

## Introduction

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The requirements of the 2002 Sarbanes-Oxley Act (SOX) have resulted in new challenges for business. Some of these challenges, particularly in the areas of corporate responsibility and financial reporting, relate to the information systems used to support the financial and operational management of revenue sharing contracts.

The relevance of SOX to financial systems and processes lies primarily in Title III of the Act, Corporate Responsibility. This section requires CEOs and CFOs to make certain certifications of financial reports filed with the Securities and Exchange Commission (SEC). Additionally, Title IV, Enhanced Financial Disclosures, mandates that management assess the effectiveness of internal controls and file a report of their findings. An external auditor must attest to the report's management conclusions. Therefore, not only the financial results of the company, but also the controls themselves, must be documented and auditable. However, studies show that revenue recognition accounting and contract administration and management are the two most difficult areas for establishing internal controls.

Information systems must therefore both provide, and be subject to, these controls. For many companies that license intellectual property, challenges include the implementation and maintenance of systems and processes to manage obligations such as rights, royalties, profit participations, residuals, and commissions. The financial amounts involved can be significant and are often material to the company's overall financial results.

SOX seeks to define and enforce certain areas of corporate governance for the benefit of various stakeholders in the corporation. In the context of this discussion the demands of corporate governance include:

- The Exercise of Oversight
- The Existence of Effective Internal Controls
- Flexibility, Efficiency, and Timeliness
- Accounting Transparency

## The Exercise of Oversight

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Effective business oversight requires that executives and managers have visibility to relevant enterprise-wide information on a timely basis. Such information must be accessible both in sufficiently summarized and in sufficiently detailed forms to support effective decision-making, exercise superior governance, and meet regulatory demands.

## The Existence of Effective Internal Controls

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Corporate governance in general, and specifically SOX, requires the enterprise to establish and exercise effective internal controls. While internal controls can take many forms, their objectives are ultimately similar. These include: 1) ensuring that transactions are properly authorized; 2) safeguarding company assets; and 3) ensuring that transactions are appropriately recorded and reported. In the context of this objective, information systems must provide certain inherent controls and must contribute to an effective overall internal control environment.

*Each company has unique needs - the right information system will meet these requirements today and in the Future.*

## Efficiency and Timeliness

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Systems supporting corporate governance must accomplish their purpose efficiently. The exercise of governance at any cost does not ultimately benefit the corporation's stakeholders. Additionally, information must be timely and comprehensive to support appropriate business decisions and meet aggressive reporting deadlines.

## Flexibility

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Systems cannot effectively support the exercise of oversight and control in an efficient and timely manner if they cannot also quickly adapt to changing business conditions and models. Information systems that support intellectual property-centric businesses must rapidly adapt to dynamic trends in licensing models while also continuing to support corporate governance objectives. This is particularly true in the area of royalties, rights and revenue sharing since many of the requirements are driven by individual contracts that are often complex and diverse.

*Information systems must support constant change in contract volumes, complexities and interdependencies*

## Accounting Transparency

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For many, licensors provide significant contributions of intellectual property. Whether these relationships provide content, information, products, talent, or technology, they have strategic implications and may involve significant financial transactions, often in the form of royalties, participations, residuals, advances, bounties, commissions, and other revenue sharing transactions. Effective transaction management is required not only to meet strict compliance requirements, but also to manage strategic relationships and to support effective corporate governance.

*Controls take the form of permissions, audit capabilities, change tracking, storage and retrieval, among other capabilities*

Unfortunately, it is not uncommon for these very relationships to confound a company's infrastructure. Reacting to this complex environment, many companies have either attempted to build custom systems or have relied on spreadsheets. However, custom systems include requirements that are continuously in flux, require scarce information technology talent specific for the domain, and projects are commonly "under-scoped". The resulting systems often lack the flexibility required for complex and changing business requirements. Spreadsheets are flexible, but lack inherent controls, do not scale well to accommodate increasing contract volumes, lack enterprise-wide management visibility, and typically require extensive manual intervention. These traditional strategies can result in a confusion of multiple systems and processes in an attempt to keep up with the constant change that characterizes the financial terms of licensing contracts. It is not unusual for this situation to result in delays, inaccuracies and financial surprises that can lead to erosion of trust among partners. Additionally, the resulting lack of detailed, accurate, enterprise-wide management information inhibits an organization's ability to evaluate and manage the business.

## The Alliant™ Solution

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RSS' software solution, Alliant, was designed to contribute to effective corporate governance. Some examples are below:

### Governance Requirement

### Alliant Solution

#### Oversight

- Single enterprise-wide information repository to address rights, royalties, profit participations, residuals, and commissions management demands and visibility.
- Decision support and reporting tools provide access to information at a level, and in a form, that is appropriate for effective management and meaningful

#### Internal Controls

- Platform for automating and consolidating operational processes to ensure consistency and eliminate error-prone manual intervention.
- Sophisticated role-based-security controls access to information.
- Interface controls ensure accurate and complete transfer of information.
- Revision controls prevent unapproved alteration of contractual information.
- Audit controls ensure accurate and complete information processing.
- Audit trails validate information for both compliance and disclosure purposes.

#### Efficiency and Timeliness

- Automation eliminates inefficient manual processes.
- Workflow management enables efficient supervision of major processes.
- Distributed processing-enabled scalability allows timely system response as demands increase.

#### Flexibility

- Rules-based application configuration enables rapid and controlled response to complex contract changes. Highly configurable data structures and user validations ensure relevant and accurate information.
- Flexible integration engine allows for controlled incorporation with other business support systems.

#### Accounting Transparency

- Visibility into contract origination, changes and execution.
- Documented workflow.



Los Angeles  
21255 Burbank Boulevard  
Woodland Hills, CA 91367  
United States  
+1 818 313 8000

London  
Cutlers Court  
115 Houndsditch  
London EC3A 7BR  
United Kingdom  
+44 (0)20 3405 2061

Boston  
139 Main Street  
Cambridge, MA 02142  
United States  
+ 1 617 679 0000

[sales@realsoftwaresystems.com](mailto:sales@realsoftwaresystems.com)

[www.realsoftwaresystems.com](http://www.realsoftwaresystems.com)

## About REAL Software Systems

REAL Software Systems delivers integrated solutions to manage intellectual property rights and deal accounting. The Alliant™ platform is proven across industries to handle the complexity, uniqueness and volumes resulting from evolving distribution models. Market leaders such as Allergan, BBC Worldwide, Dell, Electronic Arts, Getty Images, Houghton Mifflin Harcourt, MGM Studios, Microsoft, Netflix, and PBS use Alliant to ensure agility, compliance, and efficiency in their licensing process.