What Are The Advantages of Selling a Royalty Which Will Result In An Added Expense? ©

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The use of other people's money costs money, as they will want a return on their capital asset.

The additional money business owners want to have available for use in their businesses are usually believed to be necessary in order to increase the size of the business and improve profit margins.

Therefore, a business owner should only seek to acquire the use of additional capital if the funds will allow for a bigger and better business.

Now, the issue is: what are the ways for additional capital to become available? Debt is often the first option explored, but lenders are not usually attracted to lending to privately owned companies without the personal guarantee of the business owner(s). The lender is really lending the money to the business owner, with the understanding that the benefit will accrue to the business. Interest rates can be a burden and more importantly, the negative covenants of loan agreements can prevent the business from taking steps for the future of the business, which the managers believe are beneficial and appropriate. Those lending to a business have one primary focus and that is getting their money back at the maturity of the loan, with interest payments made on time.

Investors buying stock in a company, be it common equity or convertible preferred stock, have one focus -- being able to sell their shares at a profit at some point in the future. They buy with a view to selling. For investors to sell their stock in the company at a profit, the company must create a record of increasing per-share earnings in order to increase the company's market valuation. This means creating a business which continually spends as little as possible in the pursuit of profit. Of course, increasing per-share reported profits incurs increased corporate income taxes. This can be a problem, as owners understand the cheapest money they have with which to build

a business is the money not spent on taxes or other manageable expenses.

If the business owner really believes in the future profitability of his business, why would he want to sell ownership interests in the company now? The answer has to be that he feels the valuation on which the equity sale is to be based is greater than the company is really worth, since the projected future profits are not certain and there are ever-present risks.

Royalties, an agreed percentage of revenues for an agreed period, are the most fair and logical.

The terms of the royalty can be highly flexible as relating to amount, royalty rate, maturity, securing the corporate obligation and redemption of the royalty. Royalties can have minimums and caps. Royalties can be convertible and callable. Royalties can be used in conjunction with debt, and royalties can have royalty issuer assured returns.

As the holders of royalties do not have a vote or any other means of influencing management decisions, as equity holders do, the question of who is controlling the company is never a factor to be considered. All the royalty owner owns is the agreed percentage of the royalty issuing company's revenues, for the agreed time period.

In addition to the royalty rate payment expense, the business owner using a royalty pays the normal financing-related fees to attorneys, accountants and possibly royalty experienced consultants There are also other relatively minor expenses relating to royalty collection, distribution and securing corporate compliance with the terms of the royalty. On balance, the benefits to the business owners of a non-equity dilutive financing far outweigh the expenses or a royalty-based financing, if the company is to be successful in achieving the projected revenues and therefore become much more valuable.

Royalties can be studied by reviewing the writings appearing in the Library at www.Royalties.Website and for even more information at the Library of www.PacificRoyalties.com.

The website calculators each contain explanatory information and samples. They are:

REXRoyalties.com for simple royalties with varying royalty rates. REXComparator.com for comparing two royalties with the same revenue projections but different royalty rates and/or maturities. REXdebt-shareRoyalties.com combining debt and royalties post repayment and probably the best structure for early stage companies. REX-PV.com calculating the Internal Rates of Returns for both secondary buyers and sellers of royalties after specific years. REXScaledRoyalties.com for providing a benefit for revenues exceeding projected levels and a penalty for under-performance and REX-RIAR.com in which a Royalty Issuer Assured Return is used to negotiate the least level royalty rate and most predicable result.

We believe that royalties are the best way to both invest in and finance private companies, so we are pleased to provide the website calculators to facilitate fair negotiation. Our calculators allow the users to see the results of negotiated terms and the level of dependence on projected results.

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