Should Royalty Investors and Royalty Issuing Companies Pay Fees and Commissions, and To Whom? ©

Arthur Lipper

Putting aside the threshold question of whether royalty contracts are always deemed to be securities (which they are not), the matter is important and must be clarified.

For starters, a contract entitling a percentage of revenues to be paid to an artist, author, performer, athlete, inventor, land owner, lease holder, franchisor, landlord is not generally thought of as being a security. For the most part, such contracts are free from securities regulation, though in the case of franchises other regulations are involved.

These contractual relationships are created when one party wishes to use the property of another party, without purchasing or leasing the asset. The owner of the property agrees to allow the use of the property in return for being paid a percentage of the production or benefit received by the user of the asset for an agreed period. Naturally, the owner of the property hopes the use of the property will increase in value, so the amount of royalty payments will also increase. The contract may be transferable and is usually an agreement between small groups of known parties. These are conventional royalties, and they are common throughout the economy, and throughout the world.

Royalties used in the investor financing of companies, known as revenue royalties, are a new and important development. The use of royalties as tools for privately owned company owners to raise growth capital is just beginning. The primary advantage to the business owner is that the royalty is but a percentage of revenues for an agreed period and is not a transfer and reduction of ownership. The advantage for the investor is that the royalty payments increase coincident with the increase in the issuing company's revenues.

The benefits to the investor are increased when, using the approach we have patented which includes the royalty payments being made

whenever the royalty issuer receives revenue, and using the critical assets of the company to secure contractual compliance.

Currently there is greater demand from business owners for royalty based financing than is immediately available. This is due, in part, to the Securities and Exchange Commission requirement that only those firms regulated by the Financial Industry Regulatory Authority (FINRA) may receive fees based upon the completion of a transaction between an investor and royalty issuer. The SEC also requires a full registration of a royalty offering if non-accredited investors are involved.

The effect of these regulations is that only those professionally involved in advising investors of opportunities can benefit by receiving fees in presenting information regarding royalties to their clients.

As royalties are such a socially positive development, there should be a process through which individuals, with appropriate background checks,can be licensed specifically for the purpose of advising investors as to the merits of royalties, and receive payment for these services.

Of course, there would have to be study material developed, as royalties are structurally different from debt and equity securities traditionally used by companies to obtain capital. Although established company royalties are less risky for investors than traditional securities, there are specific concerns, which we have addressed in the patented approach. Assuring the investor of receipt of the contractually entitled share of revenue and the sustainability of the company issuing the royalty are the primary investor concerns.

Of course, there are risk and reward opportunity assessment decisions, which properly trained and tested investment advisors will be able to assist both investors and royalty issuers to evaluate. It is reasonable and logical that these advisors should be able to be compensated.

The more that investors know of royalties and companies willing to issue royalties the greater will be the growth of royalty issuing

companies and benefit for all concerned, including the communities in which the royalty issuing companies operate.

It is the privately owned universe of companies, which are the net new job creators, which are having the most difficulty in obtaining fairly priced growth capital. Royalties are the better way of both investing in and financing of companies.

Arthur Lipper, Chairman
British Far East Holdings Ltd.

February 14, 2017