SAB 74 Disclosures Related to ASC 606 (IFRS 15) by Large US-Listed Companies

Methods, Dates, and Anticipated Impact

March 2017

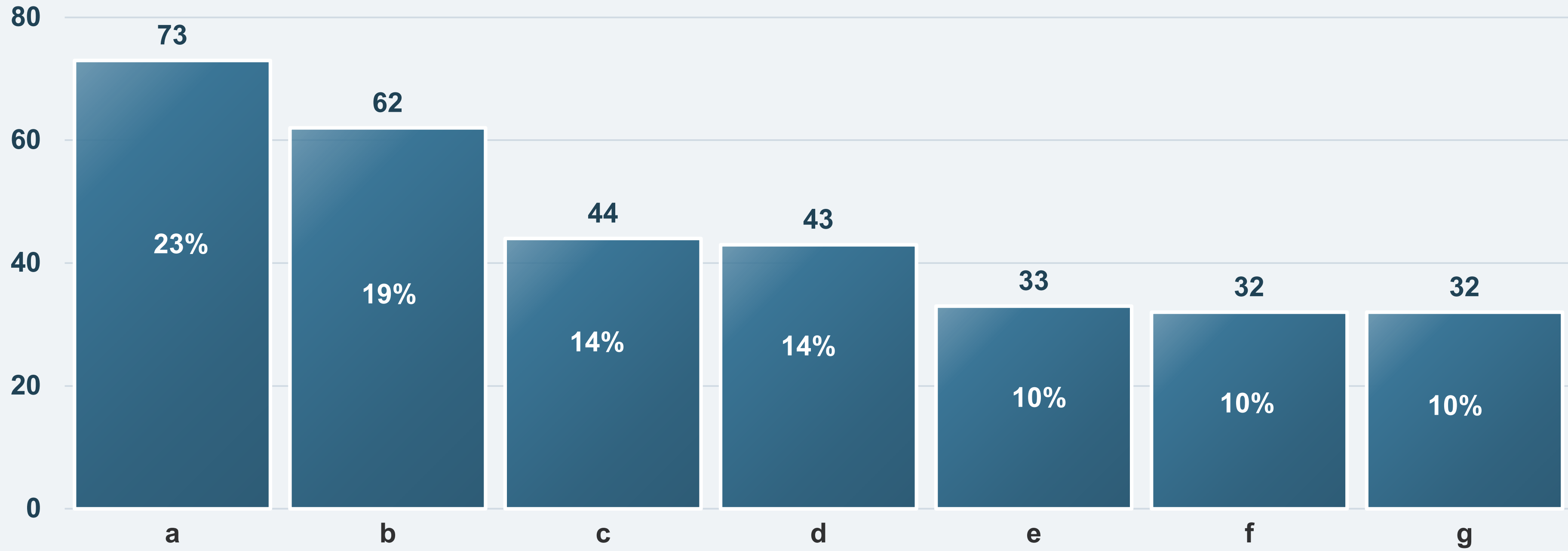
CONNOR GROUP

Executive Summary

- This study was performed by Connor Group to provide an overview of current disclosures made by large US-listed companies regarding the upcoming or recent adoption of ASC 606 *Revenue from Contracts with Customers* (or its IFRS equivalent, IFRS 15). This is our third disclosure study on the topic. The last study was completed in November 2016.
- This study was conducted in March 2017 based on disclosures in SEC filings of 319 companies (285 companies filing using US GAAP, and 34 using IFRS). This population was determined and the filings were retrieved via searches within CompanyIQ™[1] based on the following criteria:
  - Companies with market capitalization over $10 billion
  - A Form 10-Q, 10-K, 20-F or 6-K was filed from November 11, 2016 and March 1, 2017.
  - Disclosure language includes "revenue from contracts with customers" or "new revenue standards".
  - All industries except finance, insurance, real estate, oil and gas, and mining
- A summary of the findings is presented below:
  a) 40% of the companies studied have disclosed their adoption method, with 29% (93 companies) electing the modified retrospective method and 11% (34 companies) electing the full retrospective method.
  b) Early adopters as of January 1, 2017 were Alphabet, General Dynamics, Ford Motor, and Raytheon. Microsoft and Analog Devices have decided to early adopt in July and November 2017, respectively.
  c) Among 50% of the companies that have discussed the high-level adoption impact, 42% (133 companies) do not anticipate a material impact, while 8% (26 companies) expect the adoption to be material. Very few companies have quantified the aggregate adoption impact.
  d) Many companies have discussed and, in some cases, quantified areas of potential changes.
- The study includes illustrative disclosures from select companies (e.g. Ford, Microsoft, T-Mobile, GE, etc.) with varying levels of quantitative and/or qualitative details.

[1] CompanyIQ™ is a product of MyLogIQ, LLC (http://www.mylogiq.com/), a provider of SEC compliance and public company intelligence products. CompanyIQ™ uses artificial intelligence to identify, extract, and collate information from relevant public sources to create an 360° company profile. From a single integrated platform, access cross domain granular data sourced from company's SEC Disclosures and their respective websites.

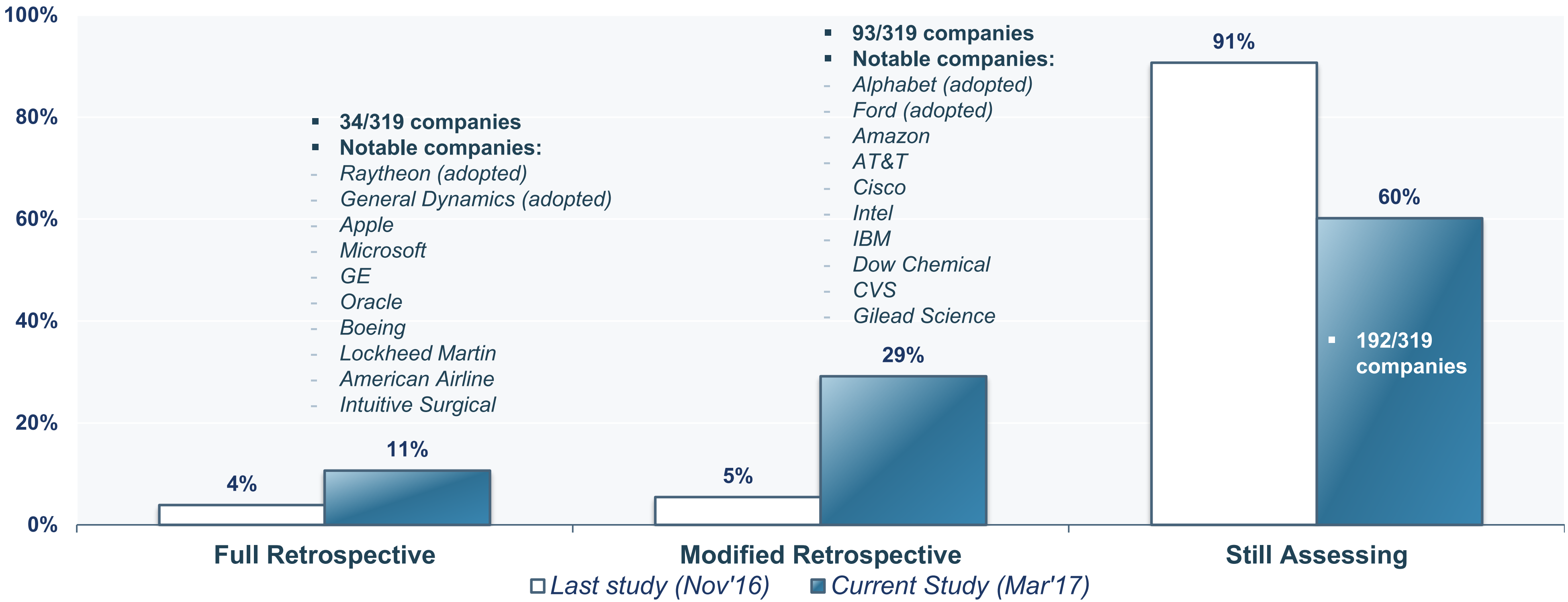
Sampled Companies by Industry



From left to right:

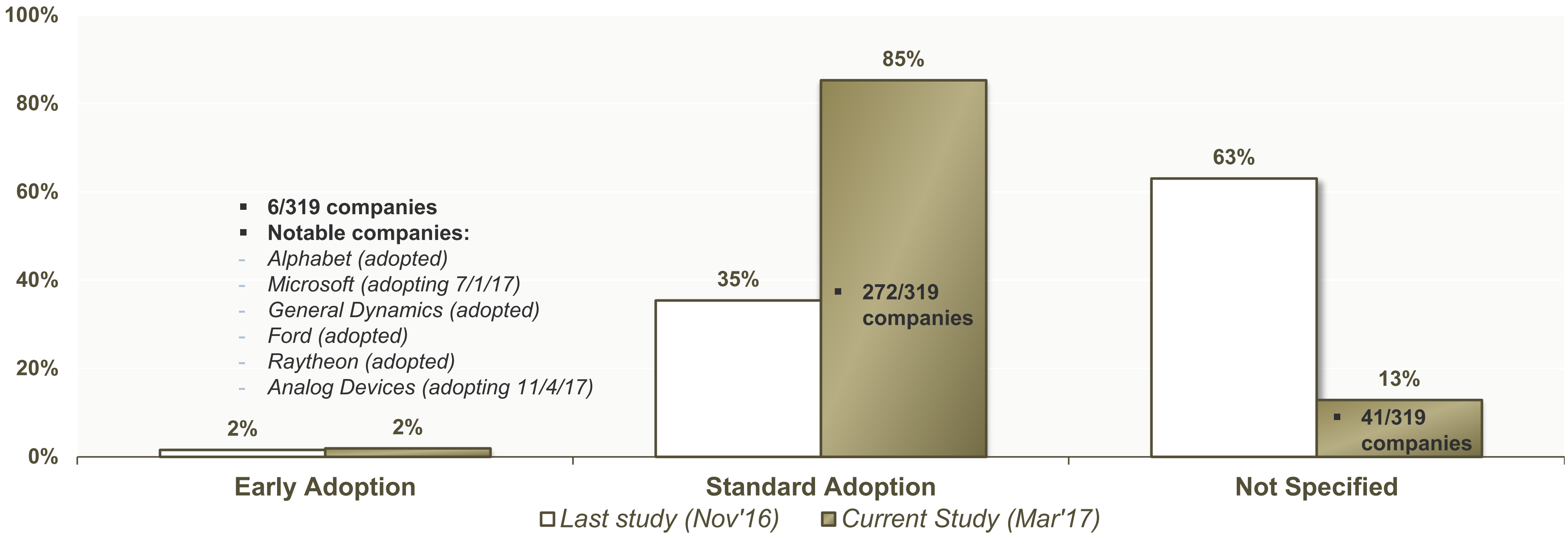
a. Technology
b. Industrial products, chemicals, and manufacturing
c. Life sciences (biotechnology, pharmaceuticals, medical devices)
d. Transportation and utilities
e. Entertainment, media and communications
f. Wholesale, retail, services and other
g. Consumer products

Anticipated Adoption Method



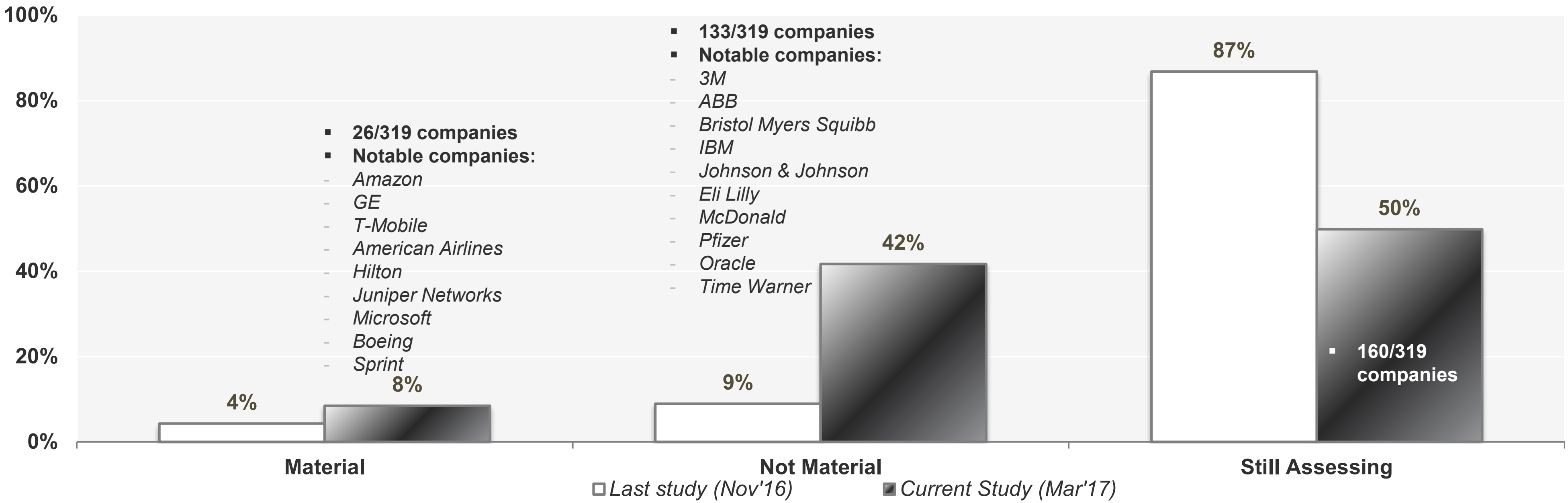
- Full Retrospective = recast all comparative periods presented in the post-adoption financial statements
- Modified Retrospective = cumulative-effect adjustment to retained earnings in the period of adoption for prior periods' effects
- The percentage of companies that have determined the adoption method has increased substantially from less than 10% to 40% compared to the last study; however, more than half of the companies are still in the evaluation process.
- Among the 127 companies that have selected the adoption method, over 70% of them (93 companies) plan to adopt by using the modified retrospective approach. This is likely due to, to some extent, the limited time remaining prior to required adoption.
- In addition, of those 93 companies, 63% (59 companies) have determined that the adoption impact will not be material and 32% (30 companies) are still in the impact assessment phase.

Anticipated Adoption Date



- 4 companies have already adopted the new standard with an even split between full and modified retrospective methods.
- The percentage of companies that will adopt on a regular adoption date has increased significantly by 50% compared to our last study. Correspondingly, the "not specified" group has seen the sharp decline by the same percentage. This is mainly because the early adoption is not available anymore for companies with calendar year-end that were not ready to adopt as of January 1, 2017.
- Companies within the "not specified" group typically have an off-calendar year-end date. Additionally, approximately 80% of them (32 companies) have not discussed the potential adoption impact in their filings and almost all of them have not selected an adoption method.
- Among the 272 companies within the "standard adoption" group, 47% of them (128 companies) are yet to draw a high-level conclusion as to whether the adoption will result in a material impact on their financial statements. 8% (22 companies) have indicated that they anticipate the adoption to have a material impact.

Anticipated Adoption Impact



- Overall, half of the companies studied are still assessing potential adoption impact.
- Some of the common areas that will be impacted by the new standard include, but are not limited to:
  - *All industries*: Certain commission costs that were previously expensed will be capitalized.
  - *Technology:* Revenue for certain time-based licenses without VSOE that were previously recognized over time will meet the definition of a functional IP and be recognized at a point in time.
  - *Technology; Consumer products:* Sell-through recognition model will not be applicable anymore in certain instances.
  - *Industrial products, chemicals and manufacturing:* For certain contracts that are recognized based on percentage-of-completion units-of-delivery or attainment of milestones, the adoption might result in change of revenue timing depending on when the control is transferred to customers.
  - *Transportation and utility:* The incremental cost approach used by airline companies for miles earned through travel will be eliminated.
  - *Entertainment, media and communications:* The upfront installation or set-up fee that is currently recognized immediately conveys a material right and therefore will be deferred and recognized over a period of time.
  - *Entertainment, media and communications:* It will no longer be permitted to recognize revenue net of discounts during the promotional periods and not recognize any revenue during free service periods. Instead, revenue recognition will be accelerated for these contracts as the impact of discounts or free service periods that are considered performance obligations will be recognized uniformly over the total contractual period.
- Many companies caveat their potential impact disclosures that (a) the company's current assessment is preliminary, still ongoing, and subject to change and (b) resolution or evolvement of certain industry-specific open issues may result in changes to the current conclusions.

Top 15 Technology Companies

Adoption Method

Adoption Method	Not Specified	Immaterial	❑ Material
Full Retrospective		❑ Apple ❑ Oracle	❑ Microsoft (*Early adopt*)
Modified Retrospective	❑ Cisco ❑ SAP ❑ Accenture ❑ Intel	❑ Alphabet (*Adopted*) ❑ Facebook ❑ IBM ❑ Nvidia	
Not Specified	❑ Qualcomm ❑ NTT DoCoMo ❑ Broadcom	❑ Texas Instruments	

Adoption Impact

- *Top 15 technology companies were selected based on market capitalization at the time of their SEC filings (Source: MyLogIQ)*
- *The number of companies in the dot-shaded zone (right top corner) has almost doubled compared with that in our last study.*

Top 15 Life Sciences Companies

Adoption Method	Not Specified	Immaterial	❑ Material
Full Retrospective			
Modified Retrospective	❑ AbbVie ❑ Abbott Laboratories	❑ Amgen ❑ Bristol Myers Squibb ❑ Gilead Science ❑ Celgene ❑ Eli Lilly ❑ Allergan	
Not Specified	❑ Shire ❑ GlaxoSmithKline ❑ Medtronic	❑ Johnson & Johnson ❑ Pfizer ❑ Novartis ❑ Nova Nordisk	

Adoption Impact

- *Top 15 life science companies were selected based on market capitalization at the time of their SEC filings (Source: MyLogIQ)*
- *None of the top 15 life science companies were in the dot-shaded zero (top right corner) in our last study.*

Summary of Disclosure Examples

No.	Company Name	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact	Disclosure of Specific Affected Areas Identified
1	Ford Motor	▪ Modified	▪ Early adopted: 1/1/2017	▪ High-level quantified overall impact	▪ Changes in classification among revenues, costs, and other income (expense) related line items
2	General Dynamics	▪ Full	▪ Early adopted: 1/1/2017	▪ Full detailed quantified impact including recasted revenues and expenses by business groups and impact on diluted EPS.	▪ Changes in estimates will be recognized in the period when they are identified, rather than over the remaining contract term prospectively. ▪ Timing of revenue recognition for the manufacture of certain aircrafts will change from milestone-based over-time pattern to point-in-time upon transfer of control.
3	Juniper Networks	▪ Full	▪ Regular	▪ High-level quantified impact for certain affected areas	▪ Elimination of sell-through recognition in distributor sales ▪ Recognition for perpetual software licenses changes from over-time to point-in-time ▪ Capitalization of contract acquisition costs ▪ Ability to estimate variable consideration and start revenue recognition for contracts that do not meet fixed or determinable price as a result of penalties and acceptance provisions ▪ Elimination of contingency rule in ASC 605

Summary of Disclosure Examples (Cont'd)

No.	Company Name	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact	Disclosure of Specific Affected Areas Identified
4	Microsoft	▪ Full	▪ Early adopt: 7/1/2017	▪ High-level quantified impact for a certain affected area	▪ Recognition for Windows 10 software license will change from over-time to point-in-time
5	T-Mobile	▪ Modified	▪ Regular	▪ No quantified impact disclosed	▪ Capitalization of contract acquisition costs ▪ Open judgmental areas: a. Existence of financing components b. Contract term when the contracts include bill credits
6	Amazon	▪ Modified	▪ Regular	▪ No quantified impact disclosed	▪ Elimination of sell-through recognition in Amazon-branded electronic devices sold through retailers ▪ Recognition of unredeemed portion of gift cards will change from deferral until expiration or likelihood of redemption being remote to over the expected customer redemption period. ▪ Classification of certain advertising services will change from cost reduction to revenue.
7	American Airlines	▪ Full	▪ Regular	▪ No quantified impact disclosed	▪ Elimination of incremental cost approach in accounting for mileage credits

Summary of Disclosure Examples (Cont'd)

No.	Company Name	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact	Disclosure of Specific Affected Areas Identified
8	Autodesk	▪ Not yet elected	▪ Regular	▪ No quantified impact disclosed	▪ No material change in the timing and amount of revenue recognition for majority of the desktop subscription offerings, which is based on the preliminary conclusion that software and cloud services are not distinct
9	GE	▪ Full	▪ Regular	▪ Quantified impact analysis on retained earning adjustment and EPS	▪ Power and aviation service agreements: Contract modifications as a result of revisions to estimated margin rates will be accounted for prospectively over the remaining contract life rather than as cumulative adjustments in the current period. ▪ Aviation commercial engines: Revenue recognition will be at a point in time. This represents a change from its current long-term contract accounting. ▪ All other larger equipment: Timing of revenue recognition might be earlier than current practice as the transfer of control generally occurs earlier than that of risk of loss to customers.
10	IBM	▪ Modified	▪ Regular	▪ No quantified impact was disclosed ▪ Overall impact is not expected to be material	▪ Recognition for a broad portfolio of the company's product and service offerings is not expected to change. ▪ Recognition for term software licenses will likely continue to be on a monthly basis over the period that the client is entitled to use the license due to the contractual terms in these arrangements.

Ford Motor

Back to summary

ASU 2014-09, Revenue - Revenue from Contracts with Customers. In May 2014, the FASB issued a new accounting standard that requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. We will adopt the new revenue guidance **effective January 1, 2017**, by recognizing the **cumulative effect** of initially applying the new standard as an increase to the opening balance of retained earnings. We expect this **adjustment to be less than $100 million, with an immaterial impact to our net income on an ongoing basis**. Adoption of the new standard will also result in changes in **classification between Revenues, Cost of sales, Non-Financial Services interest income and other income/(loss), net, and Financial Services other income/(loss), net**. [Emphasis added]

General Dynamics

Back to summary

Change in Revenue Recognition Standard (Adoption of ASC Topic 606). We adopted ASC Topic 606, Revenue from Contracts with Customers, on **January 1, 2017**. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The standard also requires new, expanded disclosures regarding revenue recognition. We adopted the new standard using the **retrospective transition method**.

Implementation Plan. Because the new standard impacted our business processes, systems and controls, we developed a comprehensive change management project plan to guide the implementation, which commenced in 2014. This project plan included analyzing the standard's impact on our contract portfolio, comparing our historical accounting policies and practices to the requirements of the new standard, and identifying differences from applying the requirements of the new standard to our contracts. **We developed internal controls to ensure that we adequately evaluated our portfolio of contracts under the five-step model to ensure proper assessment of our operating results under ASC Topic 606**. We reported on the progress of the implementation to the Audit Committee and the Board of Directors on a regular basis during the project's duration.

ASC Topic 606 Impacts. The majority of our long-term contracts will continue to recognize revenue and earnings over time as the work progresses because of the continuous transfer of control to the customer, generally using an input measure (e.g., costs incurred) to reflect progress. The adoption of ASC Topic 606 will have two primary impacts on our portfolio of contracts and our Consolidated Financial Statements. **We will be precluded from using the reallocation method of recognizing adjustments in estimated profit on contracts. The total impact of an adjustment in estimated profit recorded to date on a contract will be recognized in the period it is identified (cumulative catch-up method), rather than recognizing the impact of an adjustment prospectively over the remaining contract term. As a result, adjustments in contract estimates may be larger and likely more variable from period to period, particularly on our contracts of greater value and with a longer performance period (for example, in our Marine Systems group).** Despite this variability, a contract's cash flows and overall profitability at completion are the same under the cumulative catch-up method and the reallocation method. Anticipated losses on contracts will continue to be recognized in the quarter they are identified.

General Dynamics (Cont'd)

Back to summary

For our contracts for the manufacture of business-jet aircraft in the Aerospace group, we will **record revenue under ASC Topic 606 at a single point in time when control is transferred to the customer,** generally when the customer accepts the fully outfitted aircraft. ASC Topic 606 will not change the total revenue or operating earnings recognized for each aircraft, only the timing of when those amounts are recognized. **Prior to the adoption of ASC Topic 606, we recorded revenue for these contracts at two contractual milestones: when green aircraft were completed and accepted by the customer and when the customer accepted final delivery of the fully outfitted aircraft.**

Numerous other contracts in our portfolio were impacted by ASC Topic 606, due primarily to the identification of multiple performance obligations within a single contract.

On our Consolidated Balance Sheet, long-term contracts will continue to be reported in a net contract asset (contracts in process) or contract liability (customer advances and deposits) position on a contract-by-contract basis at the end of each reporting period. Business-jet components in our Aerospace group will be reported in inventory until control of the aircraft transfers to the customer. The assessment of our December 31, 2016, Consolidated Balance Sheet under ASC Topic 606 will result in some reclassifications among financial statement accounts, but these reclassifications will not materially change the total amount of net assets as of December 31, 2016.

Assessment. We have assessed our 2015 and 2016 operating results under ASC Topic 606 as outlined in the tables below. The difference between the operating results reported in the Consolidated Financial Statements and the business group information in Note Q and the operating results in the table below is due only to the adoption of ASC Topic 606. Summary financial information for each of our business groups follows:

General Dynamics (Cont'd)

Back to summary

	Revenue Recognition Accounting Change as of January 1, 2017							
	Restated Revenue				Restated Operating Earnings			
Year Ended December 31	2016		2015		2016		2015	
Aerospace	$	7,815	$	9,177	$	1,407	$	1,807
Combat Systems		5,530		5,643		831		886
Information Systems and Technology		9,144		8,929		941		895
Marine Systems		8,072		8,032		595		748
Corporate*		—		—		(40)		(41)
Total	$	30,561	$	31,781	$	3,734	$	4,295

Diluted earnings per share from continuing operations reflecting the adoption of ASC Topic 606 were $8.64 in 2016 and $9.29 in 2015. The primary driver of this difference is due to fewer outfitted aircraft deliveries in 2016 than in 2015. The impact of ASC Topic 606 on our 2015 and 2016 operating results may or may not be representative of the impact on subsequent years' results. As noted above, aircraft manufacturing revenue in our Aerospace group will be recognized when control is transferred to the customer, generally when the customer accepts the fully outfitted aircraft. Moreover, in our defense groups, use of the cumulative catch-up method of recognizing adjustments in estimated profits on our long-term contracts will require us to recognize the total impact of an adjustment in the period it is identified rather than prospectively over the remaining contract term as we have in the past.

On our Consolidated Balance Sheet, long-term contracts will continue to be reported in a net contract asset (contracts in process) or contract liability (customer advances and deposits) position on a contract-by-contract basis at the end of each reporting period. Business-jet components in our Aerospace group will be reported in inventory until control of the aircraft transfers to the customer. The assessment of our December 31, 2016, Consolidated Balance Sheet under ASC Topic 606 will result in some reclassifications among financial statement accounts, but these reclassifications will not materially change the total amount of net assets as of December 31, 2016. [Emphasis added]

Juniper Networks

Back to summary

The Company intends to **adopt the standard on January 1, 2018 retrospectively, applying the amendments to each prior reporting period presented.** The Company's ability to adopt retrospectively is dependent on the completion of scoping and analysis of the necessary information, and being able to report each prior period within the date of adoption (or January 1, 2018).

The Company has completed a review of the accounting systems and processes required to apply the full retrospective method. Additionally, the Company has completed the majority of the assessment phase and documentation of new policies and is currently in the process of preparing prior-period financial statements, gathering data for the new disclosure requirements and evaluating its controls framework. **The Company does not expect a significant change in its control environment due to the adoption of the new standard, however, we will continue to assess until date of adoption**.

Upon adoption, the Company expects a material impact to the opening balance sheet as of January 1, 2016 related to the cumulative effect of adopting the standard, primarily as a result of the items discussed below. The Company will continue to assess all potential impacts of the standard, and currently believes the most significantly impacted areas are the following:

- Distributor sales: **Under Topic 606, the Company will recognize revenue from sales to distributors upon delivery of the product to the distributor, rather than upon delivery of the product to the end customer.** Rebates and incentives offered to distributors, which are earned when sales to end customers are completed, will be estimated at the point of revenue recognition and may require significant judgment and additional assumptions. At December 31, 2015, **the deferred revenue under Topic 605 related to shipments to distributors that had not sold through to end-users was $81.8 million.** Since the Company will be required to recognize revenue when control of the products transfer to the distributor Under Topic 606, the Company expects the majority of deferred revenue at December 31, 2015 **will be eliminated as a cumulative effect adjustment of implementing Topic 606 as of January 1, 2016**. The full impact of the adjustment is still being analyzed by the Company.

Juniper Networks (Cont'd)

Back to summary

- Software Revenue: The Company currently defers revenue for perpetual licenses where VSOE of fair value has not been established for undelivered items. **Under Topic 606, revenue for perpetual licenses will be recognized at the time of delivery as the VSOE requirement no longer applies** and the Company can estimate stand-alone selling price for services. Currently, all term license revenue is deferred and recognized over the license term due to a lack of VSOE for services. Under Topic 606, term license revenue will be recognized at the time of delivery rather than ratably over the term period unless the ongoing services provide frequent, critical updates to the software, without which the software functionality would be rapidly diminished. **At December 31, 2015, deferred revenue under Topic 605 due to lack of VSOE and ratably recognized term licenses was $79.5 million**. The Company expects **a significant proportion of such deferred revenue will be eliminated** as a cumulative effect adjustment of implementing Topic 606 as of January 1, 2016. The full impact of the adjustment is still being analyzed by the Company.

- Contract Acquisition costs: Topic 606 requires the **deferral and amortization of "incremental" costs incurred to obtain a contract** where the associated contract duration is greater than one year. The primary contract acquisition cost for the Company are sales commissions. Under current U.S. GAAP, the Company expenses sales commissions. The change required by Topic 606 will result in the creation of an asset on the opening balance sheet at January 1, 2016. In each subsequent financial period, it is expected that this asset will increase or decrease proportionally with deferred revenues and **will not have a material impact** to the income statement.

- Variable Consideration: Some of the Company's contracts include **penalties and acceptance provisions that preclude revenue recognition because of the requirement for amounts to be fixed or determinable under Topic 605. Topic 606 requires the Company to estimate and account for variable consideration** associated with penalty provisions and requires evaluation of acceptance provisions to determine if control has transferred to the customer. **At December 31, 2015, deferred revenue under Topic 605 due to penalties and acceptance provisions was $40.3 million.** The Company expects the **majority of such deferred revenue will be eliminated** as a cumulative effect adjustment of implementing Topic 606 as of January 1, 2016. The full impact of the adjustment is still being analyzed by the Company.

Juniper Networks (Cont'd)

Back to summary

- Revenue Allocation: Similar to Topic 605, Topic 606 requires an allocation of revenue between deliverables within a transaction. **Topic 605 restricts the allocation of revenue that is contingent on future deliverables to current deliverables, however Topic 606 removes this restriction**. Impact of allocation of transaction price is still being assessed, however we do not expect this to have a material impact to the income statement.

The Company will continue to assess the impact of 606 as it works through the adoption in 2017, and there remain areas still to be fully concluded upon. Further, there remain ongoing interpretive reviews, which may alter the Company's conclusions and the financial impact of Topic 606. [Emphasis added]

Microsoft

Back to summary

The new standard will be effective for us beginning July 1, 2018, and adoption as of the original effective date of July 1, 2017 is permitted. We currently anticipate **early adoption** of the new standard **effective July 1, 2017**. While our ability to early adopt using the **full retrospective** method is dependent on system readiness, including software procured from third-party providers, and the completion of our analysis of information necessary to restate prior period financial statements, we remain on schedule and have implemented key system functionality to enable restated financial information. Our progress includes nearing completion of retrospectively adjusted financial information for fiscal year 2016.

We anticipate this standard **will have a material impact** on our consolidated financial statements, and continue to make progress in assessing all potential impacts of the standard, including any impacts from recently issued amendments. We have reached conclusions on all key accounting assessments related to the new standard. However, we are still assessing impacts from guidance issued by the FASB Transition Resource Group as part of their November 2016 meeting. We will continue to monitor and assess the impact of changes to the standard and interpretations as they become available. We have also started our assessment to determine the revenue recognition impact of our recent acquisition of LinkedIn. The most significant impact of the standard relates to our accounting for software license revenue. **Specifically, under the new standard we expect to recognize Windows 10 revenue predominantly at the time of billing rather than ratably over the life of the related device.** We expect to recognize license revenue at the time of contract execution rather than over the subscription period from certain multi-year commercial software subscriptions that include both software licenses and Software Assurance. Due to the complexity of certain of our commercial license subscription contracts, the actual revenue recognition treatment required under the standard will be dependent on contract-specific terms, and may vary in some instances from recognition at the time of billing. We expect revenue recognition related to our hardware, cloud offerings including Office 365, and professional services to remain substantially unchanged.

We continue to believe that the net change in Windows 10 revenue from period to period is indicative of the net change in revenue we expect from the adoption of the new standard. [Emphasis added]

T-Mobile

Back to summary

The standard becomes effective for us beginning January 1, 2018; however, early adoption with the original effective date for periods beginning January 1, 2017 is permitted. We plan to adopt the standard when it becomes effective for us beginning **January 1, 2018**.

The guidance permits two methods of adoption, the full retrospective method applying the standard to each prior reporting period presented, or the modified retrospective method with a cumulative effect of initially applying the guidance recognized at the date of initial application. The standard also allows entities to apply certain practical expedients at their discretion. We currently anticipate adopting the standard using the **modified retrospective** method with a cumulative catch up adjustment and providing additional disclosures comparing results to previous rules.

We continue to evaluate the impact of the new standard on our consolidated financial statements but anticipate this standard **will have a material impact** on our consolidated financial statements. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impacts may include the following items:

- **Whether our EIP contracts contain a significant financing component,** which is similar to our current practice of imputing interest, and would similarly impact the amount of revenue recognized at the time of an EIP sale and whether or not a portion of the revenue is recognized as interest rather than equipment revenue.
- As we currently expense contract acquisition costs and believe that the requirement to **defer incremental contract acquisition costs and recognize them over the term of the initial contract and anticipated renewal contracts** to which the costs relate will have a **significant impact** to our consolidated financial statements.
- **Whether bill credits earned over time result in extended service contracts**, which would impact the allocation and timing of revenue between service revenue and equipment revenue.

T-Mobile (Cont'd)

Back to summary

- Overall, with the exception of the aforementioned impacts, we do not expect that the new standard will result in a substantive change to the method of allocation of contract revenues between various services and equipment, nor to the timing of when revenues are recognized for most of our service contracts.

We are still in the process of evaluating these impacts, and our initial assessment may change as we continue to refine our systems, process and assumptions.

We are in the process of implementing significant new revenue accounting systems, processes and internal controls over revenue recognition which will ultimately assist us in the application of the new standard.[Emphasis added]

Amazon

Back to summary

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the revenue recognition guidance to reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. As we evaluate the impact of this ASU, the **more significant** changes that we have identified relate to the timing of when we recognize revenue and the gross amount of revenue that we present. We expect timing changes to include **Amazon-branded electronic devices sold through retailers, which will be recognized at the point of sale to the retailer rather than to end customers, and the unredeemed portion of our gift cards, which we will begin to recognize over the expected customer redemption period, which is substantially within nine months, rather than waiting until gift cards expire or when the likelihood of redemption becomes remote, generally two years from the date of issuance.** In addition, we anticipate that **certain advertising services will be classified as revenue rather than a reduction in cost of sales.** We are continuing to evaluate the impact this ASU, and related amendments and interpretive guidance, will have on our consolidated financial statements. We plan to adopt this ASU beginning in **Q1 2018 with a cumulative adjustment** to retained earnings as opposed to retrospectively adjusting prior periods. [Emphasis added]

CONNOR GROUP

American Airlines

Back to summary

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board (IASB) to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards (IFRS). Subsequently, the FASB has issued several additional ASUs to clarify the implementation. The new revenue standard applies to all companies that enter into contracts with customers to transfer goods or services and is effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted; however, we currently expect to adopt the new revenue standard effective **January 1, 2018**. Entities have the choice to apply the new revenue standard either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying the new revenue standard at the date of initial application and not adjusting comparative information. We currently expect to adopt the new revenue standard using the **full retrospective** method.

We are still in the process of evaluating how the adoption of the new revenue standard will impact our consolidated financial statements. We currently expect that the new revenue standard will materially impact our liability for outstanding mileage credits earned by AAdvantage loyalty program members when flying on American. We **currently use the incremental cost method to account for this portion of our loyalty program liability,** which values these mileage credits based on the estimated incremental cost of carrying one additional passenger (see Note 1 (i) Loyalty Program to AAG's Consolidated Financial Statements in Part II, Item 8A and Note 1 (i) Loyalty Program to American's Consolidated Financial Statements in Part II, Item 8B). **The new revenue standard will require us to change our policy and apply a relative selling price approach whereby a portion of each passenger ticket sale attributable to mileage credits earned will be deferred and recognized in passenger revenue upon future mileage redemption. The carrying value of the earned mileage credits recognized in loyalty program liability is expected to be materially greater** under the relative selling price approach than the value attributed to these mileage credits under the incremental cost method. The new revenue standard will also require us to reclassify certain ancillary fees to passenger revenue, which are currently included within other operating revenue. [Emphasis added]

CONNOR GROUP

Autodesk

Back to summary

Autodesk plans to adopt ASU 2014-09 as of the deferred effective date, which represents Autodesk's fiscal year beginning **February 1, 2018**. Autodesk is currently evaluating the accounting and disclosure requirements of the standard. The Company's preliminary assessment is that there should be **no material change in the timing and amount of the recognition of revenue for the majority of the Company's desktop subscription offerings. This preliminary assessment is based on the conclusion that the related software and cloud services are considered highly interrelated and represent a single combined performance obligation that should be recognized over time.** Autodesk is reviewing its other offerings, including enterprise arrangements, and anticipates providing its preliminary assessment on the impact of adoption and transition method in its Form 10-K for this fiscal year ended January 31, 2017. [Emphasis added]

GE

Back to summary

TRANSITION METHOD FOR APPLYING THE NEW STANDARD

Companies can use either a full retrospective or modified retrospective method to adopt the standard. Under the full retrospective method, all periods presented will be updated upon adoption to conform to the new standard and a cumulative adjustment for effects on periods prior to 2016 will be recorded to retained earnings as of January 1, 2016. Under the modified retrospective approach, prior periods are not updated to be presented on an accounting basis that is consistent with 2018. Rather, a cumulative adjustment for effects of applying the new standard to periods prior to 2018 is recorded to retained earnings as of January 1, 2018. Because only 2018 revenues reflect application of the new standard, incremental disclosures are required to present the 2018 revenues under the prior standard.

As noted above, we have elected to apply the **full retrospective** approach. We chose that approach because we believe that it is the most helpful to our investors. First and foremost, when we **adopt the standard in 2018** we will provide investors with a consistent view of historical trends, as 2016 and 2017 will be on a basis consistent with 2018.

CHANGE IN TIMING AND PRESENTATION, NO IMPACT TO CASH OR ECONOMICS

The new standard requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time based on when control of goods and services transfer to a customer. As a result, we expect **significant changes in the presentation** of our financial statements, including: **(1) timing of revenue recognition, and (2) changes in classification between revenue and costs.** The new standard will have no cash impact and, as such, does not affect the economics of our underlying customer contracts. The effect of applying the new guidance to our existing book of contracts will result in lower reported earnings in 2018 (and comparative periods previously reported) and in the early years after adoption. However, we expect to experience an increase in reported earnings, on that existing book of contracts, as they mature. The new standard will provide for a better alignment of cash and earnings for the affected long-term customer contracts and we expect that it will enhance comparability across industry peers.

GE (Cont'd)

Back to summary

SPECIFIC EFFECT ON GE BUSINESSES

Power and Aviation Service Agreements - For our long-term product service agreements, primarily in our Power and Aviation businesses, we expect to continue to recognize revenue based on costs incurred plus an estimated margin rate (over time model). However, the new standard provides prescriptive guidance tied to several factors for determining what constitutes the proper scope of a customer contract for accounting purposes. These factors include optional purchases, contract modifications, and termination clauses. **For example, under the new standard contract modifications will be accounted for prospectively by recognizing the financial effect of the modification over the remaining life of the contract. Under existing accounting guidance revisions to estimated margin rates resulting from modifications were reflected as cumulative effect adjustments to earnings in the current period.**

Aviation Commercial Engines - Consistent with industry peers, the financial presentation of our Aviation Commercial engines business will be **significantly affected as they will be accounted for as of a point in time, which is a change from our current long-term contract accounting process.** Our current process applies contract-specific estimated margin rates, which include the effect of estimated cost improvements, to costs incurred. **This change is required because our commercial engine contracts do not transfer control to the customer during the manufacturing process. Each install and spare engine will be accounted for as a separate performance obligation**, reflecting the actual price and manufacturing costs of such engines. We expect that the most significant effect of this change will be reflected when we have new engine launches, where the cost of earlier production units is higher than the cost of later production units because of cost improvements.

All Other Large Equipment - For the remainder of our equipment businesses, the new revenue standard requires emphasis on transfer of control rather than risks and rewards, which may **accelerate timing of revenue recognition** versus our current practices. For example, in our **Renewable Energy business we wait for risk of loss to be assumed by the customer before recognizing revenue, which generally occurs later than when control is transferred.**

GE (Cont'd)

Back to summary

CURRENT RANGE OF FINANCIAL STATEMENT EFFECT

We will adopt the new standard as of January 1, 2018. When we report our 2018 results, the comparative results for 2017 and 2016 will be updated to reflect the application of the requirements of the new standard to these periods. Based on our assessment and best estimates to date, we expect a **non-cash charge to our January 1, 2016 retained earnings balance of approximately $4 billion.** We estimate that the charge will comprise approximately **$1 billion related to commercial aircraft engines and $3 billion related primarily to our Services businesses (predominately in Power and Aviation).** Beyond those effects, we expect application of the new guidance will result in increases and decreases in revenue within our segments, which will largely offset overall and will be immaterial at a total company level. **We estimate that our 2016 restated earnings per share will be lower by approximately $0.10. We anticipate that 2018 earnings per share will be lower by approximately $0.05 compared to what our results would be under existing revenue recognition guidance.** These amounts include significant estimates and will remain subject to change as we complete our evaluation of the new standard and reflect actual activity for 2017.

To summarize, we will adopt the new standard in 2018, at which time we will update prior periods to be presented on a consistent basis. As discussed above, we anticipate the dilutive effect of the new standard in the year of adoption to be approximately $0.05 EPS and the effect will be less dilutive for years after initial adoption. However, this expectation is based on many variables, which are subject to change. Importantly, application of the new guidance has no effect on the cash we expect to receive nor the economics of these contracts. Rather, it will simply more closely align revenue with cash, which we believe will be helpful to our investors. [Emphasis added]

IBM

Back to summary

The FASB issued guidance on the recognition of revenue from contracts with customers in May 2014 with amendments in 2015 and 2016. Revenue recognition will depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The guidance was initially effective January 1, 2017 and early adoption was not permitted. The amended guidance provides for a one-year deferral of the effective date to January 1, 2018, with an option of applying the standard on the original effective date. The company **will adopt the guidance on January 1, 2018** and apply the **cumulative catch-up transition** method.

Given the scope of work required to implement the recognition and disclosure requirements under the new standard, the company began its assessment process in 2014 and has since made significant progress, including identification of changes to policy, processes, systems and controls.

The company expects revenue recognition for its broad portfolio of hardware, software and services offerings to remain largely unchanged. However, the guidance is expected to **change the timing of revenue recognition in certain areas, including accounting for certain software licenses.** These impacts are not expected to be material. The company expects to **continue to recognize revenue for term license (recurring license charge) software arrangements on a monthly basis over the period that the client is entitled to use the license due to the contractual terms in these arrangements.**

Since the company currently expenses sales commissions as incurred, the requirement in the new standard to capitalize certain in-scope sales commissions is being evaluated to determine its potential impact in the consolidated financial statements in the year of adoption. There will be no impact to cash flows.

The company continues to assess all potential impacts of the guidance and given normal ongoing business dynamics, preliminary conclusions are subject to change. [Emphasis added]