

Larry and Barry Considering **REXdebt-shareRoyalties.com** ©

Arthur Lipper

Larry: We just got turned down again from the bank for a term loan. No one seems to want to lend us money at a fair interest rate and we need the added capital to expand.

Barry: I've been reading about the REXdebt-shareroyalties.com deal and that seems both fair and reasonable to me.

Larry: How does that work?

Barry: An investor wanting to believe in our longer-term revenue projections, based on the customer benefit we provide, will lend us the money we need to expand, for an agreed period of time and at an agreed interest rate. The interest will be somewhat higher than the bank would charge the bank's best customers, let's say 10% per annum in today's market.

Larry: Will the loan have to be personally guaranteed and can it be prepaid without penalty?

Barry: No and yes. There isn't a personal guarantee required and yes it can be prepaid.

Larry: Why would anyone make us that loan?

Barry: Because when the loan is fully repaid there is a modest, say 2%, royalty beginning, which will last for 15 years.

Larry: But that will give the royalty owner much too much profit if our revenues reach the projected levels.

Barry: That is a lot of "ifs" and we can probably get a reduction in the royalty rate after an agreed amount of royalty payments have been paid.

Larry: Sure sounds good but why couldn't we just sell a 20-year royalty and forget the loan?

Barry: Because we are a small and early stage company without a track record and the investor wants the security of being collateralized to the extent possible. The investor during the lending phase is willing to accept an interest rate very low for the level of risk being assumed only because he wants the royalty starting on the repayment.

Larry: Ok, what's the downside?

Barry: The money may not be enough or the amortization terms too tough and we will probably not be able to borrow more money, as all of the company's assets will be liened to secure the loan.

Larry: Sure, but we can repay the loan with proceeds from another loan if all is going well.

Barry: Right and then the royalty will kick in.

Larry: It seems to me that it is fair as we can repay the loan if we can replace it with cheaper money and the starting interest rate is better than we can get now without the royalty kicker.

Barry: Yes and no one we know will simply lend us money at a fair rate of interest.

Larry: Using the REXdebt-shareRoyalties.com website we can enter our data and see the impact of using different terms and assumptions.

Barry: Ok, but first I want to study the website and look at the sample cases shown and then enter the data for our company. The REX people advise that this is the best approach for early stage companies and those who invest in them.

Larry: Great. I am anxious to see the results of your efforts.