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cker's bonds, backed by music royalties? Robert D'Loren
bt based on such intangibles. Now he wants to sell stocks in

Besides the bird view of Central Park, Robert D'Loren's Manhattan corner office boasts Lucite souvenirs of the dozen debt issues he has orchestrated for the likes of fashion designers Bill Blass and Gloria Vanderbilt, the Athlete's Foot shoe-store chain and Candie's, purveyor of teen accessory and jeans brands. D'Loren's firm, UCC Capital, arranged for these companies to borrow against intellectual property. The bonds are repaid out of such revenue sources as brand licensing fees, retail franchise fees and music royalties.

UCC's intellectual-property securitizations have been sold only to institutions, generally as one massive bond. Such instruments are the latest iteration of asset-backed securities that have been around since the 1970s, many of them available to individual investors drawing on such tangible assets as auto loan, credit card and mortgage receivables.

But only two dozen have been tried in the U.S. with brands or other intangible assets as collateral. Comfortingly, none of D'Loren's bonds has missed a payment.

Now D'Loren wants to bring intellectual-property securities to the masses, in the form of a preferred stock whose payout comes from sources like song lyrics, burger chain recipes, movie rights and drug patents. He aims to structure these preferreds in such a way that they qualify for the new 15% tax rate on stock dividends. That means the issuers won't be able to deduct the payouts as interest, so the security would be of particular appeal to corporations that aren't paying much income tax anyway.

D'Loren says he has two distributors angling for the business. And given his track record, there is every reason to believe these preferreds will be available by year's end.

Because no filing has been made yet, we can't fully assess how good a deal these things might be. His intellectual property bonds yield a half-point more than asset-backed securities with similar credit ratings; they are vulnerable to, for want of a better term, fashion risk. Unlike consumer debt, a basic part of the economy, D'Loren's intangible assets can fall from favor. What would a claim on Pat Boone's royalties be worth now?

There are some things not to like about these securities. One is the risk that institutional investors will get the highest-quality receivables for their multimillion-dollar instruments while retail investors are stuck with second-class income streams for their \$25 preferreds. But D'Loren insists the new securities will appeal to both institutions and small investors, and all will pay the same price. Another problem for small-timers will be assessing the



On the plus side, someone has successfully tried D'Loren's concept before. The Mills Music Trust, launched in 1964, owns the rights to royalties from 25,000 songs owned by record label EMI, including seasonal favorites like "Sleigh Ride" and "Little Drummer Boy." The most lucrative copyrights don't expire for five years, and EMI is contractually bound to renew those copyrights. The yield on this over-the-counter stock is a princely 10%. The stock has climbed from \$25 to \$37 over the past two years, soundly beating the market averages.

The most famous intellectual property issue (one not put together by D'Loren) is that of the Bowie bonds, a 1997 issue based on David Bowie's music catalog. The still-touring Bowie is a veteran act, with presumably little Napster piracy appeal, and half his revenue comes from publishing rights, including ad jingles and radio play. So his 15-year bonds, yielding 7.9%, have never missed a payment. Prudential Insurance owns the entire issue. Judging by other issues with an A rating, the Bowie bonds should be worth \$59.4 million, or 8% above par, according to Bowie's manager, William Zysblat of RZO in New York.

A somewhat quirkier IP stake: private placements involving fractional shares of the royalty stream from use of the Listerine trademark, which Pfizer and its predecessors have paid to license since 1881. A 1% stake in the Listerine name paid \$130,000 last year, yielding around 7%.

D'Loren's plan is to have the issuer set up a trust to receive the royalty or other income stream and pay it out to investors, a structure similar to a popular type of Canadian security called an income trust. In this scenario the trust issuing the preferreds won't be controlled by the main company, so it will be legally shielded from bankruptcy even if the parent company files for court protection, D'Loren says.

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