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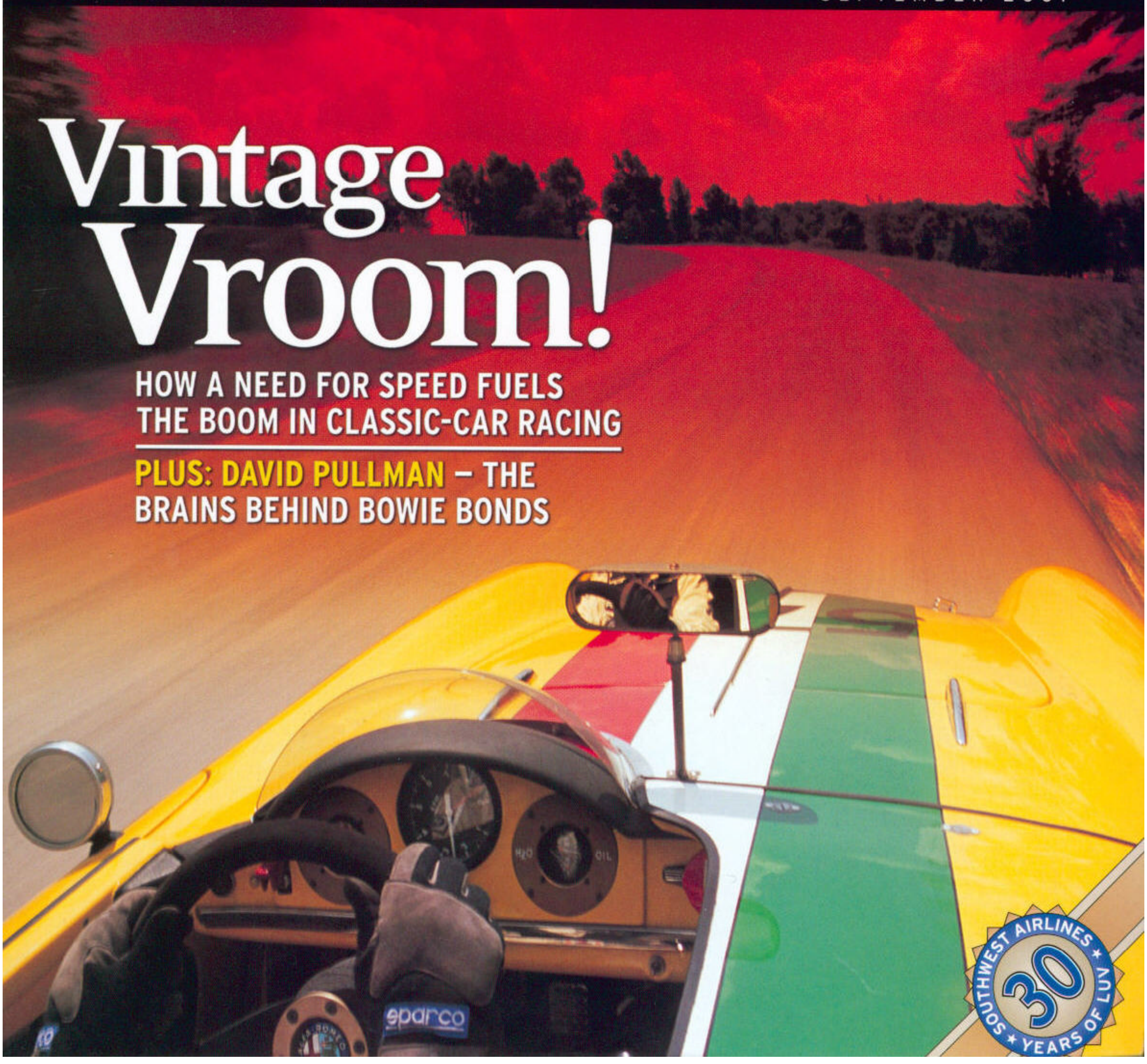

Vintage Vroom!

HOW A NEED FOR SPEED FUELS THE BOOM IN CLASSIC-CAR RACING

PLUS: DAVID PULLMAN – THE BRAINS BEHIND BOWIE BONDS

PHOTOGRAPHY BY EVAN KAFKA

AFTER HE PIONEERED THE CONCEPT OF FLOATING BONDS BACKED BY EARNINGS OF DAVID BOWIE'S RECORDINGS, DAVID PULLMAN JUST KEPT ON ROCKIN'.

THE MAN WHO SELLS STARS

Suddenly, it seems as if half the commercials on television use the relatively obscure song "Lust For Life." The 1977 David Bowie/James (Iggy Pop) Osterberg tune backs pitches for cars, cruises, and other products. Elsewhere, James Brown's "I Got You (I Feel Good)" adds a little rhythm to scads of movies, and The Isley Brothers' "Shout" turns up in both commercials and movies with some frequency. The music of our boomer youth has come back to bite us in the wallet. But with these particular tunes, something else also comes into play.

These songs, along with "Baby Love," "Ain't No Mountain High Enough," "I Heard It Through the Grapevine," and literally thousands of others, have transcended their roles as the soundtracks to our younger years by funding our insurance plans and pensions. The stuff of musical memories is now also the stuff of bonds yielding in the neighborhood of

BY HANK BORDOWITZ

MUSIC BUSINESS ECONOMICS

TO UNDERSTAND WHY PULLMAN'S IP BONDS RATE SO HIGH, HERE'S A BIT ABOUT THE ECONOMICS OF THE MUSIC BUSINESS.

The U.S. Constitution protects both songs and performances of them by copyright. Every time someone uses a piece of copyrighted material, the user must pay the copyright owner. For example, any time a record company sells a CD, album, or tape, it currently owes the songwriter and publisher a standard Mechanical Royalty of $.0755. Over the course of a million albums, that comes to $75,500 per song. To put a song on a motion-picture soundtrack, a filmmaker must acquire a synchronization license and pay for the usage, with such deals ranging into the millions of dollars.

Besides mechanical usage, every performance of a song on the radio or TV, in a club, or at an event earns the copyright owners money. In the United States, the owners of musical copyrights belong to one of three performing rights organizations: ASCAP, BMI, or SESAC. These organizations sell performance licenses to music users, such as broadcasters and venues. They then distribute this money to their member copyright holders, with performances on network television earning more than airplay on a 100-watt college station, for example.

Beyond the songwriter royalties, a recording artist earns record royalties that could run from 10 percent to upward of 20 percent of record sales profits. Combining all of these royalty streams for an artist that sells 2 million albums or so a year and gets frequent airplay can create potentially huge returns.

– H.B.

8 percent interest, thanks to David Pullman, an ambitious New York City financier with a penchant for doing things to get noticed.

It was a little more than four years ago that Pullman helped turn the future earnings from David Bowie's catalog of 25 albums and nearly 300 songs into a $55 million, 15-year, A-rated investment, meaning the bond is higher risk than triple or double A bonds, but pays greater dividends. Since then, as founder, chairman, and CEO of the New York City-based Pullman Group, he has floated five more A-rated issues – for the Motown hit-machine team of Brian Holland, Lamont Dozier, and Eddie Holland; The Isley Brothers; Ashford & Simpson; James Brown; and Marvin Gaye. His current projects include a major music-publishing company (he demurs at giving the name), and the rumor mill has him in negotiations with Crosby, Stills, and Nash, among others.

With this new class of bonds, Pullman changed the way people –

especially money people – think about intellectual property (called IP by those who work with it daily). Suddenly, Wall Street appreciated the inherent value of musicians' royalty streams, considering a song like "Rudolf the Red-Nosed Reindeer" can make millions of dollars in royalties every year (see box on page 64). So far, because of the bonds' high rating and above-average return, insurance companies and other institutional investors, not rock fans, have been first in line to buy them. Pullman knows the bonds are sexy, however, so he promises "we'll do other things in the future that involve the public." But, for now, hold on to your cash because the investment wiz hedges as to just how soon he might offer "retail" bonds.

Pullman should have plenty more opportunities to do so, because the IP bonds give musical artists plenty of incentive to share the financial stage with him. Besides getting a hefty sum of money upfront, the artists retain all their rights to their creations, so once the bonds mature, they can either float new ones or again start collecting their royalties. Before, when artists such as Ron Isley pursued pricey litigation or James Brown faced millions in back taxes and fines to the IRS, they might have raised much-needed funding by selling their copyrights or liquidating their other assets. For example, during the early 90s, Willie Nelson's debt to Uncle Sam forced him to hawk his greatest hits records on TV and stage auctions of his personal possessions.

"Willie Nelson!" Pullman exclaims when reminded of this. He digs through the rubble on his desk, grabbing for a pen and sticky note. "He'd be perfect for one of these!"

Sitting with Pullman can lead you to wonder if he's the world's most focused person or a poster child for attention deficit disorder. Some people describe him as looking something like Kramer from *Seinfeld*, and he does bear some resemblance. But, unlike the TV klutz, Pullman is every inch a well-groomed thirtysomething professional as he takes me on a five-minute tour of his surprisingly small office, where the astounding views of midtown Manhattan, Central Park, and his Central Park West apartment building suggest his heavyweight status in the world of high-stakes finance. Like Kramer, however, Pullman seems to run on three tracks simultaneously, discussing the paintings in his office, speaking fondly of the ballerina who's poster-sized photo bows to him from the wall on the right of his desk, and dealing with a barrage of phone calls.

"I need the list we had of the debt desks for each of the investment banks," he tells his senior associate and counsel. "I also want the list of everyone who signed the MR7 confidentiality agreement."

"That's on your desk," she tells him.

With a hopeless look, Pullman glances at the mountain of stuff on his desk, fully a foot higher than the desktop at its peak and threatening to avalanche off the edges. If he were not 6-foot-3, a visitor to the office wouldn't be able to see him across it when he sits down. "Well, get me another copy, because I don't have it. I also want a list of everyone that received one," he says.

Pullman says he pockets "10 percent of the deals, more or less" and makes even more from the bonds' banking and arbitrage fees. Quite a handsome return, considering the bonds alone have been worth well over $100 million. So good that Holland, Dozier and Holland filed suit last July, claiming he took too much. "It's totally meritless," Pullman told the New York *Daily News*. "We had a half a dozen of our attorneys look at it. It will be dismissed."

Not surprisingly, Pullman's good fortune has spawned competition. Until a couple of years ago, he could claim bragging rights as the only one to float a music IP deal. Then former EMI Records Group Chairman and CEO Charles Koppelman got into the frey, his CAK Universal Credit floating a bond for the performing rights organization SESAC to the tune of $30 million. Earlier this year, Credit Suisse First Boston hired, as head of its IP securitization group, Rob Horowitz who put together a deal for the Chrysalis Group PLC worth nearly $90 million based on the future revenue of a diverse catalog of artists ranging from Blondie to Billy Idol to Outkast.

However, while Credit Suisse has just begun exploring this line of financing, CAK claims no longer to be in this specific business.

"We're really a corporate finance company," noted Robert D'Loren, CAK's president, in a *Billboard* article. Its more recent clients have included clothing designers such as Bill Blass and Gloria Vanderbilt.

As you read this, Pullman likely will be in court defending his moneymaking turf. Shortly after the SESAC deal, he brought a $3 billion lawsuit against former Pullman Group partners – the Rascoff/Zysblat Organization (David Bowie's business managers) and Prudential Securities – claiming they took his proprietary methods for securing intellectual property to CAK. His case is on the New York County Court docket for September. William Zysblat called the notion that Pullman's concepts for IP-backed bonds were proprietary "delusional" in *Billboard.*

"David has a propensity to be very proprietary," notes Lynn Levy, a senior associate at IP Financial Management in New York City, and who worked with Pullman briefly on the Bowie Bonds. "I see David as a kind of a sponge. He's a very bright man. He absorbs a lot of information very quickly, and he doesn't necessarily share it back in any way. He is quite savvy and picks his moments to release this information that he has absorbed."

Another expert source on music royalties (who insisted on remaining nameless due to the lawsuit, though he's not party to it) noted, "I found that he was very uncharitable with attribution for people who helped him come up with all of that. Then I see that he's suing these people, which is the height of chutzpah. ... He may make a living in his second life suing people."

On the flip side, the expert admits, "[Pullman] did make it work. Frankly, he's the little engine that could. He's really vaulted himself into the limelight, and I give him a lot of credit for pulling it together. Everyone had ideas, but he got it to market first. It takes a lot of ingenuity to get something to market first. I have respect for that."

Pullman comes from a background in asset-backed securities, bonds based on cash flows from mortgages and credit-card debt rather than hard goods or taxes. This was fairly new and radical when he earned his MBA from Philadelphia's Wharton School of Business in 1983.

"I was at one of these summer clubs," he recalls. "It was like that scene from *The Graduate*: 'One word: Plastics!' I asked someone what I should I do, and he said, 'Mortgage-backed securities. It's a new thing.' So, I had 22 interviews on Wall Street by spring break. They [brokerage houses] didn't recruit [for mortgage-backed security traders] on campus because there wasn't even a book on trading mortgage backs [sic] at the time.

"Every [place] I went into, they'd offer me jobs in government bonds. They'd offer me equities. I said, 'No. I want to be a mortgage-backed securities trader.' With every interview I got better, so, by the end of the week, it was like, 'Wow, we never met anyone who knew more about mortgage-backed securities.'"

Pullman began creating mortgage-backed securities for Prudential Bache in 1984. Over the course of 10 years or so, he climbed through the ranks at a who's who of Wall Street investment houses: Cantor Fitzgerald, Gruntal & Co., and Fahnestock & Co. The asset-backed securities division he created at Fahnestock, which became known as The Pullman Group, floated the Bowie Bond in 1997.

After he created an uproar on Wall Street with the bond, Pullman's next big challenge was demonstrating that it wasn't a one-off deal. A big fan of pasta, sushi, and Thai foods – which he runs off twice a week at the Central Park Track Club – Pullman got the inspiration for his next set of bonds one day over lunch. "I was sitting in the Motown Café thinking," he says. "I looked around and saw all these gold and platinum records on the wall and thought, this would be a great catalog to collateralize."

That led to bonds for three great Motown catalogs: Holland/Dozier/Holland, Ashford & Simpson, and Marvin Gaye, creating eight-figure paydays for all of them. He floated yet another issue for James Brown, making the godfather of soul feel $30 million good. To date, Pullman says none of his privately placed bonds have lost their A ratings.

Not that any of these deals came easy; Pullman says each had at least one built-in deal-killer. For example, when he tried to float the Isley bond, EMI Publishing (which administers the Isleys' songs) and the Isleys' younger brother Marvin and brother-in-law Chris Jasper filed suit on Pullman and the older brothers. EMI claimed the deal violated an agreement giving the company first option should the Isleys sell their rights. Marvin and Chris wanted in, even though they had signed away their rights to the catalog. "The IRS, the trustee, the trustee's counsel, the bankruptcy court judge, EMI, Marvin Isley, Chris Jasper, ... Sony, they all sued us!" Pullman says. "They came out of the woodwork." Ultimately Pullman prevailed, and the Isleys took home a seven-figure check.

The success of his IP bonds and the lawsuits have turned Pullman into a high-profile media personality. One of his proudest accomplishments in revolutionizing the way Wall Street perceives the value of intellectual property is earning ink and airtime in more than 3,000 newspaper and magazine articles and radio and television appearances. While the pile on his desk holds the standard detritus of items for review and signature, FYI memos, and the like, the bulk of these papers are media clippings featuring Pullman. "The top stuff is current," he points out. "Here's a thing from *New York* magazine, this is from *Hollywood Reporter*. They put us on the cover."

Certainly intellectual property encompasses far more than music, and not many musicians create the kind of royalty stream needed to back a bond, at least a consistent $2 million a year for a $30 million bond that matures in 15 years. Even Pullman plans to branch out, perhaps by floating a bond for the estate of John Steinbeck. "Every seventh-grader in the world will read him forever," Pullman says of Steinbeck.

Beyond the number of successful works Steinbeck created, Pullman notes that none of the estate's copyrights slip into the public domain until the mid-21st century. He says this might even allow him to securitize it twice. "That's good cash flow," he remarks.

Besides literature, Pullman has designs on securitizing television syndication. Several sources link him with a group of writers from *Seinfeld*. "Somewhere in the world," he says, "at any given time, *I Love Lucy* is on television."

Artists who continually exceed expectations, such as David Bowie or John Steinbeck, earn the title "legend." Wall Street investments that persistently surpass expectations also become the stuff of legend. David Pullman aspires to that status in both camps. Ⓢ

HANK BORDOWITZ, THE AUTHOR OF *BAD MOON RISING, THE UNAUTHORIZED HISTORY OF CREEDENCE CLEARWATER REVIVAL*, HAS ALSO WRITTEN FOR *PLAYBOY* AND THE NEW YORK *DAILY NEWS*.