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Don't Sell Out, Sell Bonds: The Pullman Group's Securitization of the Music Industry

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The Pullman Group's Securitization of the Music Industry

By Hewson Chen

An Interview with David Pullman

IF OPPOSITES ATTRACT, THEN PERHAPS there is an explanation for the unlikely marriage between rock 'n roll and the bond market. One can only wonder what strange magnetism is powerful enough to wed the "youthful, wild and unpredictable" rock culture with the world of "dry, cautious, and mind-numbingly technical" investment finance.[1] Indeed, some strange voodoo magic has luminaries like David Bowie, James Brown, and Holland-Dozier-Holland all singing the same tune, and "securitization" is its name.[2]

Securitization is the selling of debt to investors.[3] In general, securitization converts future income streams like credit card receivables or auto loan payments to present in-pocket cash. Notably, this transformation from future income to current wealth gives the issuer of the security immediate access to cash at less cost than other financing methods such as bank loans.[4] In the 1970s, this technique was applied to the housing industry,[5] and since then, securitization has evolved into greater varieties of income streams, including medical insurance,[6] typhoon insurance, and unused airline tickets.[7] The application of securitization in the entertainment industry, however, remains largely untested.

Is securitization a viable model for financing intellectual properties in the music industry? David Pullman, Founder, Chairman, and CEO of The Pullman Group, LLC, thinks so. In 1997, Pullman, as managing director of Fahnestock & Company's Structured Asset Sales Group, successfully orchestrated the issuance of $55 million in bonds backed by singer David Bowie's royalty and publishing income.[8] To date, Pullman has proven the viability of this concept by issuing similar bonds for legendary artists like James Brown,[9] Holland-Dozier-Holland,[10] and Ashford & Simpson.[11] These music legends are interested in securitizing because these deals promise several benefits to the established artist.[12] The securitization deal is more attractive than a traditional royalty/advance agreement because the artist retains 100 percent of the copyright, generates an immediate monetary windfall, and saves money on taxes because the sale of the bonds is not treated as a taxable event.[13] Securitization deals are more attractive than bank loans. Unlike bank loans, which are short-term in nature and involve a floating rate, Pullman's securities are fixed rate, non-recourse, and long-term in nature, translating into less risk for the artist.[14] Also, bank loans typically only yield about one-tenth what the artist can get through securitization.[15] According to the Pullman Group, the benefits of securitization translate into at least 20 percent extra income for the artist.[16]

This increased amount of money up-front can result in additional indirect advantages. "By gaining control of the net sum of future royalties today, the artist can reinvest and diversify,"[17] making the artist's wealth less dependent on the success or failure of any specific market. Moreover, the ability to control the net value of future royalties today facilitates estate planning, so the artist's heirs will have money available to pay taxes without being forced to sell off the artist's catalog.[18]

As the innovator who first married securitization to star power, David Pullman is one of few financiers who can successfully structure such deals, and, in fact, such bonds bear his name in industry vernacular. The overall idea behind a "Pullman Bond" is that the artist makes money up front by selling bonds to investors. The interest on these bonds is then paid with the income stream resulting from certain assets, typically a catalog of songs.

A number of steps ensures that risks to the investor are minimized. The income producing assets are insulated from possible bankruptcy proceedings by transferring the assets temporarily from the artist to a special purpose vehicle ("SPV").[19] Credit enhancements such as cash reserve accounts, financial guarantees, letters of credit, or default insurance may be used to reduce the risk of default of payment on the bonds.[20] Finally, an artist's works may be pooled with the works of other artists to diversify "the risk that a particular artist's popularity may decrease and affect future royalty payments negatively."[21]

However, there are many critics who remain skeptical of entertainment securitization. Some of the banks that have tried to enter the entertainment securitization market now dismiss the deals to be "more about hype than value."[22] Pullman regards these criticisms as grumblings from disgruntled competitors.[23] "When I did the Bowie deal people thought I was crazy," he notes. "Three months after I started it, other people tried to copy me. Six months later, it was everyone else's idea. We keep going at it. Other people have tried and failed."[24]

His failed competition only underscores the complexity and expertise required in the field. Well-known Nomura Capital Entertainment announced that it was going to form a music securitization team with industry veterans Irving Azoff, Irene Romero, and Casey Wasserman in 1997.[25] In 1998, they expected to use the "artist-pooling" concept to issue $1 billion a year in loans.[26] By March 1998, however, Nomura had not produced one asset-backed security.[27] By the beginning of 1999, Nomura fired its top bond executive, Ethan Penner, and closed its entertainment bonds division with only one small entertainment loan to show for it.[28]

The only other competitor in this field, CAK Universal Credit Corp., was formed in 1998 as an alliance between Prudential Securities and Charles Koppelman, former chairman of the EMI Capitol Music Group.[29] While the group claimed to have made $300 million in fixed loans to unidentified artists, its attempt to securitize Michael Jackson's catalog of Beatles classics has encountered delays and may well be scrapped due to the complexity of the ownership structure.[30] Rivalry in this field has a personal side as well. CAK and Prudential were Pullman's business partners in the 1997 Bowie bond offering. He is now suing both for, among other things, violating fiduciary duties and the misappropriation of trade secrets, claiming damages in excess of $2 billion.[31] While some analysts have noted that such legal wrangling may make artists uneasy about doing securitization deals, Pullman does not believe the lawsuit will hurt his business: "People love the fact that all we're trying to do is protect intellectual property, whether it be ours or the artist's."[32]

The main reason behind Pullman's heavy market share of the music bonds industry is that "the assets are complex."[33] As he observes, it is a "world-wide industry" with "world-wide cash flows."[34] For example, the Bowie deal took months to devise, cost over a million dollars, and resulted in a thousand pages of documentation.[35] But even with the experience of numerous music securitization deals, Pullman notes that these transactions are still difficult to orchestrate: "I thought that after doing a series of these deals, things would get easier, and they haven't. So that's what's amazing about it all--that they don't become cookie cutter."[36]

Indeed, the difficulty of creating deals and the few successes of music securitization may well limit music bonds to the fringes of the industry. Some commentators have said that music securities are "lousy investments," where "the seller is smarter than the buyer."[37] This potential information asymmetry also raises policy concerns. Securitization shifts the risk of success or failure from the record company and publisher onto the investor, who is in arguably the worst position to assess the odds. Instead, the risk of a particular catalog is perhaps most efficiently allocated to record companies and publishers, who have ready access to income stream histories and industry tracking data. Pullman counters this criticism by pointing out that his focus is different from that of the average record company. "[We deal with] people who are already successful and are legends with a steady income stream, and, in general, the majority of artists in a record company's roster don't fit that example. We're dealing with a select few, the cream of the crop, in terms of artists that have longevity."[38]

This focus on artists of legendary stature also allows Pullman to avoid the uncertainty of predicting the popularity of entertainers in a fickle market. With regard to songs that have achieved "classic" status, income streams are relatively stable. For example, "with Ziggy Stardust it's nearly 30 years later and we *know* if it's still producing income 30 years later--remember with artists, 90 percent of the income comes in the first 6 months after release--so if this song's producing this 30 years out, that's what it should do going forward."[39]

But with business limited to artists of legendary status, some think that the real money to be made from intellectual property securitization lies outside of the music industry.[40] In 1997, an attorney who worked with Pullman on the Bowie Bond deal observed that "the music business is a limited market.... But if you can get to the software companies, then this could be a huge business."[41] However, Pullman remains optimistic about the future of music bonds. Despite the music industry's focus on short-term artists with one- to three-record careers and the implication that the pool of viable securitization candidates is dwindling, Pullman maintains:

> We're just at the beginning of [music securitization]. What [the increasing focus on short-term artists] is really doing is making catalogs like James Brown, David Bowie, Ashford and Simpson, or Holland-Dozier-Holland... more valuable, because there are fewer people creating catalogs that have standards, or that have long careers or that have created a new sound. So we think that's better, that we have these gems that don't really have to compete with a lot of the different artists that are out there.... James Brown doesn't compete against a new

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artist. In fact, James Brown, the Isley Brothers, these guys are sampled over and over again by [new artists]. So is Ashford and Simpson.[42]

Furthermore, the slow adoption of music securitization should be no surprise. Pullman points out that traditional securities markets also encountered hesitation and skepticism in their infancy:

> I started when there was not one auto loan or credit card security. Asset-backed securities were brand new, [but] it kept evolving. Newer and newer asset classes.... Around 1990, not all banks did securitization, and a lot of banks questioned it. In the year 2000, there's not one bank that doesn't securitize its assets. They were all naysayers about securitization, the banks, just the way that they are about entertainment royalty securitization.[43]

Over time, Pullman predicts, music securitization will become more commonplace, and there is some indication that Pullman has successfully raised awareness and acceptance about these more progressive bonds. Though the Bowie deal was partially guaranteed by EMI Records, the later Holland-Dozier-Holland deal was struck without any similar guarantee.[44]

> I think that each year we move further and further down the line. So in terms of the first deal with Bowie, people said that we couldn't repeat it... that it was a one-time event, and that it was unique, that he had his record masters and publishing and the writer's share. And now we're able to obtain ratings on deals that are just based on the writer's share, probably something that most artists still retain.... So, therefore, I think that each year we'll go further and further out on the curve. And then at some point in time meet with what the record companies and publishers have traditionally done as a business. Right now I think [record companies and entertainment bond firms] complement each other more. But the future is that, what I hear in terms of feedback, is that artists would much rather do this deal than sell [their works]. And with the consolidation of the industry, artists want the flexibility to go where they can.[45]

One of the reasons why securitization will likely be viewed with greater acceptance is that securitization provides a potential win-win opportunity for record companies as well. Specifically, as a result of securitization,

> [record companies] have more money in their coffers to offer other artists, as opposed to all of their money going out to one artist... So if we're talking about a $30 million James Brown deal or a $55 million David Bowie deal, [obtaining that money from the sale of bonds instead of from record company advances] gives these companies more money to put out for new artists. Think of it this way: 55 million is the equivalent of 55 one million dollar advances, 550 hundred thousand dollar advances, and 5500 ten thousand dollar advances. So you can sign on more new artists...[46]

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At least for now, the proponents of music securitization are in a dilemma. Securitization promises to revolutionize the music industry, yet it is still so obscure that only one firm, the Pullman Group, has been able to make it work. Even so, the pro-artist values advanced by music securitization should be encouraged in an industry where record companies of increasing size flex overwhelming bargaining power over artists. Securitization remains intensely specialized and somewhat untested in the music business. But does it also promote democracy and diversity in the recording industry? "Definitely,"[47] says David Pullman, the only man who, so far, seems to be able to make the bonds sing.

The author would like to thank David Pullman for his kind assistance.

A Conversation with David Pullman

Founder, Chairman, and CEO of the Pullman Group, LLC

JELP You'd already had a bit of experience securitizing exotic income sources by the time the Bowie Bond deal came about. Had you been planning to do this for quite some time prior to your discussions with Zysblatt [Bowie's business manager] or Bowie?

Pullman In terms of the Bowie deal, I had been thinking about doing things in entertainment and intellectual property. In my mind, that's the direction I wanted to go. I always had an interest in the entertainment business, in terms of whether I'd be reading BILLBOARD, HOLLYWOOD REPORTER, or VARIETY, somehow I would connect what I'm doing with that.

J:So it was more of a personal interest?

P:Yes.

J: You've said in television interviews that, had you tried to offer Pullman Bonds maybe ten years ago, it never would have worked. What changed in the marketplace that suddenly made this Bowie deal possible?

P: Well what happened in this market was evolutionary, in the fact that, when I began, I started in mortgage-backed securities which were new at the time. At the time I started there was not one auto loan security, not one credit card security. Asset-backed securities were brand new. So that's what I mean. It kept evolving. Newer and newer asset classes. It would have been difficult to do this at the time when mortgage-backed securities first started, because you have to keep breaking the ground to new arenas first. Timing is everything and so are rating agencies and the investors. But even though this was very difficult to do, I thought it was possible, not impossible.

J: So it was kind of like the industry had to get more used to these exotic income streams like credit receivables and such.

P: Right. Well those are the generic, but then after that, each time everything was new, like credit cards were new, autos were new, and then it kept on going down the line.

J: From a policy standpoint, securitization shifts all of the risk from success or failure from the record company to the artist and then some of that to the investor. But couldn't we argue that the record company, with all of its expertise, is in the best position to accurately calculate and deal with this risk, or would you disagree with that?

P: Could you ask me that question again?

J: The risk of success or failure of the underlying assets that are paying the interest on these bonds . . . that's being shifted to the investor through the artist, right? So the traditional model is where the record company gives you an advance, promises to pay you royalties, but there's a risk involved: that the record company will never make back that advance. So all of the risk of failure is pretty much on the record company. But now, through securitization, we're shifting the risk from the record company to the artist. And of course, with the risk there's also the increased potential for return because the artist gets more of the upside. But do you think that record companies are more able to predict the success, failure, or worth of an artist's catalog than the average investor or institutional investor?

P: Well, these are already people who are successful and are legends so it's an income stream, and in general, the majority of artists in a record company's roster don't fit that example. So we're dealing with a select few, the cream of the crop, in terms of the artists that have longevity.

J: One concern of people in the music industry is that ideal candidates for securitization such as David Bowie or James Brown are decreasing in number because consumer tastes are growing more fickle and there are more short term artists with just one- to three-record careers. Do you think that the number of viable music securitization deals is likely to decrease over time, or do you think that that won't really be an issue?

P: We're just at the beginning of it. What it's really doing is making catalogs like James Brown, David Bowie, Ashford and Simpson, or Holland-Dozier-Holland more valuable, because there are fewer people creating catalogs that have standards, or that have long careers or creating a sound. So we think that that's better, that we have these gems that don't really have to compete with a lot of the different artists that are out there.

J: So that makes the existing catalogs even stronger.

P: They're more valuable. I mean James Brown doesn't compete against a new artist. In fact, James Brown, the Isley Brothers, they're sampled by anyone. So is Ashford and Simpson.

J: The two main financial advantages of securitization are, one, the artist gets to retain all the upside, and two, significant tax advantages. How do these tax advantages work out? Where does the benefit come from?

P: From the fact that it's not a taxable event when you receive the money.

J: Is this a benefit to the investor or to the artist?

P: To the artist.

J: So you're talking about the up-front cash.

P: Exactly. And then when the money's invested, for business purposes, whether it be in stocks and bonds or buying catalogs, the interest is deductible.

J: But in order for the assets to be shielded from bankruptcy laws . . .

P: We move the assets into a special purpose bankruptcy remote vehicle.

J: Right. And that transaction has to be treated as a...

P: As a true sale. What's unique about securitization is you can get a true sale opinion and at the same time be able to retain the equity residuals. Only in securitization can you do that, and also be able to deduct the interest. One treatment for taxes and financing, and on the other side you're getting an opinion that's a true sale.

J: So you can be treated as a loan while at the same time, for bankruptcy purposes, have a true sale. What about the possibility that the IRS may change its regulations?

P: No, it's based on Code. It's like a mortgage. If they try to turn around the code and say if you've got a mortgage on your house, it's a sale, people would be up in arms.

J: That makes sense. What about the true sale doctrine? Is that firm enough for entertainment securitization to become more mainstream? Is there a need for Congress or the SEC to make more firm guidelines to really shield these assets?

P: It's the same way in the other securitization deals. There's 200 billion done a year, so the same rules that protect those and the two and half trillion outstanding protect the individual deals we do. They would have to change the rules for everything else and they're not going to because it's a large market.

J: What makes entertainment securitization different than the ABS [Asset Backed Securities] market in general?

P: The assets are intangible, that's a big difference. And the difference is not that the structures are so much more complex—and they are—but the assets are so complex. And I thought that after a doing a series of these deals things would get easier, and they haven't. So that's what's amazing about it all, that they don't become cookie cutter.

J: I'd read somewhere that in the ABS market there was a trend of really destructive competition, that competition for borrowers was making the payoff of these deals worse. But since entertainment securitization is so complex, is this not an issue?

P: It hasn't been. People have tried to compete with us, or bait and switch. And then it turns out that it's so complex that they can never deliver what they say. So whatever we say we stuck to, and you have to stick with certain guidelines in terms of what your fees and interests are going to be on deals, especially as you get to doing smaller deals. As you go down in terms of the size of the deal, they become just as difficult as doing a large deal, so you have to make sure you have the right pricing model so that you make sure that you're making money and not losing money on the deal.

J: BUSINESS WEEK wrote about the destabilizing effect that the ABS market had on the economy. It mentioned specifically that the market has tended towards excess: Too much liquidity in good times, too little in bad. Does this affect entertainment securitization?

P: Well, these are fixed income instruments, so it's a little different, it's based on the ratings, and we're being given single A ratings.

J: So liquidity isn't much of a concern at all.

P: Right. It's typically tremendous liquidity, people leave equities and they go into debt instruments, bonds. And they want to get the highest possible yield on bonds, so we're in good shape. The aspect market has ridden a huge wave, even through the recession. The issuance in '85 was about 5 billion, and the issuance in the last year was about 200 billion.

J: Some have noted that CAK Universal Credit Corp. is a strong competitor, because they have Koppleman's years of experience as former chairman of EMI, and the nearly unlimited resources that Prudential can funnel into a venture. Additionally, CAK has access to the details of the Bowie Bond deal. Were you expecting that this might happen at some point?

P: No, I wasn't expecting that someone would try to steal our stuff and try to get away with it, and that we would file a $2.5 billion lawsuit against CAK and Prudential. Imitation is the highest form of flattery, that's how we feel about competition—except when someone tries to steal our stuff, and then we sue them. So that's what we did, and it's kept them busy. People love the fact that all we're trying to do is protect intellectual property whether it be ours or the artist's.

J: So what steps do you think you could take to protect yourself from similar problems like this in the future?

P: The first thing I did which was smart was that I didn't do any public deals. They were all done as private deals. So we got a thousand requests for our documents, which we never gave out, and each deal's been a derivation of the last.

J: Is the main reason behind limiting these deals to institutional investors because you want to avoid an SEC filing or...

P: No, we don't mind. The main thing is we want the privacy and we want people to not be able to reverse engineer our deals. Down the road, as we continue to build the brand, the Pullman Bonds, we could go to the public market. Because that's traditionally what happens once you're a market leader and you build a brand, even in other asset-backed securities. For example, Pru Securities, they're known for home equity loans, First Boston might be known for autos and credit cards, and that's it. And Conti Financial, before they went out of business, was known for time shares.

J: I've noticed that the film and sports industries have seen a diversity of players entering the securitization arena: Dreamworks, Polygram, England's Newcastle sports team, and Ascent Entertainment are all offering their own bonds. But in music securitization, specifically, it's really only in the hands of just one group, your Pullman group. So why is music securitization different?

P: Because stadium financing for a team is more akin to the combination of municipal bond financing and securitzation. So it's more of a relationship with the investment bank.

J: So those things are more comfortable with existing financing models? What about film securitization?

P: Film is another example where you've seen it's diversified. It's more of a banking function. It's short term, which is the opposite of our deals, which are long term. It's floating rate, which is the opposite of our deals, which are fixed rate. So because of that, you'd see very few that would be able to do deals because you need studio credit. So for instance, Disney traditionally had a relationship with First Boston, so you see First Boston do a deal. Or someone has a relationship with Citibank, so they make a deal, that's what happens.

J: These studios are already linked to banks, so it's a comfortable move.

P: Exactly.

J: You've mentioned that securitization doesn't just benefit the artist, it benefits the record company as well, creating a win-win deal. What's the benefit for the record company?

P: They have more money in their coffers to offer other artists, as opposed to all of their money going out to one artist... So you can sign on more new artists, and there's more upside for the record company on that side of the business than there is on the side of the established artist. For the established artist, it's more of a banking function—people say that's why it's a better fit, whether it be for the royalty streams or for the publishing income. Music is a better fit than TV and film for right now because in some cases, in music the copyrights are owned by the artist, whereas in almost all cases in film and TV, the work is owned or copyrighted by the studio and is a work for hire. So the artists may have a percentage interest but they won't have ownership or control. So that's why music is better. Better assets, more diversified, it's a world-wide industry, world-wide cash flows, they're more evergreen titles. The great music goes up in value overtime, whereas, for film, they traditionally drop in value over time.

J: The interesting thing is that people question the values promoted by commercializing intellectual property, but it turns out that the values promoted by securitization are likely the things that we've always wanted to promote: democracy and diversity.

P: Definitely. ◆

Benefits of Music & Entertainment Future Royalties Securitization vs. Bank Loan or Publisher's Advance[1]

FUTURE SECURITIZATION
- Non-recourse
- Fixed rate for life of deal
- Self-liquidating[2]
- Long-term deal
- 10 year average life
- 15 year maturity
- Non-taxable self liquidating event, artist pays taxes as earned over years and interest is deductible
- Artist keeps 100 percent of copyright
- Audits done every year on sources of income
- Artist has all upside in the event of extraordinary new income
- If catalogue is worth twice as much in 10 years, it belongs to the artist
- Lower cost for administration
- Artist gets all "black box income" in the deal[3]
- Artist picks up minimum of approximately 20 percent additional annual income
- Record royalties and publishing put in special purpose vehicle
- Corporations can do this transaction off balance sheet
- Liquidity and diversity
- Estate planning enables the artist's heirs to have cash available for taxes so they won't have to sell catalogue

BANK LOAN
- Floating rate, if prime rate goes to 20 percent as in 1980, artist pays 20 percent plus spread over prime (i.e., 20 percent + 3 pts = 23 percent)
- All assets of artist at risk
- Bank lines typically limited to one year
- Longest banks go out is 1-5 years

PUBLISHER'S ADVANCE
- 5-year range
- Taxable event
- Publishers want to buy copyright
- Higher administrative cost, i.e., split higher to publishers for administration when they advance millions of dollars
- Publishers keep majority of black box in deal

1 Adapted from THE PULLMAN GROUP, LLC, BENEFITS OF MUSIC AND ENTERTAINMENT FUTURE ROYALTIES SECURITIZATION VS. BANK LOAN OR PUBLISHER'S ADVANCE (1998)

2 "[C]ollections are periodically paid out to holders of interests rather than reinvested in new receivables." Sam Adler, *Using a Musician's Assets to Structure a Bond Offering,* 13 No. 5 ENT. L. & FIN. 1 (1997).

3 "Black box income is an entertainment industry term that is meant to express the income the record company is able to gain from activities other than direct sales of the artist's recordings. The 'black box' obscures the source of the income and eliminates the income by allocating expenses to the artist." John Jackson, Note, *Royalty Securitization: Taking CABS to Bankruptcy Court,* 209 THOMAS JEFFERSON L. REV. 209, 218 n. 51. In a securitization deal, black box income is minimized because the artist is now indirectly administrating. See Adler, 13 No. 5 ENT. L. & FIN. at 6.

[1] Phil Leggiere, *Rebel Rebel: Rocking the Bond Market,* SUCCESS, Jan. 1999, at 58.

[2] See Daniel Kadlec, *The Real Price of Fame,* TIME, Aug. 17, 1998, at 39; Gregory Zuckerman, *James Brown's Got a Brand New Bag: Issuing Bowie Bonds,* WALL ST. J., May 3, 1999, at C21.

[3] See generally Nicole Chu, Note, *Bowie Bonds: A Key to Unlocking, the Wealth of Intellectual Property,* 21 HASTINGS COMM. & ENT. L.J. 469 (1999); Lisa M. Fairfax, *When You Wish Upon a Star: Explaining the Cautious Growth of Royalty Backed Securitization,* 1999 COLUM. BUS. L. REV. 441 (1999).

[4] Fairfax, 1999 COLUM. BUS. L. REV. at 441, 452.

[5] See id.

[6] See id.

[7] See Leslie Eaton, *You Too Can Be Rated AAA,* N.Y. TIMES, June 7, 1998, at 5.

[8] See Jennifer Burke Sylva, Comment, *Bowie Bonds Sold for Far More than a Song: The Securitization of Intellectual Property as a Super-Charged Vehicle for High Technology Financing,* 15 SANTA CLARA COMPUTER & HIGH TECH. L.J. 195, 197, 203 (1999).

[9] See Zuckerman, *supra* note 2.

[10] See Alice Rawsthorn and Jeremy Grant, *Bonds Have More Fun as Banks Rock'n'Roll: Alice Rawsthorn and Jeremy Grant on Moves to Get Investors to Gamble on Rock,* FIN. TIMES, Aug. 10, 1998, at 18.

[11] See Irv Lichtman, *Deals, Deals, Deals: Music & Media and League Firms Sign 'Em Up,* BILLBOARD, Jan. 23, 1999, at 43.

[12] See generally THE PULLMAN GROUP, LLC, BENEFITS OF MUSIC AND ENTERTAINMENT FUTURE ROYALTIES SECURITIZATION VS. BANK LOAN OR PUBLISHER'S ADVANCE (1998) [hereinafter BENEFITS OF SECURITIZATION].

[13] See id. Specifically, the money received up-front by the artist from the sale of bonds is treated as a loan for tax purposes. See Chu, *supra* note 3, at 485.

[14] See id.

[15] See John Jackson, Note, *Royalty Securitization: Taking CABS to Bankruptcy Court,* 21 THOMAS JEFFERSON L. REV. 209, 218 (1999).

[16] See id.

[17] Jackson, *supra* note 15, at 218.

[18] See BENEFITS OF SECURITIZATION, *supra* note 12.

[19] The SPV handles all of the copyright licensing issues, and then establishes a "bankruptcy remote trust" to issue the bonds. This complex two-tiered structure is what insulates the investor from the artist's possible insolvency. See Jackson, *supra* note 15, at 212. Such a structure makes the underlying assets "bankruptcy remote" as opposed to "bankruptcy proof." See Sylva, *supra* note 8, at 217.

[20] See Jackson, *supra* note 15, at 227-28.

[21] Fairfax, *supra* note 3, at 484.

[22] Brenda Bouw, *Bowie Banker Sees No Dip For Bonds,* FIN. POST, Mar. 5, 1999, at C6.

[23] See id.

[24] Id.

[25] See Bruce Orwall, *Wall Street Bets on Entertainment Idols' Earning Power*, WALL ST. J., Sept. 26, 1997, at B1.

[26] See id.

[27] Instead, Nomura had only managed to make one asset backed loan to Rod Stewart, after considerable delay. See Jackson, *supra* note 15, at 222.

[28] See Michael A. Hiltzik, *Despite Hype, Royalty-Backed Bonds Haven't Gone Platinum,* L.A. TIMES, Jan. 8, 1999, at C1.

[29] See David Bauder, *It's Only Rock 'n Roll, but I Like It . . . as an Investment Finances,* L.A. TIMES, Nov. 18, 1999, at C2.

[30] See *Dueling Dailies Clash on 'Jacko Bond,'* BONDWEEK, Dec. 21, 1998, at 2; Paul Tharp, *Celeb-Bond Financiers Battle for Limelight,* N.Y. POST, Dec. 17, 1998, at 46; Phyllis Furman, *Deal Gone Bust: Jacko's Music Bond Offering,* DAILY NEWS, Dec. 16, 1998, at 36.

[31] See *Pullman Group files $2bn Suit Against Prudential Companies,* ASSET FIN. INT'L, Dec. 1, 1999, at 9.

[32] Telephone Interview with David Pullman, Founder, Chairman, and CEO of the Pullman Group, LLC (April 2, 2000).

[33] Id.

[34] Id.

[35] See *David Pullman: 55 Million Dollar Man,* MUSIC COPYRIGHT MATTERS, Oct. 1998, at 6.

[36] Telephone Interview, *supra* note 32.

[37] Phyllis Furman, *Rock solid investment? David Pullman has a big new deal brewing for musicians,* N.Y. DAILY NEWS, Oct. 26, 1998, at 28.

[38] Telephone Interview, *supra* note 32.

[39] Furman, *supra* note 37.

[40] See Jon Birger, *Will Bowie Banker Avoid Fall to Earth?: Pullman Gets His Calls to Stars Returned, but He Needs Deals to Fend Off the Critics,* CRAIN'S N.Y. BUSINESS, Jul. 28, 1997, at 3.

[41] Id.

[42] Telephone Interview, *supra* note 32.

[43] Id.

[44] See Ross A. Snel, *New 'Bowie' Bonds Bank on Royalties From Motown Trio,* WALL ST. J., Apr. 29, 1998, at C24.

[45] Telephone Interview, *supra* note 32.

[46] Id.

[47] Id.