



Software Revenue Recognition—Not Just for Software Companies Webcast ~ May 11, 2007

Glossary of Terms

Authorization Codes (keys)

A vehicle used by vendors to permit customers access to, use of, or duplication of software that would otherwise be restricted.

Concession

Any action undertaken on behalf of a specific customer by a vendor that is not required pursuant to the terms of the original contractual arrangement between the parties. While it is impossible to create a comprehensive list of the nature and/or types of all concessions, there are general rules to apply when evaluating specific facts and circumstances. Potential concessions should be evaluated by assessing whether, if the terms of the potential concession had been known at the outset of the arrangement, the vendor's action:

- Would have affected the amount of revenue originally recognized for the arrangement,
- Would have affected the timing of the original revenue recognition for the arrangement, or
- Would have increased the deliverables or extended the customer's rights beyond those in the original transaction.

Core software

An inventory of software that vendors use in creating other software. Core software is not delivered as is because customers cannot use it unless it is customized to meet system objectives or customer specifications.

Delivery

A transfer of software accompanied by documentation to the customer. The transfer may be by the following:

- a. A physical transfer of tape, disk, integrated circuit, or other medium
- b. Electronic transmission
- c. Making available to the customer software that will not be physically transferred, such as through the facilities of a computer service bureau
- d. Authorization for duplication of existing copies in the customer's possession

If a licensing agreement provides a customer with the right to multiple copies of a software product in exchange for a fixed fee, delivery means transfer of the product master, or the first copy if the product master is not to be transferred.

Fixed fee

A fee required to be paid at a set amount that is not subject to refund or adjustment. A fixed fee includes amounts designated as minimum royalties.

Hosting

Arrangements in which end users of licensed software do not take possession of the software. Rather, the software resides on the vendor's or a third party's hardware, and the customer accesses and uses the software on an as-needed basis over the Internet or via a dedicated line.

Licensing

Granting the right to use but not to own software through leases or licenses.

More-than-incidental

SOP 97-2 indicates that its provisions are applicable to the sale of any products or services containing or utilizing software when the software content is more than incidental. Indicators of whether software is incidental to a product as a whole include (but are not limited to) (a) whether the software is a significant focus of the marketing effort or is sold separately, (b) whether the vendor is providing postcontract customer support, and (c) whether the vendor incurs significant costs that are within the scope of FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*.

Milestone

A task associated with long-term contracts that, when completed, provides management with a reliable indicator of progress-to-completion on those contracts.

Off-the-shelf software

Software marketed as a stock item that customers can use with little or no customization.

Perpetual License

A form of software purchase arrangement that entitles a customer to use a software product for the entire life of the product.

Platform

The hardware architecture of a particular model or family of computers, the system software, such as the operating system, or both.

Platform-transfer right

A right granted by a vendor to transfer software from one hardware platform or operating system to one or more other hardware platforms or operating systems.

Postcontract customer support (PCS)

The right to receive services (other than those separately accounted for as described in paragraphs 65 and 66 of this Statement of Position) or unspecified product upgrades/enhancements, or both, offered to users or resellers, after the software license period begins, or after another time as provided for by the PCS arrangement. Unspecified upgrades/enhancements are PCS only if they are offered on a when-and-if-available basis. PCS does not include the following:

- Installation or other services directly related to the initial license of the software
- Upgrade rights as defined in this Statement of Position
- Rights to additional software products

PCS may be included in the license fee or offered separately. PCS is generally referred to in the software industry as maintenance, a term that is defined, as follows, in paragraph 52 of FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*:

Activities undertaken after the product is available for general release to customers to correct errors or keep the product updated with current information. Those activities include routine changes and additions.

However, the term *maintenance* is not used in this Statement of Position for the following reasons.

1. It has taken on a broader meaning in the industry than the one described in FASB Statement No. 86.
2. It may be confused with hardware maintenance as it is used elsewhere in accounting literature.
3. Its meaning varies from company to company.

The right to receive services and unspecified upgrades/enhancements provided under PCS is generally described by the PCS arrangement. Typical arrangements include services, such as telephone support and correction of errors (bug fixing or debugging), and unspecified product upgrades/enhancements developed by the vendor during the period in which the PCS is provided. PCS arrangements include patterns of providing services or unspecified upgrades/enhancements to users or resellers, although the arrangements may not be evidenced by a written contract signed by the vendor and the customer.

Reseller

Entity licensed by a software vendor to market the vendor's software to users or other resellers. Licensing agreements with resellers typically include arrangements to sublicense, reproduce, or distribute software. Resellers may be distributors of software, hardware, or turnkey systems, or they may be other entities that include software with the products or services they sell.

Roadmap

A document or communication that outlines a vendor's plans regarding future enhancements to its products and/or the strategic direction of its product development efforts. Roadmaps may take such forms as product development plans, press releases, information on a website, marketing collateral, or executive presentations.

Roadmaps may be used by a vendor in its marketing activities for the following reasons, among others:

- To influence the selection of the vendor's software over a competitor's,
- To keep its customer base informed of the planned evolution of its currently available products, or
- Subsequent to an acquisition, to provide the combined customer base information regarding the combined enterprise's planned product migration path.

Site license

A license that permits a customer to use either specified or unlimited numbers of copies of a software product either throughout a company or at a specified location.

Software as a Service (SaaS)

A software application delivery model where a software vendor develops a software application and hosts and offers (either independently or through a third-party) the application for use by its customers over the Internet. Customers pay not for owning the software itself but for using it.

Specified Upgrade Right

See Upgrade Right

Term License

See Time-Based License

Time-Based License

A form of software purchase arrangement that entitles a customer to use a software product for only a specified amount of time (e.g., for two years).

Upgrade/Enhancement

An improvement to an existing product that is intended to extend the life or improve significantly the marketability of the original product through added functionality, enhanced performance, or both. The terms upgrade and enhancement are used interchangeably to describe improvements to software products; however, in different segments of the software industry, those terms may connote different levels of packaging or improvements. This definition does not include platform-transfer rights.

Upgrade Right

The right to receive one or more specific upgrades/enhancements that are to be sold separately. The upgrade right may be evidenced by a specific agreement, commitment, or the vendor's established practice.

VSOE

Vendor-specific objective evidence of fair value. VSOE is limited to (a) the price charged when the element is sold separately, or (b) if the element is not yet being sold separately, the price for each element established by management having the relevant authority.

When-and-if-available

An arrangement whereby a vendor agrees to deliver software only when or if it becomes deliverable while the arrangement is in effect. When-and-if-available is an industry term that is commonly used to describe a broad range of contractual commitments. The use of the term when-and-if-available within an arrangement should not lead to a presumption that an obligation does not exist.