March 13, 2012

Financial Accounting Standards Board
Technical Director
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116


Dear Technical Director:

Advent Software, Inc., appreciates the opportunity to comment on the Proposed Accounting Standards Update (Revised) – Revenue Recognition (Topic 605): Revenue from Contracts with Customers (Exposure Draft).

While we generally support the consolidation of accounting guidance, we are conflicted with the proposed treatment of time-based or term licenses. In particular, upon transfer of control of a time-based license, the entity is required to recognize license revenue that would formerly have been recognized over the life of the contract and recognize revenue based on management’s estimates of those revenues which are recognizable net of various experiential contingencies.

About Advent Software
Advent Software is a financial software firm registered with the SEC and trading on the NASDAQ under ticker symbol ADVS. For the year ended December 31, 2011, we earned $326 million in revenue. We provide software and services to the financial service industries where our revenue is comprised of 89% recurring revenue via term licenses, maintenance, and subscription services, (term license revenue accounts for 41% of our revenue).

Our typical term license agreement is for a period of between 3-5 years where at the end of the initial contract period, customers then renew the agreement for periods between 1-5 years. During these initial and renewed contract periods, customers receive a bundled IP solution that includes software, updates, upgrades, and helpdesk support. We invoice our term license agreements annually in advance.

We have responded to Question #1 and Question #3 of the exposure draft.
**Question 1** – Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

**Answer:** We disagree with the current proposal. Within the implementation guidance (IG) paragraph 34, the grant of a right to use intellectual property gives rise to a performance obligation that is satisfied at a point in time when the customer obtains control of the right.

We interpret this implementation guidance to result in up-front recognition of a time-based license to intellectual property; whereas, current accounting guidance provides for recognition of revenue ratably over the life of the license. We believe that ratable recognition of a time-based license results in the best representation of a company’s actual performance for the following reasons:

1) **Ratable recognition best matches the economics of the transaction and reflects the customer’s benefit and use of a time-based license.** Our customers pay annually in advance for the right to use a bundled IP solution that includes software, updates, upgrades, and helpdesk support. The use of our IP is for a fixed period of time and the customer receives the benefit over the period of use, not upon delivery. Upon renewal, our customers pay an annual fee for the continued use of our software at a rate that is consistent with the annual price originally charged. If a customer were to extend or terminate an existing contract with us, they would expect a pro rata change in the transaction amount reflecting the change in the period of time the license has been utilized.

2) **Up front recognition of a time-based license enables manipulation of results within a specific period based upon the length of a time-based license.** For a hypothetical example, a customer could choose to sign a 1 or 3 or 5 year term license with a $100,000 per year fee invoiced annually in advance. If the transaction price was allocated 80% to term license and 20% to maintenance of term license. The recognition of revenue at the “point of delivery” could vary from $80,000 (for 1 year) to $240,000 (for 3 years) to $400,000 (for 5 years) for a transaction with the same customer including the same cash flow attributes and the same daily performance obligations.

If the transfer of control is a key for determining when time-based license revenue is recognizable, it is our belief this will lead to widespread structuring of deals by forcing them to push or pull revenue into a reporting period as opposed to allowing it to be recognizable as the entity and their customer are mutually benefitting from the transaction.

3) **Comparability between time-based license and subscription service offerings will be distorted.** As we review the guidance in respect to our own offerings, we are left to compare our term license offerings with that of our subscription based offerings. In comparing the offerings for any given customer, we see that functionality is the same, the requirement to migrate data, configure workflows, train the customer, and hand off an implemented solution is the same. The customer chooses between a term license or subscription service based upon their specific needs and competencies. Two key differences that we can see between a term license and a
subscription is that 1) we perform the back office server support for the customer for which they pay a slight premium and 2) the customer takes delivery or control of a term license where as in a subscription offering they do not.

Thus transfer of control is the concept that divides an otherwise “like for like solution” for our customers. A key distinction is that customers’ license our software or enter into a subscription arrangement for the ability to provide those financial services to their clients. They do not license our products because they are hosted or locally installed, those are operational preferences and do not lend to the IP that drove their license decision. However, this operational preference will derive vastly different results to be reported and may distort financial statement users’ ability to assess comparable performance.

Why we feel ratable recognition of time-based licenses better represents economic events:
We have a varied client base managing wealth in niche markets all over the world. In our 29 year history, we have observed many new markets emerge and in some cases, a rapid consolidation of those markets. We have observed that within the active period of our contracts, customers will; add products, early terminate other products, spin off divisions and transfer permitted license rights and obligations, acquire other customers and renegotiate both existing agreements, etc. These events make managing the recognition of revenue within a contract period challenging. However, recognizing revenue based on estimates of future events would be wildly speculative.

We feel today’s method of ratable recognition is more appropriate in that each period recognized is based on performance obligations completed over time. We have executed contracts for a defined period of time and have both the knowledge that we have delivered on the obligations and that customer payment on those contracts is reasonably assured. At the end of each reported period, we have processes that enable us to account for all known commitments and contingencies relating to our contracts and adjust revenue or reserves accordingly if those commitments and contingencies are material. If we are required to adjust the commercial terms of an agreement, we do it on a prospective basis to ensure revenue recognized to date is still reflective of the commercial terms in place during those past periods.

Our recommended alternative:
We recommend that the definition of performance obligations satisfied over time included in Paragraph 35 be expanded to include time-based licenses as follows:

When the contract value of a time-based intellectual property right varies based upon the length of time the right is conferred, the performance obligation is satisfied over time.

Question 3 – Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity’s experience may not be predictive of the amount of
consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Answer: We agree with the proposal. We would consider adding an additional time-based criteria to the definition of "reasonably assured to be entitled to the amount of consideration." Specifically, as a practitioner, it is very difficult to be reasonably assured of anything in the distant future. Therefore, some time-based criteria are appropriate.

There are examples within accounting guidance that would indicate that one year from the date of the balance sheet is an established norm for the ability to evaluate the future (e.g. current versus long-term assets and liabilities; going concern assessment of financial statements). Therefore, time-based criteria of reasonable assurance of receipt of consideration within one year or less would be appropriate.

Our recommended additional criteria to reasonable assurance:
We recommend the inclusion of time-based criteria to the definition of "reasonably assured to be entitled," and we recommend that the time-based criteria be defined as "expected receipt within one year from the financial statements."

Thank you for taking the time to review our comments. We would be more than willing to further discuss these points and provide any additional information to assist FASB in addressing these issues. Please feel free to contact me to discuss further.

Sincerely,

James Cox
Chief Financial Officer
Advent Software, Inc.