Development Potential Resulting From Encouraging Donors to Contribute Royalties and the Associated Payment Income ©

Arthur Lipper

Royalties used in the financing of privately owned businesses are long-term contracts sold by the companies to investors, which require an agreed percentage of the company's revenues to be paid during the course of an agreed period.

The royalty payments made by the issuing companies are considered to be non-taxable, as return of capital, until the royalty owner has recaptured the cost of the royalty.

Were the royalty owner to donate the royalty to a qualified institution, after recapture of the cost, there would be a tax deduction available to the donor of the appraised value of the remaining period during which royalty payments would be made. Using the proprietary website calculator REX-PV.com we will be able to assist the appraiser of the present value of the prospective donated royalty. In most cases, we believe the appraised present value of the royalty will be greatly in excess of the donor's cost.

As the maturity of the royalty agreements that we typically assist in structuring are 20 years, and the investor expectation is to recapture the invested capital within 5 years, there is a long period of payments to be received by the institutions receiving the donation. Also, as the royalties originally purchased are from companies for which revenues are projected to increase, the royalty payments therefore are also expected to increase.

The investor's typical anticipated target Internal Rate of Return (IRR) is in excess of 15% annually over the course of the royalty payment period, the 15 years of remaining payments can easily be many million of dollars annually, depending on the percentage of the

issuing company's royalty purchased by the donor and the size of the revenues.

There are modest annual administrative expenses paid by royalty owners, and a patent license fee paid to British Far East Holdings Ltd. (BFE), which I chair. There may be investment banker, legal and/or advisory fees paid by the royalty issuing companies.

For those unfamiliar with royalties used in the financing of businesses the following websites and royalty related writings will be of interest. Royalties.Website (which contains almost 70 relevant writings and access to the website calculators, some of which are noted in the following), REXRoyalties.com, REX-RIAR.com, REX-PV.com and REXdebt-shareRoyalties.com.

The bottom line is: a donor can make a relatively secure investment in either royalties purchased from a company the investor selects, or through participation in a professionally managed royalty income fund. In either case, the investor receives royalty payments sufficient to recapture the capital invested without taxation, and then makes a donation of the royalty entitlement agreement to the institution. Incidentally, the royalty payments made by the privately owned company issuing the royalty are tax deductible for the company. Therefore, the donation to the institution, possibly having an appraisal value of many millions, would not have cost the donor anything in the final analysis, as the investment amount would have been received tax-free.

After consideration and legal review, those responsible for development in a broad range of qualified institutions should want to inform and educate serious potential donors as to the possibilities of using royalties for the benefit of growing companies, the donors and the institution. We can help in this effort.

Please let me have any thoughts of questions relating to royalties.

Arthur Lipper, Chairman
British Far East Holdings Ltd.
Chairman@REXRoyalties.com

April 2, 2016