

# SaaS COMPANIES

## WHEN TO CAPITALIZE COSTS

AN ARMANINO WHITE PAPER / authored by Matthew Perreault / coauthored by Joe Chung







*Our 2016 survey of 90 publicly traded software-as-a-service (SaaS) companies includes excerpts from each company's software development and sales commission accounting policy footnotes. The survey shows both the trends and the disparity in practice in the capitalization models used by SaaS companies. You can use this information as a tool to gauge the accuracy, transparency and completeness of your own policies and disclosures.*



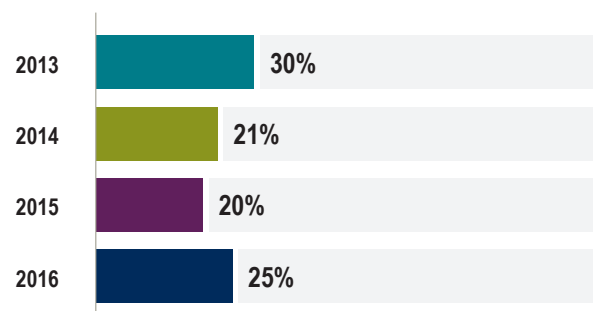
Our annual SaaS cost capitalization survey examines the capitalization practices of publicly traded SaaS companies, to determine the extent to which sales commissions and development costs are being capitalized. The 2016 survey is our largest yet and includes 89 public SaaS companies — up from 80 last year — audited by 15 different CPA firms.

There are 11 newcomers on the survey list (Box, Castlight Health, Determine, Five9, HubSpot, New Relic, Opower, Q2 Holdings, Xero and Zendesk), while Constant Contact and Yodlee were removed as both were acquired in 2015.

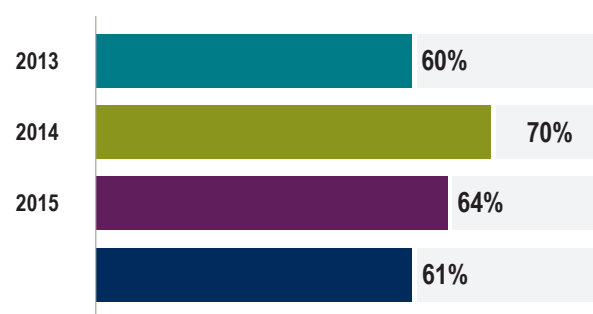
As noted in last year's survey, the new revenue recognition standard, ASC 606 (effective in 2018 for public companies and 2019 for private companies), isn't expected to change the way SaaS companies treat development costs. However, it may require them to capitalize certain sales commission costs.

**We found the following rates of capitalization in this year's survey and our previous three years:**

#### Capitalizing Sales Commissions



#### Capitalizing Software Development Costs



*All data based on corresponding year-end reports*



# CAPITALIZING SALES COMMISSION COSTS

The percentage of companies capitalizing commissions increased this year to 25%, reversing a surprising decline in 2015. This uptick indicates a positive trend toward better preparation by companies, which will mean a smoother transition to the new revenue guidelines:

## **How ASC 606 affects commission costs**

The new revenue recognition standard mandates that companies capitalize sales commissions if such costs are expected to be recovered through future revenues, unless the amortization period is one year or less. The capitalization of costs incremental to obtaining a contract and determining the period of amortization will be one of the most significant areas affected by the new revenue recognition standard, as companies will no longer have the option to immediately “expense as you go.”

Although the current GAAP standard requires companies to capitalize development costs, it permits them to make a policy election on capitalizing sales commissions. The new standard does provide a practical expedient that applies principally to SaaS contracts of less than one year, but with the majority of SaaS sales teams focused on multi-year deals, we expect that most companies will move to capitalizing commissions when they adopt ASC 606.

The new revenue standard also mandates retrospective adoption, requiring companies to disclose “what if” they had adopted these accounting practices in prior periods. This year’s 5 percentage point increase in companies capitalizing commissions (25% in 2016 versus 20% in 2015) is likely a result of companies choosing to change their accounting policy in anticipation of future adoption to avoid restating prior-year commissions when they adopt ASC 606. Interestingly, two existing participants (Citrix and Medidata Solutions) disclosed a policy for deferring sales commissions for the first time, while a meaningfully higher percentage of the newcomers (36%) elected to capitalize sales commissions.

## **Applying the new standard**

Upon adoption, management should assess the recoverability of incremental costs on a contract-by-contract basis and consider multiple factors, including historical experience with similar contracts, variable considerations such as discounts, and potential renewals or follow-on contracts. The recognized asset should be amortized on a systematic basis consistent with the transfer to the customer of the goods or services to which the asset relates (ASC 340-40-35-1). In certain instances, the recognized asset will be amortized over a period of benefit that may be longer than the contract, if the contract includes a renewal option that is expected to be exercised without any incremental expense for each renewal period.

Beyond the basics, there are many additional factors that companies must consider when applying the new revenue standard. For example, should bonus payments made to sales managers for achieving certain sales targets be considered incremental costs, when the bonus itself is not incremental to any one contract?

The effective date for the new guidelines is fast approaching. We recommend that companies reevaluate their commission policies now, in light of the new rules that may accelerate the timing of revenue recognition, and track the sales commission expense for multi-year contracts that span across the adoption date from prior periods.



# CAPITALIZING DEVELOPMENT COSTS

There are still significant differences in the way SaaS companies capitalize development costs. Surprisingly, 9 of the 10 survey newcomers (90%) have adopted the policy of capitalizing these costs, bucking the overall trend.

## **Practices vary widely among firms using license models**

Companies that sell software using a license model provide a useful comparison. These firms are subject to ASC 985-20, which requires that they begin capitalizing development costs once they achieve technological feasibility, and stop capitalizing such costs when the product is available for release. These guidelines provide management with a great deal of flexibility in determining “technological feasibility” and amortization parameters.

Despite this GAAP requirement, the practice of capitalizing such costs varies widely and has largely been a matter of subjectivity. Public company practice and the lack of SEC enforcement on this topic indicate that software companies view the capitalization of software development costs as a policy election, rather than a mandate. Companies pour significant time and resources into software development, so the differing treatment of these costs has a significant impact on their reported financial performance and distorts comparability across companies in the industry.

We did a survey a few years ago that showed that 70% of software companies using a license model were not capitalizing development costs, with most providing a disclosure such as: *“The period of time between technological feasibility and release is so short that such costs were not material.”* These companies likely take the position that technological feasibility is established at the same time the software product can be used.

## **Fewer SaaS firms are capitalizing these costs**

SaaS companies are subject to different GAAP rules (ASC 350-40 and 720-45) governing the capitalization of development costs. These rules mandate that preliminary project costs be expensed, but when the project plan is finalized and application development begins, these costs must be capitalized.

Our 2016 survey results indicate that 40% of SaaS companies treat capitalizing these costs as a policy election. Their statements are similar to their software peers who don’t capitalize such costs; one analogous disclosure said: *“There were no material qualifying costs incurred during the application development stage in any of the periods presented.”*

It’s hard to believe that 39% of the SaaS companies surveyed don’t spend material amounts on application development, yet remain competitive. This move away from capitalization (61% in 2016 versus 68% in 2015) is partially supported by the industry’s shift toward software development techniques such as rapid prototyping, whereby coding and design occur simultaneously. The reluctance to capitalize development costs may also be attributed to other factors, like the operational burden of tracking and organizing expenses and installing appropriate cutoff measures between the various stages of development. There is also downside risk related to the future write-down of previously capitalized development costs, which may create unnecessary earnings surprises.

## **Auditors may influence capitalization rates**

A closer look at the numbers by auditor shows that SaaS companies using certain audit firms, including Grant Thornton (100%) and Deloitte (85%), capitalize development at a much higher rate than those using other comparable firms, such as EY (48%) and BDO (0%). This indicates that the decision to capitalize development costs may be indirectly influenced by the opinion of the auditor and their level of scrutiny over the capitalized development expense.







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## LOOKING AHEAD

SaaS companies should continually evaluate their decision on when to capitalize versus expense development, commissions and other incremental costs, as there are numerous short- and long-term implications. They should also consult with an accounting professional with expertise in SaaS revenue and expense recognition to fully understand the alternatives, and ultimately adopt the method they believe most closely follows the spirit of the accounting rules.

**A complete copy of the public company SaaS Cost Capitalization Database can be obtained at the end of this report.**



# STRATEGIC INSIGHTS PRACTICAL ACTION

Armanino provides an integrated set of accounting services — audit, tax, consulting and technology solutions — to a wide range of organizations operating both in the U.S. and globally.

You can count on Armanino to think strategically and 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 the issue is financial, we can show you proven benchmarks and best practices that can add value companywide. If it's operational, we'll consult with

your people about workflow efficiencies. If it is compliance, we'll ensure that 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 cost capitalization, contact one of our SaaS experts:**



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Company	Ticker	Auditor	Capitalize Development Costs?	Capitalize Commissions?	YE Date	Revenues: Current Year (CY)	App Development Costs: Net on Balance Sheet	App Development Costs Capitalized in CY	Amortization Expense: App Development Costs	NET Commissions Capitalized	Commissions Deferred/Capitalized	Commissions Amortized
(Dollars In Thousands)												
1 Adobe Systems Incorporated	ADBE	KPMG	No	No	11/17/2015	\$ 4,795,511	N/A	N/A	N/A	N/A	N/A	N/A
2 Aspen Technology, Inc.	AZPN	KPMG	Yes	No	6/30/2015	\$ 440,401	\$ 1,026	\$ 400	\$ 700	N/A	N/A	N/A
3 Astea International Inc	ATEA	Grant Thornton	Yes	No	12/31/2015	\$ 22,957	\$ 4,697	\$ 2,407	\$ 3,723	N/A	N/A	N/A
4 Athenahealth, Inc.	ATHN	Deloitte	Yes	No	12/31/2105	\$ 924,728	\$ 107,517	\$ 97,761	\$ 53,400	N/A	N/A	N/A
5 Ari Network Services Inc	ARIS	Wipfli	Yes	No	7/31/2015	\$ 40,443	\$ 5,126	\$ 1,411	\$ 2,023	N/A	N/A	N/A
6 Automatic Data Processing, Inc.	ADP	Deloitte	Yes	No	6/30/2015	\$ 10,938	\$ 1,648	N/A	N/A	N/A	N/A	N/A
7 Bazaarvoice Inc	BV	PwC	Yes	No	4/30/2015	\$ 191,181	\$ 19,054	\$ 12,039	\$ 6,800	N/A	N/A	N/A
8 Benefitfocus Inc	BNFT	EY	Yes	No	12/31/2015	\$ 185,143	\$ 4,049	\$ 2,503	\$ 2,587	N/A	N/A	N/A
9 Blackbaud, Inc.	BLKB	PwC	Yes	Yes	12/31/2015	\$ 637,940	\$ 19,551	\$ 15,481	\$ 5,400	\$ 30,141	\$ 55,934	\$ 48,423
10 Bottomline Technologies (de), Inc.	EPAY	EY	Yes	No	6/30/2015	\$ 330,889	\$ 14,900	\$ 10,700	\$ 1,300	N/A	N/A	N/A
11 Box	BOX	EY	No	Yes	1/31/2015	\$ 216,440	N/A	N/A	N/A	\$ 9,487	\$ 14,414	\$ 12,079
12 Brightcove Inc	BCOV	EY	Yes	No	12/31/2015	\$ 134,706	\$ 10,766	\$ 1,488	\$ 469	N/A	N/A	N/A
13 Broadridge Financial Solutions, Inc.	BR	Deloitte	Yes	No	6/30/2015	\$ 2,694,200	\$ 57,900	\$ 24,300	\$ 12,000	N/A	N/A	N/A
14 BroadSoft	BSFT	PWC	Yes	No	12/31/2015	\$ 278,841	\$ 11,460	\$ 2,200	\$ 1,500	N/A	N/A	N/A
15 Bsquare Corporation	BSQR	Moss Adams	No	No	12/31/2015	\$ 106,601	N/A	N/A	N/A	N/A	N/A	N/A
16 Callidus Software	CALD	KPMG	No	Yes	12/31/2015	\$ 173,087	N/A	N/A	N/A	\$ 7,100	N/A	N/A
17 Castlight Health	CSTH	EY	Yes	No	12/31/2015	\$ 75,315	\$ 2,600	N/A	\$ 10,361	\$ 7,633	\$ 3,510	
18 ChannelAdvisor Corp	ECOM	EY	Yes	No	12/31/2015	\$ 100,585	\$ 190	\$ 200	\$ 300	N/A	N/A	N/A
19 Citrix Systems, Inc.	CTXS	EY	Yes	Yes	12/31/2015	\$ 3,275,594	\$ 487,191	\$ 93,900	\$ 81,800	N/A	N/A	N/A
20 Cornerstone OnDemand, Inc.	CSOD	PWC	Yes	Yes	12/31/2015	\$ 339,651	\$ 23,089	\$ 16,500	\$ 9,100	\$ 35,910	\$ 42,000	\$ 32,300
21 Covisint Corporation	COVS	Deloitte	Yes	No	3/31/2015	\$ 88,534	\$ 34,340	\$ 3,500	\$ 6,800	N/A	N/A	N/A



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22 Cvent Inc	CVT	KPMG	Yes	No	12/31/2015	\$ 187,716	\$ 24,039	\$ 17,760	\$ 9,400	N/A	N/A	N/A
23 Daegis, Inc.	DAEG	Whitley Penn	No	No	4/30/2015	\$ 25,100	N/A	N/A	N/A	N/A	N/A	N/A
24 Datawatch Corporation	DWCH	Marcum	No	No	9/30/2015	\$ 30,221	N/A	N/A	N/A	N/A	N/A	N/A
25 Demandware Inc	DWRE	Deloitte	Yes	No	12/31/2015	\$ 237,279	\$ 2,100	\$ 1,927	\$ 200	N/A	N/A	N/A
26 Determine, Inc.	DTRM	Armanino	Yes	No	3/31/2016	\$ 26,760	\$ 1,699	\$ 1,383	\$ 574	N/A	N/A	N/A
27 eGain Corp	EGAN	BPM	No	Yes	6/30/2015	\$ 75,913	N/A	N/A	N/A	\$ 960	\$ 794	\$ 1,006
28 Ellie Mae, Inc.	ELLI	Grant Thornton	Yes	Yes	12/31/2015	\$ 253,937	\$ 9,264	\$ 29,400	N/A	\$ 5,300	\$ 3,600	N/A
29 EMC	EMC	PwC	Yes	No	12/31/2015	\$ 24,704,000	\$ 829,000	\$ 619,000	\$ 514,000	N/A	N/A	N/A
30 Falconstor Software Inc	FALC	KPMG	Yes	No	12/31/2015	\$ 48,571	\$ 1,117	\$ 134	\$ 526	N/A	N/A	N/A
31 Financial Engines, Inc.	FNGN	KPMG	Yes	Yes	12/31/2015	\$ 310,722	\$ 7,085	\$ 5,600	\$ 4,900	\$ 300	\$ 1,580	\$ 1,700
32 Five 9	FIVN	KPMG	Yes	No	12/31/2015	\$ 128,868	\$ 128	N/A	N/A	N/A	N/A	N/A
33 FleetMatics Group PLC	FLTIX	PWC	Yes	Yes	12/31/2015	\$ 284,761	\$ 7,125	\$ 4,744	\$ 2,361	\$ 17,518	\$ 12,275	\$ 10,194
34 Guidance Software Inc	GUID	EY	No	No	12/31/2015	\$ 107,006	N/A	N/A	N/A	N/A	N/A	N/A
35 Guidewire Software Inc	GWRE	KPMG	No	No	7/31/2015	\$ 380,537	N/A	N/A	N/A	N/A	N/A	N/A
36 HealthStream, Inc.	HSTM	EY	Yes	No	12/31/2015	\$ 170,690	\$ 13,955	\$ 7,300	\$ 6,200	N/A	N/A	N/A
37 Hewlett Packard	HPQ	EY	No	No	10/31/2015	\$ 103,355	N/A	N/A	N/A	N/A	N/A	N/A
38 HubSpot	HUBS	Deloitte	Yes	Yes	12/31/2015	\$ 181,943	\$ 4,655	\$ 4,500	\$ 4,600	N/A	N/A	N/A
39 Imperva	IMPV	EY	No	No	12/31/2015	\$ 234,298	N/A	N/A	N/A	N/A	N/A	N/A
40 Incontact Inc	SAAS	Deloitte	Yes	No	12/31/2015	\$ 221,987	\$ 20,900	\$ 10,083	\$ 6,595	N/A	N/A	N/A
41 Interactive Intelligence Group Inc	ININ	KPMG	Yes	No	12/31/2015	\$ 390,862	\$ 43,783	\$ 12,700	\$ 3,900	N/A	N/A	N/A
42 Intralinks Holdings, Inc.	IL	PwC	Yes	No	12/31/2015	\$ 276,153	\$ 46,636	\$ 25,440	\$ 19,159	N/A	N/A	N/A

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(Dollars In Thousands)												
43 Intuit Inc.	INTU	EY	No	No	7/31/2015	\$ 4,192,000	N/A	\$ 119,000	N/A	N/A	N/A	N/A
44 J2 Global Communications, Inc.	JCOM	BDO	No	No	12/31/2015	\$ 720,815	N/A	N/A	N/A	N/A	N/A	N/A
45 Jive Software Inc	JIVE	KPMG	Yes	No	12/31/2015	\$ 195,793	\$ 6,904	\$ 5,100	\$ 2,077	N/A	N/A	N/A
46 Life Lock	LOCK	EY	No	No	12/31/2015	\$ 587,469	N/A	N/A	N/A	N/A	N/A	N/A
47 Liveperson, Inc.	LPSN	BDO	No	No	12/31/2015	\$ 239,012	N/A	\$ 2,400	N/A	N/A	N/A	N/A
48 LogMeIn, Inc.	LOGM	Deloitte	Yes	No	12/31/2015	\$ 271,600	\$ 3,507	\$ 2,200	\$ 3,247	N/A	N/A	N/A
49 Manhattan Associates, Inc.	MANH	EY	Yes	No	12/31/2015	\$ 556,371	N/A	N/A	N/A	N/A	N/A	N/A
50 Marin Software Inc	MRIN	PWC	Yes	No	12/31/2015	\$ 108,530	\$ 8,495	\$ 5,568	\$ 2,550	N/A	N/A	N/A
51 Marketo Inc	MKTO	KPMG	Yes	No	12/31/2015	\$ 209,869	\$ 3,980	\$ 1,900	\$ 1,200	N/A	N/A	N/A
52 Medidata Solutions Inc	MDSO	Deloitte	No	Yes	12/31/2015	\$ 392,506	N/A	N/A	N/A	N/A	N/A	N/A
53 MobileIron	MOBL	Deloitte	No	No	12/31/2015	\$ 149,298	N/A	N/A	N/A	N/A	N/A	N/A
54 NetApp Inc.	NTAP	Deloitte	Yes	No	4/25/2015	\$ 5,546	\$ 58,500	\$ 352	\$ 289	N/A	N/A	N/A
55 Netsuite Inc.	N	KPMG	Yes	Yes	12/31/2015	\$ 741,149	\$ 4,500	\$ 3,004	\$ 3,500	\$ 84,866	\$ 119,100	\$ 101,100
56 New Relic	NEWR	Deloitte	Yes	No	3/31/2016	\$ 181,309	\$ 12,600	\$ 10,000	\$ 3,900	N/A	N/A	N/A
57 Oracle Corporation	ORCL	EY	No	Yes	5/31/2015	\$ 37,047	N/A	N/A	N/A	N/A	N/A	N/A
58 OPOWER	OPWR	PWC	Yes	No	12/31/2015	\$ 148,691	\$ 9,500	\$ 12,900	\$ 8,200	N/A	N/A	N/A
59 Park City Group, Inc.	PCYG	HJ & Assoc.	No	No	6/30/2015	\$ 13,648	N/A	N/A	N/A	N/A	N/A	N/A
60 Proofpoint Inc	PFPT	PWC	No	No	12/31/2015	\$ 265,397	N/A	N/A	N/A	N/A	N/A	N/A
61 PROS Holdings, Inc.	PRO	PwC	Yes	No	12/31/2015	\$ 168,246	\$ 1,600	\$ 300	\$ 5,500	N/A	N/A	N/A
62 Q2 Holdings	QTWO	EY	Yes	Yes	12/31/2015	\$ 108,867	\$ 313	\$ 300	\$ (300)	\$ 8,750	N/A	N/A
63 Qlik Technologies Inc.	QLIK	EY	No	No	12/31/2015	\$ 612,732	N/A	N/A	N/A	N/A	N/A	N/A



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64 Qualys Inc	QLYS	Grant Thornton	Yes	No	12/31/2015	\$ 164,284	\$ 99	\$ 100	\$ 300	N/A	N/A	N/A
65 Rally Software	RALY	KPMG	No	No	1/31/2015	\$ 87,503	N/A	N/A	N/A	N/A	N/A	N/A
66 Realpage, Inc.	RP	EY	Yes	No	12/31/2015	\$ 468,520	\$ 41,200	\$ 10,500	\$ 3,300	N/A	N/A	N/A
67 Red Hat, Inc.	RHT	PwC	Yes	Yes	2/29/2016	\$ 2,052,230	\$ 85,517	N/A	N/A	\$ 102,254	N/A	N/A
68 RingCentral Inc	RNG	KPMG	No	No	12/31/2015	\$ 296,228	N/A	\$ 2,100	\$ 2,600	N/A	N/A	N/A
69 Rosetta Stone Inc	RST	Deloitte	Yes	Yes	12/31/2015	\$ 217,640	\$ 34,478	\$ 7,100	\$ 4,800	\$ 19,140	N/A	N/A
70 Salesforce.com, Inc.	CRM	EY	Yes	Yes	1/31/2016	\$ 6,667,216	\$ 123,065	\$ 6,100	\$ 49,900	\$ 449,100	\$ 380,000	\$ 319,100
71 Sciquest Inc	SQI	Grant Thornton	Yes	Yes	12/31/2015	\$ 105,353	\$ 9,549	\$ 5,853	\$ 4,284	\$ 6,745	N/A	\$ 300
72 ServiceNow Inc	NOW	PWC	No	Yes	12/31/2015	\$ 1,005,480	N/A	N/A	N/A	\$ 84,992	\$ 80,142	\$ 65,541
73 Splunk	SPLK	PWC	No	No	1/31/2016	\$ 668,435	N/A	N/A	N/A	N/A	N/A	N/A
74 SPS Commerce, Inc.	SPSC	KPMG	No	No	12/31/2015	\$ 127,947	N/A	N/A	N/A	N/A	N/A	N/A
75 Tableau Software Inc	DATA	PWC	No	No	12/31/2015	\$ 653,587	N/A	N/A	N/A	N/A	N/A	N/A
76 The Keyw Holding Corporation	KEYW	Grant Thornton	Yes	No	12/31/2015	\$ 311,810	\$ 456	\$ 6,200	\$ 1,100	N/A	N/A	N/A
77 The Ultimate Software Group, Inc.	ULTI	KPMG	Yes	Yes	12/31/2015	\$ 618,081	\$ 73,787	\$ 26,300	\$ 1,100	N/A	N/A	N/A
78 Tyler Technologies, Inc.	TYL	EY	No	No	12/31/2015	\$ 591,022	N/A	N/A	N/A	N/A	N/A	N/A
79 Upland Software	UPLD	EY	No	No	12/31/2015	\$ 69,911	N/A	N/A	N/A	N/A	N/A	N/A
80 Veeva Systems Inc	VEEV	KPMG	Yes	No	1/31/2016	\$ 409,221	\$ 979	\$ 500	\$ 800	N/A	N/A	N/A
81 Vertical Computer Systems, Inc.	VCSY	MaloneBailey	Yes	No	12/31/2015	\$ 4,264	\$ 1,182	\$ 541	\$ -	N/A	N/A	N/A
82 VMware, Inc.	VMW	PwC	No	No	12/31/2015	\$ 6,571	N/A	N/A	N/A	N/A	N/A	N/A
83 Web.com Group, Inc.	WWW	EY	No	No	12/31/2015	\$ 543,461	N/A	N/A	N/A	N/A	N/A	N/A
84 Wix.com	WIX	EY	No	No	12/31/2015	\$ 203,518	N/A	N/A	N/A	N/A	N/A	N/A

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(Dollars In Thousands)												
85 Workday, Inc.	WDAY	EY	No	Yes	1/31/2016	\$ 1,162,346	N/A	N/A	N/A	\$ 50,636	\$ 32,000	\$ 20,000
86 Worlds Inc	WDDD	L&L CPAs	No	No	12/31/2015	N/A	N/A	N/A	N/A	N/A	N/A	N/A
87 Xero (Currency in NZD)	XRO	EY	Yes	No	3/31/2016	\$ 207,060	\$ 138,489	\$ 52,571	\$ 22,019	N/A	N/A	N/A
88 Zendesk	ZEN	EY	Yes	No	12/31/2015	\$ 208,768	\$ 22,418	N/A	\$ 6,200	N/A	N/A	N/A
89 Zix Corporation	ZIXI	Whitley Penn	No	Yes	12/31/2015	\$ 54,713	N/A	N/A	N/A	\$ 364	N/A	N/A



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
1	Adobe Systems Incorporated	Software Development Costs - Capitalization of software development costs for software to be sold, leased, or otherwise marketed begins upon the establishment of technological feasibility, which is generally the completion of a working prototype that has been certified as having no critical bugs and is a release candidate. Amortization begins once the software is ready for its intended use, generally based on the pattern in which the economic benefits will be consumed. To date, software development costs incurred between completion of a working prototype and general availability of the related product have not been material. Internal Use Software - We capitalize costs associated with customized internal-use software systems that have reached the application development stage. Such capitalized costs include external direct costs utilized in developing or obtaining the applications and payroll and payroll-related expenses for employees, who are directly associated with the development of the applications. Capitalization of such costs begins when the preliminary project stage is complete and ceases at the point in which the project is substantially complete and is ready for its intended purpose.	No discussion in footnotes
2	Aspen Technology, Inc.	<p>Certain computer software development costs are capitalized in the accompanying consolidated balance sheets. Capitalization of computer software development costs begins upon establishing technological feasibility defined as meeting specifications determined by the program design. Amortization of capitalized computer software development costs is provided on a product-by-product basis using the greater of (a) the amount computed using the ratio that current gross revenue for a product bears to total of current and anticipated future gross revenue for that product or (b) the straight-line method, beginning upon commercial release of the product, and continuing over the remaining estimated economic life of the product, not to exceed three years.</p> <p>At each balance sheet date, we evaluate the unamortized capitalized software costs for potential impairment by comparing the balance to the net realizable value of the products. During the years ending June 30, 2015, 2014 and 2013, our computer software development costs were not considered impaired and as such, we did not recognize impairment losses during the periods then ended.</p>	No discussion in footnotes
3	Astea International Inc	<p>The Company capitalizes software development costs incurred during the period from the establishment of technological feasibility through the product's availability for general release. Costs incurred prior to the establishment of technological feasibility are charged to product development expense. Product development expense includes payroll, employee benefits, allocation of indirect costs such as rent, other headcount-related costs associated with product development and any related costs to third parties under sub-contracting or net of any collaborative arrangements.</p> <p>Software development costs are amortized on a product-by-product basis over the greater of the ratio of current revenues to total anticipated revenues (current and future revenues) or on a straight-line basis over the estimated useful lives of the products beginning with the initial release to customers. The Company's estimated life for its capitalized software products is two years based on current sales trends and the rate of product release. The Company continually evaluates whether events or circumstances had occurred that indicate that the remaining useful life of the capitalized software development costs should be revised or that the remaining balance of such assets may not be recoverable. The Company evaluates the recoverability of capitalized software based on the estimated future revenues of each product.</p>	No discussion in footnotes
4	Athenahealth, Inc.	We capitalize certain costs related to the development of athenaNet services and other internal-use software. Costs incurred during the application development phase are capitalized only when we believe it is probable the development will result in new or additional functionality. The types of costs capitalized during the application development phase include employee wages and stock-based compensation expense, as well as external contractor costs for individuals working on these projects. Costs related to the preliminary project stage and post-implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life. The estimated useful life of the software is two to five years (refer to Note 6 – Capitalized Software Costs).	No discussion in footnotes
5	Ari Network Services Inc	Our software development and technical support staff have three essential responsibilities for which the accounting treatment varies depending upon the work performed: (i) costs associated with internal software development efforts (after technological feasibility is established) are capitalized as software product costs and amortized over the estimated useful lives of the product; (ii) costs for professional services performed for customers related to software customization projects are classified as cost of revenue; and (iii) all other activities, including research and development, are considered operating expenses and included within the software development and technical support operating expense category.	No discussion in footnotes



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
6	Automatic Data Processing, Inc.	Expenditures for major software purchases and software developed or obtained for internal use are capitalized and amortized over a three to five-year period on a straight-line basis. The Company's policy provides for the capitalization of external direct costs of materials and services associated with developing or obtaining internal use computer software. In addition, the Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer software projects. The amount of capitalizable payroll costs with respect to these employees is limited to the time directly spent on such projects. Costs associated with preliminary project stage activities, training, maintenance, and all other post-implementation stage activities are expensed as incurred. The Company also expenses internal costs related to minor upgrades and enhancements, as it is impractical to separate these costs from normal maintenance activities.	No discussion in footnotes
7	Bazaarvoice Inc	We capitalize certain development costs incurred in connection with our internal-use software platform. These capitalized costs are related to the application service suite that we host, which is accessed by our clients on a subscription basis. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, we capitalize direct internal and external costs until the software is substantially complete and ready for its intended use. We expense maintenance and training costs as they are incurred. We amortize capitalized internal-use software development costs on a straight-line basis over its estimated useful life, which is generally three years, into cost of revenue. We exercise judgment in determining the point at which various projects may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized. To the extent that we change the manner in which we develop and test new features and functionalities related to our platform, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of internal-use software development costs we capitalize and amortize could change in future periods.	No discussion in footnotes
8	Benefitfocus Inc	The Company capitalizes certain costs related to its software developed or obtained for internal use. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Internal and external costs incurred during the application development stage, including upgrades and enhancements representing modifications that will result in significant additional functionality, are capitalized. Software maintenance and training costs are expensed as incurred. Capitalized costs are recorded as part of property and equipment and are amortized on a straight-line basis over the software's estimated useful life which is three years. The Company evaluates these assets for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.	Sales commissions are expensed when the sales contract is executed by the customer.
9	Blackbaud, Inc.	We incur certain costs associated with the development of internal-use software and software developed related to our cloud-based solutions, which are accounted for as internal-use software. The costs incurred in the preliminary stages of internal-use software development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs for internal-use software developed for our cloud-based solutions are recorded to other assets. Historically, we have also incurred and capitalized costs in connection with the development of certain of our software products licensed to customers on a perpetual basis, which are accounted for as costs of software to be sold, leased or otherwise marketed; however, costs capitalized related to those products were insignificant as of December 31, 2015 and as of December 31, 2014.	The company pay sales commissions at the time contracts with customers are signed or shortly thereafter, depending on the size and duration of the sales contract. To the extent that these commissions relate to revenue not yet recognized, the amounts are recorded as deferred sales commission costs. Subsequently, the commissions are recognized as expense as the revenue is recognized.
10	Bottomline Technologies (de), Inc.	Capitalization of software development costs, other than software developed for internal use which is discussed below, begins upon the establishment of technological feasibility. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by us with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. For the years ended June 30, 2015, 2014 and 2013, there were no material costs capitalized since substantially all development costs were incurred prior to attaining technological feasibility. We capitalize certain costs associated with internal use software, including software that we use to provide our hosted solutions, during the application development stage. We expense costs associated with preliminary project phase activities, training, maintenance and any post-implementation period costs as incurred	We record commissions as a component of sales and marketing expense when earned by the respective salesperson. Excluding certain arrangements within our Digital Banking segment, for which commissions are earned as revenue is recorded over the period of project performance, substantially all software commissions are earned in the month in which a customer order is received. Commissions associated with professional services are typically earned in the month that services are rendered. Commissions associated with post-contract customer support arrangements and subscription-based arrangements are typically earned when the customer is billed for the underlying contractual period, or in the period the order is received. Commissions are normally paid within thirty days of the month in which they are earned.

#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
11	Box	Internal-Use Software Costs - We capitalize costs to develop software for internal use incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Once an application has reached the development stage, management has authorized and committed to the funding of the software project, it is probable the project will be completed and the software will be used to perform the function intended, internal and external costs, if direct and incremental, are capitalized until the application is substantially complete and ready for its intended use. There were no material qualifying costs incurred during the application development stage in any of the periods presented.	Deferred commissions consist of direct incremental costs paid to our sales force associated with non-cancellable terms of the related contracts. The deferred commission amounts are recoverable through future revenue streams under the non-cancellable customer contracts. Direct sales commissions are deferred when earned and amortized over the same period that revenue is recognized for the related non-cancellable subscription period. Amortization of deferred commissions is included in sales and marketing expense in the consolidated statements of operations
12	Brightcove Inc	Costs incurred to develop software applications used in the Company's on-demand application services consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software, and (b) payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the project. These costs generally consist of internal labor during configuration, coding, and testing activities. Research and development costs incurred during the preliminary project stage or costs incurred for data conversion activities, training, maintenance and general and administrative or overhead costs are expensed as incurred. Capitalization begins when the preliminary project stage is complete, management, with the relevant authority, authorizes and commits to the funding of the software project, it is probable the project will be completed, the software will be used to perform the functions intended and certain functional and quality standards have been met. Qualified costs incurred during the operating stage of the Company's software applications relating to upgrades and enhancements are capitalized to the extent it is probable that they will result in added functionality, while costs that cannot be separated between maintenance of, and minor upgrades and enhancements to, internal-use software are expensed as incurred. These capitalized costs are amortized on a straight-line basis over the expected useful life of the software, which is estimated to be three years. Capitalized internal-use software development costs are classified as "Software" within "Property and Equipment, net" in the accompanying consolidated balance sheets.	No discussion in footnotes
13	Broadridge Financial Solutions, Inc.	Expenditures for major software purchases and software developed or obtained for internal use are capitalized and amortized over a three- to five-year period on a straight-line basis. For software developed or obtained for internal use, the Company capitalizes these costs in accordance with the provisions of ASC No. 350-40, "Internal Use Software." The Company's policy provides for the capitalization of external direct costs of materials and services associated with developing or obtaining internal use computer software. In addition, the Company also capitalizes payroll and payroll-related costs for employees who are directly associated with internal use computer software projects. The amount of capitalizable payroll costs with respect to these employees is limited to direct time spent on such projects. Costs associated with preliminary project stage activities, training, maintenance, and all other post-implementation stage activities are expensed as incurred. The Company also expenses internal costs related to minor upgrades and enhancements, as it is impractical to separate these costs from normal maintenance activities.	No discussion in footnotes
14	BroadSoft	The Company capitalizes costs associated with customized internal-use software systems that have reached the application development stage. Such capitalized costs include costs directly associated with the development of the applications. Capitalization of such costs begins when the preliminary project stage is complete and ceases at the point the project is substantially complete and is ready for its intended purpose. Internal-use software is amortized on a straight-line basis over the estimated useful life. Costs incurred during the preliminary development stage, as well as maintenance and training costs, are expensed as incurred.	No discussion in footnotes
15	Bsquare Corporation	Costs incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs would be capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. Generally this would be reached after all high-risk development issues have been resolved through coding and testing, and would occur shortly before the product is released. Amortization of costs incurred after this point would be included in cost of revenue over the estimated life of the products.	No discussion in footnotes



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
16	Callidus Software	No discussion in footnotes	The deferred costs mainly represent commission payments to the Company's direct sales force for on-demand subscription and maintenance agreements, which the Company amortizes as sales and marketing expense over the non-cancellable term of the contract as the related revenue is recognized. The commission payments are a direct and incremental cost of the revenue arrangements.
17	ChannelAdvisor Corp	The Company capitalizes certain internal-use software development costs, consisting primarily of direct labor associated with creating the internally developed software and third-party consulting fees associated with implementing software purchased for internal use. Software development projects generally include three stages: the preliminary project stage (in which all costs are expensed as incurred), the application development stage (in which certain costs are capitalized) and the post-implementation/operation stage (in which all costs are expensed as incurred). The costs incurred during the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight-line method over the estimated useful life of the software once it is ready for its intended use.	Sales commissions are expensed when the related subscription agreement is executed by the customer.
18	Castlight Health	Internal-use Software - For our development costs related to our cloud-based service, we capitalize costs incurred during the application development stage. Costs related to preliminary project and post-implementation stages are expensed as incurred. Capitalized software development costs are included as part of property, plant and equipment and are amortized on a straight-line basis over the technology's estimated useful life, which is generally three years. The amortization expense is recorded as a component of cost of subscription revenue.	Deferred commissions are the incremental costs that are directly associated with the noncancellable portion of cloud-based subscription service contracts with customers and consist of sales commissions paid to our direct sales force. The commissions are deferred and amortized over the noncancellable terms of the related contracts. The deferred commission amounts are recoverable through the future revenue streams under the noncancellable customer contracts. Amortization of deferred commissions is included in sales and marketing expense in the consolidated statements of operations.
19	Citrix Systems, Inc.	The authoritative guidance requires certain internal software development costs related to software to be sold to be capitalized upon the establishment of technological feasibility. The Company's software development costs incurred subsequent to achieving technological feasibility have not been significant and substantially all software development costs have been expensed as incurred. In accordance with the authoritative guidance, the Company capitalizes external direct costs of materials and services and internal costs such as payroll and benefits of those employees directly associated with the development of new functionality in internal use software and software developed related to its Mobility Apps products.	The Company capitalizes certain third-party commissions related to Subscription Advantage, maintenance and support renewals. The capitalized commissions are amortized to Sales, marketing and services expense at the time the related deferred revenue is recognized as revenue.
20	Cornerstone OnDemand, Inc.	The Company capitalizes the costs associated with software developed or obtained for internal use, including costs incurred in connection with the development of its solutions, when the preliminary project stage is completed, management has decided to make the project a part of its future offering, and the software will be used to perform the function intended. The costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, personnel and related expenses for employees who are directly associated with and who devote time to internal-use software projects and, when material, interest costs incurred during the development. Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended purpose. Costs incurred for upgrades and enhancements to the solutions are also capitalized. Post-configuration training and maintenance costs are expensed as incurred. Capitalized software costs are amortized to cost of revenue using the straight-line method over an estimated useful life of the software of three years, commencing when the software is ready for its intended use. The Company does not transfer ownership of, or lease its software to its clients.	The Company defers commissions paid to its sales force and related payroll taxes because these amounts are recoverable from the future revenue from the non-cancelable client agreements that gave rise to the commissions. Commissions are deferred on the balance sheet and are recognized as sales and marketing expense over the term of the client agreement in proportion to the revenue that is recognized. Commissions are considered direct and incremental costs to client agreements and were generally paid in the periods the Company received payment from the client under the associated client agreement. Commencing in the fourth quarter of 2012, the Company began paying commissions between 45 to 75 days after execution of the client agreement.

#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
21	Covisint Corporation	Capitalized software includes the costs of purchased and internally developed software products capitalized in accordance with ASC 350-40, "Internal Use Software," and software technology purchased through acquisitions and is stated at unamortized cost. In fiscal year 2015, we capitalized a smaller portion of our research and development costs as compared to prior periods as a result of a change to the agile delivery methodology for our Platform enhancements, which is expected to result in significantly shorter development cycles thereby reducing our capitalized costs. Capitalized and purchased software costs are amortized on a straight-line basis over the expected useful life of the software, which is generally five years. Amortization begins when the software technology is ready for its intended use. Goodwill, Capitalized Software and Intangible Assets for further information. Capitalized software is reviewed for impairment when events and circumstances indicate such asset may be impaired. If estimated future undiscounted cash flows are not sufficient to recover the carrying value of the capitalized software, an impairment charge is recorded in the amount by which the present value of future cash flows is less than the carrying value of these assets.	No discussion in footnotes
22	Cvent Inc	Costs to develop software directly used in the delivery of revenue generating activities are capitalized and recorded as capitalized software development costs in accordance with the provisions of FASB ASC Subtopic 350-40, Intangibles-Goodwill and Other Subtopic 40 Internal-Use Software on the balance sheet. These costs are amortized on a project-by-project basis using the straight-line method over the estimated economic life of the application, which is generally three years, beginning when the asset is substantially ready for use. Costs incurred during the preliminary development stage, as well as maintenance and training costs are expensed as incurred.	No discussion in footnotes
23	Daegis, Inc.	Costs of computer software to be sold, leased or otherwise marketed, capitalization of software development costs begins upon the establishment of technological feasibility of the product. With respect to our software development process, technological feasibility is established upon completion of a working model. To date, our products have been released shortly after reaching technological feasibility. Therefore, development costs incurred after completion of a working model and prior to general release have not been significant. Accordingly, no software development costs have been capitalized to date.	No discussion in footnotes
24	Datawatch Corporation	We capitalize certain software development costs as well as purchased software upon achieving technological feasibility of the related products. Software development costs incurred and software purchased prior to achieving technological feasibility are charged to engineering and product development expense as incurred. Commencing upon initial product release, capitalized costs are amortized to cost of software licenses using the straight-line method over the estimated life of the product (which approximates the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product), which is generally nine to eighteen months. During fiscal year 2015, no software development costs were capitalized as there were no significant costs incurred during the period after technological feasibility was established and the time in which the product became available for general release.	No discussion in footnotes
25	Demandware Inc	Research and development expenses consist primarily of personnel and related expenses for the Company's research and development staff, including salaries, benefits, bonuses and stock-based compensation and the cost of certain third party contractor costs. Expenditures for research and development, other than internal use software costs, are expensed as incurred. The Company capitalizes certain development costs related to upgrades and enhancements to its cloud commerce platform when it is probable the expenditures will result in additional functionality. Such development costs are capitalized when the preliminary project stage is completed and it is probable that the project will be completed and the software will be used to perform the function intended. These capitalized costs include external direct costs of services consumed in developing or obtaining internal-use software and personnel and related expenses for employees who are directly associated with and who devote time to internal-use software projects. Capitalization of these costs cease once the project is substantially complete and the software is ready for its intended purpose. Post-configuration training and maintenance costs are expensed as incurred. Capitalized internal use software costs are recorded as part of intangible assets and amortized to cost of subscription revenue using a straight-line method over the estimated useful life of the software, generally three to five years, commencing when the software is ready for its intended use.	No discussion in footnotes
26	Determine, Inc.	The Company capitalizes costs for internal use incurred during the application development stage that are included in research and development expenses. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Capitalized software will be amortized once the product is ready for its intended use, using the straight-line method over the estimated useful lives of the assets, which is three years.	No discussion in footnotes



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
27	eGain Corp	We account for software development costs in accordance with ASC 985, Software, for costs of the software to be sold, leased or marketed, whereby costs for the development of new software products and substantial enhancements to existing software products are included in research and development expense as incurred until technological feasibility has been established, at which time any additional costs are capitalized. Technological feasibility is established upon completion of a working model. To date, software development costs incurred in the period between achieving technological feasibility and general availability of software have not been material and have been charged to operations as incurred.	Deferred commissions are the direct and incremental costs directly associated with cloud and term license contracts with customers and consist of sales commissions to our direct sales force. The commissions are deferred and amortized over the terms of the related customer contracts, which are typically 12 to 36 months. The commission payments are paid based on contract terms in the month following the quarter in which the commissions are earned. The deferred commission amounts are recognized as “sales and marketing” expense in the consolidated statements of operations over the terms of the related customer contracts, in proportion to the recognition of the associated revenue.
28	Ellie Mae, Inc.	The Company capitalizes internal and external costs incurred to develop internal-use software and website applications. Capitalized internal costs include salaries, benefits and stock-based compensation charges for employees that are directly involved in developing the software or website application, and depreciation of assets used in the development process. Capitalized external costs include third-party consultants involved in the development process, as well as other direct costs incurred as part of the development process. Capitalization of costs begins when the preliminary project stage has been completed, management authorizes and commits to funding a project and it is probable that the project will be completed and the software or website application will be used to perform the function intended. Internal and external costs incurred as part of the preliminary project stage are expensed as incurred. Capitalization ceases at the point at which the project is substantially complete and ready for its intended use. Internal and external training costs and maintenance costs during the post-implementation operation stage are expensed as incurred.	Deferred commission expenses are the incremental costs that are directly associated with non-cancelable subscription contracts with customers and consist of sales commissions paid to our direct sales force. Commissions are calculated based on a percentage of the revenues for the non-cancelable term of subscription contracts, which are typically one to five years. The deferred commission expense amounts are recoverable through the future revenue streams under the non-cancelable customer contracts. The plans also include claw back provisions, which require repayment of a proportionate amount of commissions, should customers cancel their contracts prior to the end of the initial contractual term.
29	EMC	Material software development costs incurred subsequent to establishing technological feasibility through the general release of the software products are capitalized. Technological feasibility is demonstrated by the completion of a detailed program design or working model, if no program design is completed. GAAP requires that annual amortization expense of the capitalized software development costs be the greater of the amounts computed using the ratio of gross revenue to a products’ total current and anticipated revenues, or the straight-line method over the products’ remaining estimated economic life. Capitalized costs are amortized over periods ranging from eighteen months to two years which represents the products’ estimated economic life.	No discussion in footnotes
30	Falconstor Software Inc	In accordance with the authoritative guidance issued by the FASB on costs of software to be sold, leased, or marketed, costs associated with the development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility of the product has been established. Based on the Company’s product development process, technological feasibility is established upon completion of a working model. Amortization of software development costs is recorded at the greater of the straight-line basis over the product’s estimated life, or the ratio of current period revenue of the related products to total current and anticipated future revenue of these products.	No discussion in footnotes.
31	Financial Engines, Inc.	Certain direct development costs associated with internal use software are capitalized and include payroll costs for employees and external direct consulting costs related to software coding, designing system interfaces, and installation and testing of the software. Internal use software includes engineering costs associated with (1) enhancing the Company’s advisory service platform and (2) developing internal systems for tracking member data, including AUM, member cancellations and other related member statistics. The capitalized costs are amortized using the straight-line method over an estimated life of approximately two to three years, beginning when the asset is substantially ready for use. Costs related to preliminary project activities and post implementation activities are expensed as incurred. A portion of internal use software relates to cost of revenue, as well as the Company’s other functional departments. However the Company is not able to meaningfully allocate the costs among cost of revenue and operations. Accordingly, amortization is presented as a separate line item on the accompanying Consolidated Statements of Income.	Deferred sales commissions consist of incremental costs paid to the Company’s sales force associated with the execution of non-cancelable customer contracts. The deferred sales commission amounts are recoverable through future revenue streams under the non-cancelable customer contracts. The Company believes this is the preferable method of accounting as the commission charges are so closely related to the revenue from the non-cancelable customer contracts that they should be recorded as an asset and charged to expense over the life of the related non-cancelable customer contracts, which is typically three to five years. Amortization of deferred sales commissions is included in marketing and sales expense in the accompanying Consolidated Statements of Income.

#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
32	Five 9	Research and development expenses consist primarily of salary and related expenses (including stock-based compensation) for personnel related to the development of improvements and expanded features for our services, as well as quality assurance, testing, product management and allocated overhead. Research and development costs are expensed as incurred except for internal use software development costs that qualify for capitalization. The Company reviews development costs incurred for internal-use software in the application development stage and assesses costs for capitalization.	No discussion in footnotes.
33	FleetMatics Group PLC	Research and development costs are expensed as incurred, except for certain costs which are capitalized in connection with the development of its internal-use software and website. These capitalized costs are primarily related to the application software that is hosted by the Company and accessed by its customers through the Company's website. In addition, the Company capitalizes certain general and administrative costs related to the customization and development of our internal business systems. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing performed to ensure the product is ready for its intended use. The Company also capitalizes costs related to specific upgrades and enhancements of internal-use software when it is probable that the expenditures will result in additional functionality. Maintenance and training costs are expensed as incurred. Capitalized internal-use software costs are recorded as part of property and equipment and are amortized on a straight-line basis over an estimated useful life of three years.	The Company capitalizes commission costs that are incremental and directly related to the acquisition of customer contracts. For the majority of its customer contracts, the Company pays commissions in full when it receives the initial customer contract for a new subscription or a renewal subscription. For all other customer contracts, the Company pays commissions in full when it receives the initial customer payment for a new subscription or a renewal subscription. Commission costs are capitalized upon payment and are amortized as expense ratably over the term of the related noncancelable customer contract, in proportion to the recognition of the subscription revenue. If a subscription agreement is terminated, the unamortized portion of any deferred commission cost is recognized as expense immediately.
34	Guidance Software Inc	We maintain a research and development staff to develop new products and enhance or maintain existing products. In accordance with Software Industry—Costs of Software to Be Sold, Leased, or Marketed (ASC 985-20) software costs are expensed as incurred until technological feasibility of the software is determined and the recovery of the cost can reasonably be expected, after which any additional costs are capitalized. To date, we have expensed all software development costs because the establishment of technological feasibility of products and their availability for sale has substantially coincided.	Although we expense our sales commissions at the time a sale is invoiced to the customer, revenues from certain of our products are recognized over the relevant performance or license period. Accordingly, for those products, we generally experience a delay between when sales commissions are expensed and when we recognize the corresponding revenue.
35	Guidewire Software Inc	Certain software development costs incurred subsequent to the establishment of technological feasibility are subject to capitalization and amortized over the estimated lives of the related products. Technological feasibility is established upon completion of a working model. Through July 31, 2015, costs incurred subsequent to the establishment of technological feasibility have not been material, and therefore, all software development costs have been charged to research and development expense in the accompanying consolidated statements of income as incurred.	Sales commissions are recognized as an expense when earned by the sales representative, generally occurring at the time the customer order is signed. Substantially all of the effort by the sales force is expended through the time of closing the sale, with limited to no involvement thereafter.
36	HealthStream, Inc.	Capitalized software development is stated on the basis of cost, and is presented net of accumulated amortization. The Company capitalizes costs incurred during the software development phase for projects when such costs are material. These assets are amortized using the straight-line method, generally ranging between three to five years.	No discussion in footnotes
37	Hewlett Packard	HP capitalizes certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software. HP amortizes capitalized internal use software costs using the straight-line method over the estimated useful lives of the software, generally from three to five years.	No discussion in footnotes
38	HubSpot	Capitalized Software Development Costs —Certain payroll and stock compensation costs incurred to develop functionality for the Company's software platform, as well as certain upgrades and enhancements that are expected to result in increased functionality are capitalized. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, certain internal costs are capitalized until the software is substantially complete and ready for its intended use. Capitalized software development costs are amortized on a straight-line basis over their estimated useful life of two years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.	Sales and marketing expenses consist primarily of personnel costs of our sales and marketing employees, including sales commissions and incentives, benefits and stockbased compensation expense, marketing programs, including lead generation, costs of our annual INBOUND conference, and other brand building expenses and allocated overhead costs. We defer certain sales commissions related to acquiring new customers and amortize them ratably over the term of the corresponding subscription agreement. Sales and marketing expenses also include commissions paid to our marketing agency partners when we are the primary obligor for providing the subscription that has been purchased.
39	Imperva	The costs to develop software for sale have not been capitalized as the Company believes that the technological feasibility of the related software is not established until substantially all product development is complete.	No discussion in footnotes



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
40	Incontact Inc	We capitalize certain costs incurred for the development of internal use software, which are included as internal use software in property and equipment in the consolidated balance sheets. These costs include the costs associated with coding, software configuration, upgrades and enhancements that are incurred during the application development stage.	No discussion in footnotes
41	Interactive Intelligence Group Inc	The Company capitalizes certain costs related to its PureCloud Platform and certain projects described below for internal use in accordance with FASB ASC 350-40, Internal Use Software. Once a product has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. The capitalization of costs ceases upon completion of all substantial testing. Costs incurred in the preliminary stages of development, maintenance and training costs are expensed as incurred.	No discussion in footnotes
42	Intralinks Holdings, Inc.	The Company accounts for the cost of software developed or obtained for internal use by capitalizing qualifying costs that are incurred during the application development stage and amortizing them over the expected period of benefit, which is generally three years. Amortization begins when the software is ready for its intended use. Costs incurred during the preliminary and post-implementation stages are expensed as incurred. The amounts capitalized include external direct costs of services used in developing internal-use software, employee compensation and related expenses of personnel directly associated with the development activities and interest. Software development costs are evaluated for recoverability whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.	No discussion in footnotes
43	Intuit Inc.	Software Development Costs - We expense software development costs as we incur them until technological feasibility has been established, at which time those costs are capitalized until the product is available for general release to customers. To date, our software has been available for general release concurrent with the establishment of technological feasibility and, accordingly, we have not capitalized any development costs. Costs we incur to enhance our existing products or after the general release of the service using the product are expensed in the period they are incurred and included in research and development expense in our statements of operations. Internal Use Software - We capitalize costs related to development of hosted services that we provide to our customers and internal use of enterprise-level business and finance software in support of our operational needs. Costs incurred in the application development phase are capitalized and amortized on a straight-line basis over their useful lives, which are generally three to five years. Costs related to planning and other preliminary project activities and to post-implementation activities are expensed as incurred. We test these assets for impairment whenever events or changes in circumstances occur that could impact their recoverability.	No discussion in footnotes
44	J2 Global Communications, Inc.	Costs for software development incurred subsequent to establishing technological feasibility, in the form of a working model, are capitalized and amortized over their estimated useful lives. To date, software development costs incurred after technological feasibility has been established have not been material.	No discussion in footnotes
45	Jive Software Inc	Through the third quarter of 2014, we capitalized costs to develop internal-use software during the app development stage. These costs related to app development activities. In the third quarter of 2014, management developed a substantive plan to repurpose the in-process development into our existing software platform and new software products. As a result of this decision, the associated capitalized internal-use software costs became governed by the accounting standards related to capitalized software development costs in the third quarter of 2014. As such, subsequent to July 2014, we will no longer capitalize costs related to internal-use software and, going forward, we will account for our current capitalized costs as capitalized software development costs. Material software development costs incurred subsequent to establishing technological feasibility through the general release of the software products are capitalized. Technological feasibility is demonstrated by the completion of a detailed program design or working model, if no program design is completed. Historically, technological feasibility has occurred concurrently with the commercial release of our products and as a result we have not capitalized software development costs. We do not anticipate capitalizing material software development costs in future periods. GAAP requires that annual amortization expense of the capitalized software development costs be the greater of the amounts computed using the ratio of gross revenue to a products' total current and anticipated revenues or the straight-line method over the products' remaining estimated economic life.	No discussion in footnotes
46	Life Lock	We capitalize costs related to the development of software and new business systems for internal use. We have no plans to market such software and business systems externally. During the development stage of the software and new business systems, all direct internal and external costs are capitalized until the project is substantially complete and ready for its intended use. Once a project reaches the production stage, capitalized costs associated with such project will be amortized on a straight-line basis over the estimated useful life as determined by management.	No discussion in footnotes

#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
47	Liveperson, Inc.	In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350-40, Internal-Use Software, the Company capitalizes its costs to develop its internal use software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software will be used as intended. These costs are included in property and equipment in the Company's consolidated balance sheets and are amortized on a straight-line basis over the estimated useful life of the related asset, which approximates three years. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed as incurred.	No discussion in footnotes
48	LogMeIn, Inc.	The Company has determined that technological feasibility of its software products that are sold as a perpetual license is reached shortly before their introduction to the marketplace. The Company capitalizes certain direct costs to develop functionality as well as certain upgrades and enhancements of its on-demand products that are probable to result in additional functionality. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized as part of intangible assets until the software is substantially complete and ready for its intended use. Internally developed software costs that are capitalized are classified as intangible assets and amortized over a three year period.	No discussion in footnotes
49	Manhattan Associates, Inc.	Research and development expenses are charged to expense as incurred. For the years ended December 31, 2015, 2014 and 2013, the Company did not capitalize any internal research and development costs because the costs incurred between the attainment of technological feasibility for the related software product through the date when the product was available for general release to customers have been insignificant. The Company determines the amount of development costs capitalizable under the provisions of FASB Codification accounting for costs of computer software to be sold, leased, or marketed. Under this guidance, computer software development costs are charged to R&D expense until technological feasibility is established, after which remaining software production costs are capitalized. The Company has defined technological feasibility as the point in time at which the Company has a detailed program design or a working model of the related product, depending on the type of development efforts, and high-risk development issues have been resolved through end-to-end system testing.	No discussion in footnotes
50	Marin Software Inc	Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life, which is three years. The Company expenses all costs incurred that relate to planning and post implementation phases of development. Capitalized costs related to internally developed software under development are treated as construction in progress until the program, feature or functionality is ready for its intended use, at which time amortization commences.	No discussion in footnotes.
51	Marketo Inc	Costs incurred to develop the Company's cloud-based platform and applications consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software and (b) payroll and payroll-related costs for employees who are directly associated with, and who devote time to, a given project. These costs generally consist of internal labor during configuration, coding and testing activities. Research and development costs incurred during the preliminary project stage or costs incurred for data conversion activities, training, maintenance and general and administrative or overhead costs are expensed as incurred. Capitalization begins when the preliminary project stage is complete, management with the relevant authority authorizes and commits to the funding of the software project, it is probable the project will be completed, and the software will be used to perform the functions intended and certain functional and quality standards have been met. Additionally, the Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized software development costs are amortized on a straight-line basis over the estimated useful life, which is generally eighteen months to two years.	Sales and marketing commissions are recognized as an expense generally at the time the customer order is signed. Substantially all of the effort by the sales and marketing organization is expended through the time of closing the sale with limited or no involvement thereafter. Commissions paid are subject to clawback by the Company in the event the customer fails to make payment on the agreement.
52	Medidata Solutions Inc	Costs incurred in the research and development of new software solutions and enhancements to existing software solutions are expensed as incurred. Internally developed software costs, if any, are capitalized when technological feasibility is reached, which is not until a working model is developed and the functionality is tested and determined to be compliant with all federal and international regulations.	For arrangements where revenue is recognized over the relevant contract period, the Company capitalizes related sales commissions that have been paid and recognizes these expenses over the period the related revenue is recognized. Commissions are generally payable to the Company's sales representatives 25% at the time of booking and 75% at the time of invoicing. If a client terminates a contract, the Company recaptures the related unearned commissions. Prepaid commissions that will be recognized during the subsequent 12 month period are recorded as current prepaid commissions and the remaining portion included in other noncurrent assets.



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
53	MobileIron	Software Development Costs Incurred in Connection with Software to be Sold or Marketed - The costs to develop new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. We consider technological feasibility to have occurred when all planning, designing, coding and testing have been completed according to design specifications. Once technological feasibility is established, any additional costs would be capitalized. We believe our current process for developing software is essentially completed concurrent with the establishment of technological feasibility, and accordingly, no costs have been capitalized. Internal Use Software - We capitalize costs incurred during the application development stage related to our internally used software. Such costs are primarily incurred by third-party vendors and consultants. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Amounts capitalized in all periods presented were not significant. All software development costs incurred in connection with our cloud offering, or SaaS, are also sold or marketed to partners or end customers, therefore we start capitalizing costs when technological feasibility is achieved. No costs were capitalized in any periods presented as we believe that our current process for developing software is essentially completed concurrent with the establishment of technological feasibility.	Sales and marketing expense consists primarily of personnel costs, including sales commissions. We expense commissions up-front at the time of the sale. Sales and marketing expense also includes third-party events, lead generation campaigns, promotional and other marketing activities, as well as travel, equipment and software depreciation, consulting, information technology and facilities. While our sales and marketing expense, exclusive of stock-based compensation expense, as a percentage of total revenue may fluctuate, we expect it to decrease over the long term as a percentage of total revenue.
54	NetApp Inc.	Software Development Costs — The costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized in accordance with the accounting guidance for software. Because our current process for developing software is essentially completed concurrently with the establishment of technological feasibility, which occurs upon the completion of a working model, no costs have been capitalized for any of the periods presented. Internal-Use Software Development Costs — We capitalize qualifying costs, which are incurred during the application development stage, for computer software developed or obtained for internal-use and amortize them over the software's estimated useful life.	The company has a non-qualified deferred compensation plan that allows a group of employees within the U.S. to contribute base salary and commissions or incentive compensation on a tax deferred basis in excess of the IRS limits imposed on 401(k) plans. The marketable securities related to these investments are held in a Rabbi Trust.
55	Netsuite Inc.	The Company capitalizes certain development costs incurred in connection with its internal use software and website. These capitalized costs are primarily related to the integrated business management application suite that is hosted by the Company and accessed by its customers on a subscription basis. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Maintenance and training costs are expensed as incurred. Internal use software is amortized on a straight line basis over its estimated useful life, generally three years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments to internal use software during the years ended December 31, 2015, 2014 and 2013.	The Company capitalizes commission costs that are incremental and directly related to the acquisition of customer contracts. Commission costs are accrued and capitalized upon execution of the sales contract by the customer. Payments to partners and most sales personnel are made shortly after the receipt of the related customer payment. Payments to managers and above are made either partially or in full once sales contracts are executed. Deferred commissions are amortized over the term of the related non-cancelable customer contract and are recoverable through the related future revenue streams.
56	New Relic	We capitalize certain development costs incurred in connection with our internal use software and website. These capitalized costs are primarily related to our software analytics tools that are hosted by us and accessed by our customers on a subscription basis. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional features and functionality. Maintenance costs are expensed as incurred. Internal use software is amortized on a straight-line basis over its estimated useful life, generally three years.	Sales and marketing commissions are recognized as an expense at the time of the customer order. Substantially all of the effort by the sales and marketing organization is expended through the time of closing the sale.
57	Oracle Corporation	Software development costs required to be capitalized under ASC 985-20, Costs of Software to be Sold, Leased or Marketed, and under ASC 350-40, Internal-Use Software, were not material to our consolidated financial statements in fiscal 2015, 2014 and 2013.	The company defers sales commission expenses associated with our cloud SaaS, PaaS and IaaS offerings, and recognize the related expenses over the non-cancelable term of the related contracts, which are typically one to three years. Amortization of deferred sales commissions is included as a component of sales and marketing expense in our consolidated statements of operations.

#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
58	OPOWER	The Company capitalizes certain software development costs, consisting primarily of personnel and related expenses for employees and third parties who devote time to their respective projects. Internal-use software costs are capitalized during the application development stage, which is when the research stage is complete and management has committed to a project to develop software that will be used for its intended purpose. Any costs incurred during subsequent efforts to significantly upgrade and enhance the functionality of the software are also capitalized. Capitalized software costs are included in property and equipment on the consolidated balance sheets. Amortization of internal-use software costs begins once the project is substantially complete and the software is ready for its intended purpose. These capitalized costs are amortized on a straight-line basis over their estimated useful life.	No discussion in footnotes.
59	Park City Group, Inc.	The Company accounts for research costs of computer software to be sold, leased or otherwise marketed as expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our software products is reached shortly after a working prototype is complete and meets or exceeds design specifications including functions, features, and technical performance requirements. Costs incurred after technological feasibility is established have been and will continue to be capitalized until such time as when the product or enhancement is available for general release to customers.	No discussion in footnotes.
60	Proofpoint Inc	No discussion in footnotes.	No discussion in footnotes.
61	PROS Holdings, Inc.	Costs incurred to develop internal-use software during the application development stage are capitalized, stated at cost, and depreciated using the straight-line method over the estimated useful lives of the assets. Application development stage costs generally include salaries and personnel costs and third party contractor expenses associated with internal-use software configuration, coding, installation and testing. Capitalized internal-use software is included in property and equipment, net in the Consolidated Balance Sheets.	No discussion in footnotes.
62	Q2 Holdings	The company capitalizes certain software development costs related to programmers, software engineers and quality control teams working on our software solutions. The costs related to software development that are incurred between reaching technological feasibility of a solution and the point at which the solution is ready for general release are capitalized and are included in intangible assets, net on the consolidated balance sheet. Amortization of capitalized software development costs will be computed on an individual product basis for those products available for market and will be recognized based on the product's estimated economic life, generally three years, and these costs will be recognized in cost of revenues.	The company capitalizes sales commissions and other third-party costs, such as third-party licenses and maintenance related to our customer agreements. The company capitalizes sales commissions because the commission charges are so closely related to the revenues from the non-cancellable customer agreements that they should be recorded as an asset and charged to expense over the same period that the related revenue is recognized. The company begins amortizing deferred solution and other costs for a particular customer agreement once the revenue recognition criteria are met and amortize those deferred costs over the remaining term of the customer agreement.
63	Qlik Technologies Inc.	Software development costs are generally expensed as incurred until technological feasibility has been established, at which time such costs are capitalized to the extent that the capitalizable costs do not exceed the realizable value of such costs, until the product is available for general release to customers. Based on the Company's product development process, technological feasibility is established upon the completion of a working model of the software product that has been tested to be consistent with the product design specifications and that is free of any uncertainties related to high-risk development issues. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant. Accordingly, the Company generally charges all such costs to research and development expense in the accompanying consolidated statements of operations.	The Company records commission expense related to license sales in the period in which the sale is made. For arrangements that consist solely of professional services, commission expense is recorded in the period in which the professional services have been rendered.
64	Qualys Inc	Software Development Costs - The Company capitalizes qualifying software costs developed or obtained for internal use. These costs generally include internal costs, such as payroll and benefits of those employees directly associated with the development of the software, and other consulting expenses.	Sales commissions are expensed in the quarter in which the related order is received and are paid in the month subsequent to the end of that quarter, which results in increased expenses prior to the recognition of related revenues.
65	Rally Software	Qualifying software development costs are required to be capitalized once technological feasibility of the software as been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when we have completed all planning, designing, coding, and testing activities that are necessary to determine that a product can be produced to meet its design specifications, including functions, features, and technical performance requirements. Capitalization of costs ceases when the product is available for general use.	No discussion in footnotes.



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
66	Realpage, Inc.	We capitalize specific product development costs, including costs to develop software products or the software components of our solutions to be marketed to our customers, as well as software programs to be used solely to meet our internal needs. The costs incurred in the preliminary stages of development related to research, project planning, training, maintenance and general and administrative activities, and overhead costs are expensed as incurred. The costs of relatively minor upgrades and enhancements to the software are also expensed as incurred. Once an application has reached the development stage, internal and external costs incurred in the performance of application development stage activities, including materials, services and payroll-related costs for employees are capitalized, if direct and incremental, until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Internal use software is amortized on a straight-line basis over its estimated useful life, generally three years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.	No discussion in footnotes.
67	Red Hat, Inc.	Internal use software - The Company capitalizes costs related to the development of internal use software for its website, enterprise resource planning system and systems management applications. The Company amortizes the costs of computer software developed for internal use on a straight-line basis over an estimated useful life of five years. The carrying value of internal use software is included in property and equipment on the Company's Consolidated Balance Sheets. Capitalized software costs - Capitalization of software development costs for products to be sold to third parties begins upon the establishment of technological feasibility and ceases when the product is available for general release. As a result of the Company's practice of releasing source code that it has developed on a weekly basis for unrestricted download on the Internet, there is generally no passage of time between achievement of technological feasibility and the availability of the Company's product for general release. Therefore, at February 28, 2015 and February 28, 2014, the Company had no internally developed capitalized software costs for products to be sold to third parties.	Deferred commissions are the incremental costs that are directly associated with non-cancelable subscription contracts with customers and consist of sales commissions paid to the Company's sales force. The commissions are deferred and amortized over a period that approximates the period of the subscription term. The commission payments are paid in full subsequent to the month in which the customer's service commences. The deferred commission amounts are recoverable through the future revenue streams under the non-cancelable customer contracts. In addition, the Company has the ability and intent under the commission plans with its sales force to recover commissions previously paid to its sales force in the event that customers breach the terms of their subscription agreements and do not fully pay for their subscription agreements. Deferred commissions are included in prepaid expenses on the accompanying Consolidated Balance Sheets. Amortization of deferred commissions is included in sales and marketing expense in the accompanying Consolidated Statements of Operations.
68	RingCentral Inc	We use significant judgment in determining whether certain internal-use software development costs are capitalized or expensed and over what period the amounts capitalized should be amortized to expense. We capitalize internal-use software development costs related to our SaaS applications that are incurred during the application development stage provided that it is probable the project will be successfully completed and such costs will be recovered from future revenues. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life starting when the underlying project is ready for its intended use, generally three to four years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.	No discussion in footnotes.
69	Rosetta Stone Inc	The Company capitalizes software development costs related to certain of its software platforms developed exclusively to provide its web-based subscription services and other general and administrative use software in accordance with ASC subtopic 350-40: Internal-Use Software. Development costs for internal-use software are expensed as incurred until the project reaches the application development stage. Internal-use software is defined to have the following characteristics: (a) the software is internally developed, or modified solely to meet the entity's internal needs, and (b) during the software's development or modification, no substantive plan exists or is being developed to market the software externally. Internally developed software is amortized over a three-year useful life.	Sales commissions from non-cancellable web-based software subscription contracts are deferred and amortized in proportion to the revenue recognized from the related contract.

#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
70	Salesforce.com, Inc.	The Company capitalizes costs related to its enterprise cloud computing services and certain projects for internal use incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, which is generally three to five years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.	We defer commission payments to our direct sales force. The commissions are deferred and amortized to sales expense over the non-cancelable terms of the related subscription contracts with our customers, which are typically 12 to 36 months. The commission payments, which are paid in full the month after the customer's service commences, are a direct and incremental cost of the revenue arrangements. The deferred commission amounts are recoverable through the future revenue streams under the non-cancelable customer contracts. We believe this is the preferable method of accounting as the commission charges are so closely related to the revenue from the non-cancelable customer contracts that they should be recorded as an asset and charged to expense over the same period that the subscription revenue is recognized.
71	Sciqwest Inc	The Company incurs certain costs associated with the development of its cloud-based solution, which are accounted for as internal-use software. Certain qualifying costs incurred during the application development phase are capitalized and amortized to expense over the estimated useful life of the related applications, which is generally three years. Although the Company's development efforts are primarily focused on its hosted, cloud-based solution, the Company also incurs costs in connection with the development of certain of its software products licensed to customers on a perpetual basis, which are accounted for as costs of software to be sold, leased or otherwise marketed. Under this guidance, capitalization of software development costs begins upon the establishment of technological feasibility (based on a working model approach), subject to net realizable value considerations. To date, the dates between achieving technological feasibility and the general availability of such software have substantially coincided; therefore, software development costs for these products that would qualify for capitalization have been immaterial. Accordingly, the Company has not capitalized any software development costs related to these software products and has charged all such costs to research and development expense.	The Company capitalizes sales commission costs that are directly related to the execution of its subscription agreements. The commissions are deferred and amortized over the contractual term of the related non-cancelable subscription agreement. The Company believes this is the appropriate method of accounting, as the commission costs are so closely related to the revenues from the subscription agreements that they should be recorded as an asset and charged to expense over the same period that the subscription revenues are recognized. Amortization of deferred commissions is included in sales and marketing expense in the accompanying consolidated statements of operations and comprehensive loss.
72	ServiceNow Inc	Capitalized Software Costs - Costs incurred to develop our internal administration, finance and accounting systems are capitalized during the application development stage and amortized over the software's estimated useful life of three to five years.	Deferred commissions are the incremental selling costs that are directly associated with our customer contracts and consist of sales commissions paid to our direct sales force and referral fees paid to independent third-parties. The majority of commissions and referral fees are deferred and amortized on a straight-line basis over the non-cancelable terms of the related customer contracts. We include amortization of deferred commissions in sales and marketing expense in the consolidated statements of comprehensive loss. We believe this is the preferable method of accounting as the commission charges are so closely related to the revenue from the customer contracts that they should be recorded as an asset and charged to expense over the same period that the revenue is recognized.
73	Splunk	Capitalization of software development costs for software to be sold, leased, or otherwise marketed begins upon the establishment of technological feasibility, which is generally the completion of a working prototype that has been certified as having no critical bugs and is a release candidate. Amortization begins once the software is ready for its intended use, generally based on the pattern in which the economic benefits will be consumed.Costs related to software acquired, developed or modified solely to meet our internal requirements, with no substantive plans to market such software at the time of development, are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during post implementation operational stage are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. We define the design, configuration, and coding process as the application development stage.	Commissions are recorded as a component of sales and marketing expenses and consist of the variable compensation paid to our sales force. Sales commissions are earned and recorded at the time that a customer has entered into a binding purchase agreement. Commissions paid to sales personnel are recoverable only in the case that we cannot collect the invoiced amounts associated with a sales order.
74	SPS Commerce, Inc.	No discussion in footnotes.	Commissions are expensed.



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
75	Tableau Software Inc	Software development costs associated with the development of new products, enhancements of existing products and quality assurance activities consists of employee, consulting and other external personnel costs. The costs incurred internally from the research and development of computer software products are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for release to customers. Judgment is required in determining when technological feasibility of a product is established. To date, we have determined that technological feasibility of software products is reached shortly before the products are released. Costs incurred after establishment of technological feasibility have not been material, and therefore, we have expensed all research and development costs as they were incurred. Research and development expenses primarily consist of personnel related costs attributable to our research and development personnel and allocated overhead. We capitalize certain costs relating to software acquired, developed, or modified solely to meet our internal requirements and for which there are no substantive plans to market the software. To date, we have not capitalized any such costs.	No discussion in footnotes
76	The Keyw Holding Corporation	Costs of internally developed software for resale are expensed until the technological feasibility of the software product has been established. In accordance with the pronouncement on software development costs of the Accounting Standards Codification, software development costs are capitalized and amortized over the product's estimated useful life. The capitalized software development costs are amortized using the greater of straight-line method or as a percentage of revenue recognized from the sale of the capitalized software.	No discussion in footnotes
77	The Ultimate Software Group, Inc.	We previously capitalized costs in accordance with Accounting Standards Codification ("ASC") Topic 985-20, Costs of Software to Be Sold, Leased, or Marketed. Those capitalized costs were fully amortized as of December 31, 2013. Computer software development costs related to software developed for internal use falls under the accounting guidance of ASC Topic 350-40, Intangibles Goodwill and Other—Internal Use Software, in which computer software costs are expensed as incurred during the preliminary project stage and capitalization begins in the application development stage once the capitalization criteria are met. Costs associated with post implementation activities are expensed as incurred. Costs capitalized during the application development stage include external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the internal-use computer software. In addition to capitalizing costs for software (which are used by us in our general operations, for internal purposes), we also capitalize costs under ASC Topic 350-40 for certain software development projects related to our suite of products sold to our customers exclusively on a subscription basis under our software-as-a-service offering of UltiPro (the “Cloud Offering”).	Ultimate’s financial statements include prepaid expenses and other current assets which include prepaid commissions on cloud sales. Prepaid expenses are amortized over the life of the asset (typically within one year) and commissions on cloud sales are amortized over the initial contract term (typically 24-36 months) typically commencing on the day the customer processes its first live payroll using UltiPro (also referred to as going “Live”), which corresponds with the related cloud revenue recognition. The portion of prepaid commissions that extends beyond one year is classified in other assets, net, in the consolidated balance sheets.
78	Tyler Technologies, Inc.	We capitalize software development costs upon the establishment of technological feasibility and prior to the availability of the product for general release to customers. Software development costs primarily consist of personnel costs and rent for related office space. We begin to amortize capitalized costs when a product is available for general release to customers. Amortization expense is determined on a product-by-product basis at a rate not less than straight-line basis over the product’s remaining estimated economic life, but not to exceed five years. We have not capitalized any internal software development costs in any of the periods presented.	Prepaid expenses and other current assets include direct and incremental costs such as commissions associated with arrangements for which revenue recognition has been deferred. Such costs are expensed at the time the related revenue is recognized.
79	Upland Software	Software development costs are expensed as incurred until the point the Company establishes technological feasibility. Technological feasibility is established upon the completion of a working model. Costs incurred by the Company between establishment of technological feasibility and the point at which the product is ready for general release are capitalized, subject to their recoverability, and amortized over the economic life of the related products. Because the Company believes its current process for developing its software products essentially results in the completion of a working product concurrent with the establishment of technological feasibility, no software development costs have been capitalized to date. There were no software development costs required to be capitalized under ASC 985-20, Costs of Software to be Sold, Leased or Marketed, and under ASC 350-40, Internal-Use Software.	No discussion in footnotes.

#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
80	Veeva Systems Inc	We capitalize certain costs incurred for the development of computer software for internal use. These costs generally relate to the development of our customer relationship management, content management and collaboration and customer master solutions. We capitalize these costs during the development of the project, when it is determined that it is probable that the project will be completed, and the software will be used as intended. Costs related to preliminary project activities, post-implementation activities, training and maintenance are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, generally three years, and the amortization expense is recorded as a component of cost of subscription services. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. We exercise judgment in determining the point at which various projects may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized. To the extent that we change the manner in which we develop and test new features and functionalities related to our solutions, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of internal-use software development costs we capitalize and amortize could change in future periods.	No discussion in footnotes.
81	Vertical Computer Systems, Inc.	Software costs incurred internally in creating computer software products are expensed until technological feasibility has been established upon completion of a detailed program design. Thereafter, all software development costs are capitalized until the point that the product is ready for sale, and are subsequently reported at the lower of unamortized cost or net realizable value. The Company considers annual amortization of capitalized software costs based on the ratio of current year revenues by product to the total estimated revenues by the product, subject to an annual minimum based on straight-line amortization over the product's estimated economic useful life, not to exceed five years.	No discussion in footnotes
82	VMware, Inc.	Internal-Use Software Development Costs - Costs associated with internal-use software systems during the application development stage are capitalized. Capitalization of costs begins when the preliminary project stage is completed, management has committed to funding the project, and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization ceases at the point when the project is substantially complete and is ready for its intended purpose. The capitalized amounts are included in property and equipment, net on the consolidated balance sheets. Research and Development and Capitalized Software Development Costs - Research and development costs primarily consist of personnel and related overhead costs associated with the research and development of VMware's product software and service offerings and are expensed as incurred. Development costs of software to be sold, leased, or otherwise marketed are subject to capitalization beginning when technological feasibility for the product has been established and ending when the product is available for general release. Following a change in VMware's go-to-market strategy in late 2011, the length of time between achieving technological feasibility and general release to customers significantly decreased. During the years presented, software development costs incurred for products during the time period between reaching technological feasibility and general release were not material and accordingly were expensed as incurred.	No discussion in footnotes
83	Web.com Group, Inc.	Technology and Development Costs - The Company expenses technology and development costs as incurred.	No discussion in footnotes.
84	Wix.com	Research and development costs are charged to the statements of comprehensive loss as incurred. ASC 350-40, "Internal-Use Software", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. The Company evaluates periodically Research and development costs related to the online platform that may be eligible for capitalization in accordance with ASC 350-40 "internal-use software".	No discussion in footnotes.
85	Workday, Inc.	No discussion in footnotes	<p>Sales commissions earned by our sales force are considered to be direct sales commissions when they can be associated specifically with a non-cancelable subscription contract. Direct sales commissions are deferred when earned and amortized over the same period that revenues are recognized for the related non-cancelable subscription contract. The commission payments are paid in full after the customer has paid for its first year of service.</p> <p>Amortization of deferred commissions is included in the Sales and marketing line in the accompanying consolidated statements of operations.</p>
86	Worlds Inc.	Research and development costs are charged to operations as incurred.	No discussion in footnotes



#	Company	Notes on Capitalization of Software Development	Notes on Capitalization of Commissions
87	Xero	The Group capitalises a proportion of employee costs related to software development. The Group regularly reviews the carrying value of capitalised development costs to ensure they are not impaired. The development costs are amortised over three to five years, the expected useful life of the assets, with limited exceptions to this for assets specifically identified as having shorter useful lives.	No discussion in footnotes
88	Zendesk	We capitalize certain development costs incurred in connection with software development for our platform and software used in operations. Costs incurred in the preliminary stages of development are expensed as incurred. Once software has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Maintenance and training costs are expensed as incurred. Capitalized internal-use software is amortized on a straight-line basis over its estimated useful life and recorded in cost of revenue within the accompanying consolidated statements of operations. The weighted-average useful life of our capitalized internal-use software was 3.0 years as of December 31, 2015.	No discussion in footnotes
89	Zix Corporation	<p>Software Development Costs —Costs incurred in the development and testing of subscription software products related to research, project planning, training, maintenance and general and administrative activities, and overhead costs are expensed as incurred. The costs of relatively minor upgrades and enhancements to the software are also expensed as incurred.</p> <p>Research and development costs associated with software developed for internal use on behalf of our customers are capitalized. To date, capitalized costs for software developed for internal use on behalf of our customers were not material.</p>	No discussion in footnotes