Impact of New Revenue Recognition Standards on Public Companies

Part I: Examining Early and Standard Adopters

November 5, 2018

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Based on data available on the Intelligize platform as of September 1, 2018

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"We aren't planning to beat up on companies in this first year."

- Kyle Moffatt, SEC

Background: FASB's New Accounting Standard

For the last 12 years, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have been hard at work developing a new accounting standard that impacts all entities: public, private and non-profit. Effective for most companies as of January 1, 2018, the new standard changes GAAP (generally accepted accounting principles) for the recognition of revenue associated with customer contracts (ASC 606). Given the large percentage of businesses with customer contracts, it is difficult to overstate how widespread the impact will be.

In brief, the new standard "does away with the industry-specific, rules-based guidance under which U.S. companies have prepared financial statements in the past and implements a new principles-based standard." This standard uses five steps for determining the creation of a contract:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenues as performance obligations are satisfied.

One effect of the new standard will be to make it easier to compare reporting across industries. That's the good news. The bad news is that it will take significant work to implement the revenue recognition changes, and the new standards will require companies to make certain judgment calls that were not previously necessary. At least in the short term, this will likely lead to more SEC review, which may subside once organizations become more familiar with the new standards.

"Many organizations that have started to implement the required changes are finding the process to be much more complex and time-consuming than they expected," reports CFO magazine. Implementation requires changes to IT systems (which will need to collect new data), legal departments (which will want to draft contracts to complement the new standard, among other things), human resource processes (which will need to train salespeople and others on the new standard), and compensation (bonuses and other pay will be affected).

Indeed, as of late December 2017, one analysis by Audit Analytics found that only six S&P 500 companies were planning to adopt the new standard early. And as recently as March 2018, a poll conducted by Deloitte found that almost half (47 percent) of private company professionals reported their organization was only in the early stages of implementation of the new standard or had not started at all.

For the SEC's part, Kyle Moffatt, chief accountant for the SEC's division of corporation finance, pledged a bit of patience as companies work through the transition to the new standard, noting in May 2018 that, "We aren't planning to beat up on companies in this first year." That said, Moffatt and his SEC colleagues are zeroing in on several issues, including:

- Accounting for customer rebates
- Describing modifications in contract balances (e.g., the impact of payment timing and the meeting of performance requirements on contract assets and liabilities)
- Documenting the means for recognizing revenue on overtime performance obligations
- Assessing when costs of obtaining a contract are incremental and thus can be capitalized
- Ascertaining amortization periods for commissions costs (considering contract renewals)
- Disclosing any unmet performance requirements

In Part I of our two-part report on the impact of the new accounting standard on public companies, we examine the activities to date of two groups in this process: early adopters and standard adopters. Leveraging data from the proprietary Intelligize research platform, which includes SEC filings and associated exhibits, comment letters and responses, deal summaries and underlying agreements, we examine how early and standard adopters and the SEC are handling the new accounting standard.

Executive Summary

The implementation of the new revenue recognition standard was certain to present significant challenges for public companies. It represented the first complete overhaul of revenue recognition standards in nearly a decade. Adapting to the new guidance required companies to dedicate significant internal and external resources, including corporate accounting and audit groups, independent auditors, audit committees, legal departments, compensation committees, CEOs and Boards of Directors. While companies addressed the assessment and implementation phases, the SEC worked to make the transition to the new standard as smooth as possible. This included offering consultations with its staff as companies moved through the process, and focusing its reviews on those areas requiring the most judgment and subjective analysis.

Our analysis of ASC 606 adoption uncovered several trends – some anticipated and others relatively unexpected:

- Not surprisingly, there were a minimum number of companies (just 32) that decided to adopt the standard early (prior to the 2018 calendar year). More surprising was the wide variance in the types of issuers who adopted early. These ranged from large cap, well-known companies like Alphabet (Google) and Ford Motor Co., to much smaller, less heralded issuers. There was also no consistent theme in companies' reasons for early adoption.

- The majority of issuers chose the modified retrospective method of transition over the more intensive full retrospective method.

- However, there was a stark difference in transition method between early and standard adopters, with 46.9 percent of early adopters choosing the full retrospective method, and 87.5 percent of S&P 500 standard adopters planning to use the modified transition method.

- Possible reasons for this difference may include the time cushion afforded early adopters compared to their later adopting peers, and/or the relative size of the S&P 500 standard adopter companies, which makes using the full retrospective method more challenging.

- An analysis of the SEC comments received by early-adopting issuers revealed the SEC focused primarily on the areas of the new standard that it had publicly stated it would.

- These included areas requiring judgment and subjective analysis by the issuers – comments on various aspects of performance obligations and principal versus agent considerations.

- Disclosures outside of the notes to financial statements and SEC comments revealed the breadth of impact the new standard had on companies. Revenue recognition is a much-discussed topic in other key filing areas that are closely watched by regulators, including:

  – MD&A
  – Risk Factors
  – Proxy

New Accounting Standard Early Adopters

Of the nearly 4,000 public companies subject to SEC oversight, only 32 (less than 1 percent) were early adopters of the new revenue recognition standard – defined by adoption during the 2017 calendar year. These ranged from familiar corporate behemoths like Alphabet (Google), Ford Motor Co., General Dynamics, Microsoft, and Raytheon, to lesser-known companies like AquaBounty Technologies, which uses genetic modification in aquaculture (the farming of fish), and healthcare revenue cycle management company R1 RCM Inc. The market caps of early adopter companies also varied widely, from $844,000 tire manufacturer, Amerityre Corp. to Alphabet ($828 billion) and Microsoft ($857 billion).

Companies' reasons for early adoption vary as well. Beyond wanting to demonstrate their ability to prepare for such an important and challenging transition, some companies disclosed other reasons for this choice. Clearsign Combustion Corp., a combustion control and enhancement company, said in a May 11, 2017 10-Q filing: "Management has elected early adoption of this standard to minimize the eventual cost of implementation." Pharmaceutical manufacturer Radius Health adopted when its drug, TYMLOS, was approved by the FDA and Radius signed its initial customer contracts. Oil and natural gas company, Vanguard Natural Resources, on the other hand, emerged from bankruptcy and adopted the new standard in conjunction with its application of fresh-start accounting.

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Full vs. Modified Retrospective

The other choice for all ASC 606 adopters is whether to use the full or modified retrospective transition method. The full retrospective method is more thorough and has the significant benefit of enabling an "apples-to-apples" comparison of financials both before and after adoption. As a result, however, it is far more resource intensive and challenging to implement – the equivalent of a company having to restate three years' worth of earnings. Using the full retrospective approach, a company must determine the cumulative effect of applying the new standard as of the beginning of the first historical period presented, and then recast revenue and expenses for all prior periods presented in the year of adoption of the new standard.

Full Retrospective

Benefits

- A "cleaner" method of transitioning than modified retrospective
- Makes valuable historical trend information available for all periods in a company's financials

Challenges

- A company may not have a choice. Its shareholders may demand the full retrospective approach
- Requires significant time and effort
- Painstaking recasting of previous financial statements as if the new guidance had always existed for a comparative two-year period prior to the adoption year

The modified retrospective, on the other hand, includes accommodations for a quicker and easier transition but poses higher risks to a company during the first year of adoption. Under the modified retrospective approach, a company applies the new accounting standards to all new contracts initiated on or after the effective date, and, for contracts that have remaining obligations as of the effective date, a company must make an adjustment to the opening balance of its retained earnings account. Under this method, companies do not restate comparative periods in their financial statements.

Modified Retrospective

Benefits

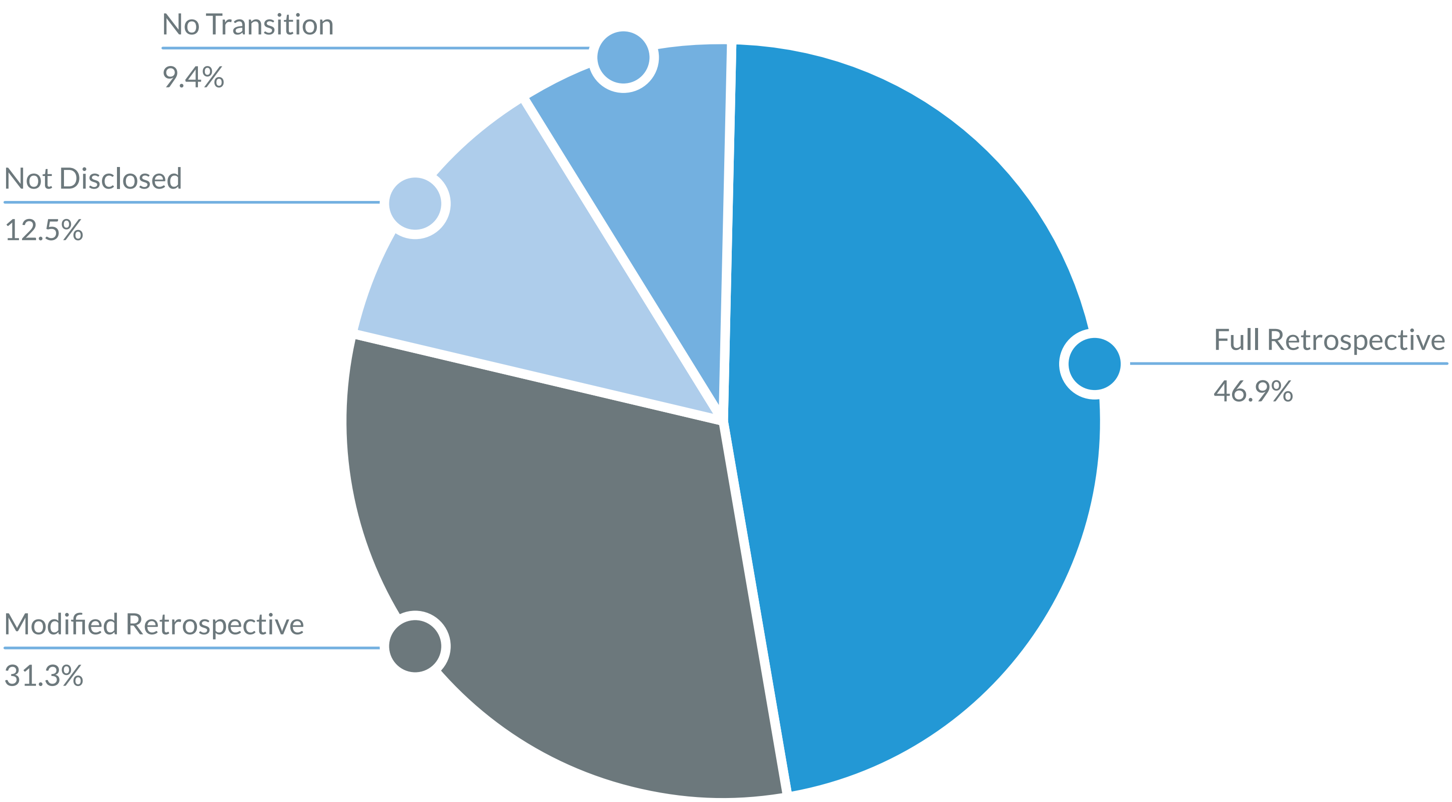
- Less effort in restating prior years
- Faster implementation in not having to recast past revenue

Challenges

- Potential lost revenue if the new standard recognizes less revenue in a period than the previous method would have
- Requires maintaining two sets of accounting records during the year of adoption to comply with requirement to disclose all line items in financial statements as though they had been prepared under today's guidance

Of the 32 early adopters, 15 chose the full retrospective transition method, 10 the modified retrospective, three did not use a transition method and four did not disclose their transition method. Certain companies had no transition method because they had no previous revenue, as was the case with online media company theMaven, Inc. and drug maker Radius Health. Radius stated in its August 4, 2017 10-Q, "There is no transition to Topic 606 because the Company has no historical revenue."

New Standard Transition Method for Early Adopters



A Look at the Early Adopters

Company	Adoption Date	Transition Method	Form Filed	Market Cap
Alphabet (Google)	1.1.2017	Modified	10-Q	$828.17B
Amerityre Corp.	7.1.2017	Modified	10-Q	$844K
AquaBounty Technologies, Inc.	Q2 2017	N/A	10-Q	$40.15M
Aradigm Corp.	1.1.2017	Modified	10-Q	$19.76M
BSquare Corp.	1.1.2017	Modified	10-Q	$27.97M
Catabasis Pharmaceuticals, Inc.	1.1.2017	Full	10-Q	$55.36M
Cavitation Technologies, Inc.	7.1.2017	Full	10-Q	$8.27M
CBOE Global Markets, Inc.	1.1.2017	Full	10-Q	$11.60B
Clearsign Combustion Corp.	1.1.2017	N/A	10-Q	$40.16M
Commvault Systems, Inc.	4.1.2017	Full	10-K	$3.19B
Ekoark Holdings, Inc.	4.1.2017	N/A	10-Q	$58.77M
EnerNOC, Inc.	1.1.2017	Modified	10-K	N/A
Extreme Networks, Inc.	7.1.2017	Full	10-Q	$678.16M
First Solar, Inc.	Q1 2017	Full	10-Q	$5.08B
Ford Motor Co.	1.1.2017	Modified	10-Q	$38.01B
Ford Motor Credit Co., LLC	1.1.2017	Modified	10-Q	N/A
General Dynamics Corp.	1.1.2017	Full	10-K	$58.13B
Medical Information Technology, Inc.	1.1.2017	Modified	10-Q	N/A
Microsoft Corp.	7.1.2017	Full	10-Q	$857.6B
Nutanix, Inc.	8.1.2017	Full	10-Q	$8.77B
Power Integrations, Inc.	1.1.2017	Full	10-Q	$2.06B
Protagonist Therapeutics, Inc.	7.1.2017	Full	10-Q	$190.96M
Puma Biotechnology, Inc.	1.1.2017	No Transition	10-Q	$1.79B
R1 RCM, Inc.	1.1.2017	Modified	10-Q	$1.1B
Radius Health, Inc.	4.28.2017	No Transition	10-Q	$854.96M
Raytheon Co.	1.1.2017	Full	10-Q	$56.57B
Socket Mobile, Inc.	1.1.2017	N/A	10-Q	$13.41M
Tesaro, Inc.	1.1.2017	Full	10-Q	$1.93B
theMaven, Inc.	Q3 2017	No Transition	10-Q	$18.21M
Ultragenyx Pharmaceutical, Inc.	1.1.2017	Full	10-Q	$4.24B
Vanguard Natural Resources, Inc.	8.1.2017	Modified (fresh start accounting)	10-Q	N/A
Workday, Inc.	2.1.2017	Full	10-Q	$32.16B

Analyzing the SEC's Comments on Early Adopters

Throughout 2017, the SEC projected several areas of focus for review of the new standard in statements by various staff members. In a May 8, 2017 speech at the Bloomberg BNA Conference on Revenue Recognition, Sylvia E. Alicea, Professional Accounting Fellow of the SEC's Office of Chief Accountant, discussed observations from the consultations between filers and her office during the previous 18-month period. These included:

- "The application of the principal and agent considerations for identifying the role of the reporting entity when another party is involved in a contract with a customer."
- Identifying the contract – "Registrants should carefully assess the specific facts and circumstances of each transaction – including all relevant contractual terms – and exercise reasonable judgment when identifying and evaluating each contract with its customers."
- Identifying performance obligations – "... will require a "fresh look" that begins with an evaluation of the contractual terms in its contracts with customers. Registrants may ultimately determine – as a result of their 'fresh look' – that there is no change in the unit of account ... A company must support its identification of performance obligations according to the core principles in the standard – including whether or not the promised goods and services are inputs to a combined output ... it's critical that preparers understand the underlying transaction, including their specific facts and circumstances and contractual terms, and then faithfully apply the principles of the new revenue standard. This may require reasonable judgment, and in some cases, those judgments may necessitate changes to internal control over financial reporting."

Of the 32 early adopter companies, the SEC issued revenue recognition-related comment letters to nearly one-third of them. These comments covered 18 different topics on 10-Q and 10-K filings made between January 1, 2017, and December 31, 2017. The majority (70 percent) of comments were directed to the measurement of performance obligations. Three companies (Alphabet, Commvault Systems and General Dynamics) received multiple rounds of comments, indicating that the SEC wished to fully understand the judgments and analyses used to determine the five steps resulting in the revenue presentations.

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Alphabet (Google)

The SEC issued a comment letter on July 28, 2017, related to Alphabet's July 25, 2017 10-Q, which included five comments addressing Topic 606. These included comments regarding:

1. Reporting of "revenue from ads placed on Google Network Members properties on a gross basis."
2. "Principal versus agent considerations for digital content if revenue recognized is material."
3. How it was determined "when to recognize revenue for items included within Other Revenues."
4. How Alphabet "selected categories to present disaggregated revenue information."
5. The receipt of cash-based incentives or credits accounted for as variable consideration and estimated based on the expected amount the customers will be provided.

Alphabet responded to these comments on August 25, 2017, following a request for an extension of time to respond on August 8, 2017. The SEC had additional questions in a September 27, 2017 letter requesting further clarification of the principal versus agent considerations for advertising inventory sourced through third-party exchanges and the consideration given to whether the customer to which the advertising inventory is transferred is identified at the time the bid clears the third-party exchange.

Alphabet responded in an October 16, 2017 letter, first summarizing "that revenues generated from advertising inventory sourced through third-party exchanges are not material to Alphabet consolidated revenues", "the advertising inventory is not the unit of account for purposes of our principal versus agent analysis," and "if our bid clears the auction, we know the customer it relates to at the time our bid clears the auction. While in practice the inventory acquired is sold to that advertiser, we are not contractually required to do so." Alphabet further noted that "In this regard, we believe that the identification of the customer at the time our bid clears the third-party exchange does not impact our principal versus agent analysis, notably because we purchase the advertising inventory from the third-party exchange before it is sold to the customer."

The SEC's second question had requested additional information related to information regularly reviewed by the chief operating decision maker for evaluating the performance of operating segments and specifically, the consideration given to presenting the "advertising revenues on a more disaggregated basis." Alphabet responded, stating that the chief operating decision maker receives quarterly revenue information that includes the disaggregation of advertising revenue by platform and property and ultimately the disaggregation of revenues is "not necessary due to the relative significance of such revenues at this time in the context of our overall business."

Finally, Alphabet addressed the specific question of the further disaggregation of advertising revenues by stating "that the underlying offering – online advertising – is the same across our entire advertising business." It further provided a detailed background of its measurement of advertising revenues. The SEC confirmed completion of its review in a January 26, 2018 letter.

Commvault Systems

The SEC issued two comments on Topic 606 to data protection and information management software company, Commvault Systems, in an October 19, 2017 letter. The first comment asked how Commvault determined the point in time at which it recognized revenue, requested that it disclose any significant judgments made in evaluating when control was transferred in relation to sales made through indirect distribution channels, and for clarification on whether the performance obligation of providing software licenses is satisfied upon shipment or when the software is made available for download to the indirect distribution partners or to the end user.

The second comment questioned why the standalone selling price of software is typically estimated using the residual approach and asked that if it was determined that the selling price for Commvault's software was highly variable, to provide a comprehensive, quantitative discussion of such variability to support the conclusions. Commvault responded with two letters on October 27, 2017. The first letter addressed the question regarding sales made through indirect distribution channels, while the second requested confidential treatment for certain parts of the response to the question on the standalone selling price of the software. The SEC followed this response with a November 21, 2017 letter stating, "We note the minimum and maximum amounts; however, it is unclear to us how you considered transactions within this range. Please provide us with more details of your analysis. In this regard, please tell us whether a significant number of transactions fell within a smaller portion of this range."

Commvault responded on December 4, 2017, again requesting partial confidential treatment. The company stated that "the lack of history of selling software licenses on a standalone basis (unbundled) … led the Company to conclude that the use of the residual approach for determining the Standalone Selling Price ("SSP") of the software license was appropriate. In order to determine if use of the residual approach for the software license in the contract is appropriate, the Company first evaluated whether the software license sold to the customer is the 'same' as other transactions included in the pricing analysis… The Company's quantitative measures included historical software license transactions (which were bundled with services) by (1) geographic location and (2) software transaction value."

The SEC noted the conclusion of its review in a December 11, 2017 letter.

General Dynamics

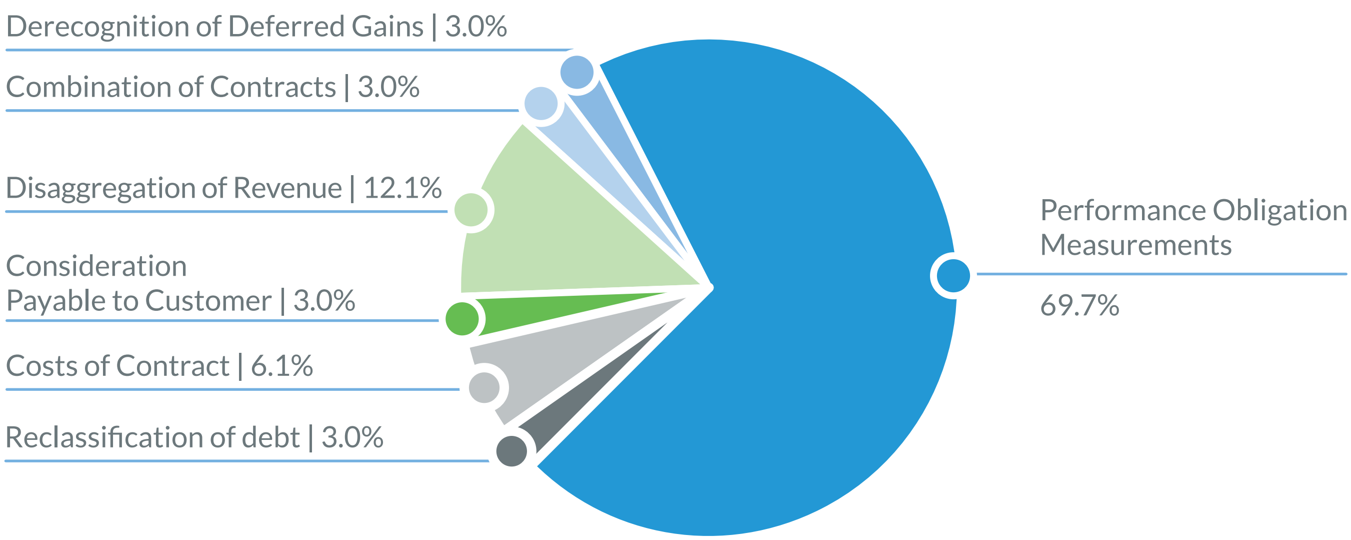
The SEC issued six comments around revenue recognition in an August 18, 2017 letter to aerospace defense company, General Dynamics. These included:

1. "How the adoption of ASC Topic 606 impacted your accounting for costs to obtain or fulfill a contract."
2. "We note some of your contracts have multiple performance obligations please revise to disclose the nature of these performance obligations."
3. "Given that the majority of your revenue is generated from long-term contracts, please provide us with your analysis on if they contain a significant financing component."
4. "You disclose you recognize revenue over time using an input measure (e.g., costs incurred to date relative to total estimated costs at completion). Revise to disclose why this method is a faithful depiction of the transfer of goods or services."
5. "We note that you recognize revenue at a point in time for the manufacture of business-jet aircraft in your Aerospace group, which is generally when the customer accepts the fully outfitted aircraft. Please tell us, and revise to disclose, what significant judgments were evaluated in determining that this was the appropriate point to recognize revenue."
6. "With a view towards future disclosures, please help us better understand the general nature of your contract modifications and whether modifications typically add distinct goods or services."

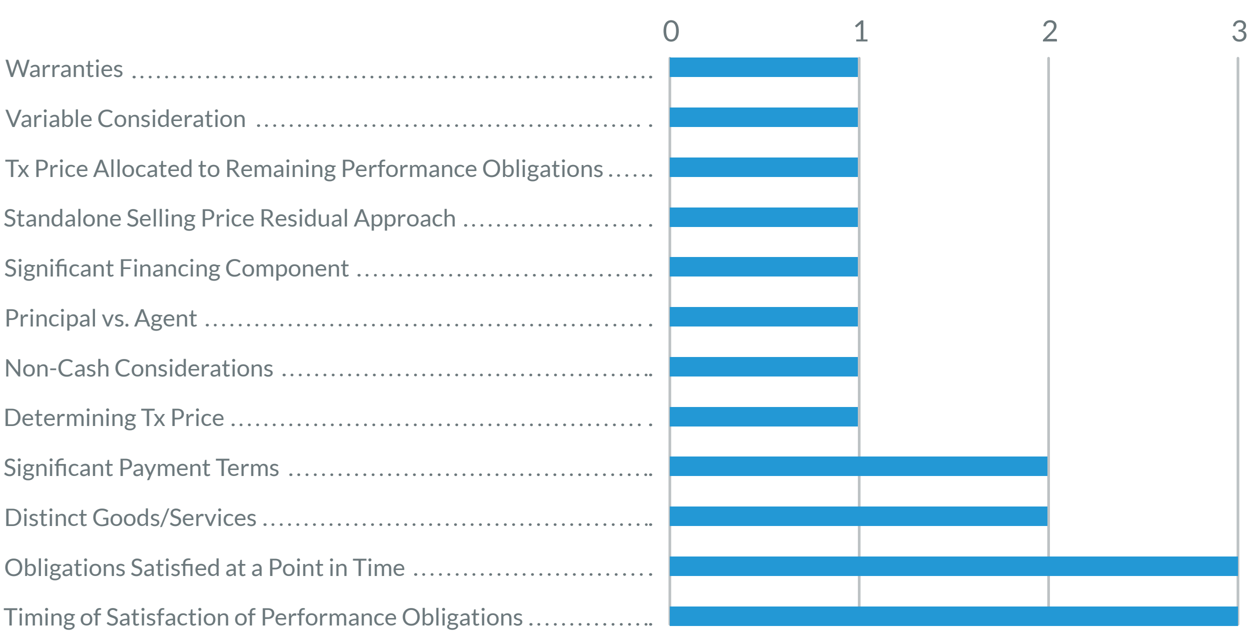
General Dynamics responded in a September 7, 2017 letter following a request for an extension of time to respond. The SEC sought additional information on performance obligations in an October 16, 2017 letter asking, "When separate contracts are entered into for various phases of the product lifecycle, please tell us how you consider the criteria for determining whether separate contracts should be combined as a single contract."

The company responded on October 19, 2017, that "For programs in our defense business that have separate contracts for various phases of the product lifecycle, the time frame over which contracts are awarded generally spans several years, preceding each phase of the lifecycle (development, manufacturing, post-delivery maintenance and support). Because these contracts are not entered into at or near the same time as specified in ASC 606-10-25-9, they are not combined into a single contract. In the event that contracts for all or a portion of the contract lifecycle are entered into at or near the same time with the same customer and meet one or more of the criteria in ASC 606-10-25-9, we would combine them as a single contract."

Categorizing SEC comments on Early Adopters



Performance Obligation Comment Breakdown



All Early Adopter Comments

Company	Topic of Comment
Radius Health, Inc.	Performance Obligation Measurements • Significant Payment Terms
Details:	• When payments are typically due from TYMLOS wholesale customers.
Sanchez Energy Corp.	Derecognition of Deferred Gains
Details:	• Support and analysis for determination that with adoption of Topic 606 - Revenue from Contracts with Customers, deferred gains recorded under the Carnero Gathering Disposition and Carnero Processing Disposition could be de-recognized under the new standard.
Microsoft Corp.	Performance Obligation Measurements • Distinct Goods or Services
Details:	• Support for how and when Office 365 revenue is recognized; Analysis of conclusion that desktop applications and cloud services are not distinct; Whether customers take possession of software license; Clarify consideration of upgrades and tech support; Method used to recognize revenue over time and why this is a faithful depiction of transfer of services; Considerations of consumer and commercial offerings. • Cloud services, other than Office 365, for which cloud services are accounted for with the software license.
Commvault Systems, Inc. ***Multiple comment rounds***	Performance Obligation Measurements • Standalone Selling Price Residual Approach • Obligations Satisfied at a Point in Time
Details:	• Noting minimum and maximum amounts in response to prior comment 4, provide more details of how transactions within this range are considered; Whether a significant number of transactions fell within a smaller portion of this range. • Why standalone selling price of software is typically estimated using the residual approach and how one of the criteria in Topic 606-10-32-34(c) was met; How it was determined that the selling price for software is highly variable. • Whether performance obligation of providing software licenses is satisfied upon shipment or when the software is made available for download to indirect distribution partners or to the end user for sales made through indirect distribution channels; How Topics 606-10-25-30 and 606-10-55-58C guidance was considered in determining the point in time at which revenue is recognized.

All Early Adopter Comments (continued)

Company	Topic of Comment
General Dynamics Corp. ***Multiple comment rounds***	Combination of Contracts Costs of Contract Performance Obligation Measurements • Warranties • Significant Financing Component • Timing of Satisfaction of Performance Obligations • Obligations Satisfied at a Point in Time • Distinct Goods or Services

Details:

- Criteria for determining whether separate contracts should be combined as a single contract pursuant to Topic 606-10-25-9 when separate contracts are entered into for various phases of the product life cycle.

- How the adoption of Topic 606 has impacted accounting for costs to obtain or fulfill a contract, including commissions, bidding cost, and/or pre-production costs.

- Some contracts have multiple performance obligations. Explain and revise to disclose the nature of these performance obligations pursuant to Topic 606-10-50-12(c); Analysis of why maintenance, support, and warranty services were not separately identifiable in accordance with Topic 606-10-25-21; Analysis on whether there a significant financing component, given that majority of revenue is generated from long-term contracts; If you relied upon the practical expedient based, disclose and confirm timing between progress payments and transfer of control and payment was not expected to exceed one year.

- Revise to disclose why recognizing revenue over time using an input measure (e.g., costs incurred to date relative to total estimated costs at completion) is a faithful depiction of the transfer of goods or services pursuant to Topic 606-10-50-18(b).

- Significant judgments evaluated in recognizing revenue at a point in time for the manufacture of business-jet aircraft, which is generally when the customer accepts the fully outfitted aircraft; Analysis of whether revenue for business-jet aircraft should be recognized over time in accordance with Topic 606-10-25-27 through 29; Address consideration of customer deposits and customer specific specifications.

- For future disclosures, describe the general nature of contract modifications and whether modifications typically add distinct goods or services.

All Early Adopter Comments (continued)

Company	Topic of Comment
Alphabet (Google) ***Multiple comment rounds***	Performance Obligation Measurements • Principal vs. Agent Considerations • Timing of Satisfaction of Performance Obligations • Determining Transaction Price Disaggregation of Revenue

Details:

- Analysis of principal vs. agent considerations for advertising inventory sourced through third-party exchanges; Explanation of why you have the sole ability to monetize advertising inventory when your bid clears the third-party exchange; Clarification on whether the customer to which the advertising inventory is transferred is identified at the time your bid clears the third-party exchange.

- How information that is regularly reviewed by the chief operating decision maker for evaluating performance of operating segments as well as other information used to evaluate financial performance or make resource allocations in selecting the type of categories to present were considered; Whether this information presents revenue in a manner that is further disaggregated than current disclosures, and if so, why this information was not presented in disclosures; Consideration given to presenting advertising revenues on a more disaggregated basis; Analysis of how various device types and properties are impacted by economic factors.

- Revenue from ads placed on Google Network Members' properties reported on a gross basis. Whether there are any circumstances in which revenue is reported on a gross basis but you do not have sole ability to monetize the advertising inventory; Determination that you are the principal in these arrangements.

- Analysis of principal vs. agent considerations for digital content if revenue recognized is material; Whether revenue from sales of books, movies, music and other items made through Google Play is recognized on a gross or net basis.

- For future disclosure, explain how you determined when to recognize revenue for items included within Other Revenues.

- How categories to present disaggregated revenue information are selected. Noting products, various properties and various ways customers may purchase advertising, and noting disclosure of how results are impacted by increases in mobile searches and growth in YouTube revenue. Explain why you believe your current disclosures meet the objective of depicting how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

- Revise disclosure in future filings to explain how you determine the methods, assumptions and estimates used to determine whether certain customers receive cash-based incentives or credits, which are accounted for as variable consideration and estimated based on the expected amount to be provided to customers.

All Early Adopter Comments (continued)

Company	Topic of Comment
CBOE Global Markets, Inc.	Consideration Payable to a Customer Performance Obligation Measurements • Tx Price Allocated to Remaining Performance Obligations

Details:

- Determination that rebates paid to customers in accordance with published fee schedules should not be accounted for as a reduction of the transaction price.
- Disclosure that you recognize revenue for certain services over time. How requirements of Topic 606-10-50-13 to 50-15 were considered to disclose information about remaining performance obligations or application of optional exemptions.

Company	Topic of Comment
Ford Motor Co.	Performance Obligation Measurements • Obligations Satisfied at a Point in Time • Significant Payment Terms Disaggregation of Revenue Reclassification of Debt

Details:

- Statement under the new revenue standard that for certain vehicle sales where revenue was previously deferred, such as vehicles subject to a guaranteed resale value recognized as a lease and transactions in which a Ford-owned entity delivered vehicles, revenue is now recognized when vehicles are shipped. Explain the nature and terms of such contracts and provide the basis for your accounting conclusions under Topic 606 and under legacy US GAAP; How contracts with vehicle sales subject to a guaranteed resale value differ from transactions with guaranteed repurchase obligations which continue to be accounted for as operating leases under Topic 606.
- Presentation of "vehicles, parts, and accessories" as a major source of revenue. Why the aggregation of revenue from "parts and accessories" with revenue from "vehicles" is appropriate pursuant to Topic 606-10-50-5. In disclosures, parts and accessories appear to be subject to return from customers, whereas this does not appear to be the case for vehicles. It also appears these categories may have other different characteristics, such as type of good, pricing and dollar magnitude of contribution to margins.
- Presentation of disaggregated revenue by major source. How guidance in guidance in Topics 606-10-55-89 through 55-91 was considered in selecting appropriate categories to use to disaggregate revenue.
- How the disclosures requirement outlined in Topic 606-10-50-12 (b) was considered with respect to significant payment terms.
- Disclosure of the increase in total automotive debt at June 30, 2017 from December 31, 2016 as due in part to an increase in local debt in international markets, including the impact of the adoption of Topic 606. Explain how adoption of Topic 606 contributed to this.

All Early Adopter Comments (continued)

Company	Topic of Comment
Workday, Inc.	Costs of Contract

Details:
- Prior to adoption of Topic 606, direct sales commissions were capitalized when they could be associated specifically with non-cancelable subscription contracts, and now you capitalize all incremental sales commissions. Describe additional commission fees you are now capitalizing, and how you determined these are incremental costs of obtaining a contract.

Company	Topic of Comment
First Solar, Inc.	Performance Obligation Measurements • Timing of Satisfaction of Performance Obligations • Variable Consideration • Non-Cash Consideration • Principal vs. Agent Considerations

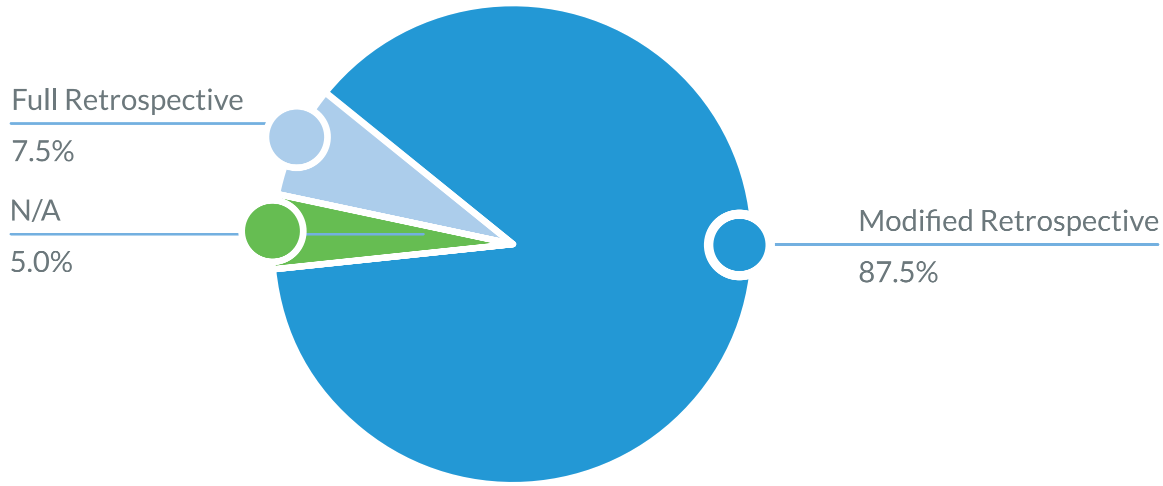
Details:
- Significant payment terms and how the timing of satisfaction of performance obligations relates to the timing of payment and the effect on the contract asset and liability balances.
- Disclosure that solar power system sales include performance guarantees that represent a form of variable consideration and are recognized as adjustments to revenue. Explain accounting for these potential bonus payments and/or liquidated damages. Based on disclosure, it is unclear whether these amounts are included as part of estimate of transaction price at the outset of the arrangement and then reassessed at the end of each reporting period.
- Describe how consideration in the form of a non-controlling interest as part of your transaction price is reflected; Amounts included in estimate of fair value at contract inception and why any profit associated with the non-controlling interest is deferred.
- Revise future filings to disclose why for performance obligations satisfied over time, the method used provides a faithful depiction of transfer of goods or services.

Standard Adopters

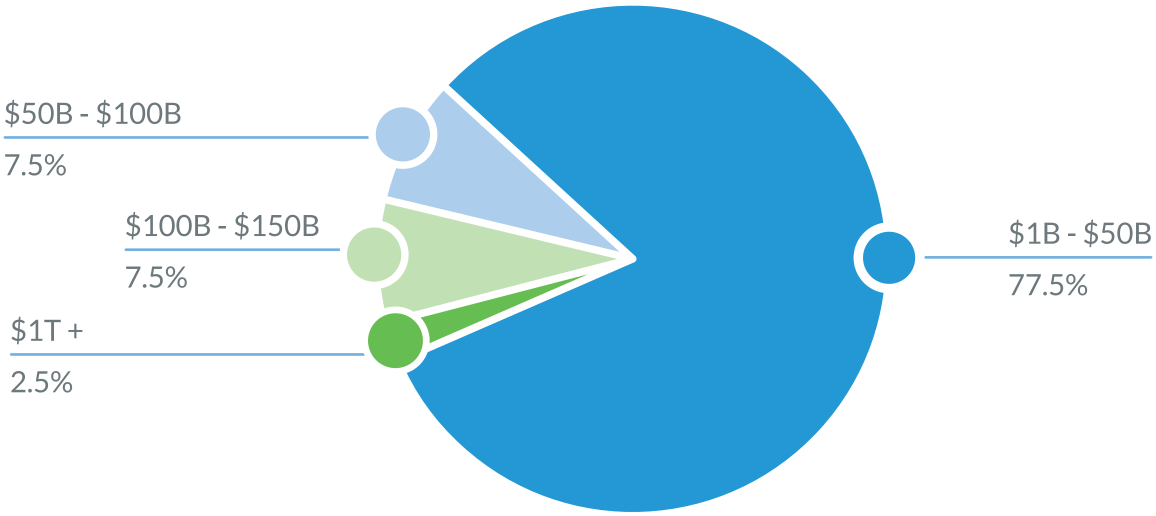
As of August 31, 2018, approximately 275 companies planned to adopt later in 2018 or early in 2019, including 40 S&P 500 companies. These include Apple, Costco Wholesale, Deere & Co, Starbucks, Visa and Walt Disney. While nearly 47 percent of early adopters opted for the full retrospective transition method, as opposed to 31 percent that chose the modified retrospective, S&P 500 standard adopters will overwhelmingly choose the modified retrospective (87.5 percent), with only three companies (Applied Materials, Analog Devices Inc. and Apple) opting for the full retrospective approach. Possible reasons for this difference may include the time cushion afforded early adopters compared to their later adopting peers, and/or the relative size of the S&P 500 standard adopter companies, which makes using the full retrospective method more challenging.

S&P 500 standard adopters will overwhelmingly choose the modified retrospective (87.5 percent).

Transition Method for S&P 500 Standard Adopters



Market Caps of S&P 500 Standard Adopter Companies



A Look at the S&P 500 Standard Adopters

Company	Filing Date	Transition Method	Market Cap
Cooper Companies, Inc.	12.22.2017	Modified	$12.95B
Agilent Technologies, Inc.	12.21.2017	Modified	$21.46B
Hormel Foods Corp.	12.20.2017	N/A	$20.44B
Deere & Co.	12.18.2017	Modified	$46.48B
Hewlett Packard Enterprise Co.	12.15.2017	Modified	$24.88B
Applied Materials, Inc.	12.15.2017	Full	$42.37B
HP, Inc.	12.14.2017	Modified	$39.13B
Synopsis, Inc.	12.14.2017	Modified	$15.18B
Helmerich & Payne, Inc.	11.22.2017	Modified	$7.2B
Walt Disney Co.	11.22.2017	Modified	$168.68B
Analog Devices, Inc.	11.22.2017	Full	$36.64B
Becton Dickinson & Co.	11.22.2017	Modified	$69.39B
Raymond James Financial, Inc.	11.22.2017	Modified	$13.53B
Jacobs Engineering Group, Inc.	11.21.2017	Modified	$10.45B
Amerisource Bergen Corp.	11.21.2017	Modified	$19.53B
Johnson Controls International PLC	11.21.2017	Modified	$35.54B
Hologic, Inc.	11.21.2017	Modified	$10.71B
Emerson Electric Co.	11.20.2017	Modified	$47.99B
Westrock Co.	11.20.2017	Modified	$14.27B
Starbucks Corp.	11.17.2017	Modified	$72.55B
Visa, Inc.	11.17.2017	Modified	$327.19B
Air Products & Chemicals, Inc.	11.16.2017	Modified	$36.9B
Horton D R, Inc.	11.15.2017	Modified	$17.02B
Rockwell Automation, Inc.	11.15.2017	Modified	$21.99B
Rockwell Collins, Inc.	11.14.2017	Modified	$22.43B
TE Connectivity LTD	11.14.2017	Modified	$32.05B
Skyworks Solutions, Inc.	11.13.2017	Modified	$16.44B
Franklin Resources, Inc.	11.13.2017	Modified	$17.13B
Transdigm Group, Inc.	11.13.2017	Modified	$18.79B
Tyson Foods, Inc.	11.13.2017	Modified	$22.64B
F5 Networks, Inc.	11.3.2017	Modified	$11.58B
Apple, Inc.	11.3.2017	Full	$1.09T

A Look at the S&P 500 Standard Adopters (continued)

Company	Filing Date	Transition Method	Market Cap
Qualcomm, Inc.	11.1.2017	Modified	$100.1B
Accenture PLC	10.26.2017	Modified	$108.07B
Walgreens Boots Alliance, Inc.	10.25.2017	Modified	$67.29B
Costco Wholesale Corp.	10.18.2017	Modified	$100.96B
IHS Markit LTD	1.27.2017	Modified	$21.52B
McCormick & Co., Inc.	1.25.2017	N/A	$16.31B
Lennar Corp.	1.20.2017	Modified	$17.36B
Viacom, Inc.	8.9.2018	Modified	$13.38B

Final Thoughts

The new revenue recognition standard is far-reaching, not only impacting disclosures within financial statements but also within annual proxies. Several companies reported in their accounting fee information sections, an increase in audit-related fees for the assessment and implementation of Topic 606. Republic Services stated this in its proxies filed March 30, 2017, and March 29, 2018, and adopted the standard as of January 1, 2018. Alaska Air Group went a step further in its March 23, 2018 proxy by reporting the amount of $97,939 directly "related to the implementation of the revenue recognition accounting standards."

Proxy disclosure was not limited to accounting firm fees, also including executive compensation measurements. Adobe Systems, for example, reported in its March 2, 2018 proxy that the individual performance goals under its Executive Incentive Plan for CFO Mark Garrett included "implement plan for new revenue recognition rules." Another company, Expeditors International of Washington, stated in its March 29, 2018 proxy that it was waiving its director retirement policy for those individuals reaching the age of 72 so that Audit committee Chair Richard B. McCune could remain in his position for an additional year "Given recent changes to the Company's financial reporting systems and the change in U.S. tax laws and revenue recognition reporting requirements."

The results seen in the disclosures of early adopters and the SEC comments directed toward them emphasized the complexity of the new accounting standard and its extensive reach. This complexity evidently restricted those companies choosing to adopt the new revenue recognition standard prior to the implementation date. We will have to wait a bit longer to obtain a clearer picture of how the implementation was carried out among those companies that have adopted in 2018, as well as those that have yet to do so. The SEC's comments on these implementations will demonstrate whether some of the observations we have made in this report will remain consistent, or if there may be a shift in the SEC's focus going forward.

Companies really won't have much time to rest after implementing the new revenue recognition standard, as the implementation of the new lease accounting standard (ASC 842) is fast approaching in 2019 and has the potential to be as far-reaching as revenue recognition. A small number of companies have adopted both standards early, so we will have a significant amount of disclosure and comments to look forward to.

Methodology

This study was researched in its entirety using the Intelligize platform, which collects, analyzes and connects related documents, including SEC filings and associated exhibits, comment letters and responses, earnings call transcripts, deal summaries and underlying agreements, FASB accounting rule changes, and market standard language for accounting disclosures.

The data and insights presented are based on information available on the Intelligize platform as of September 1, 2018.

The Intelligize platform includes:

- SEC Filings
- Agreements and Other Exhibits
- Analysis and Trends
- Regulatory Materials
- Comment Letters
- No-Action Letters
- Mergers and Acquisitions
- Registered Offerings
- Exempt Offerings
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- Corporate Governance Materials
- Firm Memos
- Earnings Call Transcripts
- Accounting Standards & Guidance

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