NeoFelis Labs

WHITE PAPER · CONTRACT AND REVENUE ASSURANCE

Prices Without Proof

From VSOE to standalone selling price: contracting and revenue recognition for complex technology deals, and for the agentic era.

Proof first. Then price.

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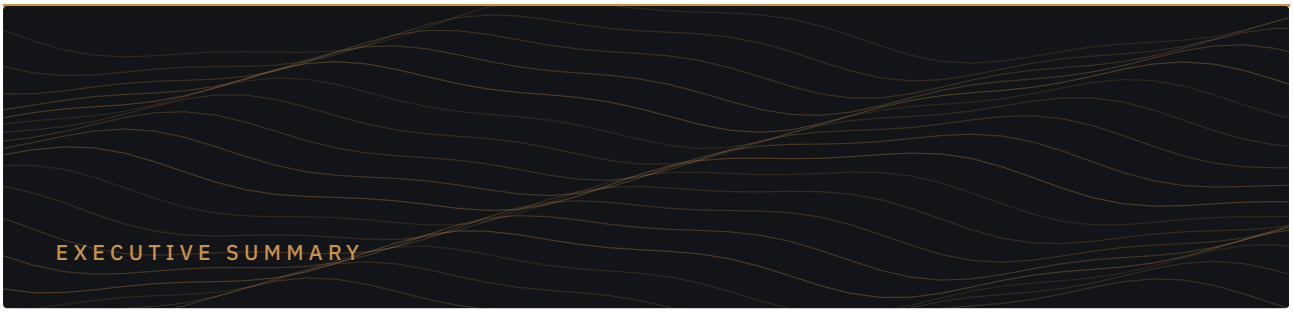

EXECUTIVE SUMMARY

One bundle, many prices, and not enough evidence

Every large technology contract eventually asks the same question: **what is one piece of this bundle worth on its own?** The answer decides when revenue lands, how much tax is paid and where, what customs sees at the border, what an export licence covers, and whether a sales quarter is real.

The rules for answering it have moved three times in a generation: from vendor-specific objective evidence (VSOE) under US software accounting, to a hierarchy of estimates in 2009, to standalone selling price (SSP) under ASC 606 and IFRS 15 from 2018. From January 2026 the same five-step model reaches UK private companies through FRS 102. Each move made accounting more flexible, and each moved the risk somewhere new.

This paper follows that journey from the deal desk rather than the rule-maker's side. It works through a composite multi-country agreement, shows how revenue, transfer pricing, indirect tax and export control each price the same bundle differently, and examines what changes when AI agents negotiate parts of the contract themselves.

$3,000m → $2,850m
Headline value versus transaction price in the worked example, once a customer fund and unproven outcome fees are removed

47%
Share of revenue that lands in year one of a five-year, $3bn enterprise agreement

Month 16
The point at which more of the monthly SaaS bill can walk away than is locked in

4 prices
Revenue, transfer pricing, tax and customs, and export control each value the same bundle under different rules

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Our conclusion

The rules let go of hard evidence just before machines began to produce it. Agents, usage meters and telemetry now create the transaction-by-transaction record that VSOE always wanted and never had. We expect evidence-based pricing to return as data: SSP maintained from live pricing and usage records, outcomes defined in a form machines can check, and one evidence record that revenue, tax, customs and export control can all read.

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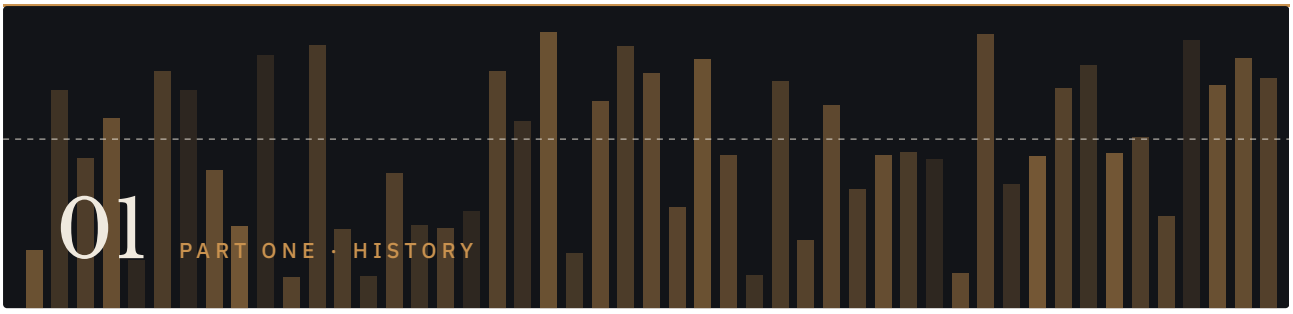

01

The VSOE years: prove it

In 1997, US software accounting introduced a hard rule: SOP 97-2, later codified as ASC 985-605. To split a bundle's price, a vendor needed **vendor-specific objective evidence**: its own history of selling each element separately, at a tightly clustered price.

Without VSOE for an undelivered element, such as support, an upgrade or a promised feature, revenue for the whole bundle generally had to wait.

IN BRIEF: VSOE

Vendor-specific objective evidence. A vendor's own record of selling an item separately, at a tightly clustered price. No evidence, no split, no revenue.

There was a reason for that discipline. In 2007 the SEC sued three former Aspen Technology executives, alleging they had inflated revenue on software deals. In 2014 JDA Software paid a $750,000 penalty because its internal controls around VSOE were inadequate and its revenue had been misstated. Restatements tied to VSOE were a recurring theme across the industry. Academic findings were mixed: research on SOP 97-2 found that removing management's room to estimate did not make earnings more useful for contracting.

At the deal desk, the instruction was simple: **price to protect the evidence.** Discount one element too far, too often, and the VSOE broke; revenue on every contract containing that element was then deferred. Commercial strategy often bent around a pricing band that existed only to keep auditors comfortable.

The first crack appeared in 2009. ASU 2009-13 and 2009-14 took hardware with essential software outside the software rule and introduced a hierarchy for everything else: VSOE first, third-party evidence second, and a best estimate of selling price third. Estimation had a place, but not for pure software, which stayed on VSOE until 2018.

02

2018: justify it

ASC 606 in the US and IFRS 15 internationally removed the VSOE requirement. The basis became **standalone selling price**: allocate the contract price across each distinct promise in proportion to what the vendor would charge a similar customer for it separately. Where

IN BRIEF: SSP

Standalone selling price. What the vendor would charge a similar customer for one

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there is an observable price, use it; otherwise estimate it from adjusted market prices or expected cost plus a margin. The residual approach is allowed only when prices are highly variable or uncertain.

promise on its own: observed where possible, estimated where not.

VSOE asked: can you prove it? SSP asks: can you justify it?

	VSOE (software, 1997 to 2018)	SSP (ASC 606 / IFRS 15)
Evidence	Only your own standalone sales, tightly clustered	Observable price if you have one, otherwise a reasoned estimate
When evidence is missing	Defer the revenue	Estimate and recognise
Scope	Software	Almost every industry
Discount	Pushed onto the delivered element	Spread across every promise unless evidence says otherwise
Typical failure	Over-deferral and restatements	Judgement that outsiders cannot check

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FIGURE 1 · VSOE and SSP compared: what each regime asks for, and where the risk sits.

VSOE asked: can you prove it? SSP asks: can you justify it?

SSP fixed the over-deferral, but the risk moved from the price list into the spreadsheet. Revenue has remained among the top topics in SEC comment letters ever since, and the questions return to the same foundation: which methods, inputs and assumptions support the SSP?

The question now reaches further into the UK. For accounting periods starting on or after 1 January 2026, FRS 102 also uses a five-step revenue model. For many UK private companies and start-ups, SSP is now their problem too.

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03

What a modern deal actually looks like

Textbook examples separate a licence from a support contract. Real enterprise agreements are far more involved. Consider this composite, with illustrative numbers: a five-year agreement, **$3bn headline**, between a vendor with a UK parent and subsidiaries in the US, India and the UAE, and a global manufacturer with plants in Massachusetts and India and a regional data centre in the UAE. Inside it:

- new perpetual licences and a version upgrade, and maintenance on licences already in use;
- SaaS, hybrid SaaS (a term licence plus a hosted service) and OEM-built data-centre hardware;
- deployment, integration, technical and training services, delivered waterfall, agile or mixed;
- third-party integration through a systems-integrator partner;
- AI agent services paid on outcomes;
- a $60m co-innovation fund the vendor pays to the customer.

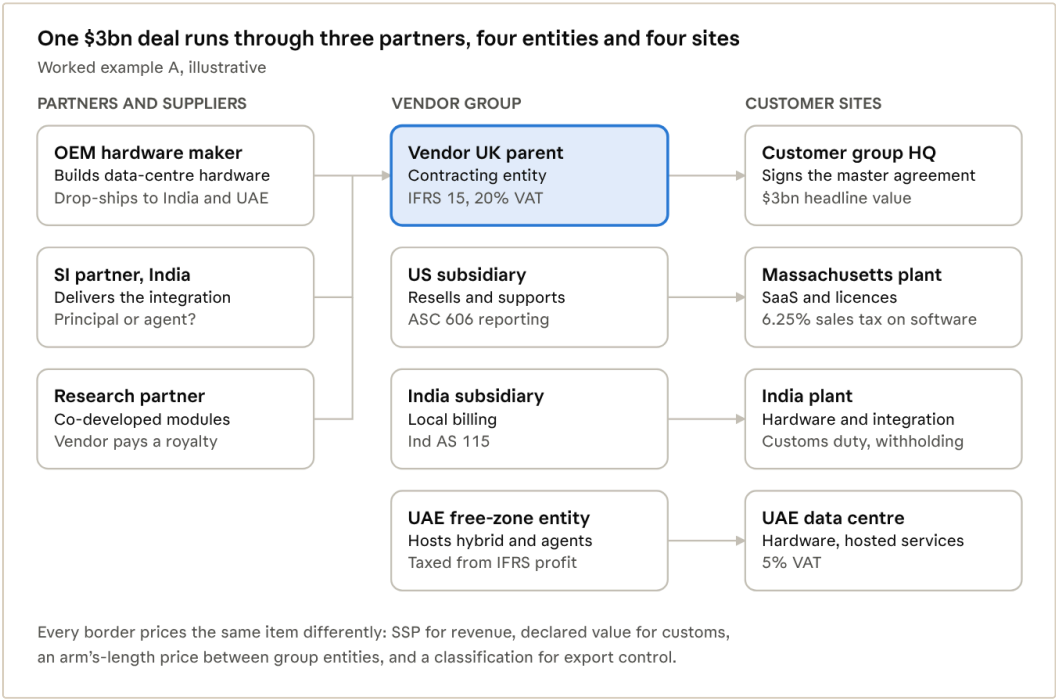

FIGURE 2 · Anatomy of the composite $3bn agreement: entities, elements and flows.

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From headline to transaction price

Unless the vendor receives a distinct service in return, the $60m fund reduces the price. Outcome fees are expected at $300m, but only $210m is safe to count until outcomes are proven. **$3,000m becomes a transaction price of $2,850m**: $2,640m fixed and $210m variable.

TRANSACTION PRICE

What the vendor expects to be entitled to, after payments to the customer and after holding back variable fees that might reverse.

Step	Amount	Basis
Headline contract value	$3,000m	Signed agreement
Less customer co-innovation fund	−$60m	Consideration payable to a customer
Less constrained outcome fees	−$90m	Held back until outcomes are verified
Transaction price	**$2,850m**	$2,640m fixed · $210m variable

The standalone prices of the fixed-fee elements total $3,500m, a discount of about 25%, spread across every fixed-fee element. Variable outcome fees go only to the agent service. Hardware lands on site acceptance, licences on delivery, SaaS and maintenance over time, services as delivered, and the $210m of outcome fees as the agent service is performed. **Only 47% of the revenue lands in year one.**

“Implementation” is never one thing

In this deal it is seven: a fixed-price waterfall rollout, agile squads paid by the sprint, integration with the vendor's own products, third-party integration through a partner, resident engineers under separate statements of work, training and teaching services, and deployment into sovereign, in-country environments. Each has its own SSP method and its own revenue trigger. A free discovery phase, if it is a distinct promise, still takes a share of the price. And if integration heavily modifies the licensed software, licence and integration become one promise, and licence revenue is spread over the integration instead of landing on delivery.

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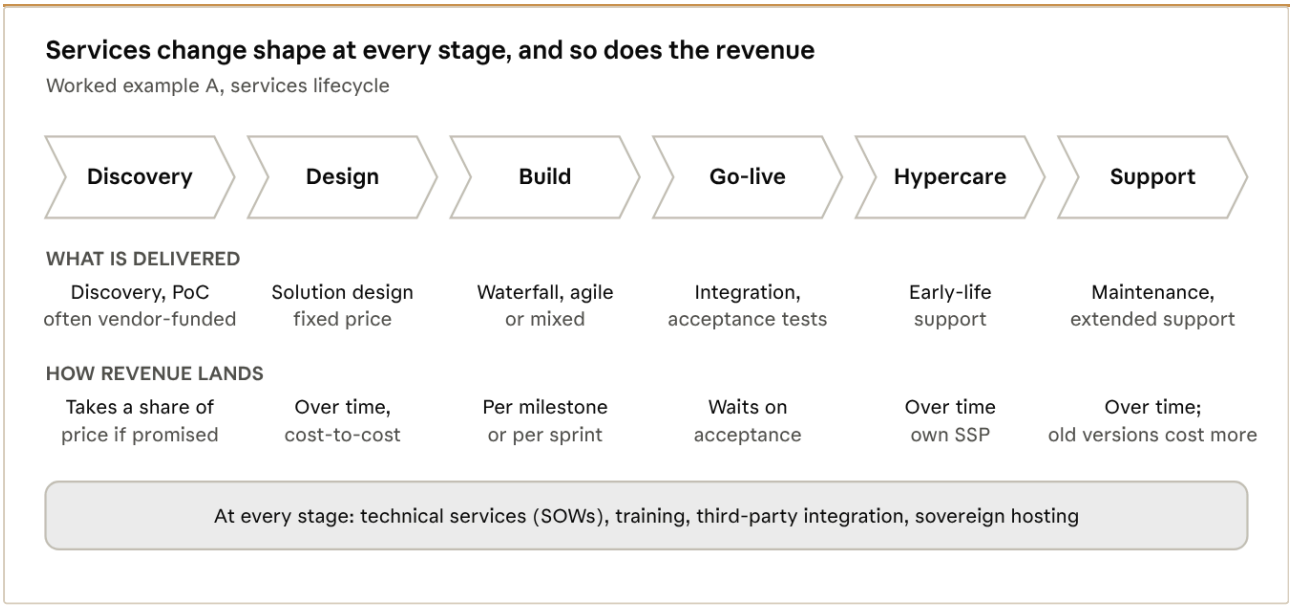

FIGURE 3 · Seven kinds of implementation service, each with its own pricing method and revenue trigger.

Adding time

The ten SaaS products do not start together. Product 1 goes live in month 1, billed monthly for three months and then committed for a year. Product 2 is month-to-month but cannot be cancelled for twelve months. Product 3 is month-to-month with 30 days' notice. Product 4 starts in month 7, and the last in month 18. Each SLA starts after three months of hypercare.

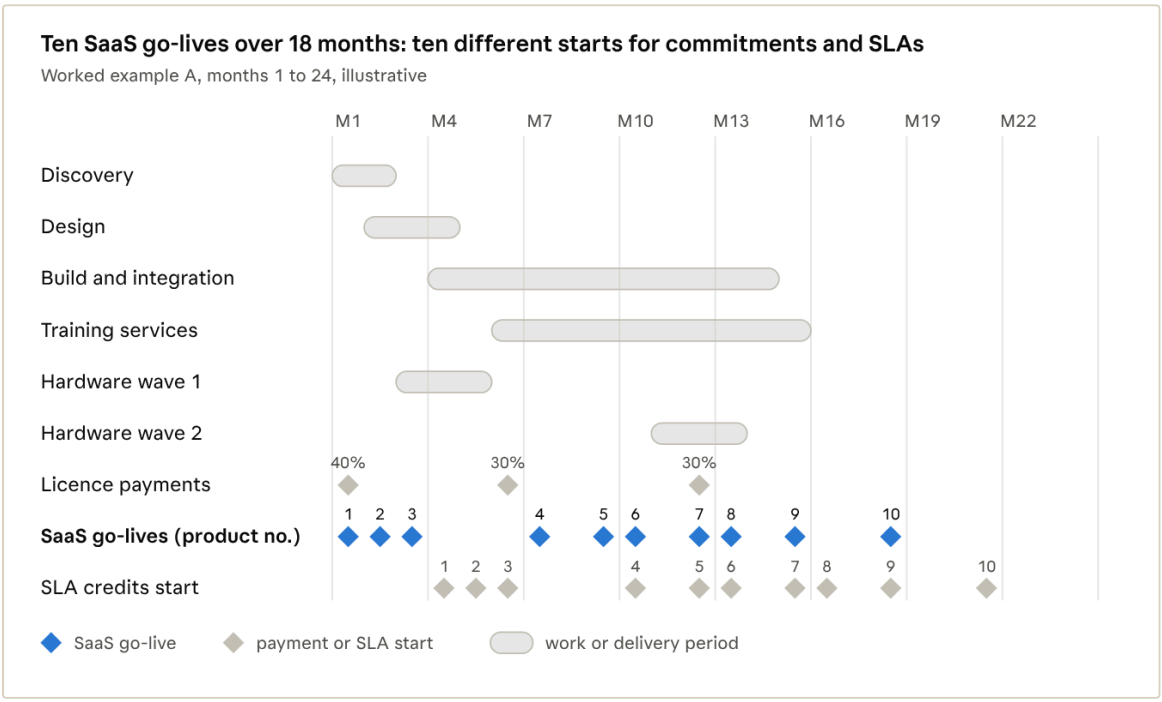

FIGURE 4 · Staggered SaaS go-lives and commitment periods across the first 24 months.

Month by month, a pattern appears that no headline shows. Risk is high in the first three months, falls while commitments are in force, then rises again as lock-ins expire. **From month 16, more of the monthly SaaS bill can walk away than is locked in.** If the customer can cancel SaaS for convenience after year

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three with no real penalty, years four and five of SaaS (about $339m on this allocation) fall outside the contract for accounting purposes, and the whole allocation must be redone.

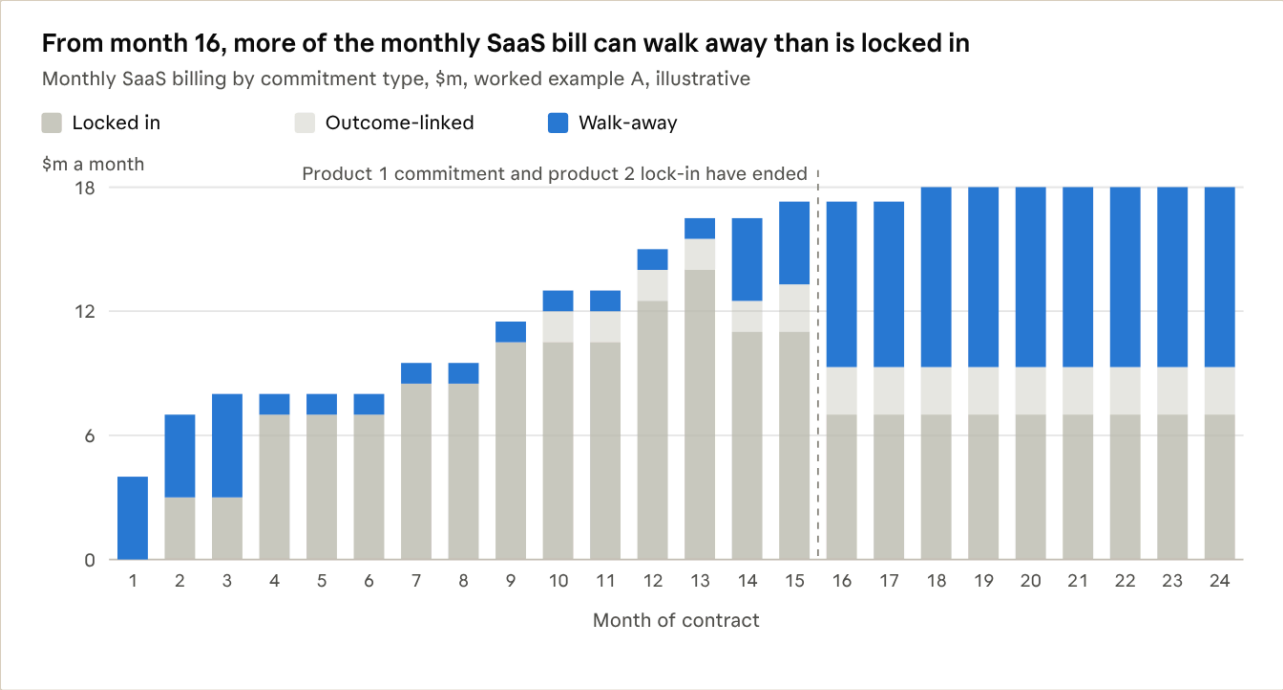

FIGURE 5 · Committed versus cancellable monthly SaaS revenue over the life of the agreement.

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04 PART THREE · FOUR PRICES

04

One bundle, four prices

The same bundle is priced four different ways, by four different teams, under four different rules:

Function	How it prices the bundle
Revenue	Allocates by standalone selling price under ASC 606, IFRS 15 or FRS 102.
Transfer pricing	Allocates again between the group's own entities, at arm's length.
Indirect tax and customs	Apply their own rules. Massachusetts charges 6.25% sales tax on prewritten software, including SaaS, with its own bundling rules; customs values hardware at transaction value, which may bear little relation to its SSP allocation.
Export control	Classifies each element, deciding which licence is needed and where the hardware can go.

In practice, these positions are rarely reconciled. On a cross-border deal each can be defensible on its own, and together they can tell four different stories about the same contract.

Contract wording moves all four. In *Engineering Analysis Centre of Excellence v CIT* (2021), the Supreme Court of India held that payments for software licences that transfer no copyright are not royalties under the tax treaties, so no Indian withholding tax applies. The court refused the tax authority's review petitions in 2024 and again in May 2026. But a licence granting rights to reproduce, sub-license, modify or exploit the software commercially can change the answer. The same software, described differently, is taxed differently.

05

Partners change the number too

Almost no large deal is delivered by one company. OEMs, integrators, resellers, research partners and subcontractors are involved, sometimes several layers deep. The starting question for each is the same: **who controls the promise before the customer gets it?** If the

PRINCIPAL OR AGENT?

Control before transfer decides gross or net. Being prime contractor, setting the price and

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carrying delivery risk all point to principal.

vendor does (being prime contractor, setting the price and carrying the delivery risk are the usual signs), it books the full amount. If not, it books only its margin. Where a local partner must be prime contractor for sovereignty reasons, that partner becomes the vendor's customer, and the vendor's revenue can shrink overnight.

R&D-based products need another distinction. Royalties paid to a research partner for jointly developed modules are a cost, not a reduction of revenue. Where the customer pays the vendor a royalty for each unit of its own product that uses the vendor's IP, revenue follows the customer's sales, not the contract signature.

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INTERLUDE

VSOE asked: can you prove it?
SSP asks: can you justify it?
Agents will ask: can the data show it?

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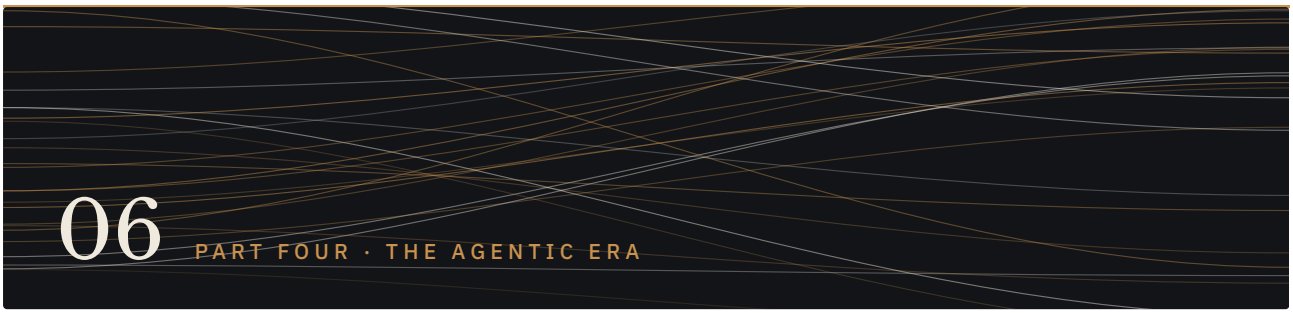

06

When agents sign

Take the same questions into a three-year supply-chain deal. The vendor's AI agents handle exceptions and inventory decisions; the customer's procurement agent negotiates continuously with the vendor's pricing agent to top up capacity.

On illustrative numbers, $147m is billed. Of the $45m of outcome fees billed, only $27m can be recognised until results are verified. Beyond that, revenue is either **$129m or $99m**, depending on one question: does the vendor control the AI compute it resells, or merely pass it through?

Each top-up is also an accounting decision:

- if the master agreement already prices top-ups, each is an option being exercised, judged when the agreement was signed;
- priced within the normal SSP range, it is a new contract;
- discounted beyond that range, it modifies the main contract;
- an option to buy future capacity at a discount larger than the customer would normally get is a material right, so part of today's price waits.

MATERIAL RIGHT

An option giving a discount the customer would not otherwise get. Part of today's price is deferred until the option is used or lapses.

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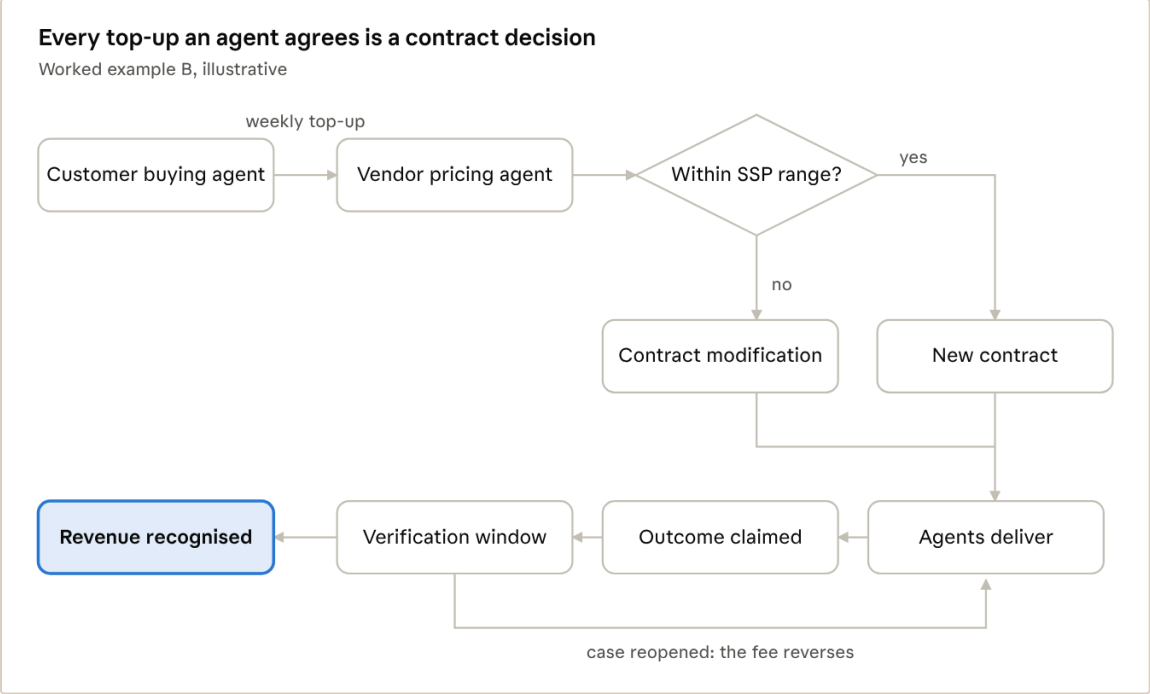

FIGURE 6 · Agent-to-agent top-up negotiation, and the accounting decision behind each outcome.

Across every product and customer, that becomes thousands of decisions a year, agreed between machines, with nobody reading each one.

The law is broadly ready for the contracts themselves. In the US, UETA (1999) and the federal E-SIGN Act of 2000 recognise contracts formed by electronic agents, and the Law Commission of England and Wales concluded in 2021 that English law can handle smart legal contracts without reform. Accounting is less ready. FASB has no standard-setting project on AI or outcome-based revenue, and its nearest work, on consideration payable to a customer, is still a proposal. The IASB closed its IFRS 15 review in 2024, finding the standard works as intended. The most practical guidance so far comes from the audit firms, including Deloitte's June 2026 note on outcome pricing for agentic AI.

07

The programme office already holds the evidence

Outcome and benefit pricing is where contract accounting meets programme management, and the two rarely talk. Managing Successful Programmes (MSP) runs from outputs to capabilities to outcomes to benefits, and there is a revenue question at every link. Output fees follow accepted deliverables. Outcome fees need a definition, a baseline, a measurement method and a verification window before they can be counted. Tranches and programme phases are exactly where contracts get modified. And a benefits realisation plan is, line for line, the evidence an auditor needs to support outcome revenue.

In most companies that evidence sits in the PMO, while the revenue team estimates without it.

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08 PART FIVE · ACTION

08

Questions for every deal team

Six questions before signature

1. **Evidence:** can you show the evidence behind every SSP in this deal, not just the method?
2. **Walk-away:** which parts of the headline can the customer walk away from, and from which month?
3. **Control:** who controls each partner's work before the customer gets it?
4. **Consistency:** do revenue, tax, customs and export control agree on what is in the bundle?
5. **Outcomes:** is every outcome defined precisely enough for two agents and an auditor to agree?
6. **Resilience:** if there is a security breach in month 14, what happens to the revenue still to be earned?

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09

Where this goes next

Here is the irony. The rules let go of hard evidence just before machines started producing it. Agents, usage meters and telemetry create the transaction-by-transaction record that VSOE always wanted and never had.

We do not believe evidence-based pricing is gone. We believe it returns as data: SSP maintained from live pricing and usage records, outcomes defined in a form machines can check, and one evidence record that revenue, tax, customs and export control can all read.

Proof first. Then price.

How NeoFelis Labs can help

NeoFelis Labs brings deal-desk experience, programme discipline and AI assurance to the evidence behind complex contracts.

SSP evidence review

Testing the methods, inputs and records behind every standalone selling price, before auditors do.

Four-prices reconciliation

Aligning revenue, transfer pricing, tax and customs, and export control on one view of the bundle.

Outcome definition

Turning outcome and benefit fees into measurable, verifiable terms that machines and auditors can agree on.

Agentic contract controls

Guardrails, audit trails and assurance for AI agents that price, negotiate and top up contracts.

For a conversation or a demo, write to **sales@neofelislabs.co.uk**.

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ABOUT

The author and NeoFelis Labs

Ms Viji R A, Founder and Chief Executive Officer

Viji R A is a London-based industrialist and the founder of NeoFelis Labs. Her career spans more than twenty industries and 200 businesses across Asia and Europe, from automotive and industrial automation to medical devices, pharmaceuticals, defence and nuclear energy, much of it in highly secure and regulated environments. She has drafted and negotiated hundreds of contracts across hardware, software, SaaS and AI, and works fluently with export controls, intellectual property and revenue recognition. She coined the term Ethical Industrial AI™.

NeoFelis Labs

NeoFelis Labs is a London deep-tech company building Ethical Industrial AI™: brain-inspired, low-power intelligence and the independent assurance to show it is safe, fair and fit to act in factories, clinics, energy systems and public services. Trust is our business™.

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