

EITF Snapshot.

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This *EITF Snapshot* summarizes the June 18, 2009, meeting of the Emerging Issues Task Force.

Initial Task Force consensuses ("consensuses-for-exposure") are exposed for a comment period upon ratification by the Financial Accounting Standards Board. At its first scheduled meeting after the comment period, the Task Force considers comments received and, as warranted, affirms its consensuses-for-exposure as consensuses. Those consensuses are then provided to the Board for final ratification.

After the July 1, 2009, FASB meeting, official EITF minutes, including the results of the FASB's ratification process, will be posted to Technical Library: The Deloitte Accounting Research Tool and to the FASB's Web site. EITF Issue summaries also can be found on those sites.

Issue 08-1 Revenue Arrangements With Multiple Deliverables

STATUS: Consensus-for-exposure (note that the consensuses on this Issue are being reexposed).

AFFECTS: Entities that enter into revenue arrangements consisting of multiple deliverables. This Issue is not limited to a particular industry.

BACKGROUND: Before evaluating how to recognize revenue for transactions with multiple revenue-generating activities, an entity should identify all the deliverables in an arrangement. If there are multiple deliverables, an entity must evaluate each deliverable to determine the unit of accounting and whether it should be treated separately or in combination in accordance with Issue 00-21¹ or other applicable guidance. Thus, under Issue 00-21, an entity may be required to combine multiple deliverables into a single unit of accounting. The Task Force added this Issue to its agenda to clarify certain aspects of the accounting in Issue 00-21.

Because of the complexity of this Issue and the various accounting literature that could be affected by a final consensus, the Task Force formed a working group in March 2008. Since that time, the working group has met to discuss several practice issues entities encounter when applying Issue 00-21, including:

- Whether a multiple-attribution model of revenue recognition is acceptable for a single unit of accounting.
- Whether access or standing ready to perform can be a deliverable.
- Whether and how contingent deliverables should affect revenue recognition.
- Whether revisions to the Issue 00-21 fair value threshold requirement are necessary.
- Whether it is acceptable to use the milestone method² as an attribution method of revenue recognition.
- How to apply the proportional performance model to a single unit of accounting composed of multiple deliverables.
- Whether it is acceptable to use a straight-line attribution method "for convenience" (e.g., for up-front fees).

The Task Force decided to address only two of these issues: it decided to revise the fair value threshold for separation in Issue 00-21 and to address whether the milestone method of revenue recognition is appropriate. The revisions to Issue 00-21 are included in this Issue (Issue 08-1), while guidance on the milestone method is included in Issue 08-9 (discussed below). Certain Task Force members and other

¹ EITF Issue No. 00-21, "Revenue Arrangements With Multiple Deliverables."

² The Task Force reached a tentative conclusion to describe the milestone method as a revenue recognition approach in which a vendor recognizes arrangement consideration received from the achievement of a milestone in its entirety in the period in which the milestone is achieved. (For more information, see the discussion of Issue 08-9 below.)

constituents also questioned whether the amendments to Issue 00-21 should be considered in other authoritative accounting guidance, specifically SOP 97-2.³ Accordingly, Issue 09-3 (discussed below) was added to the Task Force's agenda.

The amendments to Issue 00-21 proposed in this Issue prompted the Task Force to reconsider the current disclosure requirements in Issue 00-21. A working group developed various qualitative and quantitative disclosure alternatives for the Task Force to consider at its June 2009 meeting.

SUMMARY:

At the November 2008 EITF meeting, the Task Force reached a consensus-for-exposure to revise the fair value threshold for separation in Issue 00-21. For arrangements with multiple deliverables, the delivered item or items are considered a separate unit or units of accounting if certain criteria in paragraph 9 of Issue 00-21 are met; one of those criteria requires objective and reliable evidence of fair value for the undelivered item(s). The Task Force reached a consensus to eliminate this criterion.

The Task Force also decided that Issue 00-21 should be amended to include a hierarchy for an entity to use when estimating the selling price of deliverables that meet the other two conditions for separation in paragraph 9 of Issue 00-21 (i.e., an entity must use the selling price that is highest in the hierarchy). That hierarchy is (1) vendor-specific objective evidence (VSOE) of the selling price, (2) third-party evidence (TPE) of the selling price, or (3) an estimate of the selling price. In addition, the term "selling price" will replace all references to fair value in Issue 00-21. An effect of this amendment is that deliverables are expected to meet the separation criteria (i.e., be considered a separate unit of accounting) more frequently. The abstract is expected to include examples that clarify how to estimate the selling price if objective and reliable evidence of the selling price (i.e., VSOE or TPE of the selling price) is not available.

At the March 2009 EITF meeting, the Task Force further discussed the appropriate method of allocating consideration to separate units of accounting in a particular revenue-generating arrangement. Currently, Issue 00-21 requires the use of the relative fair value allocation method only when objective and reliable evidence exists for all units of accounting in the arrangement. In the absence of objective and reliable evidence for the delivered item(s) in the arrangement, a vendor must apply the residual allocation method. The residual allocation method requires an entity to allocate consideration to the delivered item(s) that equals the total arrangement consideration less the aggregate fair value of the undelivered item(s).

The Task Force reached a tentative conclusion to eliminate the residual allocation method and require an entity to apply the relative selling price allocation method in all circumstances. This decision affects arrangements in which a discount is present for the combined deliverables. Under the residual allocation method, that discount would be applied to the delivered unit of accounting; however, under the relative selling price allocation method, that discount is allocated among all the units of accounting in the arrangement on the basis of each unit's relative selling price. The relative selling price allocation approach will cause an entity to estimate selling price for all units of accounting, including delivered items, when VSOE or TPE does not exist for them. Under Issue 00-21, an entity applying the residual method may have only needed to determine that VSOE or TPE exists for the undelivered item(s).

At the June 2009 EITF meeting, the Task Force reached a consensus-for-exposure to require disclosures (quantitative and qualitative), by similar type of multiple-deliverable arrangement, about the significant judgments an entity used in applying this Issue and changes in those judgments or in the application of this Issue that may significantly affect the allocation of revenue. An entity would also be required to disclose inputs, methods, and significant assumptions it used in evaluating its arrangements and the significant deliverables in those arrangements. The Exposure Draft will include an example illustrating the required disclosures. These disclosures would significantly expand the current requirements in Issue 00-21 and would affect all entities applying Issue 08-1, not just entities that have a change in separation or allocation because of Issue 08-1. In addition, the Exposure Draft will include a question asking constituents whether this Issue should also require disclosure of information about an entity's margins.

EFFECTIVE DATE

AND TRANSITION: The consensus-for-exposure would be effective for fiscal years beginning on or after June 15, 2010. Entities would apply this Issue prospectively to new or materially modified arrangements after the Issue's effective date. Early application as of the first day of an entity's fiscal year would be permitted. The Task Force decided to require certain qualitative transition disclosures, supplemented as necessary with quantitative information, that describe the impact of prospective adoption of Issue 08-1.

³ AICPA Statement of Position 97-2, *Software Revenue Recognition*.

NEXT STEPS: FASB ratification of the consensus-for-exposure is expected at the Board's July 1, 2009, meeting. This Issue will then be exposed for a second comment period because of the significant changes proposed at the March 2009 and June 2009 EITF meetings.

Issue 08-9 Milestone Method of Revenue Recognition

STATUS: Tentative conclusions reached.

AFFECTS: Entities that enter into revenue arrangements in which the vendor satisfies its performance obligations to a customer over time and all or a portion of the arrangement consideration is contingent upon the achievement of milestones. This Issue is not limited to a particular industry.

BACKGROUND: This Issue was initially developed as part of Issue 08-1. (See the Background section under Issue 08-1 for more information.) The objective of this Issue is to establish a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. More specifically, a milestone is defined as an event that results in additional consideration, whose achievement at the inception of the arrangement is substantively uncertain, and whose achievement is based on or results from the vendor's performance. In certain situations, the entire amount of consideration that is contingent upon the achievement of the milestone is recognized as revenue in the period in which the contingency is achieved. This accounting model is commonly referred to as the milestone method.

Entities within the scope of this Issue will have to determine whether the milestone method is appropriate for a particular arrangement by first identifying all milestones in the arrangement and then assessing whether those milestones are substantive. A milestone is considered substantive if consideration earned from achievement of the milestone is commensurate with the vendor's performance or enhancement of the delivered item and relates solely to past performance. The Issue also proposes certain quantitative and qualitative disclosures about the arrangements to which an entity applies the milestone method. Entities must apply other revenue recognition guidance to arrangement consideration that is not within the scope of this Issue.

SUMMARY: At the March 2009 EITF meeting, the Task Force reached a consensus-for-exposure that the milestone method is an appropriate proportional performance method of revenue recognition for entities that enter into arrangements containing consideration that is contingent upon the achievement of substantive milestones. In that consensus-for-exposure, the Task Force acknowledged that the milestone method is only one acceptable revenue attribution model for such arrangements and that entities should apply the revenue recognition model that is most appropriate given the facts and circumstances.

At the June 2009 EITF meeting, the Task Force considered whether to change the milestone method, as described in this Issue, from an optional revenue recognition model for milestone (bonus) payments to make it the only model that is appropriate for milestone payments. That is, if an entity decided to recognize milestone payments in their entirety upon achievement of an event or circumstance, the entity would be required to apply the milestone method of revenue recognition, as described in Issue 08-9. The Task Force did not reach a decision on this issue and expects to further consider optional application at a future meeting.

EFFECTIVE DATE

AND TRANSITION: The previous consensus-for-exposure proposed that this Issue would be effective for interim periods beginning after issuance of a final consensus. After this Issue's effective date, entities would be required to account for any accounting policy change as a result of this Issue in accordance with Statement 154.⁴ The effective date and transition is pending the Task Force's decision about whether the milestone method will be required or optional.

NEXT STEPS: Further deliberations by the Task Force are expected at a future meeting.

⁴ FASB Statement No. 154, *Accounting Changes and Error Corrections* — a replacement of APB Opinion No. 20 and FASB Statement No. 3.

Issue 09-1

Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance

STATUS: Final consensus.

AFFECTS: Entities that enter into a share-lending arrangement on their own shares in contemplation of a convertible debt offering or other financing (e.g., an equity financing) in which the share-lending arrangement is classified in equity.

BACKGROUND: Certain entities that have recently issued convertible debt have also executed share-lending arrangements on their own shares with the investment bank underwriting that issuance for below market consideration (usually for the par value of the shares lent to the investment bank). An offering of convertible debt securities generally involves three parties: an issuer, an underwriter, and investors. A typical strategy for investors is to hedge the embedded conversion option (long position on the issuer's shares) through a derivative with the underwriter (short position on the issuer's shares). If shares of the issuer are not readily available in the market for the underwriter to hedge its exposure from the derivative with the investors (i.e., to create an offsetting short position on the issuer's shares), the underwriter will enter into a share-lending arrangement with the issuer. These share-lending arrangements typically require the investment bank to return the shares to the issuer within a specified period and reimburse the issuer for any dividends paid on those shares while the lending arrangement is outstanding. While the share-lending arrangement with the underwriter is executed at below market rates, the issuer benefits under the arrangement by completing the issuance of the convertible debt for less of an underwriting fee or a lower interest rate than would otherwise be attainable.

At issue are the following:

- How an issuer should account for the share-lending arrangement.
- What effect the share-lending arrangement has on the calculation of earnings per share (EPS).
- How an issuer should account for the share-lending arrangement if the counterparty to the arrangement defaults.

SUMMARY: The Task Force reached a final consensus to require an entity that enters into a share-lending arrangement on its own shares (that are classified in equity pursuant to other authoritative accounting guidance) in contemplation of a convertible debt issuance (or other financing) to initially measure the share-lending arrangement at fair value and treat it as an issuance cost. The Task Force also reached a final consensus to exclude the shares borrowed under the share-lending arrangement from basic and diluted EPS. This EPS treatment is consistent with the EPS treatment of a physically settled forward contract to repurchase a fixed number of an entity's shares pursuant to paragraph 25 of Statement 150.⁵

The Task Force also reached a final consensus that if it becomes **probable** that the share-lending arrangement counterparty will default on the arrangement (not return the entity's shares within the specified period), the issuing entity should record a loss in current earnings that is equal to the fair value of the shares outstanding less any recoveries. The entity will continue to adjust the loss until actual default. On the basis of the guidance for contingently returnable shares, upon default (not when default is probable), the issuing entity will include the shares outstanding under the share-lending arrangement (net of any share recoveries) in basic and diluted EPS.

The Issue also requires entities to provide certain disclosures about the share-lending arrangement, including (1) a description of the share-lending arrangement; (2) the entity's reason for entering into the arrangement; (3) the maximum potential economic loss as of the balance sheet date (e.g., the fair value of the securities currently outstanding); (4) the EPS treatment of the shares underlying the arrangement; (5) the unamortized carrying amount of issuance costs associated with the share-lending arrangement and, if applicable, the amount amortized during the current period; and (6) if applicable, the income statement and EPS impact of a default by the counterparty.

EFFECTIVE DATE

AND TRANSITION: The final consensus is effective for **new** share-lending arrangements issued in periods beginning on or after July 15, 2009. For all other share-lending arrangements, the final consensus is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2009, with retrospective application to those arrangements outstanding on the Issue's effective date.

NEXT STEPS: FASB ratification is expected at the Board's July 1, 2009, meeting.

⁵ FASB Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*.

Issue 09-2 Research and Development Assets Acquired in an Asset Acquisition

STATUS: No consensus reached.

AFFECTS: Entities that acquire tangible and intangible research and development (R&D) assets (individually or with a group of assets) in an asset acquisition.

BACKGROUND: This Issue addresses inconsistencies between the accounting for R&D assets acquired in a business combination, accounted for under Statement 141(R),⁶ and those acquired in an asset acquisition. Statement 2⁷ provides guidance on R&D costs and requires an entity to expense R&D assets unless there is an alternative future use for them. Statement 141(R) amended Statement 2 to exclude from its scope R&D assets acquired in a business combination. Further, Statement 141(R) requires an acquirer to capitalize all R&D assets acquired in a business combination, regardless of whether they have an alternative future use. Statement 141(R) did not change the accounting for R&D costs acquired in an asset acquisition. Many constituents have questioned whether the changes in Statement 141(R) that are related to acquired R&D should also apply to R&D acquired in an asset acquisition.

At issue are the following:

- Whether to change the initial recognition of R&D costs acquired in an asset acquisition (i.e., whether to expense them immediately or capitalize them).
- How to account for contingent consideration related to the acquisition of tangible and intangible R&D assets in an asset acquisition.
- If the Task Force decides that R&D costs acquired in an asset acquisition should be initially capitalized, how those assets should be subsequently accounted for.

SUMMARY: At the March 2009 EITF meeting, the Task Force reached a tentative conclusion to require an entity to capitalize R&D acquired in an asset acquisition. The Task Force discussed the accounting for contingent consideration in an asset acquisition but was unable to reach a conclusion. The Task Force discussed how to distinguish contingent consideration compensating the seller of the R&D for future services from contingent consideration paid for the R&D assets acquired. The FASB staff was directed to develop alternatives, for Task Force consideration at a future EITF meeting, for analyzing whether contingent consideration relates to the acquired R&D asset or to future services.

Also at its March 2009 meeting, the Task Force reached a tentative conclusion that acquired R&D assets should be considered indefinite-lived intangible assets until completion or abandonment of the related R&D activities, in accordance with paragraph 16 of Statement 142.⁸ After completion or abandonment, entities should determine the useful life of intangible R&D assets acquired by applying Statement 142 and should account for tangible R&D assets acquired according to their nature.

At the June 2009 EITF meeting, the Task Force briefly discussed the contingent consideration model for asset acquisitions, but was unable to reach a consensus.

NEXT STEPS: Further deliberations by the Task Force are expected at a future meeting.

Issue 09-3 Applicability of SOP 97-2 to Certain Arrangements That Include Software Elements

STATUS: Consensus-for-exposure.

AFFECTS: Entities that sell tangible products containing both hardware and software elements that are currently within the scope of SOP 97-2. This Issue is not limited to a particular industry.

BACKGROUND: Issue 08-1, summarized above, proposes to change the criteria in Issue 00-21 for determining when individual deliverables can be accounted for as separate units of accounting for revenue recognition purposes. During deliberations of that Issue, some constituents questioned whether the Task Force should reconsider the accounting for software revenue arrangements involving multiple deliverables within the scope of SOP 97-2. The separation requirements in SOP 97-2 are somewhat similar to those in Issue 00-21, which Issue 08-1 proposes to replace. More specifically, some have questioned whether the guidance in paragraph 10 of SOP 97-2 regarding allocation of the arrangement fee to the multiple elements in the

⁶ FASB Statement No. 141(R), *Business Combinations*.

⁷ FASB Statement No. 2, *Accounting for Research and Development Costs*.

⁸ FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

arrangement should conform to the proposed guidance in Issue 08-1. SOP 97-2 allows for separation of the elements only when VSOE of fair value exists for an element, whereas Issue 08-1 proposes a different separation model.

To address those concerns, the Task Force formed a working group to consider different alternatives for this Issue. That working group met and discussed two approaches for the Task Force to consider: (1) amend the scope of SOP 97-2 to include fewer arrangements with hardware and software elements or (2) replace the separation criteria in paragraph 10 of SOP 97-2 with guidance similar to that proposed in Issue 08-1.

SUMMARY: The Task Force reached a consensus-for-exposure to amend SOP 97-2 and Issue 03-5⁹ to exclude from the SOP's scope all tangible products containing both software and nonsoftware components that function together to deliver the product's essential functionality. That is, the entire product (including the software deliverables and nonsoftware deliverables) would be outside the scope of SOP 97-2 and would be accounted for under other accounting literature (e.g., Issue 08-1).

The consensus-for-exposure will include factors that entities should consider when determining whether the software and nonsoftware components function together to deliver the product's essential functionality and are thus outside the revised scope of SOP 97-2. In addition, the consensus-for-exposure is expected to include examples illustrating how entities would apply the revised scope provisions.

The Task Force also reached a consensus-for-exposure not to expand the disclosures in SOP 97-2.

EFFECTIVE DATE

AND TRANSITION: A consensus would have the same effective date and transition provisions as Issue 08-1. Accordingly, this Issue would be effective for fiscal years beginning on or after June 15, 2010. Entities would apply this Issue prospectively to new or materially modified arrangements after the Issue's effective date. Early application as of the first day of an entity's fiscal year would be permitted.

NEXT STEPS: FASB ratification is expected at the Board's July 1, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

Issue 09-4 Seller Accounting for Contingent Consideration

STATUS: No decision reached.

AFFECTS: Entities that sell a subsidiary (after adopting Statement 160¹⁰) and enter into a contingent consideration arrangement with the buyer. This Issue is not limited to a particular industry.

BACKGROUND: This Issue addresses the seller's subsequent accounting for a contingent consideration arrangement after application of Statement 160. Under ARB 51,¹¹ as amended by Statement 160, the seller must include the fair value of "any consideration received" in the calculation of the gain or loss upon deconsolidation of a subsidiary. In the May 6, 2009, [EITF Agenda Report](#), the Board confirmed its belief that the consideration received includes the fair value of any contingent consideration arrangements between the seller and the buyer. This accounting is consistent with the buyer's accounting under Statement 141(R). However, neither ARB 51 nor Statement 160 provides guidance on how the seller should account for the contingent consideration receivable (or payable) after the date of deconsolidation. Before Statement 160, the seller typically recognized the contingent consideration in earnings only after the contingency was resolved and the additional consideration was received. This accounting was similar to the accounting for a gain contingency under Statement 5.¹²

At issue are the following:

- How to account for the seller's contingent consideration receivable (or payable) after the deconsolidation of the subsidiary under Statement 160.
- What information the seller should disclose about the contingent consideration arrangement.

⁹ EITF Issue No. 03-5, "Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software."

¹⁰ FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment of ARB No. 51.

¹¹ Accounting Research Bulletin No. 51, *Consolidated Financial Statements*.

¹² FASB Statement No. 5, *Accounting for Contingencies*.

- SUMMARY:** The Task Force did not reach a decision on this Issue. Certain Task Force members suggested that this Issue should also include a reconsideration of the seller's initial accounting for the contingent consideration arrangement at fair value upon deconsolidation of a subsidiary under Statement 160. The Task Force is expected to discuss whether such initial accounting should be reconsidered at the next meeting.
- NEXT STEPS:** Further deliberations by the Task Force are expected at a future meeting.

Administrative Matters

Issue 09-E, "Accounting for Distributions to Shareholders With Components of Stock and Cash in the Calculations and Presentation of Earnings per Share" — The FASB chairman added this project to the EITF agenda in May 2009; however, the Task Force did not discuss it at the June meeting. The Task Force plans to discuss it at its September 2009 meeting. This Issue addresses whether the stock portion of a distribution to shareholders that contains components of cash and stock and allows the shareholders to select their preferred form of distribution should be accounted for as a stock dividend in accordance with paragraph 54 of Statement 128.¹³

Topic D-110¹⁴ — At the June 2009 EITF meeting, the SEC observer announced Topic D-110, which deals with whether escrowed share arrangements are compensatory. Escrowed share arrangements typically exist in a business combination or initial public offering and are used to hold shares until a certain contingency is met in the future.

The SEC observer stated that Topic D-110 clarifies the SEC staff's views that an entity must use judgment when determining whether an escrowed share arrangement is compensatory. The observer also acknowledged that Topic 7 of the Division of Corporation Finance's Financial Reporting Manual (FRM) includes a section on escrowed shares that is outdated. The observer stated that this section will be deleted from the FRM and replaced by Topic D-110.

¹³ FASB Statement No. 128, *Earnings per Share*.

¹⁴ EITF Topic No. D-110, "Escrowed Share Arrangements and the Presumption of Compensation."

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