

Case 25-4c

3-D Print

Hardware and Software Bundle — Identifying Performance Obligations

3-D Print Design Inc. (the “Company”) is a 3-D printer manufacturer that makes available to its customers the ability to design and print functional metal parts with the Company’s proprietary 3-D printing systems. The Company’s printing system consists of hardware and software components that facilitate a multi-step process that includes (1) optimizing the design of the part, (2) printing a usable metal part, (3) extracting (de-binding) the part, and (4) curing the part in a furnace. The Company markets its product to customers as a “combined solution” because the hardware, software, and consumables work together to provide a 3-D printing solution.

The Company entered into a contract with Studio Inc. (the “Customer”) for a standard initial sales order. This starter order includes the following: minimum hardware components (printer, de-binder, furnace), a three-year cloud-based software license, and a consumables starter kit, which includes a limited number of consumables for initial printing.

Additional details on each of the starter order promises are as follows:

Hardware Components

The printing hardware components the Company manufactures are proprietary and cannot be operated without a license to the Company’s cloud software. That is, without the Company’s cloud software, the customer would not be able to use the hardware components to print 3-D designs.

There is an active secondary market for the Company’s hardware components. As a result of this, the customer can easily purchase individual hardware components from resellers. Hardware components purchased on the secondary market can be added to the customer’s printing system and function with hardware components purchased directly from the Company. Further, the customer can purchase and configure any number of printers, de-binders, or furnaces to customize its 3-D printing system to meet its demands.

To create designs, the hardware components require printing materials (consumables) that can only be purchased from the Company. All hardware installation services are insignificant and do not customize the hardware, and the estimated life of the hardware is expected to be three to five years.

Software

The Company has a history of selling its software on a stand-alone basis. For instance, a customer could purchase all of the initial hardware components from a third party (i.e., a reseller in a secondary market) and subsequently purchase an initial software license from the Company as a stand-alone sale. In addition, customers can purchase software renewals on a stand-alone basis, and the renewal option included in customer contracts is not discounted.

The Customer has the right to use the Company's software. The software relies on the Company's intellectual property and is delivered to the customer through a hosting arrangement (i.e., the customer does not have the right or the ability to take possession of the software).

The software can be used to begin the design phase without connection to the hardware. The software provides value in that it allows new users with limited expertise to successfully design printable 3-D parts by using the feedback and direction provided by the software system. In addition, an unlimited number of hardware components can be operated using a single, cloud-based software license. Files that are created through the use of the software can only be printed using the Company's hardware. The software is not compatible with 3-D printers from other manufacturers.

Consumables

The consumables are specific to the Company's printing system and cannot be ordered through other providers or vendors. The Company does sell consumables on a stand-alone basis and will sell to customers that have not purchased the Company's hardware components or software.

There are currently no minimum purchase requirements or discounts offered on either form of consumables.

The initial term of the agreement with the Customer begins on July 1, 20X1, and continues through July 1, 20X4. Each hardware, software, and consumable component includes a separate list price, and the total consideration is \$1 million. The contract requires the Customer to pay all fees up front. Neither party can terminate the contract without cause. At the end of the initial contract term, the customer has the option to extend the term for an additional three years. This option is priced at the renewal term's stand-alone selling price.

The Company concludes the following:

- The provisions of FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, and related amendments are effective for the Company.
- Studio Inc. is the Company's customer, as defined in FASB Accounting Standards Codification (ASC) Subtopic 606-10, *Revenue From Contracts With Customers — Overall*.
- The arrangement is within the scope of ASC 606-10 and meets the criteria in ASC 606-10-25-1 to be considered a contract with a customer.
- Any explicit or implicit promises other than the hardware components, software, consumables, and renewal option are immaterial in the context of the contract and need not be considered.
- The total transaction price, as outlined in ASC 606-10-32-3, is the sum of the contractually stated fees (i.e., \$1 million).

- There is no significant integration service required for the hardware components and the software to achieve the desired functionality.
- No promise significantly modifies or customizes another promise.