Larry and Barry present royalties to an aggressive and sophisticated investor©

Investor: Ok, but understand I've seen all investing gimmicks and deals and don't believe any of them work as well as my aggressively managing a portfolio of stocks, options and commodities.

Larry: May I ask, is your objective to create the highest Internal Rate of Return, with the least risk and effort, using the funds available to you or is it to have the most excitement and pressures of trying to stock pick and market-time?

Investor: That's a loaded question. Of course, I want to make the most money and, of course I want to have the best risk/reward ratio in every deal I do. I understand most of the ways money can earn money and am prepared to take intelligent risks to achieve my objectives.

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?

Investor: Sure, but where and how do I find such wonderful investments and once I find them how do I negotiate the purchase and then monitor them?

Larry: There is a large brokerage community out there having nothing to offer the owners of businesses who want to obtain growth capital but who have no interest in sharing ownership. These business owners are perfectly willing, if their businesses have good profit margins, to accept an immediate reduction of profit for capital, with which they will increase revenues and overall profit. Revenue royalties, where the royalty issuing companies sell a percentage of future revenues for an amount of cash is what the brokers, finders and the business owners themselves will offer you once it is known that you are an interested royalty investor.

Barry: You will have to develop some new skills, especially relating to commercial credit analysis, as you want to focus on companies, which will be in a continuing position of being able to make the royalty payments they have agreed to do. You will also want to be able to assess the reasonableness of the revenue projections the companies will make. Once the projected revenues are known you will be able to value the offerings in terms of the royalty rate and royalty payment periods being offered. Our websites, which we will describe later, have been developed to assist in the negotiations.

Investor: 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 necessarily to report maximized profits, as investors want and they do not want to have to seek investor approvals of their management decisions. They do not want to have become fiduciaries for the interests of investors, as there are frequently serious conflicts of interests between the controlling shareholders and investors. Investors only buy interests in companies with a view to selling those interests at a higher price in the future. For this to happen the company has to continue to report ever-increasing quarterly profits, even when management believes profit reducing investments in the future of the company is in the best long-term interest of the company. 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.

Investor: But what if the company already has 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 profit margin's while the cash received for the sale of the royalty is put to work, rather than suffering a lessened percentage ownership of the business. In some cases, royalties could be used by the companies in exchange offers to "go private"

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 investor-approved auditor. However, as the royalty-owner knows, in our process, the immediately current revenues and is only concerned with revenues, not profits, not a lot of additional monitoring is necessary. Also, we require the controlling owners to personally attest that all revenues are deposited in agreed designated banks. Therefore, every time the company is paid for a sale of goods or services 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 the business cannot operate, to assure contractual compliance. The royalty issuing entity is granted a 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 our 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 already pledged or transferred to an entity serving the interests of the royalty owners and the assets needed to run the contract breaching business can be and can be relicensed or sold for the benefit of the royalty holders.

Investor: 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 should 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.

Investor: 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.

Investor: 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.

Investor: 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.

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

Barry: Yes, as a matter of fact there is a patent, which has been 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.

Investor: 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 profit dependent 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 investors 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.

Investor: But what if I wanted to manage my own portfolio of royalties?

Larry: For starters you need to be yourself or 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.

Investor: What else is there?

Larry: There are two things to be considered. The first is the possibility of your using leverage to increase your returns. This is a reasonable consideration as the risk of principal loss is so much less in the ownership of royalty payment on receipt of revenue royalties versus that of owning equities or even debt.

Investor: Stop. How can you say that a royalty can be more secure than debt?

Barry: Because the royalty owner is paid each and every time revenue is deposited in the royalty issuer's bank. The debt holder has a due date whereas the royalty owner is entitled to be paid immediately on the royalty issuer receiving the revenue.

Larry: The royalty owner's agent or bank has the agreed royalty payment in hand and does not need any management decision as to which obligations to pay and when.

Investor: Ok, I see the point but in a bankruptcy this could still be attacked by other creditors. I agree, however, the royalty holder is in a preferred position and has the cash. And, yes, the royalty holder also has the ability to withhold the use of the assets needed to run the business.

Larry: There is also an approach, which we favor for many companies and that is best described at the www.REXdebt-shareRoyalties.com website. In this approach the company enters into a relatively standard loan with the Investor and as an inducement to make the loan there is a royalty for a period after the loan has been repaid. This works well as the loan terms can be fit to the needs of the borrower as to amortization, collateral, interest rate levels and maturity. The royalty rate will be less than would be the case without the loan or its repayment as the Investor will not have any principal risk as the loan has been repaid when the royalty commences.

Barry: Of course, a portfolio of loans to companies having issued royalties to the Investor making the loans could be borrowed against of the loan portion of the transactions could be sold once the size of the portfolio was large enough.

Investor: Well you seem to have an excellent understanding of what is needed and how to do it so let me know the details of the fund or partnerships you will be making available to those of us really interested in long terms growth of income and principal.

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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.