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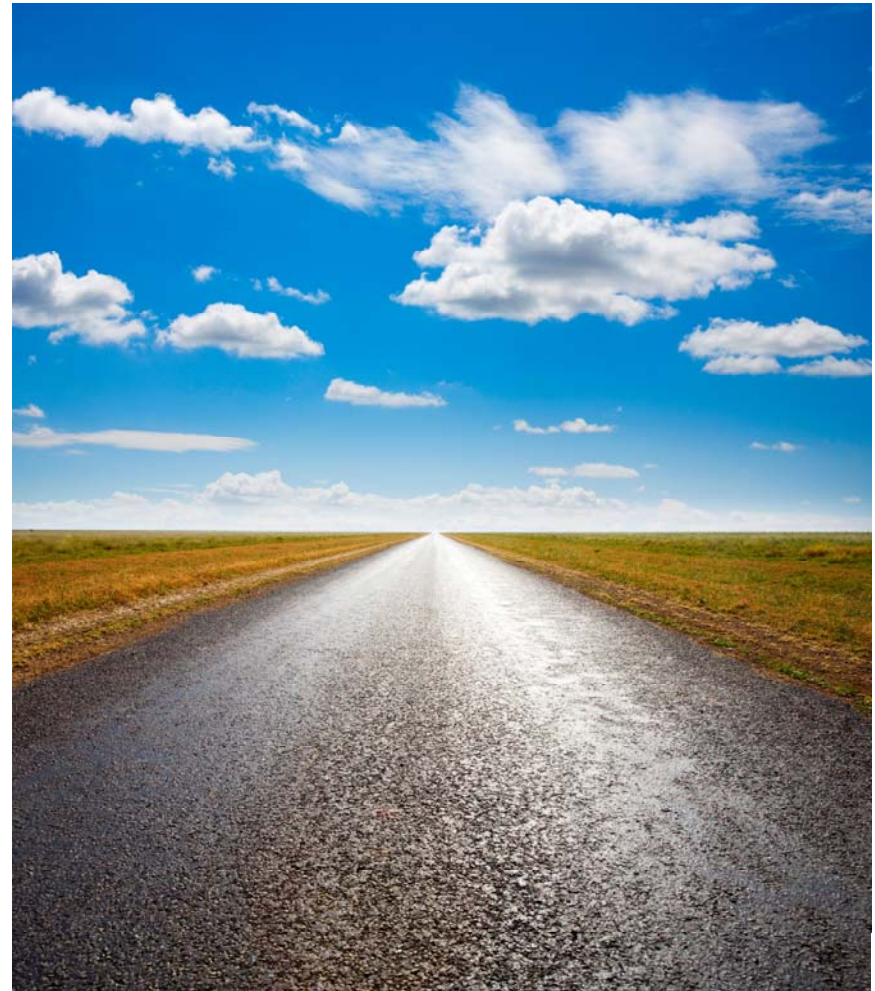
Overview of New Revenue Recognition Standard

November 2, 2017

The journey ahead

High-level overview

- Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers was issued in May 2014 by the FASB. The standard, along with subsequently issued updates, are codified in the FASB's Accounting Standards Codification 606 (ASC 606).
 - Replaces almost all current revenue guidance (including industry specific guidance)
 - Introduces a five step model for recognizing revenue
 - Greatly enhances the related quantitative and qualitative disclosure requirements
 - Introduces concepts that do not exist under the current revenue recognition model, including many that involve significant judgements, such as estimating the transaction price
 - Substantially aligned with International Financial Reporting Standard 15 (IFRS 15)



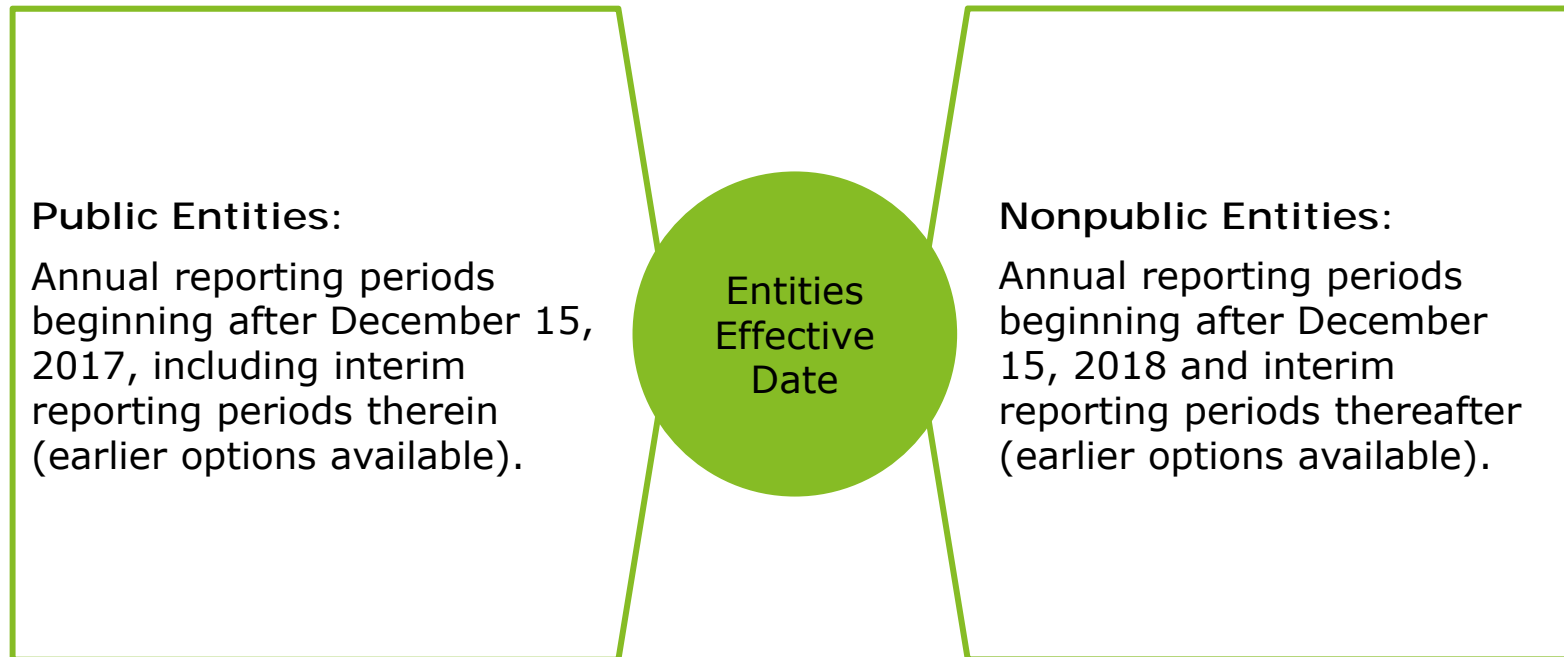
The journey ahead

High-level overview (cont.)

- Implementing the new standard may present significant change and complexity, as well as opportunities. Areas to be considered include:
 - Internal controls
 - Annual budget process, including the assumptions used
 - Audit committee oversight
 - Data and systems requirements
 - Disclosures
 - Financial close process
 - Income taxes
 - Executive and other compensation plans
 - Legal
 - Employee training
 - Assessment of fraud risk
 - Investor relations
 - Coordination with auditors
- Due to transition, adoption considerations, and challenges, evaluating the impacts of the new requirements and planning for implementation early is critical.



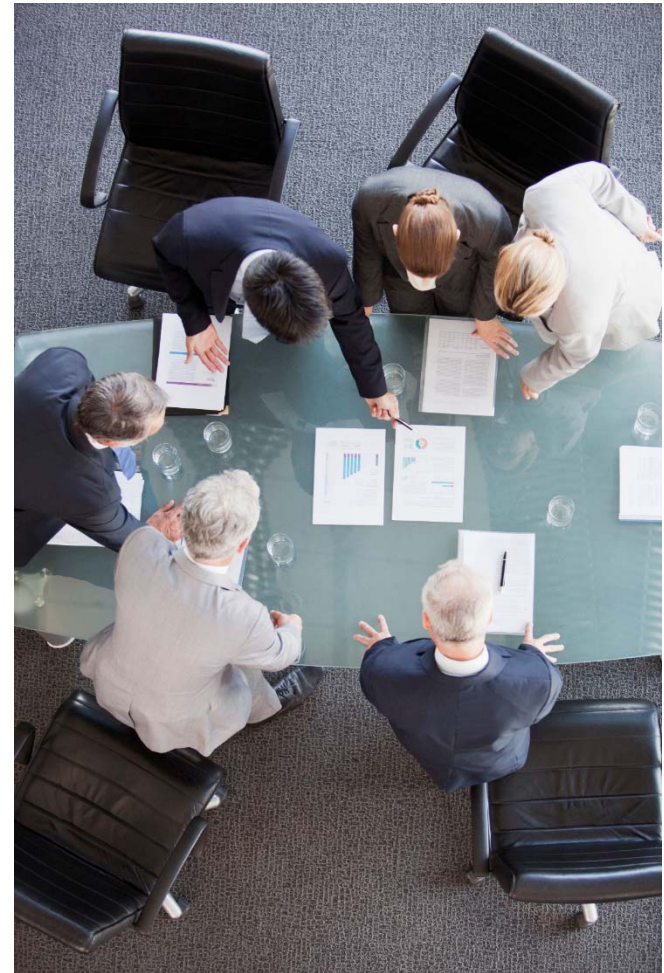
Effective Date



Two Transition Methods

Retrospective Approach

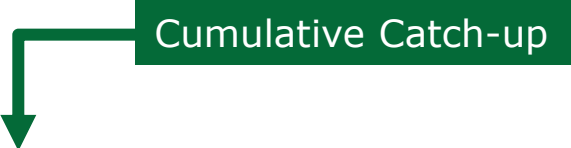
- Restate all comparative periods
- Optional practical expedients:
 - Completed contracts that began and ended during same annual reporting period do not need to be restated
 - Entity can use hindsight for estimating variable consideration for completed contracts
 - No requirement to disclose amount of transaction price allocated and explain amounts anticipated to be recognized for periods presented before adoption for remaining performance obligations



Two Transition Methods (Cont.) Modified Retrospective Approach

Apply new revenue guidance to contracts not completed as of date of adoption of the new ASU and record cumulative catch-up.

Example:



| January 1, 2018 Initial Application | 2018 Current Year | 2017 Prior Year 1 | 2016 Prior Year 2 |
|---|-------------------------------------|-------------------------|-------------------------|
| New contracts | New ASU | | |
| Existing contracts | New ASU + cumulative catch up | Legacy GAAP | Legacy GAAP |
| Completed contracts | | Legacy GAAP | Legacy GAAP |

5 Steps

1

Identify the contract

2

Identify Performance Obligations

3

Determine Transaction Price

4

Allocate Transaction Price

5

Recognize Revenue

Step 1: Identify the Contract



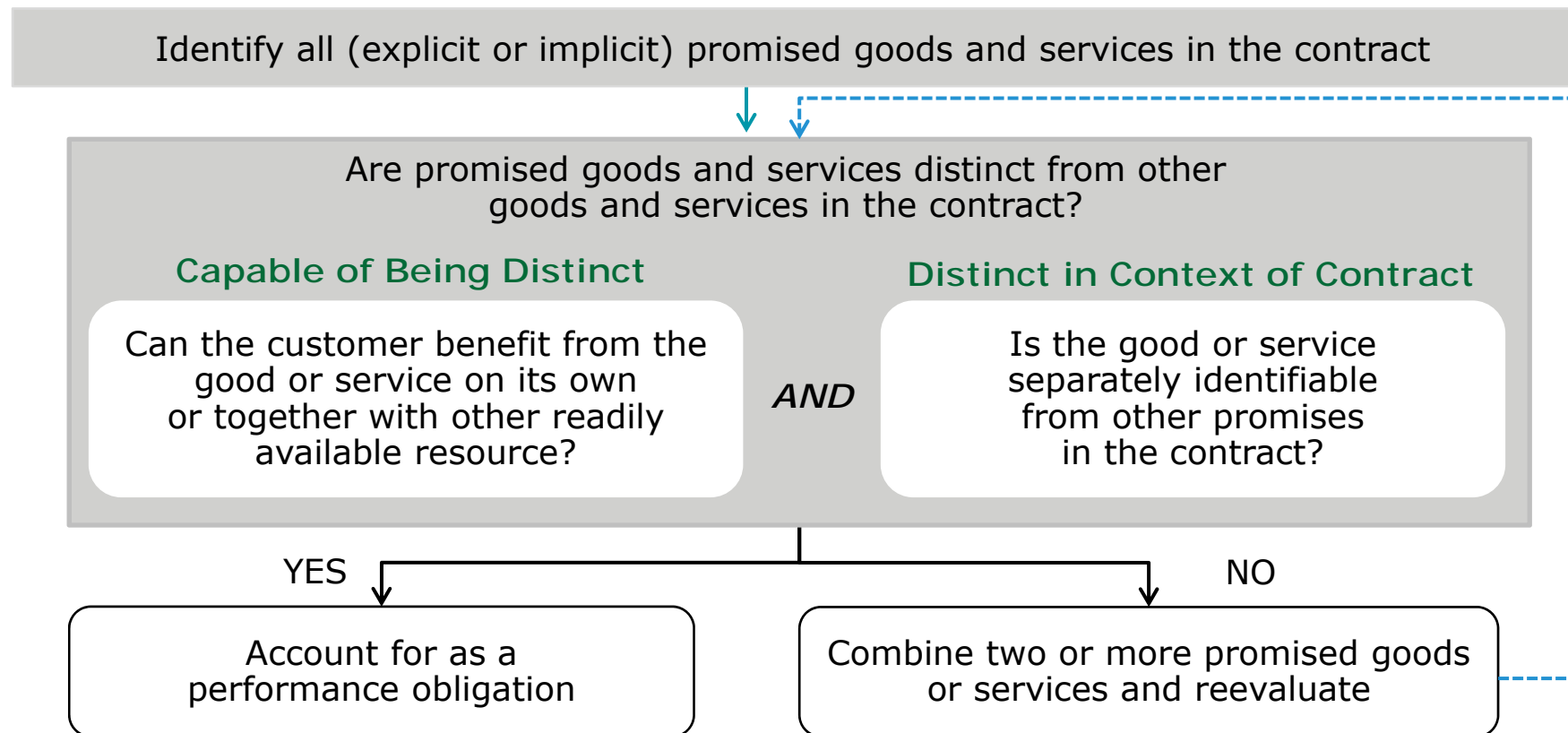
Standard applies to a contract with a customer if ALL of the following criteria are met:

- Parties have approved the contract and are committed to perform
- Entity can identify the payment terms for the goods or services to be transferred
- Entity can identify each party's rights regarding goods or services
- Contract has commercial substance
- It is probable the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer

Step 2: Identify Performance Obligations



Performance obligation: A promise to transfer to the customer a good or service (or a bundle of goods or services) that is distinct.



Step 3: Determine Transaction Price

Step 1

Step 2

Step 3

Step 4

Step 5

Principle: Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer (which includes estimates of variable consideration that are constrained).

Transaction price includes:

- fixed consideration
- variable consideration (estimated and potentially constrained)
- noncash consideration
- adjustments for significant financing component
- adjustments for consideration payable to customer

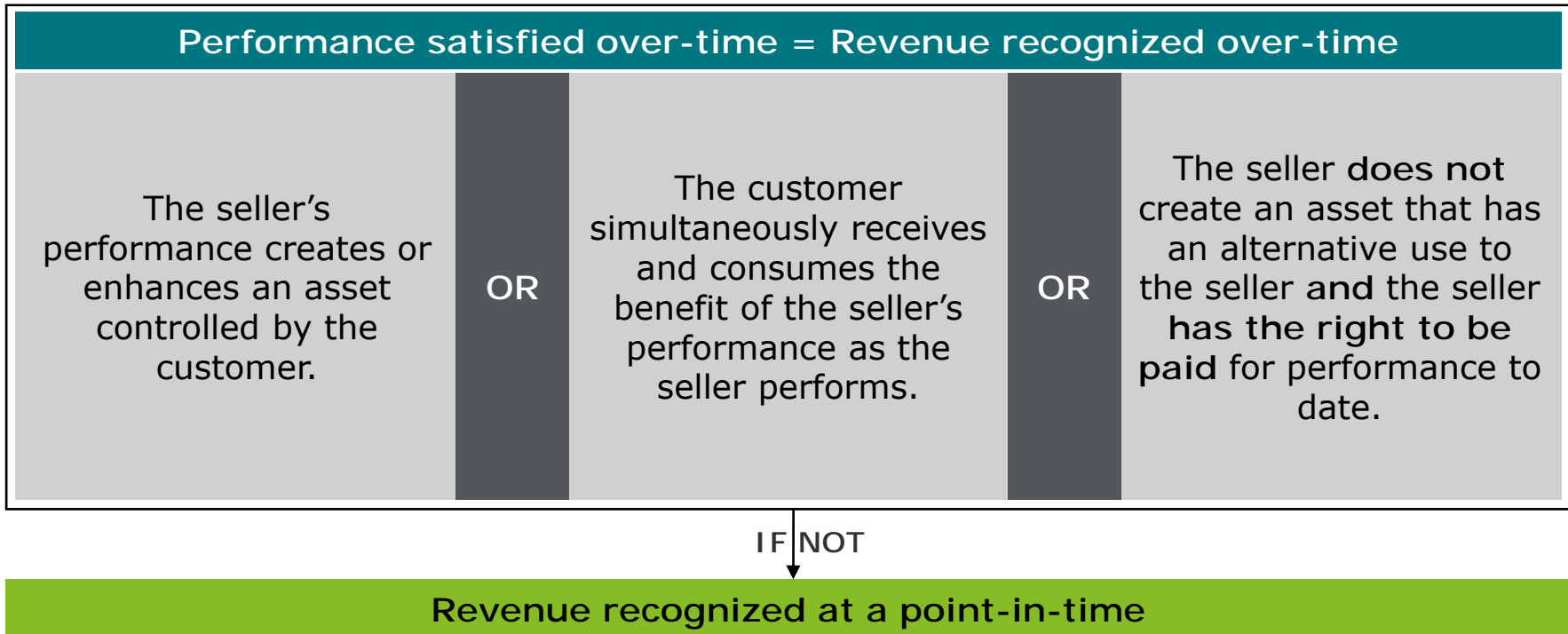


Step 4: Allocate Transaction Price



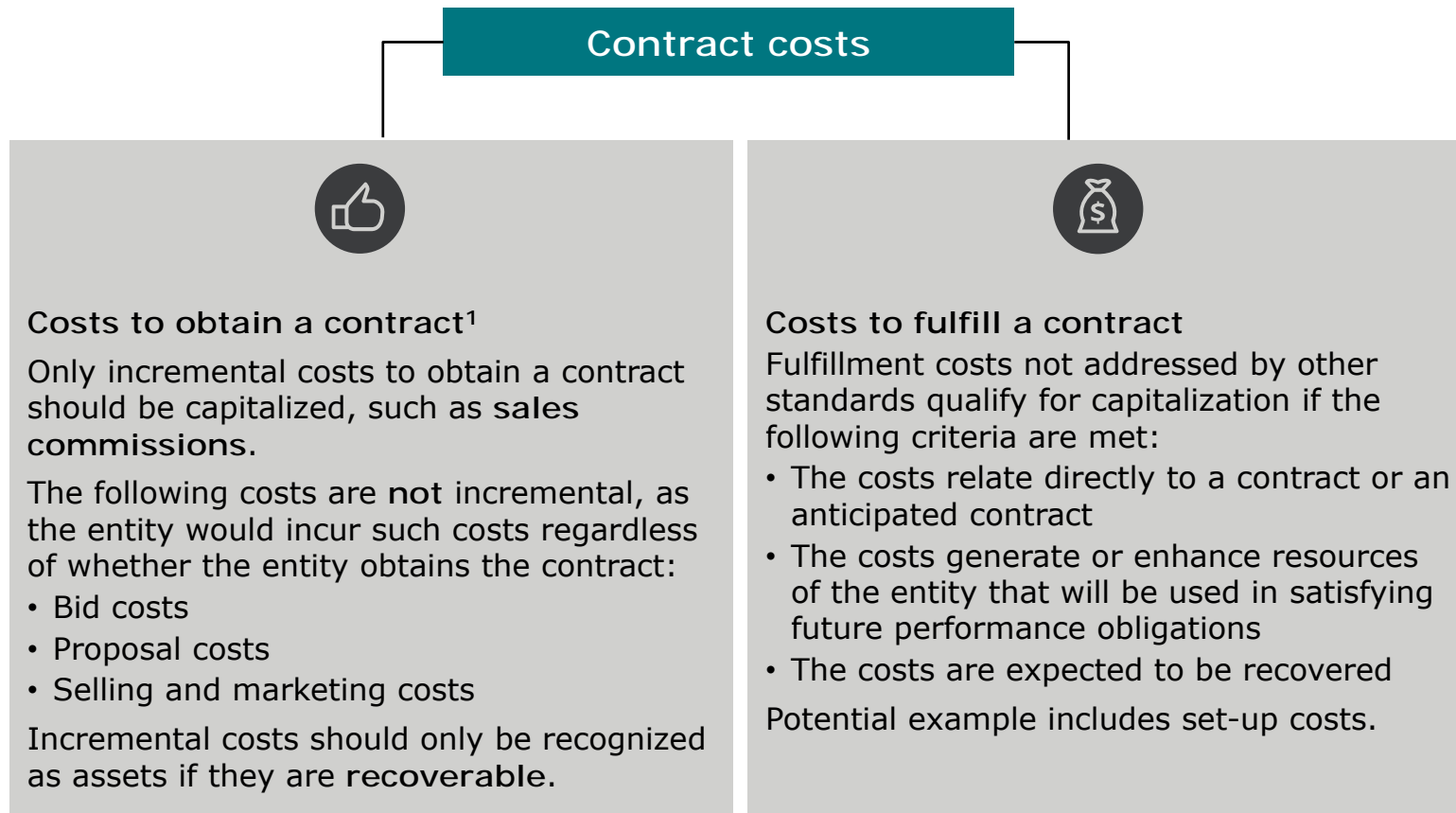
- Allocate on a relative stand-alone selling price basis (estimate stand-alone selling price if not observable)
- Allocate consideration (and changes) in the transaction price to all performance obligations (based on initial allocation) unless a portion of (or changes in) the transaction price relate entirely to one (or more) obligations and certain criteria are met
- Do not reallocate for changes in stand-alone selling prices
- If certain criteria are met, a discount or variable consideration may be allocated to one or more, but not all, of the performance obligations in a contract

Step 5: Recognize Revenue



Contract Costs

Costs to Obtain and Fulfill a Contract Should Be Capitalized if They Meet Certain Conditions

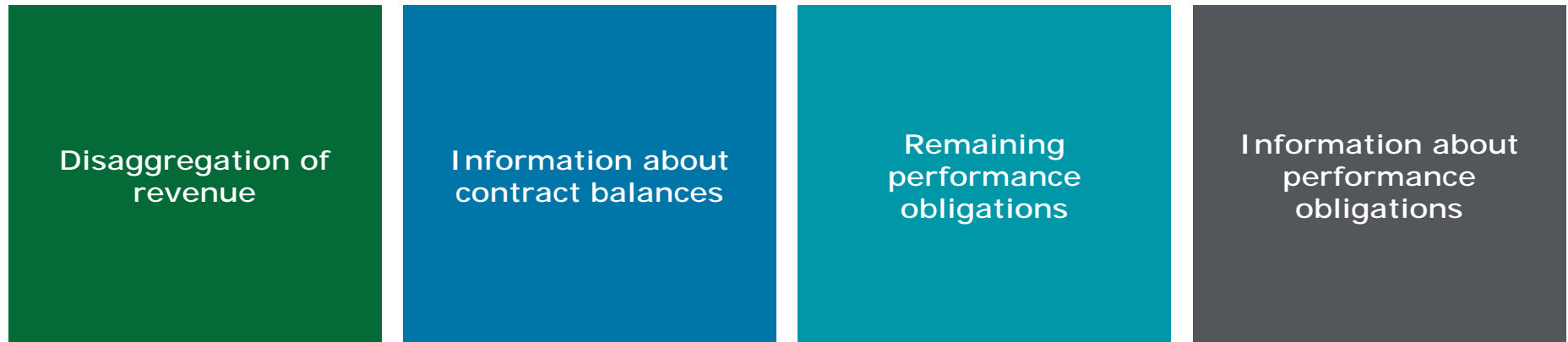


Notes:

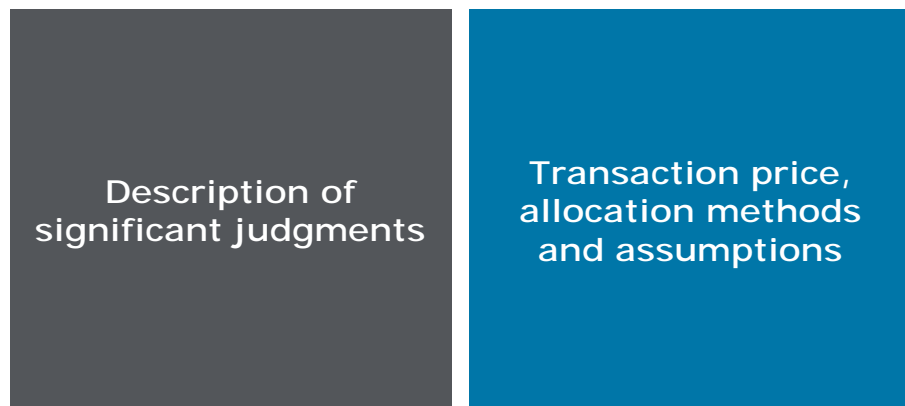
(1) As a practical expedient, an entity may expense costs to obtain a contract if the expected amortization period is one year or less.

Required Disclosures—Overview

Disclosures About Contracts with Customers



Disclosures About Significant Judgments and Estimates



Other Required Disclosures



SEC reporting

SAB topic 11.M (SAB 74) disclosures for the new revenue accounting standard

SEC reporting considerations ASC 606

Consider for Periodic Filings:

- Additional qualitative disclosure if impact cannot be reasonably estimated:
 - The effect of any accounting policies you expect to select upon adopting the ASU
 - How such policies may differ from the your current accounting policies
 - The status of the implementation process and the nature of any significant implementation matters that have not yet been addressed
- SEC has made clear the transition disclosure is expected to mature over time as the implementation date approaches
- New disclosures required by ASC 606 are expected to be provided within the first quarter of adoption to the extent that the disclosures are material and do not duplicate disclosures from the recently filed annual financial statements

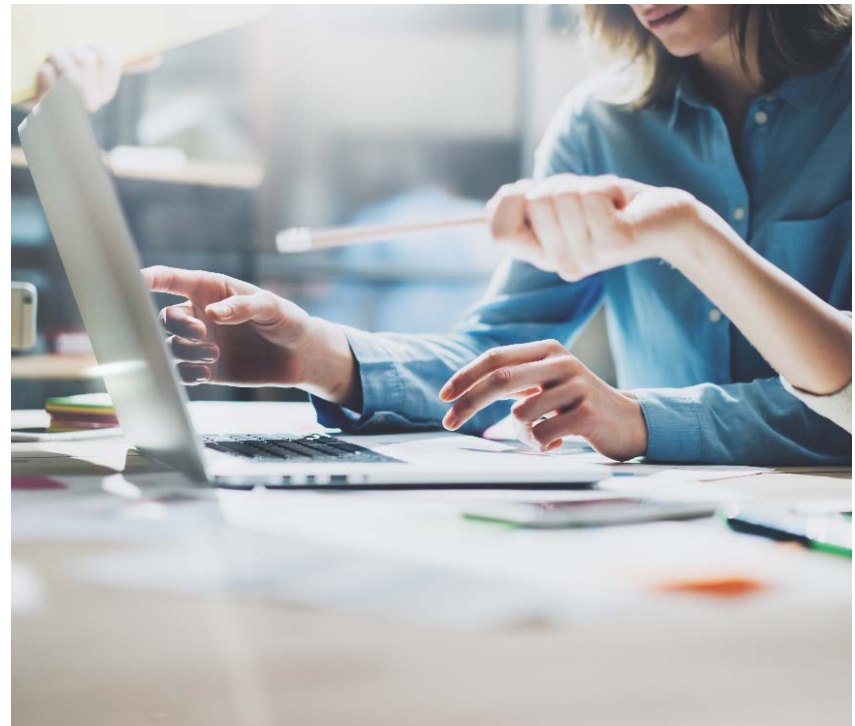
"[Some] companies indicate that the impact of the new revenue standard is not expected to be material. The changes will impact all companies. Even if the extent of the change for a particular company is slight, the related disclosures to describe revenue streams may not be."

— *Wesley Bricker, Chief Accountant, Office of the Chief Accountant*

Public business entity and early adopters

SEC reporting considerations ASC 606

- **Early adopters of ASC 606**
 - We understand and expect joint review and comment process by OCA and Corporate Finance
 - SEC is expected to take longer to review responses for ASC 606
 - SEC staff is also very inquisitive for early adopting ASC 606
- **Non-GAAP measures**
 - SEC staff may not object to the disclosure of non-GAAP performance measures that adjust revenue for the expected impact of the new revenue standard on current results



Designing your implementation strategy

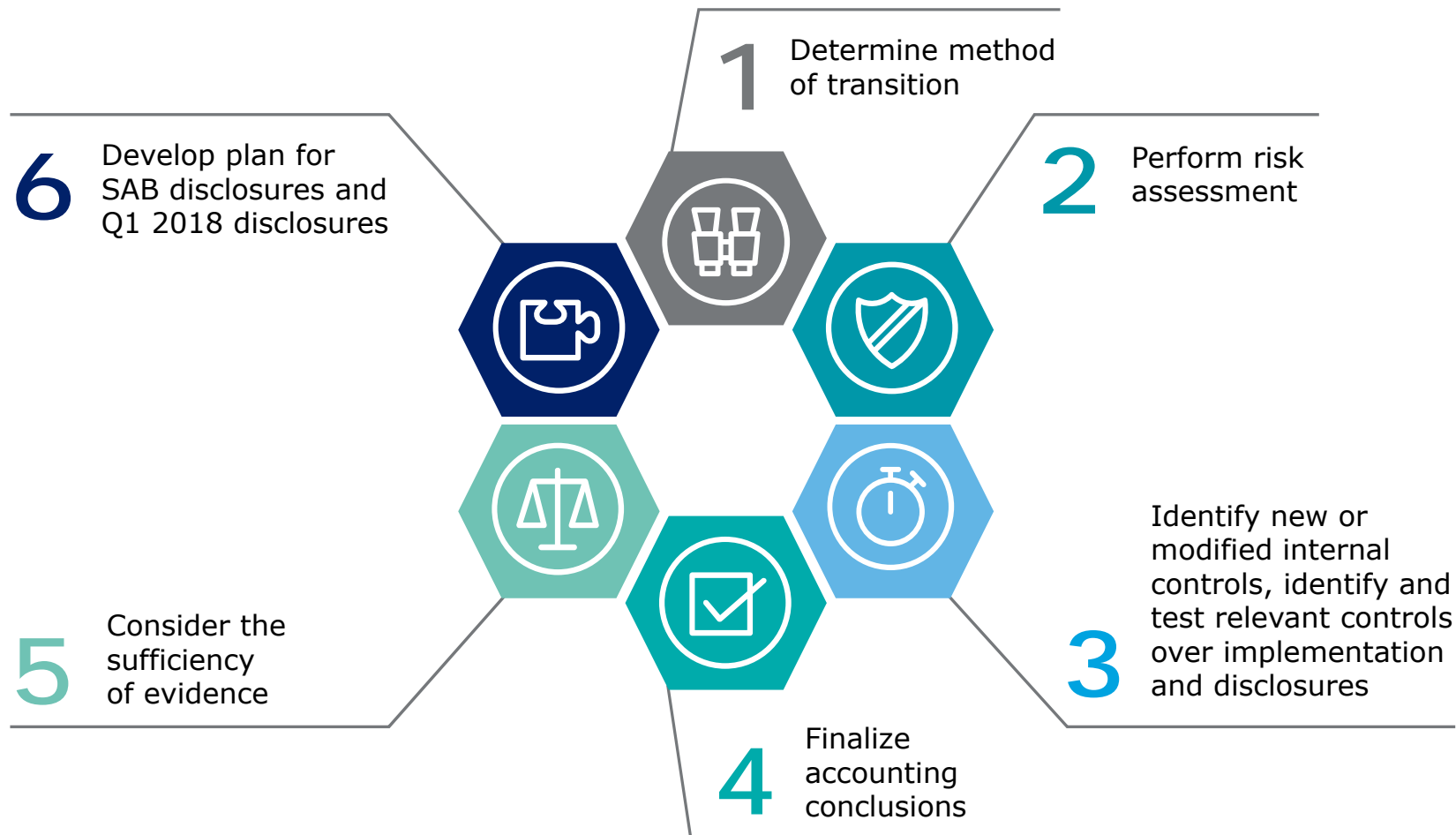
The journey ahead

Achieving a successful transition for your organization and its stakeholders

- **Questions you may be thinking about**
 - What exactly is the standard and how is it applied?
 - What are the key considerations for our industry?
 - How do we go about planning, scoping, and managing the implementation?
 - What will the impact be on the control environment?
 - What will the impact be to our systems?
 - What is the timing we need to be thinking of?
 - What skills and resources are needed to make this all happen with minimal disruption to the business?

Fundamental Client Decisions in Pre-Adoption Period

What Everyone Should Be Thinking About



Designing your implementation strategy

How is a strategy different than a plan?

Implementation strategy

- Defined early
- Singular
- Not expected to change over the course of the project
- Unique to your organization
- Has a desired outcome(s), objective(s) and/or goal(s)
- Aligned with your organization's broader business strategy



Implementation Plan

- Tool for achieving the desired outcomes from your strategy
- Requires reassessment throughout
- Specifies who will do what and when
- Unique to your organization



We will discuss both concepts throughout today's session however, we expect that participants will have a sense of their organization's ASC 606 Implementation Strategy by the end of the day.

Designing your implementation strategy

Common actions in an implementation plan, by phase



Understand, educate, plan

| | |
|--|--|
| Understand the standard and related impacts | <ul style="list-style-type: none"> • Read and understand the standard • Review existing whitepapers, narratives, and process flows to understand current accounting policies and processes |
| Educate | <ul style="list-style-type: none"> • Inform audit committee and other leaders within the organization regarding new standard • Hold initial training session with key stakeholders and team leads • Provide an overview of the standard and outline key impacts on business and functional groups |
| Plan | <ul style="list-style-type: none"> • Identify appropriate leaders to monitor and oversee adoption efforts (e.g., establish a steering committee and appropriate governance) and coordinate among departments • Identify key project personnel to own adoption process within functions • Develop project plan and reporting protocols for project visibility and risk management • Establish implementation milestones and timelines |

Assess and design

| | |
|----------------------------------|--|
| Accounting | <ul style="list-style-type: none"> • Evaluate existing contracts using the new five step model for revenue recognition • Develop accounting calculation logic and determine necessary journal entries • Document considerations describing the appropriate accounting and how conclusions were reached • Assess tax implications |
| Controls | <ul style="list-style-type: none"> • Assess risk throughout the process • Evaluate impacts on internal controls, including controls over accounting, data quality, and reporting |
| Disclosures and reporting | <ul style="list-style-type: none"> • Draft disclosure information for reporting that contemplates 1) implementation impacts under SAB Topic 11.M and 2) requirements under the new standard and SEC reporting as necessary |
| Data and systems | <ul style="list-style-type: none"> • Identify data gaps and data needed to be tracked and retained • Evaluate whether modifications to technology are needed |

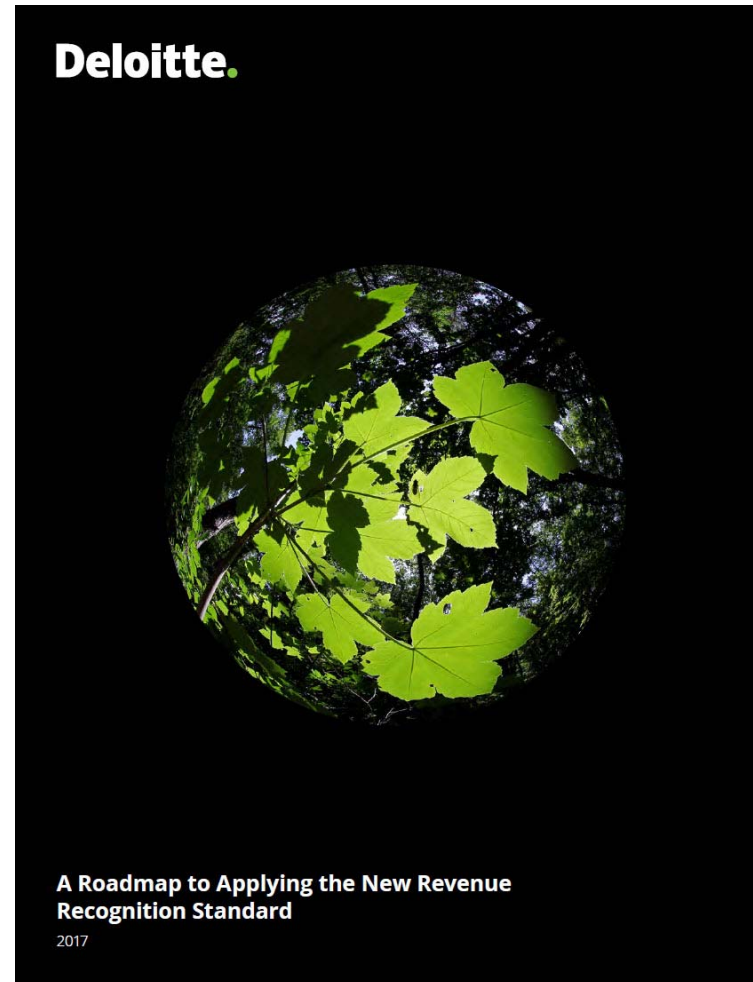
Designing your implementation strategy

Common actions in an implementation plan, by phase (cont.)

| Implement | |
|---|--|
| Accounting | <ul style="list-style-type: none"> • Review and approve the accounting calculation logic and journal entries • Update accounting policies |
| Controls | <ul style="list-style-type: none"> • Design controls to address risk of material misstatement arising from the adoption of the new standard • Update process flow diagrams • Inform and train personnel impacted by changes • Review operation of key controls, processes, and reports |
| Data and systems | <ul style="list-style-type: none"> • Determine key user reports and journal entries • Test modifications made to accounting systems and evaluate any error reports • Implement data retention strategy |
| Disclosures and reporting | <ul style="list-style-type: none"> • Identify additional steps required in periodic close process and resource needs • Perform a "test-close" • Review and finalize draft disclosures |
| Reassess and evaluate sustainability | |
| Accounting | <ul style="list-style-type: none"> • Evaluate sustainability of revised accounting processes and modify as appropriate • Assess opportunities for further integration and efficiencies |
| Controls | <ul style="list-style-type: none"> • Monitor and reassess control environment |
| Data and systems | <ul style="list-style-type: none"> • Perform post "go-live" assessments of system implementation or upgrades |
| Disclosures and reporting | <ul style="list-style-type: none"> • Review comparable company disclosures and assess opportunities for further refinement and enhancement of disclosures and reporting |

Key resources

- A Roadmap to Applying the New Revenue Recognition Standard (October 2017)
- Learning to Implement Revenue Recognition (E-Book)



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