Pinkman Inc. (“Pinkman”) is a wholly owned subsidiary of an SEC registrant. Pinkman has a contract (the “Contract”) with the Heisenberg Institute (“Heisenberg”), which is a privately funded research institute with the stated mission of developing a cure for narcolepsy and other wide-spread sleep disorders.

Under the Contract (which has a term of ten years), Pinkman serves as the administrator of the “Lab,” which is a multiple-unit campus consisting of recreational vehicles that Heisenberg uses to conduct research. As administrator of the Lab, Pinkman provides Heisenberg a single, distinct combined bundle of services (the “Lab Administration”) that comprises all the activities necessary to administer the Lab and conduct research therein. To provide the Lab Administration, Pinkman employs approximately 15,000 personnel (including administrators, scientists, researchers, technicians, etc.) that administer and maintain the Lab infrastructure and conduct the research performed therein. Research is conducted via multiple individual “Research Programs.”

Pinkman is compensated by Heisenberg under the Contract on a cost-plus-fixed-fee basis. In accordance with this payment structure, Heisenberg reimburses Pinkman (via a prefunded bank account) for all expenses incurred by Pinkman in its provision of the Lab Administration (including all labor-related costs associated with Pinkman’s employees, such as salaries, benefits, and severance, etc.), and Heisenberg additionally pays Pinkman a predetermined annual fixed fee (as established within the Contract terms). The annual fixed fee does not fluctuate with changes in the costs incurred by Pinkman. In other words, regardless of the costs incurred by Pinkman in its provision of the Lab Administration (all of which are reimbursed by Heisenberg), the fixed fee that Pinkman receives does not change.

Additional information related to Pinkman’s operations and the Contract is as follows:

- Pinkman is the legal employer of all the personnel that it employs. In its role as employer, Pinkman is responsible for all activities normally associated with a legal employer, including (but not limited to) the following:
  - Pinkman is responsible for hiring all employees, and it is the legal counterparty to the employee in each individual’s employment contract.
  - Pinkman is responsible for evaluating employee performance, and it has the discretion to terminate employees who are not performing well.
  - Pinkman is responsible for handling and resolving employee complaints, including any potential lawsuits that may arise during the course of employment.
  - Pinkman is legally obligated to pay its employees, even if it does not receive reimbursement from Heisenberg. (However, Pinkman has never
Pinkman also manages employee compensation, including decisions regarding salary, benefits, and merit/equity adjustments. However, because the Contract involves the use of personnel for the benefit of a private entity, the Contract sets certain restrictions and minimum requirements regarding the manner in which Pinkman must manage its employee workforce, including the following relevant terms:

- Heisenberg determines a maximum employee salary, which is commensurate with certain established rates Heisenberg offers its employees. Although Pinkman has the ability to pay its employees more than this established rate, any salary in excess of this established rate is not reimbursable by Heisenberg. In practice, Pinkman does not employ any personnel to which it pays more than the maximum rate established by Heisenberg.

- Heisenberg determines the minimum level of annual paid vacation days and annual paid holidays that must be provided to Pinkman’s employees.

- Heisenberg must approve all changes in the fringe benefits offered to Pinkman’s employees, such as new types of insurance coverage, changes in premium levels and eligibility for coverage, revisions to retirement plans, and bonus programs.

- Pinkman cannot use its employees for any tasks other than the Lab Administration and cannot transfer its employees to other of its corporate parent’s subsidiaries. In addition, Pinkman does not employ any personnel other than those who perform the Lab Administration under the Contract.

- The Contract specifies the overall number of employees that Pinkman must employ each year during the Contract’s term. Pinkman must employ between 85 percent and 115 percent of this number to be contractually compliant.

- Heisenberg establishes specific job skill requirements that it requires Pinkman’s employees to have, but Heisenberg does not review and approve the individual employees hired by Pinkman.

- In the event that the Contract is terminated and Heisenberg appoints a new vendor to administer the Lab, the employees of Pinkman must be transferred to employment with the new vendor. The validity of this transfer provision is demonstrated by the fact that Pinkman inherited its employees from Heisenberg’s previous vendor when Pinkman initially secured the Contract to be the administrator for the Lab.
The Contract contains a detailed statement of work (SOW) that lists and describes all the activities that are required to be performed by Pinkman’s employees. Heisenberg must approve all changes, additions, or deletions to the SOW.

- The SOW includes detailed descriptions of each of the specific Research Programs that are to be undertaken at the Lab by Pinkman’s employees. The Research Programs have been developed, planned, and approved by Heisenberg.

- The SOW also describes the administrative tasks (e.g., janitorial, maintenance) to be performed by Pinkman’s employees to maintain the Lab infrastructure.

All costs incurred by Pinkman must be in accordance with an established “Budget.” The Budget contains detailed funding information for all of the individual Research Programs and administrative tasks at the Lab.

The Budget is formally updated and approved by Heisenberg annually, but it is a fluid document that is continuously reviewed and updated by Heisenberg throughout the year to respond to its shifting priorities. For example, if Heisenberg believes that “Research Program X” has a need for a specific employee skill set that is currently working on “Research Program Y,” Heisenberg can adjust the Budget to move that employee skill set and the related labor costs from “Research Program Y” to “Research Program X.”

Heisenberg has the sole and unilateral ability to adjust the Budget as it deems necessary.

The work of Pinkman’s employees is overseen by Heisenberg Representatives (HRs). The HRs are Heisenberg employees that work at the Lab, and they are responsible for ensuring that the work of Pinkman’s employees (including the Research Programs) is in accordance with the SOW and the Budget.

Heisenberg holds title to all resources, systems, furniture, etc. used by Pinkman to deliver the Lab Administration.

**Required:**

Using the guidance in ASC 606, *Revenue From Contracts With Customers*, determine whether Pinkman is a principal or an agent in the Contract to provide Lab Administration to Heisenberg, and therefore whether Pinkman should recognize revenue on a gross or net basis.