

New Joint Venture Will Fund, Buy Indie Presses

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Publishers, especially independent publishers, have long felt that the content they publish has been undervalued by banks, and now one of the country's largest financial institutions has agreed. One of New York's major hedge funds—with several billion dollars in assets under its management—has formed a joint venture with National Book Network and its affiliated company, Rowman & Littlefield, that will provide a new source of financing for publishers. The joint venture, Cooper Square Funding Corp., will provide loans to publishers based on the value of their sales and will also acquire companies. Peter DeAngelo, formerly CFO of Regnery Publishing, has been named senior v-p of Cooper Square and will be in charge of arranging acquisitions and loans. He will report to NBN head Jed Lyons, who will manage the acquired assets, and a representative from the hedge fund, which, for competitive reasons, has chosen to remain anonymous for now. Lyons said he was approached by the fund last fall about participating in a joint venture, and the deal came together earlier this year. The fund was the financial backer for Lyons this

winter when he made a late attempt to acquire the distribution contracts of PGW. Lyons said the fund's leadership believes that the intellectual property owned by publishers is an undervalued asset, in particular that their backlists provide lots of opportunity in the "long tail" era. Under the model, Cooper Square could lend an amount up to half of a publisher's sales in the previous 12 months. Although Cooper Square is being positioned to provide funding to independent presses, DeAngelo said the minimum loan it is looking to make is \$10 million—meaning a publisher would need revenue of \$20 million to qualify. DeAngelo said Cooper Square is looking for a way to make smaller loans, but details have not been worked out. Interest rates will vary

depending on the terms of the loan. Cooper Square's acquisition policy is more flexible and will allow deals for as low as \$1 million. The unique twist in Cooper Square's acquisition plan is that the fund will offer to buy a company's backlist, but will allow the owner to develop a new frontlist, if that is something he or she wants to pursue. "If a publisher is looking to exit the business, we will buy the assets, but if it's a publisher that is undercapitalized and wants to keep publishing, we will work with them," Lyons said. A condition for an asset sale or loan with Cooper is that books must be distributed through NBN. Lyons added, however, that if the deal is large enough, the fund may waive that condition. Deals will be initiated by DeAngelo and approved by Lyons and a partner from the hedge fund. Cooper Square is not interested in backing startups, DeAngelo said. Lyons said the hedge fund is prepared to "build an infrastructure" as Cooper's holdings grow. DeAngelo said he has about a dozen potential deals in the pipeline and may announce a transaction before BEA.