As a Business Founder or Manager <u>What I Don’t Want</u>
as a Result of Raising Capital from Investors
and Why Royalties Are the Better Way ©

Objection: I don’t want to be taken advantage of by those who have the ability to finance my company’s growth.

Royalties are a sale of a percentage of defined revenues at an agreed price, for an agreed period. Royalty investors are primarily interested in the growth of the revenues of the company.

Objection: I don’t want the terms of a deal to favor chiefly the capital provider and not my company.

The royalty investor has bought a share of revenues on agreed terms and has no interest in limiting or otherwise influencing the reported profit of the business owners or company.

Objection: I don’t want to sell shares of the company now, because I know they will be worth much more in the future.

Royalty investors never own any shares in the company. Royalty investors only own the right to be paid an agreed percentage of revenues, for a specific period of time.

Objection: I don’t want a deal from which I cannot escape.

Royalties can be redeemable on terms agreed at the time the deal is done. Also, royalty investors may always be approached by the company or others to sell their royalties for less than the redemption right terms. In the case of a redemption, the investors have no choice as to the termination of the royalty, once the agreed conditions have been met, usually when a certain multiple of the original investment has been returned by a specific date.

Objection: I don’t want a deal where I might lose control of my company by having members of a Board of Directors beholden to the capital providers.

Royalty holders do not have any voting rights and unless agreed have no right to representation on the Board of Directors. It would be a mistake for a royalty investor to serve on the Board of a royalty issuer due to inherent conflicts.

Objection: I do not want to be told how much I can pay myself or other executives.

Royalty investors have no interest in levels of executive compensation and are chiefly interested in the growth of revenues.

Objection: I do not want to be under pressure to always report higher quarterly profits and therefore to pay the highest possible income taxes.

Royalty investors are not interested in reported profit or market valuation levels, as they have no benefit from the reporting of higher company profits.

Objection: I do not want my decisions as to travel and entertainment of client expenses questioned.

Royalty investors are not interested in such matters, as they impact only bottom-line profitability. Royalty owners are focused on top-line revenues.

Objection: I do not want to be required to take "advice" from investors as to company policy or practices.

Although some royalty investors may have ideas they believe good for the company, they have no right to do more than communicate them to an originally designated company executive.

Objection: I don't want to disclose to investors all the competitive secrets of the company.

Royalty investors may be required to execute Non-Disclosure and Confidentiality Agreements, since they will receive quarterly and annual revenue reports from the company. Royalty distributions are usually paid quarterly. However, to secure commitment from royalty investors, business owners will need to describe the competitive advantages of the company to give prospective investors confidence in the achievement of the projected revenues.

Objection: I don't want to disclose the details of our financial results that reveal our profitability and its sources.

Revenue Royalty investors normally receive only annual audit of revenues, and a quarterly statement of royalties due and paid, since all the royalty investors own is a percentage of the revenue. In the process we recommend, the agreed royalty is paid immediately on the receipt of revenue by the royalty issuing company. Therefore, the investor already knows the company's reported revenue and the audit is only a verification. We also recommend the controlling shareholders and senior executives personally attest to the deposit in banks approved by the investors of all revenue.

Objection: I don't want personal limitations on whether I increase or decrease my ownership of the company or continue to manage the company.

The Board of Directors of the company is independent of royalty investors, who have no shareholder voting rights or Board representation. So the Board will make all of the decisions required regarding the company. Transactions regarding the shares of the company may be governed by shareholder agreements, not involving the royalty investors. In the case of a sale of the company, it is likely the company will exercise its right of redemption.

Objection: I don't want investors in the company to have contact with my employees or customers.

It would be reasonable for there to be an individual executive of the company with whom royalty investors were invited to have contact. Contact with company customers and competitors can be forbidden by contract, and a Confidentiality Agreement may be required to be executed by royalty investors.

Objection: I do not want to be personally responsible for the debt or obligations of the company, including royalty payments.

We recommend that controlling shareholders and senior executives personally attest that all company revenues have been deposited in banks approved by royalty investors, so that immediate deduction of agreed royalties may be facilitated. Thus, royalty payments can never be an account payable. We do not recommend there be any further guarantees or personal endorsements.

Mostly, I don't want to end up as a minority shareholder in my own company.

This can't happen, to the extent that royalties are used in the financing your company. Royalties are non-equity dilutive. All the shares, options and other equity rights you have in the company now will be retained by you, undiluted by a revenue royalties transaction.

More information at: REXRevenueRoyalties.com and arthurlipper.com

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