

SaaS REVENUE RECOGNITION PRINCIPLES

HOW TO TREAT SETUP AND IMPLEMENTATION FEES

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Our survey of 70 publicly traded SaaS companies includes excerpts from each company's revenue recognition accounting policy footnote, and their policy for recognizing non-subscription service revenues. The survey demonstrates the disparity in practice as well as trends in the revenue recognition models used by SaaS companies. You can use this information as a tool to gauge the accuracy, transparency and completeness of your own revenue recognition policies and disclosures. Attached at the end of this white paper is a complete copy of the SaaS Revenue Recognition Survey.



Revenue recognition can be a tricky issue, even for SaaS companies with traditionally simplistic recurring revenue streams. As SaaS business models and GAAP revenue rules have evolved, companies have adapted their revenue recognition practices.

Our SaaS survey analyzes these changing practices and offers insights that can help you evaluate your company's revenue recognition policies and disclosures.

In 2009, the release of Accounting Standard Update (ASU) 2009-13¹ relaxed the revenue recognition rules for “multiple element” arrangements, including SaaS subscription and non-subscription services (e.g., setup and implementation up-front fees, other services and products), moving SaaS companies away from the restrictive and complex software revenue rules created under SOP 97-2. giving them

more flexibility in the way they recognize revenues – especially the non-subscription fees.

To determine how SaaS companies have changed revenue recognition practices under ASU 2009-13, we surveyed information provided by public SaaS companies between 2012 and 2014.

The results were compelling, and we discovered two trends: a shift in the way SaaS companies treat non-subscription revenue and a shift in the recognition period used for these non-subscription revenues.

¹ ASU No. 2009-13. “Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force”

TREND 1 - A SHIFT IN REVENUE TREATMENT

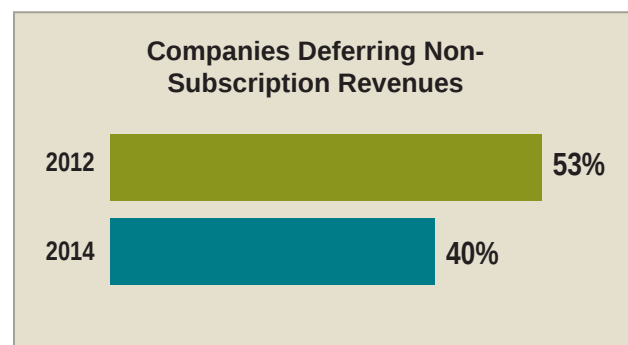
Our 2012 survey focused on how SaaS companies treated the non-subscription portion of revenues. We reviewed 47 companies and found that 25 (or 53%) deferred fees related to non-subscription services.

In 2014 we updated the survey and reviewed 70 companies. We found that only 28 companies (or 40%) deferred non-subscription revenues—a clear decline.

Why the shift in revenue treatment with no changes in accounting rules between early 2012 and early 2014? We examined footnote disclosures and deduced that more companies were determining that ancillary services and products had stand-alone value.

The rules say that stand-alone value exists “if the services/deliverables could be sold separately by another vendor, or if the customer could resell the services/deliverables on a stand-alone basis.”² The

rules further state that there does not have to be an observable market for the item(s) to support stand-alone value, and stand-alone value can be derived from “any competitor’s largely interchangeable products or services in standalone sales to similarly situated customers.”



² Prior to ASU 2009-13, a vendor could only use certain types of evidence when determining the fair market value of deliverables.

The market now widely accepts SaaS/Cloud software solutions for virtually all applications, with open-source code/APIs and an ever-increasing number of providers who can install, configure and integrate these solutions. As a result, more SaaS companies can confidently state that these non-subscription services meet the GAAP definition of having stand-alone value.

The accounting policy of Workday Inc., a Cloud-based ERP provider with a quickly growing customer base and \$468M in revenues in 2013, clearly illustrates this trend:

*In determining whether professional services can be accounted for separately from subscription services, we consider the availability of the professional services from other vendors, the nature of our professional services and whether we sell our applications to new customers without professional services. In fiscal 2013, we determined that we had established standalone value for the deployment services related to our financial management application. This was primarily due to the growing number of partners that were trained and certified to perform these deployment services, the successful completion of a significant deployment engagement by a firm in our professional services ecosystem and the sale of several financial management cloud application subscription arrangements to customers without our deployment services.*³

However, not all SaaS companies immediately recognize revenue for these non-subscription services, due to conflicting messaging from the SEC. The SEC warns SaaS companies against recognizing fees for services in circumstances when “the customer would ascribe a significantly lower, and perhaps no, value to elements ostensibly associated with the up-front fee in the absence of the regis-

trant’s performance of other contract elements.”⁴ By analogy, such fees are similar to the upfront fee paid to join a gym—the value of this upfront fee (i.e., lower monthly fees in the future) is provided to the customer over a period of time.

It makes intuitive sense that most SaaS customers find little value in the up-front services without the ongoing software subscription. As a result, some SaaS companies conclude that deferring such non-subscription services is appropriate.

Benefitfocus, a SaaS provider with \$105 million in revenues in 2013, concluded that it needed to defer non-subscription revenues: “The Company’s professional services are not sold separately from the software services and there is no alternative use for them. As such, the Company has determined that the professional services do not have standalone value.”⁵

The loosely written revenue rules seem to allow companies to utilize differing accounting practices for recognizing non-subscription service revenues. Although it creates an apparent disparity in practice, an increasing number of SaaS companies are concluding that such services have stand-alone value and are choosing to recognize revenue immediately.

³ Workday, Inc. form 10-K for the year ended January 31, 2013

⁴ SAB TOPIC 13A, Paragraph 3f, Q1 Q Response, Sequence 171

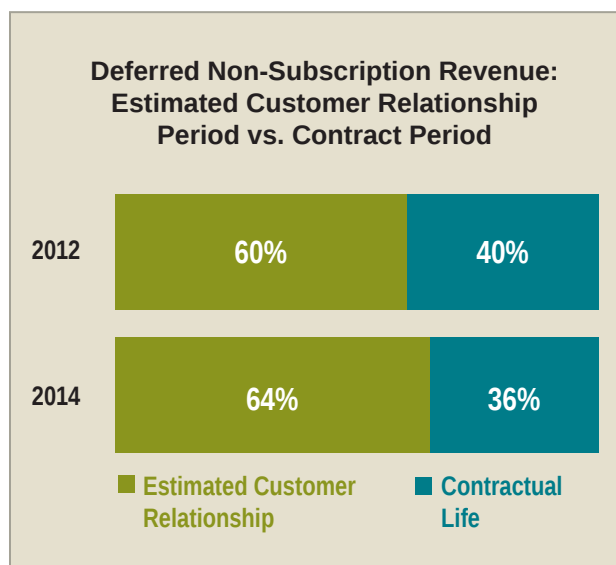
⁵ Benefitfocus, Inc. form 10-K for the year ended December 31, 2013

TREND 2 - A SHIFT IN RECOGNITION PERIOD

What is the appropriate recognition period for the non-subscription revenues that do get deferred?

The GAAP rule governing the topic for SEC registrants states: *The period over which the deferred upfront fee should be recognized should extend beyond the initial contractual period if the relationship with the customer is expected to extend beyond the initial term and the customer continues to benefit from the payment. In addition, customers may pay a higher upfront fee for additional services, custom features, or functionality. Upon renewal, the customers would continue to benefit from these incremental services, features, or functionality. Therefore, it would be appropriate to recognize the upfront fees over the expected customer relationship term rather than the initial term.*⁶

As illustrated, 64% (18 of the 28 companies who disclosed the amortization period) of SaaS companies deferring the non-subscription revenues in our 2014 survey, elected to recognize such revenues over the estimated customer relationship period rather than the contractual life (i.e. subscription term). Those few who did recognize the non-subscription revenues over the contractual life likely viewed such services as (1) being directly connected to a specific contract or project, and (2) not benefitting the customer after the expiration of the initial contract.



As this graph illustrates, this shift in practice over the last three years was not significant but does confirm that SaaS industry practice is migrating to the view that customer relationship is the appropriate recognition period. Customers buying these services are making an investment they hope lasts beyond the initial SaaS subscription period. SaaS companies understand that customer renewals equate to long-term customer relationships, and they are increasingly matching the revenue with the duration of these relationships.

⁶ASC 605-10-S99, A3f, Question 1; SAB Topic 13A Paragraph 3f, Question 1

LOOKING FORWARD

Overall, SaaS companies now seem to better understand and apply the multiple element revenue recognition rules, modified in 2009, likely because of SEC comment letters and the advice they've received from their auditors. However, the ever-evolving nature of SaaS business models require finance executives and their teams to keep their eyes on the revenue ball and continually revisit how their company recognizes subscription and non-subscription revenues.

The new (joint FASB and IASB) revenue standard (effective for public companies in 2017 and private companies in 2018), is set to replace all SaaS revenue guidance, but the new standard doesn't specifically address upfront fees, and the SEC hasn't indicated if it will amend or retract its guidance on this topic, so at the moment it is unclear how practice will change when the new rules take effect.



STRATEGIC INSIGHTS PRACTICAL ACTION

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You can count on Armanino to think strategically, to provide the sound insights that lead to positive action. We address not just your compliance issues, but your underlying business challenges, as well — assessing opportunities, weighing risks, and exploring the practical implications of both your short- and long-term decisions.

When you work with us, we give you options that are fully aligned with your business strategy. If you need to do more with less, we will implement the technology to automate your business processes. If it's financial, we can show you proven benchmarks and best practices that can add value company-wide. If the issue is operational, we'll consult with your people about workflow efficiencies. If it's compliance, we'll ensure you meet the requirements and proactively plan to take full advantage of the changes at hand. At every stage in your company's lifecycle, we'll help you find the right balance of people, processes and technology.

For further information regarding revenue recognition, contact one of our SaaS expert partners:



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SaaS REVENUE RECOGNITION PRINCIPLES

SURVEY RESULTS



SaaS Revenue Recognition Database

Company		Ticker	Auditor	Year -End	Revenue (000's)	Non Subscription Revenue (000s)	Recognized over subscription period (SP), as delivered (AD) or customer life (CL)?	Implementation/Setup Fees Amortization Period (ND) Not Disclosed (AD) As delivered	Non-Subscription Revenue Footnote Detail
1	Accelrys	ACCL	Big 4	3/31/2013	\$ 168,526	\$ 82,133	CL	ND	Hosting Services. We are an application service provider ("ASP"), where we provide hosting services that allow customers access to software that resides on our servers. The ASP model typically includes an up-front fee and a monthly commitment from the customer that commences upon completion of the implementation through the remainder of the customer life. The up-front fee is the initial setup fee, or the implementation fee. The monthly commitment includes, but is not limited to, a fixed monthly fee or a transactional fee based on system usage that exceeds monthly minimums. We do not view the activities of signing the contract or providing initial setup services as discrete earnings events. Revenue is typically deferred until the date the customer commences use of our services, at which point the up-front fees are recognized ratably over the customer life of the customer arrangement.
2	Aspen Technology, Inc.	AZPN	Big 4	06/30/2014	\$ 391,453	\$ 40,967	SP	ND	In circumstances in which professional services are sold as a single arrangement with, or in contemplation of, a new aspenONE license or point product arrangement with Premier Plus SMS, revenue is deferred and recognized on a ratable basis over the longer of (i) the period the services are performed, or (ii) the license term.
3	Athenahealth, Inc.	ATHN	Big 4	12/31/2013	\$ 595,093	\$ 31,776	CL	12 Years	Implementation revenue consists primarily of professional services fees related to assisting customers with the implementation of the Company's services and are generally billed upfront and recorded as deferred revenue until the implementation is complete and then, as the service does not have stand-alone value, it is recognized ratably over the longer of the life of the agreement or the estimated expected customer life, which is currently estimated to be 12 years.
4	Attunity Ltd	ATTU	Big 4	12/31/2013	\$ 25,197	\$ 11,833	AD	AD	Service revenues are recognized as the services are performed.
5	Automatic Data Processing, Inc.	ADP	Big 4	6/30/2013	\$ 11,310,100	ND	ND	ND	Not Disclosed
6	Bazaarvoice Inc	BV	Big 4	4/30/2013	\$ 160,296	ND	ND	ND	Not Disclosed
7	Benefitfocus Inc	BNFT	Big 4	12/31/2013	\$ 104,752	\$ 7,039	CL	ND	The Company also derives revenue from professional services which primarily include fees related to the integration of customers' systems with the Company's platform, which typically includes discovery, configuration, deployment, testing, and training. The Company's professional services are not sold separately from the software services and there is no alternative use for them. As such, the Company has determined that the professional services do not have standalone value. Accordingly, software services and professional services are combined and recognized as a single unit of accounting. The Company defers recognition of revenue for professional services fees and begins recognizing such revenue once the services are performed and the related software services have commenced, ratably over the longer of the contract term or the estimated expected life of the customer relationship.
8	Blackbaud, Inc.	BLKB	Big 4	12/31/2013	\$ 530,817	\$ 301,446	CL	ND	Any revenue related to upfront activation, set-up or implementation fees is recognized ratably over the estimated period that the customer benefits from the related hosted application. Direct and incremental costs relating to activation, set-up and implementation for hosted applications are capitalized until the hosted application is deployed and in use, and then expensed over the estimated period that the customer benefits from the related hosted application. <u>Services</u> We generally bill consulting, installation and implementation services based on hourly rates plus reimbursable travel-related expenses. Revenue is recognized for these services over the period the services are performed.
9	Bottomline Technologies (de), Inc.	EPAY	Big 4	6/30/2013	\$ 254,774	\$ 114,212	CL	5-7 years	We periodically charge up-front fees related to installation and integration services in connection with certain of our hosted or SaaS offerings. These fees typically do not have stand-alone value and are deferred and recognized as revenue ratably over the estimated customer relationship period (generally five to seven years). The revenue recognition period associated with these fees normally commences upon customer implementation.
10	Brightcove Inc	BCOV	Big 4	12/31/2013	\$ 109,895	\$ 6,779	SP	ND	The Company derives revenue from the sale off professional services, which include initiation, set-up and customization services. Initiation fees and other professional services charged when services are first activated are recorded as deferred revenue, and recognized as revenue ratably over a term beginning upon go-live of the software application and extending through the contract term.To date, the Company has concluded that all of the professional services included in multiple-element arrangements executed have stand-alone value, with the exception of initiation and activation fees. The Company generally recognizes the fixed portion of subscription fees and implementation fees ratably over the contract term.
11	Broadridge Financial Solutions, Inc.	BR	Big 4	6/30/2013	\$ 2,430,800	ND	CL	ND	Securities Processing Solutions—Revenues are generated from fees for transaction processing. Client service agreements often include up-front consideration as well as a recurring fee for transaction processing. In accordance with Accounting Standards Codification Topic ("ASC") No. 605 "Revenue Recognition" up-front implementation fees are deferred and recognized on a straight-line basis over the longer of the respective service term of the contract or the expected customer relationship period which commences after client acceptance when the processing term begins. Fees received from processing and outsourcing services are recognized as revenue in the period in which the services have been rendered and when collectability is reasonably assured.

SaaS Revenue Recognition Database

Company	Ticker	Auditor	Year -End	Revenue (000's)	Non Subscription Revenue (000s)	Recognized over subscription period (SP), as delivered (AD) or customer life (CL)?	Implementation/Setup Fees Amortization Period (ND) Not Disclosed (AD) As delivered	Non-Subscription Revenue Footnote Detail
12 Callidus Software	CALD	Big 4	12/31/2013	\$ 112,337	ND, but nonreoccurring is 30,603	AD	AD	Service and other revenue primarily consist of training, integration, and configuration services. Generally, the Company's professional services arrangements are on a time-and-materials basis. Time and material services are recognized as revenue as the services are rendered based on inputs to the project, such as billable hours incurred. For fixed-fee professional service arrangements, the Company recognizes revenue under the proportional performance method of accounting and estimates the proportional performance on a monthly basis, utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If the Company does not have a sufficient basis to measure progress toward completion, revenue is recognized upon completion. Service and other revenue also includes license revenue from perpetual licenses which are recognized upon delivery of the product, using the residual method, assuming all the other conditions for revenue recognition have been met.
13 ChannelAdvisor Corp	ECOM	EY	12/31/2013	\$ 68,004	ND	SP	ND	Other sources of revenue consist primarily of implementation fees, which may include fees for providing launch assistance and training. The Company's implementation services are not sold separately from the subscription and there is no alternative use for them. As such, the Company has determined the implementation services do not have standalone value. Accordingly, subscription and implementation services are combined and recognized as a single unit of accounting.
14 Citrix Systems, Inc	CTXS	Big 4	12/31/2013	\$ 2,918,434	\$ 1,443,932	CL	ND	SaaS revenues consist primarily of fees related to online service agreements, which are recognized ratably over the contract term, which is typically 12 months. In addition, SaaS revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. The Company capitalizes certain third-party commissions related to Subscription Advantage renewals.
15 Concur Technologies, Inc.	CNQR	National	9/30/2013	\$ 439,826	ND	AD	AD	Professional services revenues consist of fees for professional services, which relate to system implementation and integration, planning, data conversion, training, and documentation of procedures. These revenues are recognized as the services are rendered for time and material contracts and when the milestones are achieved and accepted by the customer for fixed-fee contracts.
16 Constant Contact, Inc.	CTCT	Big 4	12/31/2013	\$ 285,383	ND	AD	AD	The Company also offers ancillary services to its customers related to its subscription-based products such as custom services and training. Revenue from custom services and training is recognized as the services are performed.
17 Cornerstone OnDemand, Inc.	CSOD	Big 4	12/31/13	\$ 185,129	ND	SP	ND	Our consulting services have standalone value because third-party service providers, distributors or our clients themselves can perform these services without our involvement. The consulting services we provide are to assist clients with the configuration and integration of our solutions. In a limited number of cases, multiple deliverable arrangements may include consulting services that do not have value on a standalone basis separate from a solution, such as when the client's intended use of a solution requires enhancements to its underlying features and functionality. In these cases, revenue is recognized as one unit of accounting on a straight-line basis from the point at which the consulting services that do not have value on a standalone basis have been completed and accepted by the client, through the remaining term of the agreement.
18 Daegis, Inc.	DAEG	National	4/30/2013	\$ 30,958	ND	ND	ND	Not Disclosed
19 Demandware Inc	DWRE	Big 4	12/31/2013	\$ 103,736	\$ 8,003	CL	6 years	The Company generates revenue from sales of subscription and support fees and related services, which include application configuration, integration and training. The Company also derives revenue from setup fees. The setup fees are recorded as deferred revenue and recognized as revenue ratably over the longer of the subscription agreement or the estimated expected life of the customer relationship, as discussed below. Service arrangements entered into prior to the customer's initial use of the Company's cloud-based digital commerce solutions include implementation services such as integration, application configuration and training. Such services can be performed by the Company, third-party service providers, distributors or customers themselves without the Company's involvement. However, because such services are generally delivered prior to the customer being able to use the Company's platform, the Company has concluded that such fees do not have stand-alone value, and the Company recognizes them on a straight-line basis over the longer of the life of the subscription agreement or the estimated expected life of the customer relationship. As the Company gains more experience with customer renewals, the Company continues to evaluate the estimated life of their customers. At December 31, 2012, the Company reassessed the estimated expected life of their customers, increasing it to just over six years.
20 E2open	EOPN	Big 4	2/28/2014	\$ 71,241	\$ 14,803	AD	AD	Professional services and other revenue is derived primarily from fees for enabling services, such as solution consulting, solution deployment and B2B on-boarding, that help our customers deploy our solutions. These services are sold in conjunction with the sale of our on-demand software solutions or on a standalone basis. The Company accounts for subscriptions and support and professional services revenue as separate units of accounting. Revenue allocated to subscriptions and support is recognized over the contractual term. Professional services revenue sold on a fixed-fee basis is recognized either under the proportional performance method of accounting using estimated labor hours, or upon acceptance of the services. Revenue from professional services sold on a time-and-material basis is recognized as services are delivered.

SaaS Revenue Recognition Database

Company	Ticker	Auditor	Year -End	Revenue (000's)	Non Subscription Revenue (000s)	Recognized over subscription period (Sp), as delivered (AD) or customer life (CL)?	Implementation/Setup Fees Amortization Period (ND) Not Disclosed (AD) As delivered	Non-Subscription Revenue Footnote Detail
21 eGain Corp	EGAN	Regional	6/30/2013	\$ 58,889	\$ 13,755	CL	28 months	We derive revenue from subscription and support fees primarily consist of cloud revenue from customers accessing our enterprise cloud computing services, term license revenue, and maintenance and support revenue; Professional services primarily consist of consulting, implementation services and training. We enter into arrangements with multiple-deliverables that generally include subscription, maintenance and support, and professional services. Professional Services Revenue includes system implementation, consulting and training. For license transactions, the majority of our consulting and implementation services qualify for separate accounting. For cloud, consulting and implementation services that do not qualify for separate accounting, we recognize the services revenue ratably over the estimated life of the customer cloud relationship, once cloud has gone live or system ready. We currently estimate the life of the customer cloud relationship to be approximately 28 months, based on the average life of all cloud customer relationships.
22 Ellie Mae, Inc.	ELLI	National	12/31/2013	\$ 101,845	ND	AD	AD	Services Revenues. The Company provides mortgage-related and other business services, including automated documentation preparation and compliance reports. Services revenues are recognized after the services are rendered. In order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. Additionally, we have concluded that professional services have standalone value. In establishing standalone value, we considered the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, and the timing of when the professional services contract was signed in comparison to the subscription service start date.
23 EMC	EMC	Big 4	12/31/2013	\$ 23,222,000	\$ 13,690,000	AD	AD	We recognize revenue from fixed-price support or maintenance contracts sold for both hardware and software, including extended warranty contracts, ratably over the contract period and recognize the costs associated with these contracts as incurred. Installation services revenues are recognized as the services are being performed.
24 Financial Engines, Inc.	FNGN	Big 4	12/31/2013	\$ 238,958	\$ 205,483	CL	7 years	The Company derives platform revenue from recurring, subscription-based fees for access to either its full suite of services, including Professional Management, Online Advice service and Retirement Evaluation, or to its legacy Online Advice service only, and to a lesser extent, from setup fees. Platform revenue is generally paid annually or quarterly in advance and recognized ratably over the term of the subscription period beginning after the completion of customer setup and data connectivity. Setup fees are recognized ratably over seven years.
25 FleetMatics Group PLC	FLTX	Big 4	12/31/2013	\$ 133,492	ND	CL	6 years	The Company accounts for all fees received under its subscription agreements as a single unit of accounting and, except for any up-front fees, recognizes the total fee amount ratably on a daily basis over the term of the subscription agreement. The Company records the amount of the up-front fee as deferred revenue upon invoicing and recognizes that amount as revenue ratably on a daily basis over the estimated average customer relationship period of six years, which is longer than the typical subscription agreement term of 36 months.
26 HealthStream, Inc.	HSTM	Big 4	12/31/2013	\$ 132,274	ND	AD	AD	Subscription-based revenue is recognized ratably over the service period of the underlying contract. All other service revenues are recognized as the related services are performed or products are delivered. Revenues from professional services include content maintenance, consulting, and implementation services. Fees are based on the time and efforts involved, and revenue is recognized upon completion of performance milestones using the proportional performance method.
27 Hewlett Packard	HPQ	Big 4	10/31/2013	\$ 120,298,000	ND	ND	ND	Not Disclosed
28 Imperva	IMPV	Big 4	12/31/2013	\$ 137,759	\$ 72,153	AD	AD	Professional service revenue primarily consists of the fees the Company earns related to installation and consulting services. The Company recognizes revenue from professional services upon delivery or completion of performance. Professional service arrangements are typically short term in nature and are largely completed within 90 days from the start of service. Training services are recognized upon delivery of the training.
29 Incontact Inc	SAAS	Big 4	12/31/2013	\$ 130,037	ND	CL	ND	Revenue is derived on a non-recurring basis for professional services included in implementing or training. Because our professional services, such as training and installation, are not considered to have standalone value, we defer revenue for upfront fees received for professional services in multiple element arrangements and recognize such fees as revenue over the estimated life of the customer.

SaaS Revenue Recognition Database

Company	Ticker	Auditor	Year -End	Revenue (000's)	Non Subscription Revenue (000s)	Recognized over subscription period (SP), as delivered (AD) or customer life (CL)?	Implementation/Setup Fees Amortization Period (ND) Not Disclosed (AD) As delivered	Non-Subscription Revenue Footnote Detail
30 Informatica Corp.	INFA	Big 4	12/31/2013	\$ 811,571	\$ 413,738	AD	AD	We enter into multiple element arrangements that contain software and software-related elements, such as software licenses, subscription-based licenses for address validation offerings, maintenance and support, consulting, and education services. Consulting revenues are primarily related to configuration, installation, and implementation of our products. These services are generally performed on a time-and-materials basis and, accordingly, revenues are recognized as the services are performed. Occasionally, contracts are on a fixed-fee basis and, accordingly, revenues are recognized on a proportional performance model based on actual services performed. Consulting services, if included as part of the software arrangement, generally do not require significant modification or customization of the software and are not considered essential to the functionality of the software.
31 Interactive Intelligence Group Inc	ININ	Big 4	12/31/2013	\$ 318,234	\$ 170,293	AD	AD	The Company generates revenues from other services that it provides to its customers and partners including fees for professional services and educational services. Revenues from professional services, which include implementing the Company's solutions, and educational services, which consist of training courses for customers and partners, are recognized as the related services are performed.
32 Intralinks Holdings, Inc.	IL	Big 4	12/31/2013	\$ 234,496	ND	CL	2-4 years	Additionally, certain of our contracts contain provisions for set-up, implementation and other professional services relating to the customer's use of our platform. We believe that these set-up, implementation and other professional services provide value to the customer over the entire period that the exchange is active, including renewal periods, and therefore the revenue related to these services is recognized over the longer of the contract term or the estimated relationship life. We continue to evaluate the length of the amortization period of the revenue related to set-up, implementation and other professional service fees, as we gain more experience with customer contract renewals.
33 Intuit Inc.	INTU	Big 4	7/31/2013	\$ 4,151,000	\$ 1,515,000	ND	ND	Not Disclosed
34 J2 Global Communications, Inc.	JCOM	Regional	12/31/2013	\$ 520,801	\$ 371,088	CL	ND	Additionally, the Company defers and recognizes subscriber activation fees and related direct incremental costs over a subscriber's estimated useful life.
35 Liveperson, Inc.	LPSN	National	12/31/2013	\$ 177,805	ND	SP	ND	When professional service fees add value to the customer on a standalone basis, we recognize professional service fees upon completion and customer acceptance in accordance with FASB Accounting Standards Update 2009-13. If a professional services arrangement does not qualify for separate accounting, we recognize the fees, and the related labor costs, ratably over the contracted period.
36 LogMeIn, Inc.	LOGM	Big 4	12/31/2013	\$ 166,258	ND	CL	ND	Our multi-element arrangements typically include subscription and professional services, which may include development services. We evaluate each element within the arrangement to determine if they can be accounted for as separate units of accounting. In cases where we have determined that the delivered items within our multi-element arrangements do not have value to the customer on a stand-alone basis, the arrangement is accounted for as a single unit of accounting and the related consideration is recognized ratably over the estimated customer life.
37 Lyris, Inc.	LYRI	Regional	6/30/2013	\$ 36,184	\$ 7,846	ND	ND	Not Disclosed
38 Marin Software Inc	MRIN	Big 4	12/31/2013	\$ 77,315	ND	ND	ND	The Company generates revenues principally from subscriptions to its platform either directly with advertisers or with advertising agencies. As of December 31, 2013, the Company did not have stand-alone value for the professional services and training services. This is because the Company includes professional services and training services with the Company's subscription services and those services are not available from other vendors.
39 Marketo Inc	MKTO	Big 4	12/31/2013	\$ 95,918	\$ 10,823	AD	AD	The Company derives its revenue from subscription and support revenue and professional services and other revenue. In the majority of instances, revenue from new customers is generated under sales agreements with multiple elements, comprised of subscription and support fees from customers accessing the Company's cloud-based platform and applications and professional consultation services. Professional services and other have stand-alone value from the related subscription services. The Company's professional services also consist of short-term implementation services, which are offered at a flat fee. The implementation services consist of short-term (usually spanning approximately 90 days) "use it or lose it", services to assist customers with standard implementation and to implement the customer's first marketing campaign which are offered at a flat fee. Such flat fees are recognized ratably over the 90 day period.
40 Medidata Solutions Inc	MDSO	Big 4	12/31/2013	\$ 276,849	\$ 48,928	AD	AD	The Company determined that subscriptions to its various cloud-based solutions are individually considered separate units of accounting. Revenues for deliverables under professional services are recognized using a proportional performance method or as services are rendered.
41 NetApp Inc.	NTAP	Big 4	4/25/2013	\$ 6,325,100	ND	AD	AD	Services include professional services and customer education and training services. Revenues from SEM and premium hardware maintenance services are recognized ratably over the contractual term, generally from one to five years. We also offer extended service contracts (which extend our standard parts warranty and may include premium hardware maintenance) at the end of the original warranty term; revenues from these contracts are recognized ratably over the extended contract term. We sell professional services either on a time and materials basis or under fixed price projects; we recognize revenue for these services as they are performed.

SaaS Revenue Recognition Database

Company	Ticker	Auditor	Year -End	Revenue (000's)	Non Subscription Revenue (000s)	Recognized over subscription period (SP), as delivered (AD) or customer life (CL)?	Implementation/Setup Fees Amortization Period (ND) Not Disclosed (AD) As delivered	Non-Subscription Revenue Footnote Detail
42 Netsuite Inc.	N	Big 4	12/31/2013	\$ 414,508	\$ 333,556	AD	AD	Consideration allocated to professional services is recognized as revenue using the proportional performance method. The total arrangement fee for a multiple element arrangement is allocated based on the relative ESP of each element. However, since the professional services are generally completed prior to completion of delivery of subscription and support services, the revenue recognized for professional services in a given reporting period does not include fees subject to delivery of subscription and support services. This results in the recognition of revenue for professional services that is generally no greater than the contractual fees for those professional services.
43 Oracle Corporation	ORCL	Big 4	5/31/2013	\$ 38,275,000	Cloud and SW: \$29,199	CL	ND	Revenue Recognition for Multiple-Element Arrangements—Cloud SaaS, PaaS and IaaS Offerings, Hardware Systems Products, Hardware Systems Support and Related Services (Nonsoftware Arrangements) We enter into arrangements with customers that purchase both nonsoftware related products and services from us at the same time, or within close proximity of one another (referred to as nonsoftware multiple-element arrangements). For those units of accounting that include more than one deliverable but are treated as a single unit of accounting, we generally recognize revenues over the delivery period or in the case of our cloud offerings, generally over the estimated customer relationship period. Revenues for consulting services are generally recognized as the services are performed.
44 Park City Group, Inc.	PCYG	Regional	6/30/2013	\$ 11,318	\$ 8,025	SP	ND	Set up fees paid by customers in connection with subscription services are deferred and recognized ratably over the life of the applicable agreement. Professional services revenue consists primarily of fees associated with application and data integration, data cleansing, business process re-engineering, change management and education and training services. Fees charged for professional services are recognized when delivered.
45 Proofpoint Inc	PFPT	Big 4	12/31/2013	\$ 137,931	\$ 1,507	SP	ND	The Company derives its revenue primarily from two sources: (1) subscription revenue for rights related to the use of the security-as-a-service platform and (2) hardware, training and professional services revenue provided to customers related to their use of the platform. Professional services and training, when sold with hardware appliances or subscription and support services, are accounted for separately when those services have standalone value. If professional services and training do not qualify for separate accounting, the Company recognizes the professional services and training ratably over the contract term of the subscription services.
46 PROS Holdings, Inc.	PRO	Big 4	12/31/2013	\$ 144,837	ND	ND	ND	Not Disclosed
47 Qlik Technologies Inc.	QLIK	Big 4	12/31/2013	\$ 470,450	\$ 270,769	AD	AD	Revenue for services that are sold either on a stand-alone basis or included in multiple-element arrangements is recognized as the services are performed.
48 Rally Software Development Corp	RALY	Big 4	01/31/2014	\$ 74,329	\$ 10,563	SP	ND	We generate revenue from subscriptions and support, and professional services. Professional services revenue largely encompasses fees related to the instruction of Agile software development methodologies and training related directly to the product. Professional services revenue is accounted for separately from subscription and perpetual license revenue when VSOE exists and, for subscriptions, has stand-alone value to the customer. Professional services that do not have stand-alone value to the customer are recognized ratably over the remaining subscription period.
49 Realpage, Inc.	RP	Big 4	12/31/2013	\$ 377,022	\$ 362,312	AD	AD	Professional and other revenue is recognized as the services are rendered for time and material contracts. Training revenues are recognized in the period in which services are performed
50 Red Hat, Inc.	RHT	Big 4	2/28/2013	\$ 1,534,615	\$ 1,336,771	AD	AD	Training and services revenue is comprised of revenue for consulting, engineering and customer training and education services. Consulting services consist of time-based arrangements, and revenue is recognized as these services are performed. Engineering services represent revenue earned under fixed fee arrangements with the Company's OEM partners and other customers to provide for significant modification and customization of Red Hat enterprise technologies. The Company recognizes revenue for these fixed fee engineering services using the percentage of completion basis of accounting.
51 RingCentral Inc	RNG	Big 4	12/31/2013	\$ 160,505	\$ 145,995	CL	ND	The Company's revenues consist of services revenues and product revenues. These service fees include recurring fixed plan subscription fees, recurring administrative cost recovery fees, variable usage-based fees for blocks of additional minutes systematically purchased in advance of usage in excess of plan limits and one-time upfront fees. One-time upfront fees are initially deferred and recognized on a straight-line basis over the estimated average customer life.
52 Salesforce.com, Inc.	CRM	Big 4	1/31/2013	\$ 4,071,003	\$ 3,824,542	AD	AD	Professional Services and Other Revenues The majority of our professional services contracts are on a time and material basis. When these services are not combined with subscription revenues as a single unit of accounting, as discussed below, these revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. Training revenues are recognized after the services are performed. To date, we have concluded that all of the professional services included in multiple-deliverable arrangements executed have standalone value.

SaaS Revenue Recognition Database

Company	Ticker	Auditor	Year -End	Revenue (000's)	Non Subscription Revenue (000s)	Recognized over subscription period (SP), as delivered (AD) or customer life (CL)?	Implementation/Setup Fees Amortization Period (ND) Not Disclosed (AD) As delivered	Non-Subscription Revenue Footnote Detail
53 Scientific Learning Corp	SCIL	Big 4	12/31/2013	\$ 28,143	ND	AD	AD	Professional services revenue is recognized as performed. The Company's on-demand subscription services, support, training and implementation management services have standalone value as these services are sold separately by the Company, and the Company has established VSOE of fair value for determining the fair value of each element except for its on-demand subscription services. Professional service and support revenue is derived from a combination of training, implementation, technical and professional services, online services and customer support. Training, implementation, technical and other professional services are typically sold on a per day basis. Professional services revenue is recognized as performed. Online service and customer support are recognized ratably over the service period. If VSOE of fair value does not exist for all the elements in a software arrangement except software licenses, service revenue is recognized over the longest contractual period in an arrangement. Revenue from services sold alone or with support is recognized as performed.
54 Selectica, Inc.	SLTC	Armanino	3/31/2014	\$ 17,559	\$ 3,600	AD	AD	Non-recurring revenues. Non-recurring revenues are comprised of revenues from professional services for system implementations, enhancements, and training, and perpetual license sales prior to fiscal 2014. For professional services arrangements billed on a time-and-materials basis, services are recognized as revenue as the services are rendered. For fixed-fee professional service arrangements, the Company recognizes revenue under the proportional performance method of accounting and estimates the proportional performance utilizing hours incurred to date as a percentage of total estimated hours to complete the project.
55 ServiceNow Inc	NOW	Big 4	12/31/2013	\$ 424,650	\$ 74,846	AD	AD	We derive our revenues from two sources: (i) subscriptions and (ii) professional services and other. Professional services and other revenues consist of fees associated with the implementation and configuration of our services. We have multiple element arrangements comprised of subscription fees and professional services. We account for subscription and professional services revenues as separate units of accounting. Our professional services, including implementation and configuration services, are not so unique and complex that other vendors cannot provide them. As a result, we concluded professional services, including implementation and configuration services, have standalone value.
56 SolarWinds, Inc.	SWI	Big 4	12/31/2013	\$ 250,564	\$ 191,491.00	ND	ND	Not Disclosed
57 SPS Commerce, Inc.	SPSC	National	12/31/2013	\$ 104,391	ND	CL	2 years	Set-up fees are specific for each connection a customer has with a trading partner and most of our customers have connections with numerous trading partners. Set-up fees are nonrefundable upfront fees that do not have standalone value to our customer and are not separable from the recurring monthly fees. All set-up fees and related costs are deferred and recognized ratably over the average life of the connection between the customer and the trading partner, which is approximately two years. We begin recognizing set-up fee revenue once the connection is established.
58 Tableau Software Inc	DATA	Big 4	12/31/2013	\$ 232,440	\$ 72,510	ND	ND	We generate revenues primarily in the form of software license fees and related maintenance and services fees. License fees include perpetual, term and subscription license fees. Maintenance and services fees primarily consist of fees for maintenance services, training, and professional services that are not essential to functionality of the software. When software is licensed for a specified term, fees for support and maintenance are generally bundled with the license fee over the entire term of the contract. In these cases, we do not have VSOE of the fair value for maintenance.
59 Textura Corp	TXTR	Big 4	09/30/2013	\$ 35,534	ND	SP	ND	For the Company's CPM, Submittal Exchange, and Greengrade solutions, the Company earns revenue from owners/developers, general contractors and architects in the form of project fees and monthly fees; and from subcontractors in the form of usage fees. For the Company's GradeBeam, PQM and BidOrganizer solutions, the Company earns revenue in the form of subscription fees. The Company concluded that training and support do not have standalone value because they are never sold separately, do not have value to the customer without the solution and are not available from other vendors. Accordingly, the training and support are combined with the solution and treated as a single unit of accounting.
60 The Ultimate Software Group, Inc.	ULTI	Big 4	12/31/2013	\$ 410,397	\$ 75,110	AD	AD	Services revenues primarily include revenues from fees charged for implementation consulting services in connection with the implementation of our product solutions and, to a much lesser extent, training of customers in the use of our products and fees for other services, including the provision of payroll-related forms, sales of time clocks and the printing of W-2 forms for certain customers, as well as certain client reimbursable out-of-pocket expenses. Revenues from implementation consulting services sold on a fixed-fee basis are recognized using the percentage of completion accounting method, which involves the use of estimates. Revenues from implementation consulting services, billed on a time and materials basis (at an hourly rate), are recognized as these services are performed.
61 Tyler Technologies, Inc.	TYL	Big 4	12/31/2013	\$ 416,643	\$ 313,938	SP	ND	For professional services associated with SaaS arrangements that we determine do not have stand-alone value to the customer or are contingent on delivery of other elements, we recognize the services revenue ratably over the remaining contractual period once we have provided the customer access to the software and we may begin billing for hosting services.
62 Veeva Systems Inc	VEEV	Big 4	01/31/2014	\$ 210,151	\$ 17,117	ND	ND	We derive our revenues from two sources: (i) subscription services revenues, which are comprised of subscription fees from customers accessing our enterprise cloud computing solutions, and (ii) related professional services and other revenues. Professional services and other revenues generally include consulting and training. Our multiple element arrangements contain non-software deliverables such as our subscription offerings and professional services. Revenue allocated to each deliverable is recognized when the basic revenue recognition criteria are met for each deliverable.

SaaS Revenue Recognition Database

Company	Ticker	Auditor	Year -End	Revenue (000's)	Non Subscription Revenue (000s)	Recognized over subscription period (SP), as delivered (AD) or customer life (CL)?	Implementation/Setup Fees Amortization Period (ND) Not Disclosed (AD) As delivered	Non-Subscription Revenue Footnote Detail
63 Vertical Computer Systems, Inc.	VCSY	Regional	12/31/2013	\$ 6,057	ND	AD	AD	We provide consulting services to customers in conjunction with the cloud-based offering. The rate for such service is based on standard hourly or daily billing rates. The consulting revenue is recognized as services are performed. Customers utilizing their own computer to access cloud-based functionality are charged a fee equal to the number of employees paid each month multiplied by an agreed-upon rate per employee. The revenue is recognized as the cloud-based services are rendered each month.
64 VMware, Inc.	VMW	Big 4	12/31/2013	\$ 5,207,000	\$ 2,270,000	AD	AD	Revenues for professional services engagements performed for a fixed fee, for which VMware is able to make reasonably dependable estimates of progress toward completion, are recognized on a proportional performance basis. Revenue for professional services engagements billed on a time and materials basis are recognized as the hours are incurred. Revenues on all other professional services engagements are recognized upon completion
65 Vocus, Inc.	VOCS	Big 4	12/31/2013	\$ 114,874	ND	ND	ND	Revenue Recognition The Company derives its revenues from subscription arrangements and related services permitting customers to access and utilize the Company's cloud-based software. The Company's separate units of accounting consist of its subscription services, news distribution services and professional services. These elements generally include access to the Company's cloud-based software, hosting services, content and content updates and customer support. The Company's professional services primarily consist of data migration, custom development and training. The Company's cloud-based software does not require significant modification and customization services.
66 Warp 9, Inc.	WNYN	Regional	6/30/2013	\$ 1,006	ND	AD	AD	The fees for development services are recognized as the work is performed. We also offer professional services such as development services. The fees for development services with multiple deliverables constitute a separate unit of accounting in accordance with ASC 605-25, which are recognized as the work is performed. Upfront fees for development services or other customer services are deferred until certain implementation or contractual milestones have been achieved.
67 Web.com Group, Inc.	WWW	Big 4	12/31/2013	\$ 492,315	\$ 10,149	ND	ND	Not Disclosed
68 Wix.Com Ltd	WIX	Big 4	12/31/2013	\$ 80,473	ND	AD	AD	The Company provided an online platform that enables users to create websites using Flash and HTML5 technology and generates revenues primarily from services related to such websites. The Company also offers its users the ability to purchase and manage domain name and software apps that can be integrated as add-ons to their websites. Part of the Company's revenue transaction includes multiple elements within a single contract if it is determined that multiple units of accounting exist. The primary types of transactions in which the Company engages that include multiple elements which are delivered at different points in time. Such elements may include some or all of the following: Services for websites; Purchase and registration of domain name; and Third-party developed application. The Company considers the sale of each of the above stated elements in bundled agreement to be separate unit of accounting for the arrangement and defers the relative selling price of the undelivered element to the period in which revenue is earned.
69 Workday, Inc.	WDAY	Big 4	1/31/2013	\$ 468,938	\$ 114,769	AD	AD	In determining whether professional services can be accounted for separately from subscription services, we consider the availability of the professional services from other vendors, the nature of our professional services and whether we sell our applications to new customers without professional services. In fiscal 2013, we determined that we had established standalone value for the deployment services related to our financial management application. This was primarily due to the growing number of partners that were trained and certified to perform these deployment services, the successful completion of a significant deployment engagement by a firm in our professional services ecosystem and the sale of several financial management cloud application subscription arrangements to customers without our deployment services. Because we established standalone value for our deployment services related to our financial management application in fiscal 2013, such service arrangements entered into after February 1, 2012 are being accounted for separately from subscription services.
70 Zix Corporation	ZIXI	National	12/31/2013	\$ 48,138	ND	ND	ND	We develop, market, and support applications that connect, protect and deliver information in a secure manner. Our services can be placed into several key revenue categories where each category has similar revenue recognition traits: Email Encryption, DLP, and BYOD email subscription-based services, various transaction fees and related professional services. Our Email Encryption, DLP and BYOD services are subscription services. Providing these services includes delivering subscribed-for software and providing secure electronic communications and customer support throughout the subscription period. Our subscribers generally execute multiple-year contracts that are irrevocable and non-refundable in nature and require annual, up-front payments. Subscription fees received from customers are initially recorded as deferred revenue and then recognized as revenue ratably over the subscription period. We do not offer stand alone services.