

Performing a License Agreement Royalty Audit: A CPA's Perspective

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Introduction

The limited lives of legal and regulatory protections act to diminish the value of your intellectual property (IP) over time. Every year a valuable technology sits idle, a portion of that value goes unrealized, never to be recovered. Conceptually, licenses offer the IP owner the ability to stop the bleeding and earn a return on properties that may represent the culmination of years of expense and effort. It is, however, the truly unique nature of the financial relationship created by the typical license agreement that creates an environment ripe to become a distraction or management nightmare. In almost no other financial transaction do obligees (i.e., licensees) have such unbridled control over defining both the magnitude of their obligations and their counterparties' ability to verify those assertions.

The royalty audit serves as an essential tool available to licensors in balancing the relationship; and ultimately, making the license much more effective in capturing value for the IP owner.