

Financing Companies and Investing Through Sharia Fair and other Revenue Participation Contracts or Royalties

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Challenge:

For entrepreneurs and business owners - to attract capital while still being able to enjoy the benefits of being privately owned.

For investors - to participate in projects and non-publicly traded companies without the a need for ever increasing reported profits and a sacrifice of liquidity.

Premise:

Business owners and managers are better able to predict future revenue levels than they are profitability levels. Also, it is not always the best strategy for a company to be managed to report and declare maximum profitability, frequently at the sacrifice of funding additional research and marketing efforts.

The investor is, in most cases, a transient participant in the investee company. The motivation to buy an interest in a company is usually based on anticipation of an ability to sell, at a higher valuation, at a later date. The entrepreneur typically has a different and longer term perspective as well as having an ability to influence or control the rewards and benefits paid to him by the company.

Vision and mission:

To create, develop, implement and market a mechanism through which business owners and entrepreneurs can attract investment capital on terms permitting them to retain the equity in their businesses, while allowing investors an increased probability of preserving, recapturing and benefiting from the capital made available to privately owned companies.

Royalties:

Revenue Participation Contracts, otherwise known as royalties, are a negotiated percentage of a company's revenues which will be paid periodically to those entitled to receive the payments for an agreed number of years.

As the payment requirements are usually irrespective of the reported profitability of a company the payment will reduce the earnings or increase the losses of the paying company.

Although royalties are frequently used in technology transfer, the publishing, entertainment and extractive industries, royalties can also be used by any company as an inducement to loan a company funds or to enter into a range of relationships. Royalties are essentially rental payments for the use of assets. As

royalties reflect a percentage of revenues the greater the level of revenues the greater the amount of royalties due to the entitlement holder.

Royalty entitlements can be; for a fixed period of time, which under agreed circumstances can be increased, fixed in percentage, variable as to percentage by scaling up or down, capped as to a maximum or guaranteed as to a minimum payment during an agreed period, secured by the pledge or temporary ownership of corporate assets, endorsed by third parties and convertible into equity at the issuer's option under agreed circumstances. Royalties are an obligation of the granting company and survive any change in control of the company. Royalties can be negotiable and transferable.

Royalties can be associated with a contract to repurchase certain corporate critical assets of the company acquired by the capital provider rather than in connection with a loan to the company.

Solution:

A government regulating body approved Royalty Entitlement Exchange (REX) could, through its members, trade royalty entitlements contracts.

As the ability to trade royalty entitlements on the REX would eliminate the complete sacrifice of liquidity usually associated with providing capital to privately owned companies the terms should be more favorable to the companies receiving the benefit of the use of the capital.

Royalty paying companies, listed on the REX, achieving favorable results would benefit from the predictably higher values in the trading of the company's future royalty entitlements. Companies could acquire and therefore effectively terminate their royalty payment obligations and thus increase their earnings.

There is no need for the REX to have a fixed location as it can be accessed electronically. it will be Internet accessed as an "electronic contract market".

Membership, granting the ability to transact business on the REX, is available to approved members of the international investment community.

Members of the REX will underwrite offerings of corporate royalty entitlements which will be subsequently traded of the REX.

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