ELLIE MAE INC
Form 10-Q/A
November 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

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

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

Delaware (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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "small reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date:

As of October 31, 2018:

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

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EXPLANATORY NOTE

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

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

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

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

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

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

Items Amended in this Form 10-Q/A

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Selected Statement of Comprehensive Income Line Items

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

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

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

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

Selected Statement of Cash Flows Line Items

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

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

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

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and applicable rules and regulations of the SEC regarding interim financial reporting. Certain information and note disclosures included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations.

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

The condensed balance sheet as of December 31, 2017, included herein, was derived from the audited financial statements as of that date but does not include all disclosures, including notes, required by U.S. GAAP.

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

In the opinion of management, the accompanying unaudited condensed financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending December 31, 2018 or any future period.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates estimates on a regular basis including those relating to the transaction price of customer contracts, constraints of variable consideration, allowance for doubtful accounts, goodwill, intangible assets, valuation of deferred income taxes, stock-based compensation, and unrecognized tax benefits, among others. Actual results could differ from those estimates, and such differences may have a material impact on the Company's condensed financial statements and footnotes.

Segment Information

The Company operates in one industry—mortgage-related software and services. The Company's chief operating decision maker is its chief executive officer, who makes decisions about resource allocation and reviews financial information presented as a single segment. Accordingly, the Company has determined that it has a single reporting segment and operating unit structure, specifically technology-enabled solutions to help streamline and automate the residential mortgage origination process in the United States.

Significant Accounting Policies

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

Revenue Recognition

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

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

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

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

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

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

When estimating standalone selling prices, the Company reviews company-specific factors used to determine list price and makes adjustments as appropriate to reflect current market conditions and pricing behavior. The Company's process for establishing list price includes assessing the cost to provide a particular product or service, surveying customers to determine market expectations, analyzing c