Larry and Barry present royalties to a cautious institutional investment manager ©

Manager: Ok, but understand I've seen all investing gimmicks and deals and don't believe any of them work as well as managing a balanced portfolio of stocks and bonds.

Larry: May I ask, is the objective of the institution to have superior short term relative performance to peers or to have a longer term more assured and less personality dependent increasing income focused?

Manager: That's a loaded question. Of course, we in the fiduciary business take a longer-term view and though naturally judged on a comparative basis we do not ever want to take more risk than is absolutely necessary in achieving our portfolio performance needs.

Barry: Ok then will you agree that owning and being paid, on a daily basis, a percentage of a growing company's revenues, not profits, would be a good investment for any investor focused on receiving increasing income?

Manager: Sure, but where and how do I find such wonderful investments and once I find them how do I monitor them?

Larry: The royalty opportunities will come to you once it is known that you have a possible buying interest. You will need an initial screening method, as most successful privately owned companies prefer reducing royalties to the sale of ownership reducing equity.

Manager: Stop. Why will there be such an interest on the part of business owners?

Larry: Because there are so many hundreds of thousands of already profitable companies in the world who want capital to accelerate their growth, but do not want to share ownership with anyone. They do not want to report maximized profits as investors want and they do not want to seek investor approvals of their management decisions. Also, they do not want investors to become involved with executive compensation issues, product pricing, or amounts spent on research or customer entertainment or servicing, etc.

Manager: But what if they already have investors and may even be trading publicly?

Larry: In those cases the reason for royalties being found attractive is the obtaining the use of capital without equity dilution. If the company's managers and major shareholders really believes that increased revenues will result in substantially higher profits they won't want to reduce the percentage ownership of present owners as a result of equity dilution. They will accept an initial reduction of profits while the cash received for the royalty is put to work, rather than suffering a lessened percentage ownership of the business,

Barry: The patented approach we use in royalty transactions includes collecting the agreed royalty whenever revenue is received by the royalty issuing entity. Of course, there is also an annual audit of revenues by an approved auditor. Also, we require the controlling owners to personally attest that all revenues are deposited in the agreed designated banks. Therefore, every time there is a sale the royalty holder gets paid the percentage of revenues agreed in the royalty agreement.

Larry: We also recommend the royalty issuer either pledges or transfers to a mutually agreed third-party the critical assets of the business, without which they cannot operate, to assure contractual compliance. The issuing entity is granted a license free, international exclusive right to use the licensed assets for so long as the royalty issuing company is in contractual compliance with the royalty owners.

Barry: This feature of the patented process has the investor advantage that in the event of a corporate reorganization the ownership or control of the critical assets needed to run the

business are not involved in the reorganization and can be relicensed or sold for the benefit of the royalty holders.

Manager: Ok, you seem to have thought of a lot of the problems and their solutions but how do I choose and value the royalties offered by a wide range of mostly privately owned companies?

Larry: Great and important question. First, you only buy royalties from companies having a good existing, or easily predicted, profit margin. Low margin companies should not be selling royalties.

Barry: Next you get the companies to present their minimum revenue projections so that you can calculate your rate of return and Internal Rate of Return based on the projections.

Manager: But what happens if the companies offering to sell royalties over-predict the revenues levels to be achieved?

Barry: An important question and one, which always concerns royalty investors. We have also recently developed a Revenue Achievement Scaled Royalty approach, which encourages the royalty issuer to be very conservative in their projection of revenues as there is a "carrot and stick" contractual element in the Royalty Payment Agreement for a reward and penalty in the terms of the royalty differences between projections and achievement.

Larry: Of course, a royalty issuing company is going to expect a somewhat better deal if they accept a greater liability for the revenue projections made and the royalty investor may well be ok with accepting a lesser return for having a more assured result.

Manager: Ok where do I see how some of these deals will really workout if the projected revenues are achieved>

Barry: You can see exactly what the results will be on the achievement of revenue projections at the websites we have developed www.REXRoyalties.com, www.REXdebt-shareRoyalties.com, www.REXComparator.com and www.REX-

PV.com. In the www.REX-PV.com website the calculator shows the result of selling royalties owned at various times to other royalty investors.

Larry: We suggest that royalty purchasers usually structure deals where the IRR desired is more than a 20% annual return assuming the projected revenues are achieved. Also, royalties can have minimums as well as caps and can even, in certain circumstances, be convertible into equity. Also royalties can be at different rates during different periods or change when the cumulative royalties paid reach agreed minimums. Finally, royalties can have a range of third-party assurances, which reduce both risk and return.

Manager: Can I sell the royalties I have purchased?

Barry: Sure, royalties are negotiable but the problem can be finding a buyer who will pay what you believe is the right price. Currently the only stock exchange trading royalties and these are royalty income funds is the TSX. This is because royalties traditionally have been used in extractive industries like mining, forestry oil and gas drilling, etc. Using the website www.REX-PV.com you can calculate both your returns and those of the investor to whom you sell the royalty, all dependent on the level of revenues achieved. U.S. tax-exempt investors will be the best investor prospects for mature royalties due to the royalty payment income being tax exempt to them.

Larry: We are trying to create royalty exchanges in a number of areas and suggest that you look at www.ChinaRoyalties.com. We hope to be successful, as currently if you want to sell then a buyer will have to be found. Were there exchanges and free trading royalties the value placed on royalties by investors will be much higher than is presently the case, favoring those who stock up now on royalties. Currently, companies have to pay a higher percentage of their revenues than will be the case when royalties are publicly traded.

Manager: Is there a way we can be assured that we won't lose money?

Barry: Yes, as a matter of fact there is as a patent was recently filed for Minimum Outcome Assurance where a third-party would guarantee a royalty purchaser against a loss of principal. The issuer would pay the fee for the Assurance from an independent party. This would reduce the net amount received for the sale of the royalty but the issuer would be able to offer a lesser percentage of revenues due to the reduced risk for the investor.

Manager: So you seem to have addressed everything but the selection of which royalties to buy. How do you propose that we manage that task?

Barry: Yes, investing in revenues, rather than equities, the market value of which are usually based on reported profits, is a bit different and requires experience. This is why we believe the first step for fiduciaries will be investing in professionally managed royalty income funds and partnership accounts, such as those affiliated with www.PacificRoyalties.com . Royalty income funds buying royalties today will experience predictably significant portfolio gains once royalties are publicly traded and can be investor valued on the basis of extrapolated trends of revenue growth.

Manager: But what if we wanted to manage our own portfolio of royalties?

Larry: For starters you need to have someone or a team good at credit analysis and then an ability to assess the reasonableness of the revenue projections made by the companies offering the royalties. If the projections were believed to be reasonable and the deal appropriately structured, it is a win/win for both the issuer and the investor.

Manager: Ok, I am willing to give it a try. Of course, we will tip toe in at first but I think the royalty approach is worth the effort to learn. Thanks for coming in.

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Lawrence (Larry) Lion and Bernard (Barry) Beaver have been used by Arthur Lipper to illustrate the reactions of typical growth oriented entrepreneurs. Larry and Barry first appeared in the monthly column of Arthur Lipper, as Chairman and Editor-in-Chief of Venture, The Magazine for Business Owners. Arthur Lipper's latest book is The Larry and Barry Guide to Entrepreneurial Wisdom has also been published by CITIC in Chinese and has sold well in China.