



Community organized royalty income fund of diversified qualified companies seeking expansion funding

Certain types of investors may find a portfolio of revenue royalties issued by companies with operations in a specific city or state to be an attractive investment. Provided the companies are seeking capital and are qualified, an investment in a structured share of their revenues could meet the needs of certain investors.

In general, the prospective investor in a community-centered royalty income fund would be a non-taxed institution such as a pension fund, private or university endowment. The initial concern for such an investor is risk of capital loss. Second, such an institution will be attracted to the level, rate of projected increase and assuredness of income to be received. Third, the prospective investor will be interested in the benefits to the community that will be generated by the fund -- employment, business development, social and cultural, among others. Finally, such an institution will have minimum investment requirements and must be satisfied with the quality of portfolio diversification and track record of the management of the fund.

If the minimum qualification for each of the royalty issuing companies to be included in the fund were disclosed to investors, commitment to invest in the fund could be made prior to completing the purchase of royalties or the full employment of committed funds.

In order to attract experienced fund management and to justify the community's organizational effort, the fund should have a scale of committed funds of at least \$100 million, to be taken down and employed in successive \$20 million tranches.

The Community One \$100 Million Royalty Income Fund could require that royalty issuing companies must be or have:

Gross Revenues: \$10 million, which have increased in each of the previous 3 years

Capital Requirement: Productive use of proceeds, intended to be used to increase revenues, of a minimum royalty amount of \$3 million and a maximum of \$5 million

Verified Customers: with good economic prospects and increasing revenues; it is a plus if the customers are also located in the community, to increase positive synergistic effects

Company Control: majority control by owner-managers, preferably by original founders

Contractual Compliance: assured through temporary assignment of the company's critical assets to a third-party entity acting on behalf of investors, such as copyrights, trademarks, other intellectual property. The company being exclusively licensed to use such assets, without any fee, for so long as the company is paying the investor the committed royalties.

Projected Revenues: assuming use of funds received for the royalty, sufficient to allow a royalty to be structured that will yield a minimum Internal Rate of Return (IRR) of 15% over the course of the royalty payment period, and to return all or most of the investors' capital in five years

There are both investor and issuer protections in the contracts we recommend. Included are a 60-month royalty terminating repurchase option granted by the company to investors. Also, for the benefit of issuers, there is a right of redemption requiring that a minimum pre-determined multiple of the investor's cost has or will be paid to investors, yielding a return significantly higher than the projected IRR. Both investors and issuers will benefit in the event the issuer's right of redemption is exercised.

Therefore, the result of a fund invested in a diversified portfolio of royalties issued by companies having the minimum characteristics described above would be a superior return to investors, at a greatly reduced capital risk.

From the perspective of the community, the following would likely be increased: corporate tax income, land value taxes, employment levels and increased worker skills -- and perhaps most important of all, recognition of the community's success in supporting companies doing business in the community.

We can assist the community and the fund managers, as well as the royalty issuing companies, in an advisory capacity, in the formation of community-centered royalty income funds. The investment objectives of the funds can vary based on the needs of the communities.

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