BEYOND THE BASICS: ASC 606 AND SALES COMMISSIONS REPORTING

"A Guide to Revenue Recognition and Amortization Reporting in the SaaS Industry"

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Introduction

Welcome to this easily digestible guide on ASC 606, crafted for finance professionals in the SaaS industry.

Building on "The SaaS CFO's Blueprint: ASC 606 Compliance for Sales Commissions," this eBook delves into the specifics of sales commission treatment under ASC 606.

ASC 606 introduces a more consistent framework for revenue recognition, especially for companies offering services over time, like those in the SaaS industry.

What's different about SaaS?

Simply put - in SaaS, customers often pay regularly, like monthly or yearly.

The guidelines under ASC 606 help stakeholders and interested investors understand how much money a SaaS company really makes and when. It talks about how to deal with contracts and how to report revenue and expenses from them. For SaaS companies, this is critical because their income often comes from ongoing subscriptions and services.

This guide provides practical insights and equips you with the technical know-how to skillfully implement ASC 606, with a particular emphasis on strategically managing sales commissions.

CHAPTER 1

Decoding Sales Commissions in SaaS Under ASC 606

As per the ASC 606 framework, SaaS sales commissions incurred in acquiring contracts should be treated as an asset, capitalized, and amortized over a specified timeframe (usually the contract period or the estimated customer lifespan).

It's important to think of the expenses as similar to a fixed asset.

The amortization of the commissions earned by a SaaS account executive who earned $10,000 in commissions will look very much like a fixed asset schedule, which could be over the contract term or a set period of benefit (estimated lifespan).

Let's understand this with a focus on direct and indirect sales commissions.

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1.1 The 5-Step RevRec Process

Let's break down the five-step process of ASC 606 with practical examples, highlighting how they apply to sales commissions in SaaS:

Step 1: Identify the Contract with a Customer

It's essential to recognize when an agreement with a customer truly constitutes a contract under ASC 606. This means there must be mutual understanding, clear terms, and an expectation of payment in exchange for goods or services.

Confirm that a legally enforceable agreement exists with clear payment terms.

Example: A signed annual subscription agreement for CRM software.

CRITERIA	EXAMPLE
Legally Enforceable Agreement	Signed annual subscription
Clear Payment Terms	Agreed subscription fee

1.1 The 5-Step RevRec Process

Step 2: Identify the Performance Obligations in the Contract

For SaaS companies, these obligations often extend beyond just providing software access. It's crucial to identify each distinct promise made to the customer, as each of these could represent a separate performance obligation.

Pinpoint each distinct good or service promised to the customer.

Example: In a CRM subscription, obligations could include software access and customer support.

SERVICE	OBLIGATION IDENTIFIED
CRM Software	Software Access
Additional	Customer Support

1.1 The 5-Step RevRec Process

Step 3: Determine the Transaction Price

For SaaS companies, this can be a complex task due to variable pricing, tiered subscriptions, and potential refunds or concessions.

Ascertain the total amount to be received for fulfilling the contract.

Example: The aggregate subscription fee for a year, inclusive of any add-ons.

CONTRACT TYPE	TOTAL PRICE
Annual Subscription	$12,000

1.1 The 5-Step RevRec Process

Step 4: Allocate the Transaction Price to the Performance Obligations

This allocation is based on the standalone selling price of each obligation. For SaaS companies, bundled services and products can make this allocation challenging.

Divide the transaction price among the identified obligations based on their standalone selling prices.

Example: Allocation of part of the subscription fee specifically to customer support.

OBLIGATION	ALLOCATION OF PRICE
Software Access	$10,000
Customer Support	$2,000

1.1 The 5-Step RevRec Process

Step 5: Recognize Revenue When (or as) the Entity Satisfies a Performance Obligation

For SaaS companies, this often means recognizing revenue over time as the service is provided, rather than at a single point in time.

Revenue is recognized as each obligation is fulfilled.

Example: Monthly revenue recognition for providing ongoing access to CRM software

MONTH	REVENUE RECOGNIZED
January	$1,000
February	$1,000
-	-

In this context, direct sales commissions are tied to specific obligations and recognized in tandem with revenue, while indirect commissions are immediately expensed.

1.2 Reporting of Direct Sales Commissions

Direct sales commissions are tied to specific customer contracts and need to be capitalized and amortized over their benefit period.

SALES ROLE	COMMISSION	CONTRACT TERM	ANNUAL AMORTIZATION
Direct Sales Agent	$3,000	3 Years	$1,000

1.3 Reporting of Indirect Sales Commissions

Indirect sales commissions, lacking direct ties to specific contracts, are treated as immediate expenses.

SALES ROLE	COMMISSION	TREATMENT
Lead Generation Specialist	$500	Expensed in period incurred

The $500 commission is expensed in the period it's incurred, reflecting its role in general sales support.

CHAPTER 2

The Importance of Audit-Ready Reports in ASC 606 Compliance

Tracking Revenue Recognition Over Time (Amortization Reports): Under ASC 606, companies need to recognize revenue when goods or services are delivered, not necessarily when payment is received.

This can often involve recognizing revenue over a period of time, especially in SaaS or subscription-based models.

Amortization reports help spread out revenue recognition in alignment with the delivery of services or products. It ensures compliance with the ASC 606 requirement to match revenue recognition with the transfer of goods or services.

Managing Deferred Costs (Amortization of Sales Commissions): ASC 606 also requires the capitalization and amortization of certain costs, such as sales commissions, over the life of a customer contract.

The Importance of Audit-Ready Reports in ASC 606 Compliance

Visualizing Revenue Streams (Waterfall Reports): Waterfall reports are vital for visualizing how revenue is recognized over the life of a contract. They show future revenues that are expected but not yet recognized, which is essential under ASC 606's requirement for performance obligation satisfaction over time.

This visualization aids in planning, forecasting, and ensuring that revenue recognition aligns with the actual delivery of goods or services.

Compliance & Transparency: Both amortization and waterfall reports enhance transparency and compliance. They provide detailed insights into how revenue and costs are recognized, helping to meet the ASC 606 standard's requirements for detailed financial disclosures.

This transparency is crucial not only for internal management but also for investors, auditors, and regulatory bodies.

Decision Making & Financial Planning: These reports are not just for compliance; they also provide valuable information for decision-making and financial planning.

By understanding how revenue and costs are recognized over time, management can make more informed decisions about pricing, customer contract terms, and resource allocation.

CHAPTER 3

Crafting the RevRec Report in SaaS

A Revenue Recognition Report is a cornerstone in SaaS financial reporting, showcasing how revenue is recognized over time in line with ASC 606.

This chapter focuses on creating this report, using the five-step model to illustrate revenue recognition for different types of sales commissions.

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3.1 Steps to Build the RevRec Report

The foundation of an effective Revenue Recognition Report lies in accurately identifying contracts and their respective performance obligations. This initial step is crucial, as it sets the stage for how revenue will be recognized.

Each customer contract is reviewed to determine the distinct services or products provided, known as performance obligations. This clarity is essential for aligning revenue recognition with the delivery of services or goods.

Step 1 & 2: Contract Identification and Performance Obligations

This step is crucial for recognizing revenue correctly. For Alpha Co.'s annual subscription, we've identified two key obligations: CRM Access and Technical Support. This ensures we're accounting for each aspect of the service provided.

Identify customer contracts and the distinct goods or services (performance obligations) within them.

CUSTOMER	CONTRACT TYPE	PERFORMANCE OBLIGATIONS
Alpha Co.	Annual Subscription	CRM Access, Technical Support

3.1 Steps to Build the RevRec Report

Step 3: Determining the Transaction Price

Here, we consider the entire value the contract holds for the company. For Alpha Co., it's not just the base contract value of $15,000, but also additional fees like $2,000 for customization, totaling the transaction price.

CUSTOMER	CONTRACT VALUE	ADDITIONAL FEES
Alpha Co.	$15,000	$2,000 (Customization)

Step 4: Allocating the Transaction Price

Allocation involves assigning a part of the total contract value to each obligation. For instance, CRM Access is allocated $12,000, while Technical Support is allocated $3,000, based on their individual values. Allocate the transaction price to each performance obligation based on their standalone selling prices.

PERFORMANCE OBLIGATION	ALLOCATED PRICE
CRM Access	$12,000
Technical Support	$3,000

3.1 Steps to Build the RevRec Report

Step 5: Revenue Recognition

Revenue is recognized as each obligation is fulfilled. In January and February, we see $1,000 recognized for CRM Access and $250 for Technical Support, reflecting the ongoing fulfillment of these obligations. Recognize revenue when each obligation is fulfilled.

MONTH	CRM ACCESS REVENUE	TECHNICAL SUPPORT REVENUE
January	$1,000	$250
February	$1,000	$250
-	-	-

3.2 Incorporating Sales Commissions

Direct Sales Commissions: Align the amortization of capitalized direct sales commissions with the revenue recognized from the associated contracts.

Indirect Sales Commissions: These are paid for out of pocket and shown separately in the report, recognizing their part in general sales activities but not directly linked to recognizing specific revenue.

3.3 Sample RevRec Report

This example illustrates how revenue, along with direct and indirect commission expenses, is accounted for each month. It provides a clear view of how revenue recognition aligns with commission costs over time for contracts like that with Alpha Co.

MONTH	CONTRACT	REVENUE RECOGNIZED	DIRECT COMMISSION AMORTIZATION	INDIRECT COMMISSION EXPENSE
Jan	Alpha Co.	$1,250	$250	$50
Feb	Alpha Co.	$1,250	$250	$50
-	-	-	-	-

Consistent Revenue Recognition: Illustrates consistent monthly revenue recognition from Alpha Co., with $1,250 each in January and February, showing steady income from the contract.

Direct Commission Amortization Tracking: Highlights the regular amortization of direct commissions, as seen with the consistent $250 monthly charge for Alpha Co., indicating a fixed expense rate.

Monitoring Indirect Commission Expenses: Shows the tracking of indirect commission expenses, like the constant $50 each month for Alpha Co., providing insight into the additional costs tied to revenue generation.

3.4 Using RevRec Reports for Strategic Insights

This report ensures compliance with ASC 606 and aids in strategic decision-making, budgeting, and forecasting in the following ways.

Revenue Trends: Analyze monthly and quarterly trends to assess the health and stability of revenue streams.

Sales Efficiency: Evaluate the effectiveness of sales strategies by correlating commission expenses with revenue generation.

Financial Forecasting: Use the report to forecast future revenue and plan budgets more accurately.

Contract Management: Identify contracts with higher or lower revenue recognition patterns for strategic adjustments.

Investor Communication: Present a clear and compliant financial picture to stakeholders and investors.

Market Analysis: Compare revenue trends with market dynamics to assess competitive positioning and opportunities.

Product and Service Adjustments: Use insights from performance obligations to refine product or service offerings.

This thorough approach to the Revenue Recognition Report gives SaaS companies the information they need to improve their overall business growth and financial performance.

CHAPTER 4

Mastering the Amortization Waterfall Report in SaaS

Now, let's look at the Amortization Waterfall Report. It's important for tracking how costs like sales commissions are spread out over time.

In this chapter:

4.1 Creating the Amortization Waterfall Report

The amortization waterfall report is a key tool for SaaS companies to manage and track the amortization of capitalized costs, such as direct sales commissions, over their respective benefit periods. This report aligns these costs with revenue recognition, ensuring compliance with ASC 606.

Step 1: Identifying Capitalized Costs

Focus on direct sales commissions capitalized as per ASC 606 guidelines.

CONTRACT	CAPITALIZED COMMISSION	AMORTIZATION PERIOD
Alpha Co.	$3,000	3 years

Step 2: Determining Amortization Schedules

Set the amortization schedule in alignment with the revenue recognition for each contract.

CONTRACT	MONTHLY AMORTIZATION	TOTAL AMORTIZED	REMAINING BALANCE
Alpha Co.	$83.33	$83.33	$2,916.67

Regularly update the report to reflect the current period's amortization.

4.2 Sample Amortization Waterfall Report

This report focuses on the monthly amortization of capitalized sales commissions, providing a clear picture of how these costs are recognized over time.

In this example, a direct sales commission of $3,000 associated with Alpha Co.'s contract is amortized at $250 monthly over a 12-month period, demonstrating how the cost gradually impacts the company's financials.

MONTH	CONTRACT	MONTHLY AMORTIZATION	CUMULATIVE AMORTIZED	REMAINING BALANCE
Jan	Alpha Co.	$1,250	$250	$50
Feb	Alpha Co.	$1,250	$250	$50
-	-	-	-	-

Monthly Expense Tracking: As seen with Alpha Co.'s $250 monthly amortization, offering clarity on monthly financial impacts.

Progress of Amortization Over Time: Such as the increase from $250 to $500 in February for Alpha Co., reflecting ongoing financial commitment.

Complete Amortization Visualization: As shown in December, the total amortized amount reaches $3,000 with a remaining balance of $0, indicating the completion of amortization for Alpha Co.'s contract.

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4.3 Insights from Amortization Waterfall Report

The amortization waterfall report is not just a compliance tool; it's a strategic asset. Here's how it can be leveraged for insightful business decisions:

Financial Health Monitoring: By tracking cumulative and remaining balances, companies can gauge the impact of sales commissions on overall financial health.

Budgeting and Forecasting: Future budgets can be more accurately prepared by understanding the pattern and timeline of expense recognition.

Sales Strategy Alignment: The report helps in aligning sales strategies with financial outcomes, ensuring that commission structures are sustainable and profitable.

Performance Evaluation: Evaluate the effectiveness of sales personnel and commission structures in generating profitable contracts.

Cash Flow Management: Anticipate the timing of cash requirements for commission payments, aiding in better cash flow management.

Contract Assessment: Assess the financial viability of contracts based on the relationship between revenue generation and associated commission costs.

CHAPTER 5

Mastering the Amortization Consolidated Report in SaaS

In SaaS financial management, the Amortization Consolidated Report is essential for a holistic view of how capitalized costs, particularly sales commissions, are amortized across all contracts. This report is crucial for assessing the overall impact of these costs on the company's financial performance.

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5.1 Creating Amortization Consolidated Report

The Amortization Consolidated Report is a key tool for financial clarity and control in SaaS. This report aggregates amortization data across all customer contracts, providing a comprehensive view of amortized expenses.

It's crucial for understanding the overall financial impact of these costs on the business. The report's monthly and cumulative analyses offer insights into both immediate and long-term financial obligations, aiding in effective financial management and strategic planning.

Data Aggregation: Compile amortization data from all customer contracts to present a unified view of amortized expenses.

Monthly and Cumulative Analysis: Provide both monthly and cumulative figures to track the progress and remaining balance of amortized costs.

5.2 Sample Amortization Consolidated Report

This Amortization Consolidated Report example showcases how sales commission costs are managed over time.

For each contract, like with Alpha Co. and Beta Corp., we see the total commission cost initially assigned (Total Capitalized Commission), how much of that cost we've accounted for in our books this period (Amount Amortized This Period), and what's left to account for in the future (Remaining Balance).

The report sums up these figures for all contracts, giving a clear picture of overall commission expenses – both current and pending.

CONTRACT	TOTAL CAPITALIZED	AMORTIZATION THIS PERIOD	REMAINING BALANCE
Alpha Co.	$3,000	$250	$2,750
Beta Corp.	$4,500	$375	$4,125
Gamma LLC	$2,000	$166.67	$1,833.33
Total	$9,500	$791.67	$8,708.33

Clear Visibility of Commission Costs: The report shows detailed commission costs for each contract, like Alpha Co.'s total commission of $3,000 and Beta Corp.'s $4,500.

5.2 Sample Amortization Consolidated Report

Periodic Expense Management: It highlights the amount amortized in a specific period, such as $250 for Alpha Co., helping in understanding periodic financial outflows.

Future Financial Obligations: The remaining balance, like Gamma LLC's $1,833.33, gives insight into future expenses, aiding in long-term financial planning.

Overall Financial Impact: The total figures at the bottom, $9,500 in total commissions and $8,708.33 as the remaining balance, provide an overview of the company's overall financial commitment to commissions.

5.3 Strategic Insights from Amortization Consolidated Report

The Consolidated Report is a powerful tool in the hands of SaaS finance leaders. It provides a comprehensive view of financial operations, guiding strategic planning and decision-making.

Let’s discuss how the Consolidated Report can be leveraged for informed business planning, offering a deeper understanding of its impact on overall expenses, resource allocation, and performance insights.

5.3 Strategic Insights from Amortization Consolidated Report

Overall Expense Impact: Assess the impact of sales commissions on the company's overall expenses, aiding in more effective financial planning.

Resource Allocation: Allocate resources more efficiently by understanding which contracts are more cost-intensive.

Performance Insights: Gain insights into the effectiveness of different sales teams or commission structures across various contracts.

Compliance with ASC 606: Demonstrate compliance with ASC 606, showcasing a comprehensive approach to amortization.

Transparency for Stakeholders: Provide a clear and transparent view of financials to stakeholders, including investors and board members.

CHAPTER 6

Integrating Amortization Insights into SaaS Financial Strategy

These reports are a vital tool for understanding the long-term financial impact of sales commissions. Its strategic use extends beyond compliance, influencing key financial decisions in a SaaS company.

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6.1 Key Areas of Strategic Integration

Exploring the strategic integration of amortization insights reveals their significant impact on SaaS operations.

Key focus areas include contract management and pricing strategy, along with budgeting and financial forecasting, crucial for both immediate and long-term financial health.

Pricing Decisions: Evaluate how the amortization of sales commissions affects overall contract profitability. Adjust pricing strategies to ensure long-term sustainability.

Renewal Strategies: Identify contracts with favorable amortization patterns to prioritize renewals or renegotiations.

Expense Forecasting: Use the report to forecast future expenses related to sales commissions, aiding in more accurate and effective budgeting.

Revenue Alignment: Align budgeting and financial forecasting with the revenue recognition schedule, ensuring a holistic view of financial performance.

6.2 Sales Commission Policy Optimization

Optimizing sales commission policies is essential for aligning incentives with company objectives and assessing the long-term profitability of commission structures. This approach ensures sales efforts are both effective and financially sustainable.

Incentive Alignment: Adjust commission structures to incentivize sales behaviors that align with company goals and financial health.

Profitability Analysis: Analyze the long-term profitability of different commission models, using amortization data to guide sound decision-making.

6.3 Enhancing Cash Flow Management

Effective cash flow management is crucial for SaaS success. Delving into how amortization schedules can refine cash flow projections and liquidity planning highlights the importance of strategically allocating financial resources.

Cash Flow Projections: Use detailed amortization schedules to enhance cash flow projections and plan for future expenditures more effectively.

Liquidity Planning: Ensure adequate liquidity to cover commission payouts, aligning with revenue inflows for optimal cash management.

6.4 Stakeholder Communication & Reporting

Emphasizing strategic reporting and effective communication, this segment discusses the role of transparency in financial reporting. Clear communication about sales commissions strengthens investor relations and fosters internal financial awareness.

Investor Relations: Provide clear and transparent reporting to investors and stakeholders, highlighting how sales commission strategies align with long-term financial goals.

Internal Communication: Use the insights from the report to communicate financial strategies and goals within the company, fostering a culture of financial awareness and accountability.

6.5 Future-Proofing Sales Strategies

Future-proofing sales strategies in the SaaS sector involves staying agile and responsive to market shifts.

Market Responsiveness: Stay agile and responsive to market changes by regularly reviewing and adjusting commission structures and sales strategies based on amortization insights.

Sustainable Growth: Foster sustainable growth by ensuring that sales commission policies are financially viable in the long run, supporting the company's broader strategic objectives.

CHAPTER 7

Revolutionizing Revenue Reporting in SaaS with Sales Commission Software

Sales commission software is an important part of making sure that revenue reporting and amortization follow the rules set by ASC 606 in the complicated world of SaaS financial management.

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7.1 Streamlining Rev Reporting and Amortization

Automated Revenue Recognition: Sales commission software automatically records revenue, making sure that the five-step ASC 606 model is followed. This makes complicated revenue-recognition situations easier to understand.

Integrating Amortization Schedules: These systems help accurately amortize costs related to sales by combining data on sales commissions, which makes them match up with the recognition of revenue.

7.2 Advantages of Sales Commission Software

Real-time Reporting: Offers real-time reporting capabilities, providing up-to-date insights into revenue and commission expenses.

Operational Efficiency: Automates and streamlines processes, significantly reducing manual effort and the risk of errors.

Improved CRM Data Hygiene: Promotes cleaner, more accurate CRM data management by employees, which is crucial for reliable reporting and commission management.

Transparency and Accuracy: Ensures transparent and accurate commission calculations, enhancing trust among sales teams.

7.3 Real-life Case Studies

SirionLabs

How Sirion automated sales compensation to align with rapid expansion goals

HQ: Bellevue, Washington

Employees: ~1000

CRM: salesforce

After expanding their sales team from 10 to 75, Sirion adopted Visdum, automating sales compensation and reducing operational complexities.

The result was a streamlined process for their 75 reps, allowing for 15 unique compensation structures and 60 unique variations, with increased transparency and stability.

Read the detailed case study here.

7.3 Real-life Case Studies

How WebEngage shifted from spreadsheets to an aligned sales commission process, bringing visibility & transparency for sales teams

HQ: Dubai, UAE

Employees: ~300

CRM: salesforce

Facing challenges with an expanding team and evolving sales strategies, WebEngage turned to Visdum in June 2022. This shift empowered their sales team, enhancing productivity and ensuring error-free compensation calculations for their 60+ commissioned sellers, aligning 4 complex commission plans.

[Read the detailed case study here.]

CHAPTER 7

Simplify Your SaaS Sales Commission Accounting with Visdum

Transform your approach to ASC 606 compliance with Visdum – tailored for SaaS sales commission accounting. Experience the ease of automation and accuracy that come with our intuitive features and seamless integrations.

Automate Your ASC 606 Sales Commission Accounting in Simple Steps:

Select your dates: Choose the commission dates you need to process. Whether it's monthly, quarterly, or yearly, we've got you covered.

Customize Your Criteria: Effortlessly group transactions and set specific criteria to exclude certain commissions, like those paid to business development and customer success teams. Gain control over what you capitalize on.

Amortization Choices: Decide how you want to amortize commissions over the contract period or the estimated lifetime of the customer relationship.

Simplify Your SaaS Sales Commission Accounting with Visdum

Seamless Data Mapping: Easily map your data streams and generate comprehensive sales commission reports for full ASC 606 compliance.

When SaaS companies use sales commission software like Visdum, they can make sure that their sales strategies are in line with their financial reporting needs.

SaaS-Specific Data Models: Visdum is built with SaaS metrics in mind, supporting ACV, ARR, MRR, and services revenue.

Seamless Integration and Automation: With powerful integrations with CRMs, ERPs, and billing systems like Salesforce, NetSuite, HubSpot, and Stripe, etc., Visdum automates the entire sales commission process, reducing errors and saving time.

Advanced Reporting Capabilities: Visdum offers dashboards for reps and managers, enhancing transparency and performance tracking.

With Visdum, you're not just complying with ASC 606 – you're setting a new standard in efficiency and accuracy for your financial operations. Make the smart choice today.

Further Reading

Expand Your ASC 606 Knowledge with Our Comprehensive Resources

For an In-Depth Guide on Sales Compensation Compliance: Discover our exclusive ebook on "**The SaaS CFO's Blueprint: ASC 606 Compliance for Sales Commissions**." Dive deeper into the nuances of sales compensation compliance under ASC 606.

Read our ebook.

A guide to ASC 606 Compliance Tools: Explore our blog for a detailed guide on the best tools to ensure ASC 606 compliance effectively.

Learn more here.

The Essential Guide to ASC 606 SaaS Revenue Recognition in 2024: Gain insights into how ASC 606 affects revenue recognition in the SaaS industry.

Read our detailed analysis.

A Practical Guide to ASC 606 Sales Commissions (+ Sample Reports): Uncover the critical aspects of sales commission accounting under ASC 606 in our insightful blog.

Explore the topic.

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Streamline your ASC 606 commission accounting today

Write to us at jeetesh@visdum.com for a personalised demo.

Want to see your comp plans live on Visdum?

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