

# **Revenue Recognition Policy Document**

**DeepShield Systems, Inc.**

*Effective Date: January 1, 2024*

*Document Version: 3.2*

*Last Updated: December 15, 2023*

## **1. Purpose and Scope**

1. This Revenue Recognition Policy ("Policy") establishes the guidelines and procedures for recognizing revenue at DeepShield Systems, Inc. ("Company") in accordance with ASC 606 - Revenue from Contracts with Customers and other applicable accounting standards.

2. This Policy applies to all revenue streams of the Company, including:

- Industrial Control System (ICS) security platform licenses
- Subscription-based monitoring services
- Professional implementation services
- Maintenance and support services
- Custom solution development
- Training and certification programs

## **2. Revenue Recognition Principles**

1. The Company recognizes revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

2. Revenue recognition follows the five-step model:

- a) Identify the contract with a customer
- b) Identify performance obligations in the contract
- c) Determine the transaction price
- d) Allocate the transaction price to performance obligations
- e) Recognize revenue when performance obligations are satisfied

## **3. Specific Revenue Recognition Guidelines**

### **3.1. Software License Revenue**

#### **1.1. Perpetual Licenses**

- Revenue recognized upon delivery of license key and access credentials
- Recognition occurs when customer obtains control of the software
- Implementation services treated as separate performance obligation

#### **1.2. Term-Based Licenses**

- Revenue recognized ratably over the subscription term
- Recognition begins upon customer activation
- Setup fees amortized over the initial contract term

### **3.2. Subscription Services Revenue**

#### **2.1. Monitoring and Security Services**

- Revenue recognized ratably over the service period
- Recognition begins upon service activation
- Usage-based components recognized monthly based on actual usage

#### **2.2. Cloud-Based Services**

- Revenue recognized ratably over the subscription period
- Recognition begins upon provision of access credentials
- Variable components based on actual consumption

### **3.3. Professional Services Revenue**

#### **3.1. Implementation Services**

- Revenue recognized using percentage-of-completion method
- Based on actual hours incurred versus estimated total hours
- Milestone-based billing aligned with performance obligations

#### **3.2. Training and Consulting**

- Revenue recognized as services are delivered
- Recognition based on completed training sessions or consulting days
- Pre-paid training credits deferred until utilized

#### **4. Contract Modifications and Variable Consideration**

1. Contract modifications are accounted for as either:

- Separate contract if additional products/services are distinct
- Termination of existing contract and creation of new contract
- Continuation of existing contract

2. Variable consideration includes:

- Volume-based discounts
- Performance bonuses
- Service level credits
- Early payment discounts

#### **5. Cost Recognition and Deferral**

1. Contract acquisition costs

- Sales commissions capitalized and amortized over expected customer life
- Implementation costs deferred and recognized with associated revenue
- Training materials development costs expensed as incurred

2. Contract fulfillment costs

- Direct labor costs capitalized when recoverable
- Third-party costs recognized as incurred
- Hardware costs recognized upon delivery

#### **6. Documentation Requirements**

1. Required documentation for revenue recognition includes:

- Executed customer contracts
- Purchase orders and amendments
- Delivery confirmation records
- Implementation milestone sign-offs
- Service activation records
- Usage reports and billing records

## **7. Review and Approval Process**

1. Revenue recognition determinations require review and approval by:

- Revenue Accounting Manager
- Controller
- CFO (for transactions exceeding \$500,000)

## **8. Policy Administration**

1. This Policy is administered by the Finance Department under oversight of the CFO.

2. Policy reviews conducted annually or upon significant changes in:

- Accounting standards
- Business model
- Product offerings
- Contract terms

## **9. Effective Date and Amendments**

1. This Policy is effective January 1, 2024, superseding all previous versions.

2. Amendments require written approval from:

- Chief Financial Officer
- Audit Committee of the Board of Directors

APPROVED BY:

Robert Kessler

Chief Financial Officer

Date: December 15, 2023

Marcus Chen

Chief Executive Officer

Date: December 15, 2023