

# SOFTWARE TRENDS

TOP 100 SAAS COMPANIES

## Annual Survey

Capitalization of Development Costs and Sales Commissions

TOP 100  
SAAS COMPANIES

# Survey 2024

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Our annual survey reveals the latest trends in how software-as-a-service (SaaS) companies are capitalizing sales commissions and software development costs, including the impact of regulatory changes and a proposed model for initial development cost capitalization.



## Key Takeaways:

- The percentage of SaaS companies capitalizing sales commissions quadrupled over the past seven years (89% in 2024 versus 22% in 2017). Revenue recognition rules (ASC 606) accelerated this trend.
- The percentage of SaaS companies capitalizing development costs (not impacted by ASC 606) increased during this same period (69% in 2024 versus 62% in 2017).
- Many SaaS companies now have substantial taxable income due to TCJA amendments to IRC Section 174 and must build a strategy to minimize the financial impact.

## Gauge How Your Organization Compares

Sales commissions and software development costs (including website or application development costs) remain among the top expenditures for SaaS companies. Chief financial officers, chief accounting officers and other SaaS finance and accounting executives need to continually evaluate and monitor the industry for emerging trends pertaining to the accounting of these costs.

Our 2024 SaaS survey provides a valuable tool to gauge how your organization compares to its peers in these key areas. It includes 100 of the top publicly traded SaaS companies (ranked primarily by market capitalization). We collected the survey information from participants' Form 10-Ks, reflecting data for the most recent fiscal year ending prior to June 1, 2024. In addition to looking at capitalization over time, we also examined capitalization by revenue and auditor.



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## SECTION ONE

# Relevant GAAP Rules

For reference, here are the rules specific to development cost and commission capitalization.

### Commissions Capitalization

ASC 340-40, issued in conjunction with ASC 606 and adopted by most companies in 2018, 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 amortization period is one of the most significant areas affected by the revenue guidance, as companies no longer have the option to immediately “expense as you go.”

### Development Cost Capitalization

SaaS development costs are subject to “internal use” software capitalization rules, which typically have a longer development window for eligible costs to be capitalized, versus the “external use” rules for software licensing companies. The tables below summarize the applicable Financial Accounting Standards Board (FASB) rules.

## SaaS: Which Rule to Apply to Your Development Costs



### Internal Use Software

SUBTOPIC 350-40

Cost capitalization begins when the preliminary project stage is finished, management has committed to funding the project and it is probable that the project will be completed and the software will perform the function intended. Capitalization ceases when the project is substantially complete and is ready for its intended purpose.



### Website Development Costs

SUBTOPIC 350-50

Capitalize costs incurred to purchase software tools or costs incurred during the application development stage for internally developed tools.

## Traditional Software License



**Costs of Software  
to Be Sold, Leased  
or Marketed**

SUBTOPIC 985-20

Capitalization begins when technological feasibility has been established and ends when the product is available for general release.

### Revised Section 174 Rules May Create Significant Taxable Income

In December 2017, the Tax Cuts and Jobs Act (TCJA) [amended IRC Section 174](#) to require R&D expenditures to be capitalized and amortized over a period of five to 15 years for amounts paid beginning in tax year 2022. Internal software development costs were specifically noted and must be capitalized and amortized. Year one (2022) created a significant tax impact because only half-year amortization is allowed.

As a result, many SaaS companies now may have substantial taxable income. We've seen some companies face three to four times the previous year's tax liability as these regulatory changes have put them in a taxable position for the first time. Companies may assume they have tax attribute carryforwards to offset the income (e.g., net operating losses and tax credits), but these are often limited or not available under IRC Section 382 and the amended Section 174.

#### Minimize your tax impact

Stakeholders, the C-suite and especially the treasury and tax functions of SaaS companies must adopt a strategic approach to minimize the financial impact of the rules. Working with your tax advisor to plan and maximize efficiency is critical for your bottom line.

Consider these actions:

- Adjust quarterly estimated tax payments.
- Perform an [R&D study](#) to identify potential expenses to offset taxable income.
- Get in the habit of identifying, documenting and claiming all applicable R&D expenses.
- Develop a long-term policy and process to remain compliant while leveraging sections of the IRS tax code you may not have explored previously.





## FASB Proposal for Initial Development Cost Model Moves Forward

In October 2024, the FASB issued a [proposed Accounting Standards Update](#) to revise the guidance on accounting for internal-use software. The amendments in this proposed update would apply to all entities subject to (1) the internal use software guidance in Subtopic 350-40 and (2) website development costs guidance in Subtopic 350-50, but would not affect “external use software” entities subject to Subtopic 985-20. These updates are already best practice, and this proposal will not have a significant impact, but issue a clarification for the initial development cost model.

The amendments in the proposed update would remove all references to a prescriptive and sequential software development method (referred to as “project stages”) throughout Subtopic 350-40. The proposed amendments would specify that a company would be required to start capitalizing software costs when both of the following occur:

1. Management has authorized and committed to funding the software project.
2. It is probable that the project will be completed, and the software will be used to perform the function intended (referred to as the “probable-to-complete recognition threshold”).

In evaluating the probable-to-complete recognition threshold, a company may have to consider whether there is significant uncertainty associated with the development activities of the software. The proposed amendments also would require a company to separately present cash paid for capitalized internal-use software costs as investing cash outflows in the statement of cash flows.

## CFO Perspective

Armanino consultant [Andrew Hyde](#), a former CFO for SaaS companies such as Salesforce, OptionEase and Solid Instance, shared these thoughts on the FASB proposal:

“ FASB decided to move forward with two amendments that appear to have been derived from consideration of the single model approach. While potentially helpful, we still believe that software development costs should be capitalized consistently, whether for internal or external applications. There is enough managerial judgment involved in the decisions surrounding expense versus capitalization that, for practical purposes, we believe that management could likely justify a similar result under either ASC 350-40 or ASC 985-20. The effort to continue different accounting approaches can be confusing to accounting teams, tax professionals and software development teams who may be working on both internal and external applications.

In either case, under present standards, FASB recognizes the creation of an asset having long-lived value to the enterprise. This approach reflects what is already occurring as software companies align with SaaS companies' practices, moving away from the "technical feasibility" standard. The FASB would be well served to adopt the single model approach to recognize a natural evolution taking place in the market. ”

### What to watch for



The comment period has closed, and now the FASB board will deliberate and issue a final Accounting Standards Update as part of its annual release process.

Issues to look for include:

- Further clarity regarding the capitalization threshold of "what is probable-to-complete?"
- Will the standard be applied prospectively or retrospectively?
- Will the SEC use the issuance of this update to eliminate the diversity in capitalization practices?





# 02

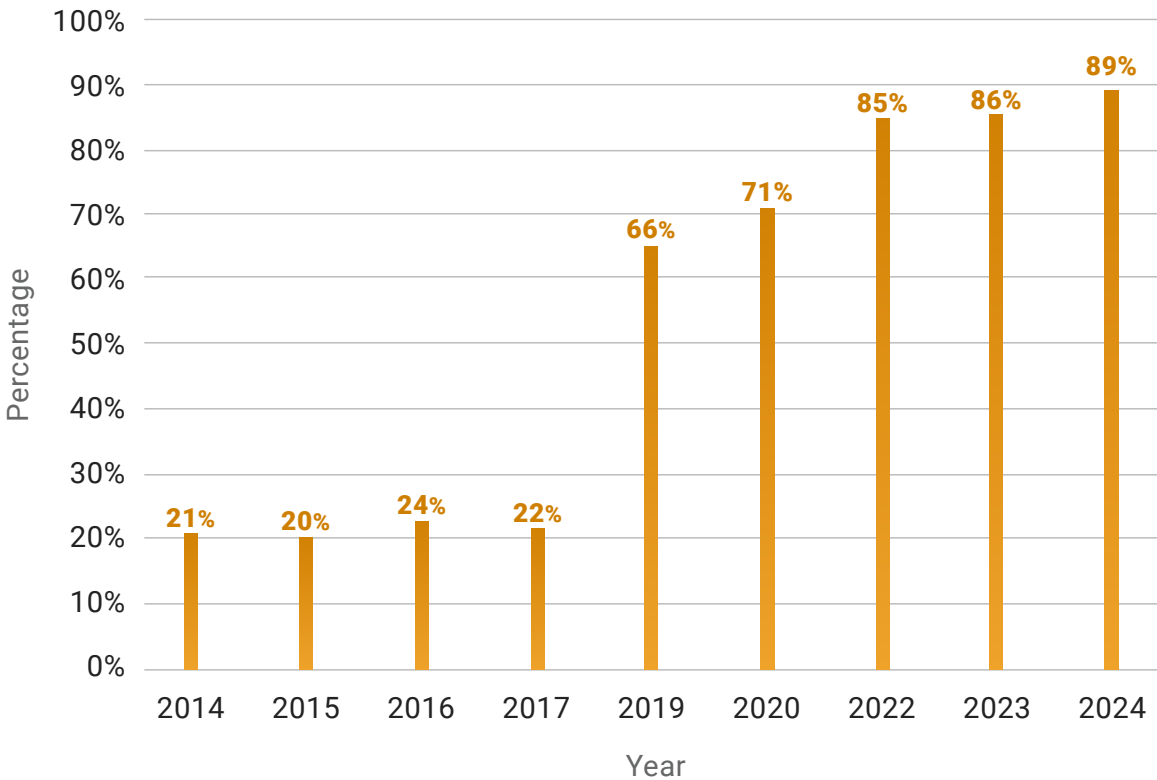
## SECTION TWO

# Capitalization Over Time

### **Sales Commissions**

ASC 606 dramatically changed the revenue recognition landscape in 2018, effectively mandating that companies capitalize commissions, if material. As a result, the capitalization rate in the 2019 survey (66%) tripled compared to the 2017 survey (22%). In 2024, registrants capitalizing commissions remained high at 89%, increasing 3% from 2023. This may represent a leveling off of sales commission capitalization.

## % OF COMPANIES THAT CAPITALIZE SALES COMMISSIONS



*We did not publish a survey in 2018 or 2021*

In 2024, companies that did not disclose commissions capitalized (either claimed commissions were immaterial or were related to deals of less than one year) represented 11% of companies surveyed, down from 34% in 2019. This number is virtually unchanged versus last year, which is to be expected, given that most SaaS companies pay significant commissions and sales teams typically focus on multi-year deals.

## SEC Issues Comment Letters

Not surprisingly, the SEC has issued comment letters to certain registrants concerning how they account for costs incurred to obtain contracts. Examples of such comments (adapted) are as follows:

Tell us how you considered the amounts paid for business development efforts, advisory services and the salaries and wage expenses, in determining that these were not allocable to costs of service revenues. Please provide us with your accounting policy governing the recognition of costs of service revenues and explain how the policy criteria were applied in evaluating such costs. Please also clarify how you view the excluded amounts relative to the guidance in FASB ASC 330-10-30-1 and 30-8, and FASB ASC 340-40-25-2 and 25-7, in determining that such costs would not be capitalizable as contract costs, if this is your view. ””

Please tell us and revise to disclose whether commissions are earned on cloud subscription renewals. If so, disclose whether they are commensurate with the commissions earned on the initial contract and how you account for such commissions. Refer to ASC 340-40-35-1 and 340-40-50. ””

Registrant discloses that it pays sales commissions based on contract value upon signing a new arrangement with a customer and upon renewals. Registrant further discloses that it amortizes deferred sales commissions over the expected customer life, which is approximately five years. Please tell us, and revise to clarify, whether commissions paid upon renewal are commensurate with initial commissions. Also disclose how commissions paid for renewals are considered in your five-year period of benefit for the initial commission. Finally, disclose the period of time over which you amortize commission costs related to contract renewals. Refer to ASC 340-40-35-1 and 340-40-50-2(b). ””



## Development Costs

The percentage of companies capitalizing software development costs decreased just 1% between 2023 and 2024, perhaps indicating a leveling out of the number of companies seeking to capitalize these costs.

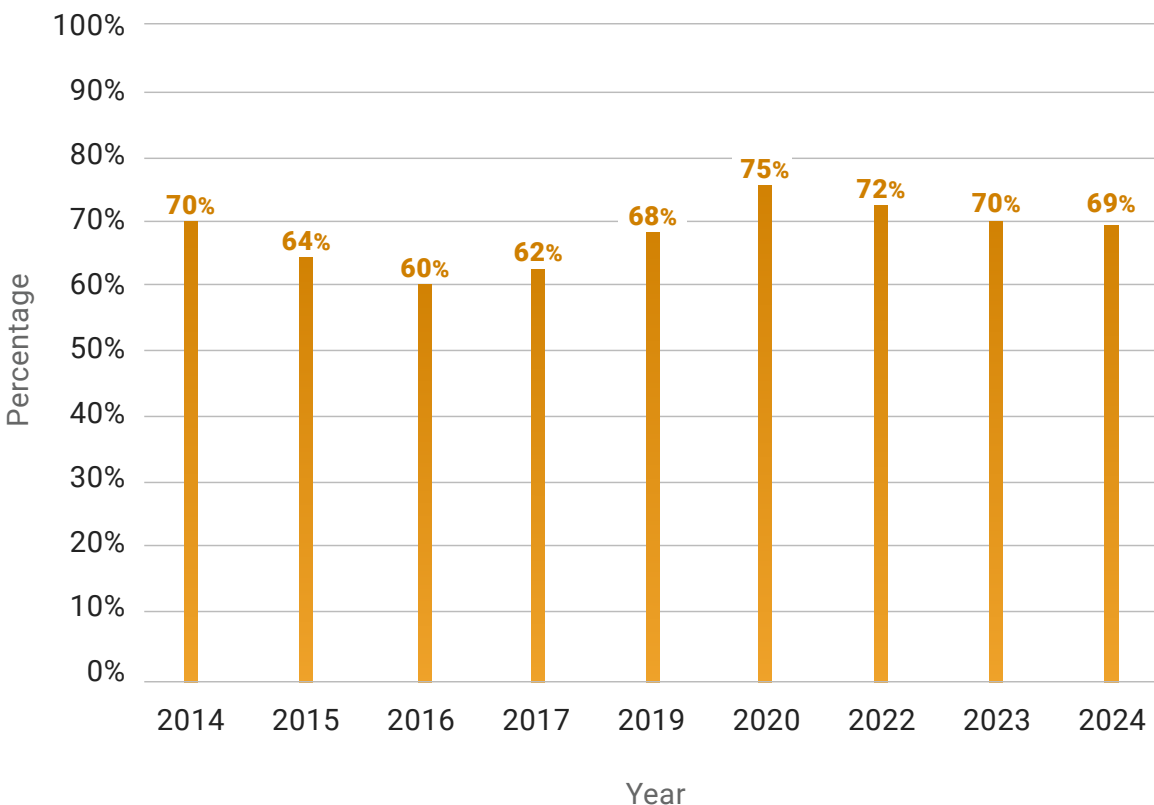
It's interesting to note that despite the apparent diversity in practice (some companies appear to capitalize software development costs while similar peers do not), our search of the SEC EDGAR database for SEC comment letters on this topic over the past two years revealed none, suggesting that the SEC is not currently focused on this disparity.

### Note:

Under the current rules, training an artificial intelligence (AI) model to develop software is not considered a capitalizable expense. At the same time, AI is being widely used to accelerate software development, resulting in shorter development cycles. These compressed timelines are also reducing the useful life of software. This combination of fewer eligible costs and a diminished useful life is likely driving the decline in capitalizing software development costs.



## % OF COMPANIES THAT CAPITALIZE SOFTWARE DEVELOPMENT COSTS



*We did not publish a survey in 2018 or 2021*



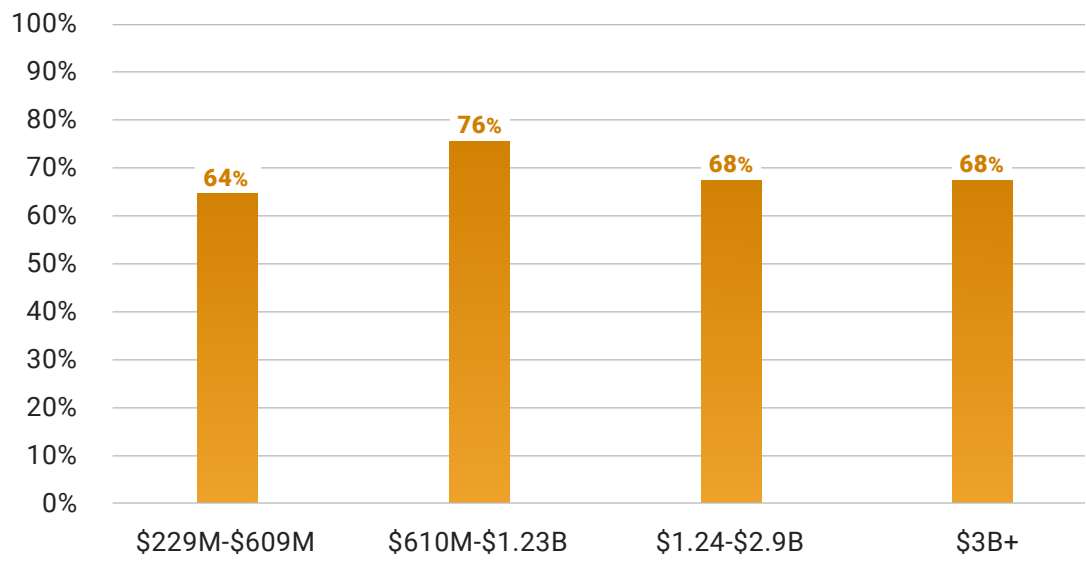
# Q3 Capitalization by Revenue

In this year's survey, we also sorted the firms by revenue into four brackets, with 25 firms in each bracket: \$229 million to \$609 million, \$610 million to \$1.23 billion, \$1.24 billion to \$2.9 billion and over \$3.0 billion.

## Development Costs

In 2020, the data showed that companies with higher revenue tended to capitalize software development costs more often than companies with relatively lower revenue. Today, the percentage of companies capitalizing development costs is relatively consistent, regardless of company size.

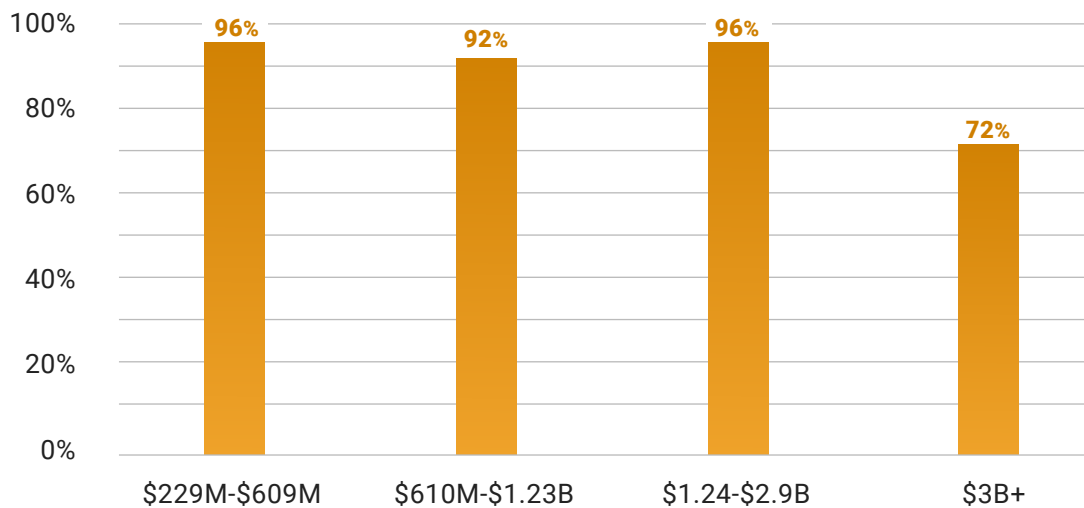
**SOFTWARE DEVELOPMENT CAPITALIZED BY REVENUE QUARTILE 2024**



## Sales Commissions

In 2023, companies with relatively lower revenue tended to capitalize sales commission costs more often than companies with higher revenue. The same is true for 2024. Roughly 72% of companies in the \$3.0 billion and over bracket capitalized commission costs, while over 90% of companies in the three lower brackets capitalized commission costs.

### SALES COMMISSIONS CAPITALIZED BY REVENUE QUARTILE 2024







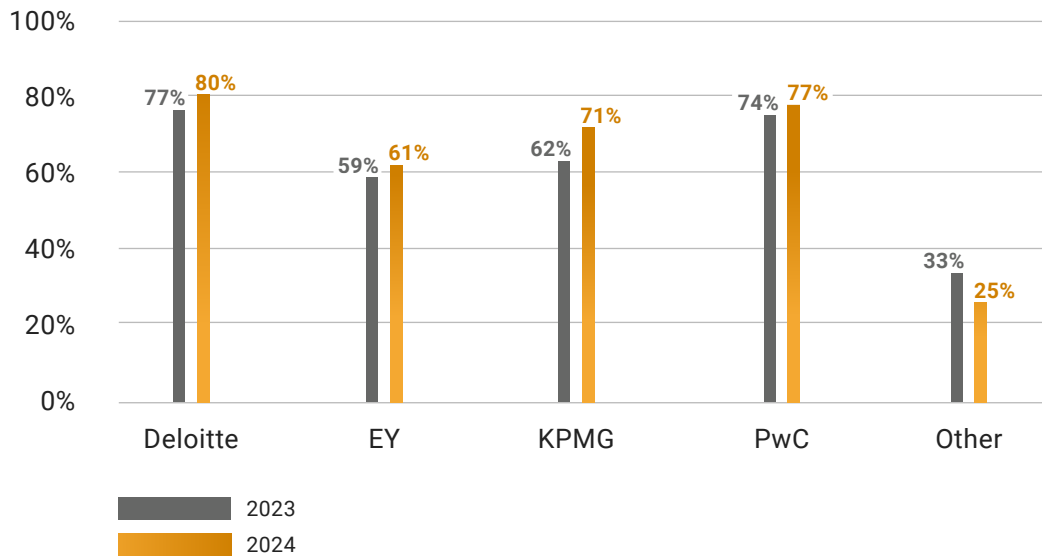
### Auditor Correlation to Costs Capitalized

We also analyzed capitalization practices based on the companies' independent registered public accounting firms (auditors). The data showed a disparity in practices based on the audit firm.

Of the 100 companies surveyed, 96 used Big Four auditors. The graphs below show the capitalization practices of companies for each Big Four auditor and for the four companies that did not use a Big Four audit firm.

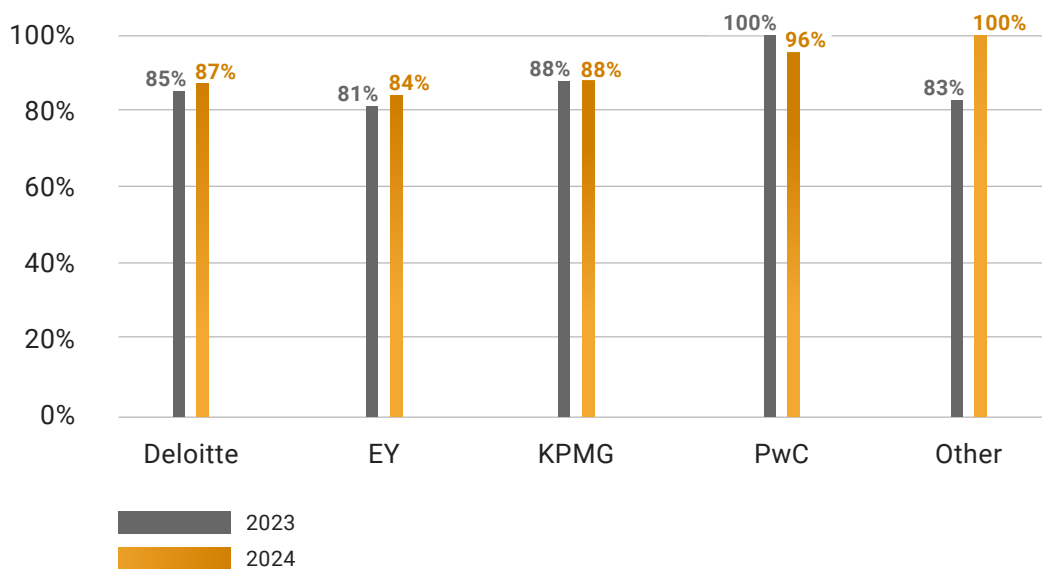
Among the registrants audited by the Big Four, 80% of Deloitte's clients capitalized software development costs in 2024, while EY had the lowest percentage at 61%. Notably, the percentage of "other auditor" clients capitalizing software development costs decreased from 33% in 2023 to 25% in 2024.

#### % OF COMPANIES CAPITALIZING SOFTWARE DEVELOPMENT COSTS, BY AUDITOR



Among the registrants audited by the Big Four, PwC had the highest percentage of clients (96%) that capitalized commissions in 2024, while EY had the lowest percentage at 84%. There was relatively little movement in rates of capitalization from 2023 to 2024. Among registrants audited by other firms (not Big Four), there was an increase from 83% capitalizing commissions in 2023 to 100% in 2024.

### % OF COMPANIES CAPITALIZING SALES COMMISSION, BY AUDITOR





## Final Thoughts

In light of the survey findings and the ASC 606 standard, SaaS companies should continuously evaluate their decisions on capitalizing software development and commission costs, as there are several short- and long-term implications. They should also consult with their auditors and, ultimately, adopt the method they believe most closely aligns with the intent of the rules.

Finally, SaaS companies should keep a close eye on the FASB annual release because the proposal may significantly alter the rules related to capitalization of development costs.



## Top 100 SaaS Companies Surveyed in 2024

Ranking	Company Name	Ticker Symbol	Auditor	Capitalize Software or Website Development Costs?	Capitalize Commissions?	YE Date?	Revenues, Current Year (CY)
1	Microsoft	MSFT	Deloitte	No	No	2024-06-30	\$245,122,000,000
2	Oracle	ORCL	EY	No	No	2024-05-31	\$52,961,000,000
3	Salesforce	CRM	EY	No	Yes	2024-01-31	\$34,857,000,000
4	Adobe	ADBE	KMPG	No	Yes	2023-12-01	\$19,409,000,000
5	Block	XYZ	EY	Yes	No	2023-12-31	\$17,661,203,000
6	Intuit	INTU	EY	Yes	No	2024-07-31	\$12,726,000,000
7	VMWare	VMW	PWC	No	Yes	2023-02-03	\$11,767,000,000
8	ServiceNow	NOW	PWC	No	Yes	2023-12-31	\$8,971,000,000
9	Palo Alto Networks	PANW	EY	Yes	Yes	2024/07/31	\$8,027,500,000
10	Electronic Arts	EA	KMPG	Yes	No	2024-03-31	\$7,562,000,000
11	SS&C Technologies	SSNC	PWC	Yes	Yes	2023-12-31	\$5,502,800,000
12	Take-Two Interactive	TTWO	EY	Yes	No	2024-03-31	\$5,349,600,000
13	Fortinet	FTNT	Deloitte	Yes	Yes	2023-12-31	\$5,304,800,000
14	Workday	WDAY	EY	No	Yes	2024-01-31	\$5,139,000,000
15	Zoom Video	ZM	KMPG	Yes	Yes	2024-01-31	\$4,527,224,000
16	Autodesk	ADSK	EY	No	Yes	2024-01-31	\$4,386,000,000
17	Atlassian	TEAM	EY	Yes	Yes	2024-06-30	\$4,358,603,000
18	Synopsys	SNPS	KMPG	Yes	Yes	2023-10-31	\$4,204,193,000
19	Twilio	TWLO	KMPG	Yes	Yes	2023-12-31	\$4,153,945,000
20	Gen Digital	GEN	KMPG	Yes	No	2024-03-29	\$3,812,000,000
21	Akamai	AKAM	PWC	Yes	Yes	2023-12-31	\$3,811,920,000
22	Splunk	SPLK	PWC	Yes	Yes	2023-01-31	\$3,653,708,000
23	Open Text Corp.	OTEX	KMPG	Yes	Yes	2024-06-30	\$3,493,844,000
24	CrowdStrike	CRWD	PWC	Yes	Yes	2024-01-31	\$3,055,555,000
25	Rackspace	RXT	PWC	Yes	Yes	2023-12-31	\$3,009,500,000
26	Cadence Design	CDNS	PWC	No	Yes	2023-12-31	\$2,988,244,000
27	Sabre	SABR	EY	Yes	Yes	2023-12-31	\$2,907,738,000
28	F5	FFIV	PWC	No	Yes	2023-09-30	\$2,813,169,000
29	Snowflake	SNOW	PWC	Yes	Yes	2024-01-31	\$2,806,489,000
30	DocuSign	DOCU	PWC	Yes	Yes	2024-01-31	\$2,761,882,000
31	Dropbox	DBX	EY	No	Yes	2023-12-31	\$2,501,600,000
32	Veeva Systems	VEEV	KMPG	No	Yes	2024-01-31	\$2,363,673,000
33	Okta	OKTA	EY	Yes	Yes	2024-01-31	\$2,263,000,000
34	Palantir	PLTR	EY	No	No	2023-12-31	\$2,225,012,000
35	RingCentral	RNG	KMPG	Yes	Yes	2023-12-31	\$2,202,429,000
36	Unity Software	U	EY	Yes	Yes	2023-12-31	\$2,187,317,000
37	Zscaler	ZS	PWC	Yes	Yes	2024-07-31	\$2,167,771,000
38	Datadog	DDOG	Deloitte	Yes	Yes	2023-12-31	\$2,128,359,000
39	Tyler Technologies	TYL	EY	Yes	Yes	2023-12-31	\$1,951,751,000
40	Teradata	TDC	PWC	Yes	Yes	2023-12-31	\$1,833,000,000
41	PTC	PTC	PWC	Yes	Yes	2023-09-30	\$1,807,159,000
42	Toast	TOST	EY	Yes	Yes	2023-12-31	\$1,705,000,000
43	MongoDB	MDB	PWC	No	Yes	2024-01-31	\$1,683,011,000
44	Nutanix	NTNX	Deloitte	No	Yes	2024-07-31	\$1,580,796,000
45	Dayforce	DAY	KMPG	Yes	Yes	2023-12-31	\$1,513,700,000
46	UiPath	PATH	KMPG	Yes	Yes	2024-01-31	\$1,308,072,000
47	HubSpot	HUBS	PWC	Yes	Yes	2023-12-31	\$1,300,658,000
48	Cloudflare	NET	KMPG	Yes	Yes	2023-12-31	\$1,296,745,000
49	Bill Holdings	BILL	PWC	Yes	Yes	2024-06-30	\$1,290,172,000
50	ZoomInfo	ZI	KMPG	No	Yes	2023-12-31	\$1,239,500,000
51	Bentley Systems	BSY	KMPG	Yes	No	2023-12-31	\$1,228,413,000
52	Blackbaud	BLKB	EY	Yes	Yes	2023-12-31	\$1,105,432,000
53	Paycom	PAYC	Other	Yes	Yes	2023-12-31	\$1,055,524,000
54	Guidewire	GWRE	KMPG	Yes	Yes	2024-07-31	\$980,497,000
55	Alteryx	AYX	Deloitte	Yes	Yes	2023-12-31	\$970,000,000
56	Smartsheet	SMAR	Deloitte	Yes	Yes	2024-01-31	\$958,338,000
57	Procore Technologies	PCOR	PWC	Yes	Yes	2023-12-31	\$950,010,000
58	Samsara	IOT	Deloitte	Yes	Yes	2024-02-03	\$937,385,000
59	Dynatrace	DT	EY	No	Yes	2024-03-31	\$929,445,000
60	Manhattan Associates	MANH	EY	No	Yes	2023-12-31	\$928,725,000
61	New Relic	NEWR	Deloitte	Yes	Yes	2023/03/31	\$925,626,000
62	Box	BOX	EY	Yes	Yes	2024-01-31	\$874,332,000
63	Paylocity	PCTY	KMPG	Yes	Yes	2024-06-30	\$852,651,000
64	Commvault Systems	CVLT	EY	No	Yes	2024-03-31	\$839,247,000
65	Rapid7	RPD	KMPG	Yes	Yes	2023-12-31	\$777,707,000
66	Confluent	CFLT	PWC	Yes	Yes	2023-12-31	\$776,952,000
67	Sprinklr	CXM	KMPG	No	Yes	2024-01-31	\$732,360,000
68	DigitalOcean	DOCN	PWC	Yes	No	2023-12-31	\$692,884,000
69	LiveRamp	RAMP	KMPG	No	Yes	2024-03-31	\$659,661,000
70	Asana	ASAN	PWC	Yes	Yes	2024-01-31	\$652,504,000
71	ZipRecruiter	ZIP	PWC	Yes	Yes	2023-12-31	\$645,722,000
72	Workiva	WK	EY	No	Yes	2023-12-31	\$630,039,000
73	Q2 Holdings	QTWO	EY	Yes	Yes	2023-12-31	\$624,624,000
74	SentinelOne	S	Deloitte	Yes	Yes	2024-01-31	\$621,154,000
75	AppFolio	APPF	PWC	Yes	Yes	2023-12-31	\$620,445,000
76	Five9	FIVN	KMPG	No	Yes	2023-12-31	\$609,591,000
77	Freshworks	FRSH	Deloitte	Yes	Yes	2023-12-31	\$596,432,000
78	BlackLine	BL	PWC	Yes	Yes	2023-12-31	\$589,996,000
79	HashiCorp	HCP	Deloitte	Yes	Yes	2024-01-31	\$583,137,000
80	GitLab	GTLB	KMPG	No	Yes	2024-01-31	\$579,906,000
81	Qualys	QLYS	Other	No	Yes	2023-12-31	\$554,458,000
82	Appian	APPN	Other	No	Yes	2023-12-31	\$545,363,000
83	SPS Commerce	SPSC	KMPG	Yes	Yes	2023-12-31	\$536,910,000
84	Fastly	FSLY	Deloitte	Yes	Yes	2023-12-31	\$505,988,000
85	Braze	BRZE	EY	Yes	Yes	2024-01-31	\$471,800,000
86	Zuora	ZUO	KMPG	Yes	Yes	2024-01-31	\$431,661,000
87	PagerDuty	PD	EY	Yes	Yes	2024-01-31	\$430,699,000
88	Yext	YEXT	EY	Yes	Yes	2024-01-31	\$404,322,000
89	Everbridge	EVBG	EY	Yes	Yes	2023-12-31	\$368,433,000
90	Jamf Holding	JAMF	EY	No	Yes	2023-12-31	\$366,388,000
91	Consensus Cloud Solutions	CCSI	Deloitte	No	No	2023-12-31	\$362,562,000
92	JFrog	FROG	Other	No	Yes	2023-12-31	\$349,886,000
93	Sprout Social	SPT	PWC	No	Yes	2023-12-31	\$333,643,000
94	C3.ai	AI	Deloitte	Yes	Yes	2024-04-30	\$310,582,000
95	BigCommerce	BIGC	EY	Yes	Yes	2023-12-31	\$309,394,000
96	Sumo Logic	SUMO	PWC	Yes	Yes	2023-01-31	\$300,668,000
97	Amplitude	AMPL	KMPG	Yes	Yes	2023-12-31	\$276,284,000
98	nCino	NCNO	EY	No	Yes	2024-01-31	\$273,865,000
99	Domo	DOMO	EY	Yes	Yes	2024-01-31	\$257,961,000
100	Olo	OLO	Deloitte	Yes	Yes	2023-12-31	\$228,289,000

# Possible *(Re)Defined*<sup>™</sup>

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