigned and upgraded all of our data centers to significantly increase the capacity and the reliability of our on-demand offerings. We added, and will continue to add, to our research and development and SaaS teams and expanded our implementation and customer support teams to handle the increase in new Encompass subscribers and the expected growth in users over the next few years.

In order to better position Ellie Mae for continued success, we recently announced the appointment of Jonathan Corr as President in addition to his role as Chief Operating Officer. An 11-year veteran of Ellie Mae, Jonathan is assuming responsibility for managing the day-to-day operations of the company which will allow me to focus more fully on our long-term strategy, new corporate and client initiatives and potential acquisitions. Jonathan is a terrific leader who will guide our company into the future.

*Looking Ahead*

As we look to 2013, we remain encouraged by a number of positive signs in the real estate and mortgage industries, as well as dynamics across our customer base. We are seeing a steady stream of robust housing data and growing evidence of a housing recovery. Continued low interest rates, increasing home affordability, improved loan-to-value ratios and better consumer sentiment all add to our optimism about the industry outlook over the next several years.

Although current forecasts call for a 20% decline in industry-wide mortgage originations, we remain confident in our ability to grow, as we have done in the past, even in the face of these headwinds. While approximately half of our revenue has some sensitivity to origination volume, we believe we can more than make up for that by expanding our SaaS user base and increasing revenue per user.

Our growth will continue to be fueled by the acquisition of new users and the upgrade of licensed users to our SaaS offering and increased adoption of additional on-demand solutions – both those currently in our product mix and those to be added in the future. We believe our technology leadership, scale and commitment to compliance excellence provide significant strategic advantages. We are confident these competencies, combined with our company's strong cash flow, will create long-term value for our stakeholders.

*A Word of Thanks*

In closing, I would like to thank all of our employees, customers, partners and stockholders for sharing our vision. Our 2012 performance would not have been possible without the efforts and support of all of these stakeholders. I look forward to what we can continue to do together in 2013.

Sincerely,

Sig Anderman  
Founder and Chief Executive Officer

<sup>1</sup>A reconciliation of the non-GAAP financial measures to their related GAAP financial measures is available in the Company's press release related to fourth quarter and fiscal year 2012 financial results, which was furnished on a Current Report on Form 8-K with the Securities Exchange Commission on February 14, 2013. A copy of the press release can also be found at: <http://ir.elliemae.com>.