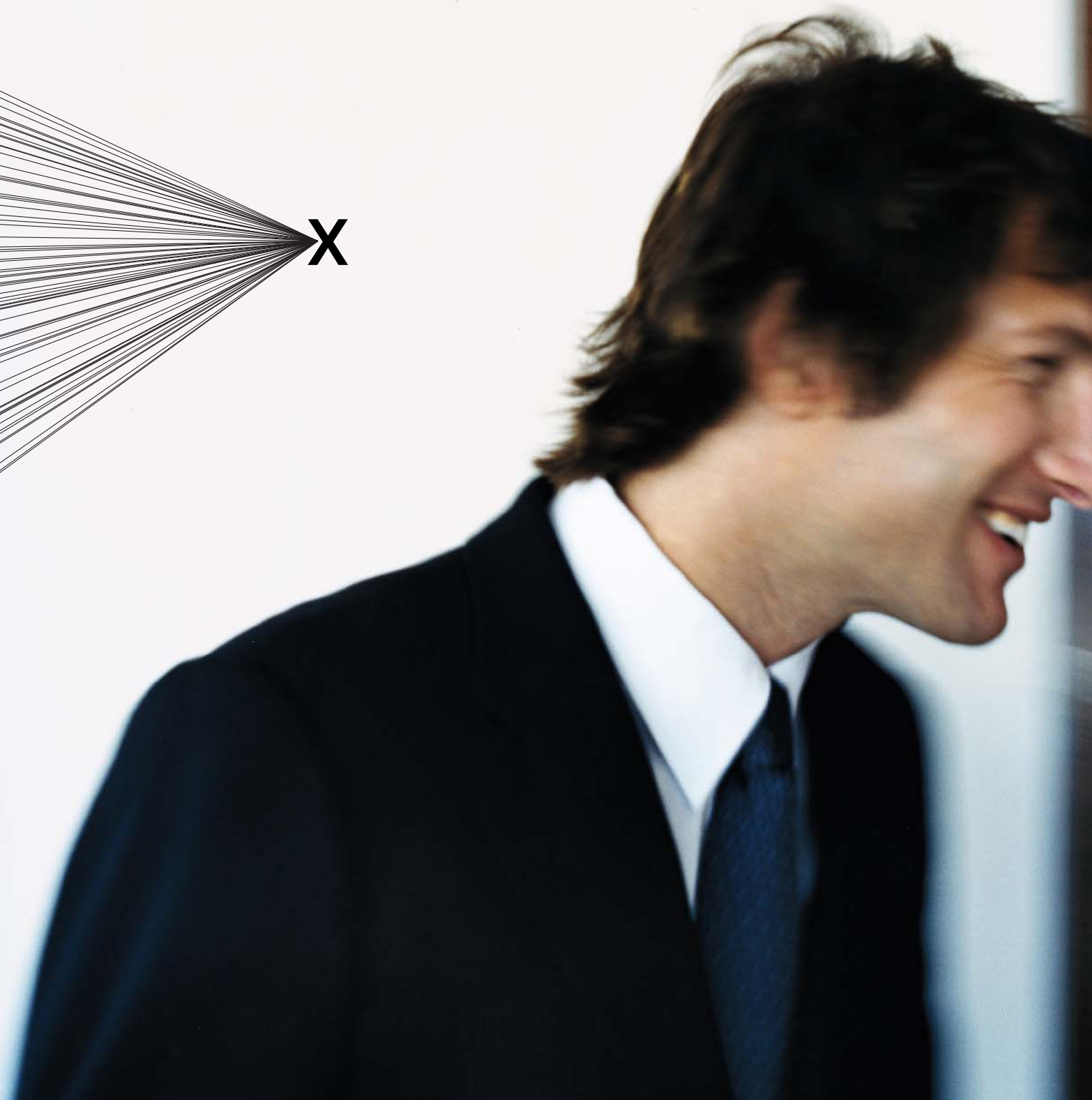


HOW DID A FORMER
HEAVY-METAL PROMOTER
FROM NEW JERSEY
BECOME THE MOST
TALKED-ABOUT YOUNG
HOLLYWOOD POWER
BROKER SINCE MIKE
OVITZ? INSIDE
THE GOLDEN-ROLODEX
WORLD OF
JEFF KWATINETZ,
CEO OF THE FIRM.
BY KEVIN GRAY
PHOTOGRAPH
BY ANETTE AURELL

X



JEFF KWATINETZ, FOUNDER AND CEO OF HOLLYWOOD'S MOST SCRUTINIZED talent-management company, The Firm—career overlords to such marquee brands as DiCaprio and Diaz—is in a world of pain. Not the hurt he suffered this summer after fracturing his pelvis in a Bahamas Jet Ski spill (his girlfriend, Brittany Murphy, nursed him back to health) or the emotional agony that accompanied the recent ugly rumors of his company's premature demise. No, Kwatinetz is enduring what is clearly his most unpleasant ordeal—facing down a journalist.

It's been over a year since the 38-year-old New Jersey native and Harvard-trained lawyer granted an interview. Back then, the notoriously press-shy manager practically had no choice. Kwatinetz had just bought the remnants of Mike Ovitz's Artists Management Group in a \$12.7 million—in-debt fire sale, turning his own four-year-old multi-hyphenate operation into a Wilshire Boulevard megalopolis, and the media were swarming (a spurned *Washington Post* scribe literally cornered him in his elevator).

Seemingly overnight, Kwatinetz had gone from managing mostly rap-metal bands to shepherding film's ruling class. At the time, the notoriously litigious deal-maker claimed his company would become a media behemoth, a vertically integrated giant that would “brand” his movie and music stars, using their clout and creative genius to sell sneakers, design clothes, produce films, albums, DVDs. And anyone who tried to stop him might find themselves sued.

But early this past summer there appeared to be blood in the water at The Firm. In June, the company laid off a chunk of its talent unit. A majority stake in its Pony sneaker and apparel division was sold off, a first-look Fox deal for its TV-production arm went south. Hollywood oracles started tap-dancing on The Firm's grave. “It's over for them!” said one top agent, who like many in Hollywood had been chafed by Kwatinetz's rock-star attitude, his arriviste status, and his reputation as a ball buster. “It's time for Jeff to eat some crow,” another told me with glee.

And then a curious thing happened. The Firm kept rolling forward. Within weeks, it had signed Robert De Niro and Jennifer Lopez, tossing in a partnership with billionaire Richard Branson to revive Virgin Cola in the United States.

When I first met Kwatinetz, in late July, he bounded into an empty office, blue Prada shirt open, a big happy grin on his unshaven face. He was instantly likeable, the kind of guy who might turn to a stranger at a packed Korn concert (one of The Firm's clients) and scream “*Kew!*” while playing a little air guitar. For nearly two hours, he breathlessly revealed his vision—though he cringes at the word—and what a pain it's been to deal with the media, which has portrayed him as a virulent madman, music geek, party animal, and manipulator of clients and record labels. Unfortunately, thanks to his shrewd use of the off-the-record option, I can't report anything specific that Kwatinetz said at this caffeinated get-to-know-ya summit.

When we officially meet a few weeks later, Kwatinetz has on crisp business attire. He's graciously, if reluctantly, agreed to sit down and explain what, exactly, his company is doing. Kwatinetz admires such titans as Barry Diller and Sumner Redstone, moguls who speak their minds no matter what anyone else thinks—but he's worried he'll be mocked for it. So here he is, all spiky highlights in a blindingly white Beverly Hills suite dotted with gold records still in bubble wrap, jittery as a first-round crooner on *American Idol*.

“We want to build a media company where our sweet spot is the 18-to-34-year-old entertainment consumer,” he says, preaching how The Firm will sell a complete “entertainment lifestyle,” from TV shows and movies to music, sneakers, and soft drinks. “It's like Disney, their core focus is 2-to-12-year-olds. . . .”

He pauses, momentarily stricken. He searches the face of his newly hired publicist. “Is that arrogant?” he says. “Comparing us to Disney?” The publicist offers a puzzled shrug.

“I don't care,” Kwatinetz says finally, though not convincingly. “*Whatever.*” Moments earlier, Kwatinetz's tanned hand switched off the tape recorder. “I'm just not used to being on the record like this,” he said. As tape begins to roll again, Kwatinetz, who can be effusive and self-deprecating, is tossing out wooden CEO jargon like *monetize* and *incentivize*. Conspicuously gone from his patter are such hipster tics as *dude*, for which he was roundly tweaked in the media last year. Fortunately, his clients are willing to speak for him.

“Jeff is very articulate and a visionary,” Cameron Diaz tells me via phone in New York. “You look at him and say ‘That guy runs a company? That guy has this *thing* going on?’ You see the excitement in his smile and eyes, and you think ‘*Of course!* He's where he's at because he loves what he's doing.’”

WHAT KWATINETZ IS DOING ON THE OAK-PANELED FIFTH AND SIXTH FLOORS OF the Bank of America building on Wilshire Boulevard—the very office where Mike Ovitz's dream withered on the vine—is indeed visionary. If his critics spent a few days roaming these rooms, where Diesel-clad execs blast aggro-metal into the once Zen-calm air, they'd find the seeds of an empire being planted.

Granted, the sprawling dominion Kwatinetz originally imagined has yet to blossom. In fact, he's had to take a few painful steps back. He now admits that during the first months after the AMG deal, when he scooped up hot talent managers Rick Yorn and sister-in-law Julie Silverman Yorn, The Firm was stretched thin on cash. Many of AMG's top managers had come with \$1 million-a-year price tags, and the overhead was a staggering \$2 million a month.

“Jeff's instinct was to consolidate in the first few weeks,” says a source inside the company who asked not to be named. “Frankly, a lot of managers came with Rick and Julie. To start getting rid of their people would have been insensitive. They wanted to see how the AMG people fit in.”

Some didn't. In the end, insiders say, Kwatinetz and the Yorns jettisoned the weakest links, those whose client lists either didn't cut it or who were unwilling to drop their own talent and “service” The Firm's high-end avatars. Gone now are a number of lesser-known artists, and even such B-listers as Marisa Tomei, Jamie Kennedy, and Anjelica Huston.

“There is no question we had a couple of rough months,” says Kwatinetz, speaking publicly for the first time about the transition. “Money was tight. We've since figured out how to make these two companies work together.”

The Firm has now narrowed its focus to roughly 200 clients; it is expected to generate \$5 billion in business this year. From that it should post \$66 million in revenues—half from licensing deals and products—and is optimistically valued at \$400 million, or six times those revenues. Factor in a record summer concert season with 15 clients including the Dixie Chicks, and multiple Firm Films projects with studios like DreamWorks and New Line, and you have an impressive portfolio. “Any company can just go out there and slam a movie together,” says Adam Goodman, executive vice president at DreamWorks, which plans to release the Drew Barrymore vehicle *Date School*, a Firm Films project, in late 2004. “These guys take their time to make the right film with the right people.”

“I only wish we could change the name of what we do,” says Julie Silverman Yorn, a striking blonde and straight-talking mother who manages J. Lo, Anna Paquin, and Chris Cooper. “Because it's so different from an agency or a traditional management company.”

JEFFREY EVAN KWATINETZ GREW UP IN THE NEW JERSEY SUBURBS, THE SON OF A Wall Street mergers-and-acquisitions man. While attending Chicago's Northwestern University in the late eighties, he began promoting rock bands, earning a reputation as much for bravado as for relentless work habits.

After graduating from Harvard Law, he moved to L.A. Working with a promoter pal, he helped earn the band Material Issue a deal with Mercury Records and rotation on MTV. A few years later, he was handed a demo by a promising group called Korn. “When I heard that tape, I totally got it,” Kwatinetz says. “There's a lot of things I don't get, but this time I knew it had the potential to change rock.”

In 1997, he teamed up with Michael Green, who managed Martin Lawrence, and launched The Firm from his Malibu condo. Within three years they'd scooped up the Backstreet Boys and raised \$35 million from Wall Street and Silicon Valley to help create Kwatinetz's dream of a multimedia superstore.

With his newfound bankroll Kwatinetz bought up a string of independent music-management outfits, acquiring such acts as the Dixie Chicks, Linkin Park, and Michelle Branch. Along the way he made friends and began to collect enemies—“He's a complete asshole,” says one—showing both that he'd stop at nothing to make his clients, and himself, rich. In 1999, he took the Backstreet Boys' national tour away from New York promoter John Scher, a longtime pal, and divvied it up among various other promoters around the country.

“I said, ‘You're fucking me!’” recalls Scher, who remains one of Kwatinetz's closest friends. “And he said it was right for the band. To this day, Jeff does what he believes is best for the client, even if it interferes with a friendship.” One label head took the point further, telling me Kwatinetz “has a hard-on for power.” In the past three years, The Firm rattled Maverick Records (renegotiating Michelle Branch's contract for an additional \$3 million), squeezed Warner Music into renegotiating with such clients as Linkin Park and Staind, and brought Sony to its knees when the Dixie Chicks broke their five-year contract. In 2002, after a two-year standoff, the Chicks wound up with a settlement granting them a \$20 million advance (\$5 million more than Kwatinetz had sought before litigation began) and half ownership of their own label.

“The record-company people who complain about The Firm suing them to get our successful artists paid,” says Kwatinetz, “are the same group who decided it was a good idea to sue 13-year-olds.”

KWATINETZ SEES MEDIA CONGLOMERATES AS SLOPPILY RUN OUTFITS, WILLING to shortchange artists who lack the ballast to demand equity in their projects. The only remedy, he says, is to tip the balance of power in the artists' favor by accumulating bargaining muscle through size. Of course, if he can steer all this world-class talent toward that goal, he stands to earn millions.

“What I admire about Jeff is that he's putting his money where his mouth is,” says agent Patrick Whitesell, a partner at Endeavor, whose clients include Ben Affleck and Matt Damon. “He's not one of these people who sits on the sidelines. Whether he's right or wrong, he's making his bet.”

He's also stealing business from studios and record labels, setting up in-house units to handle merchandising, promotion, and publicity. But taking on such pricey overhead is a huge risk. (The Firm employs 160 people, twice as many as any competitor, even after firing 40 workers.) Industry veterans, like Bernie Brillstein, one of the management industry's most profitable TV and movie producers, question the tactic. “The studios have a promotions department, they have a merchandising department, they have 100 people handling these things,” says Brillstein. “If you try this yourself, you tap out before you've even started. I think they're idiots.”

Maybe they are. But Dave Baram, The Firm's razor-sharp COO and president and a man who, as one Hollywood wag puts it, is “the token normal guy” at The Firm, says the old studio-controlled model keeps the artist several steps removed from the consumer. “We don't want to be in a position where you walk into a store and have no idea how an item got on a shelf or find it's not consistent with

the artist's image,” says Baram. “We want to be meaningful brand managers.”

But instead of merely having their stars shill for a product, The Firm asked: Why not own the product itself? “Breaking” a trendy new sneaker on the footwear market, says Kwatinetz, is just like breaking a band. In 2000, The Firm put that theory to the test, buying the dormant Pony brand (once hot with seventies jocks) from its British owner for a paltry \$4 million. Within 18 months The Firm had turned Pony into a \$50 million-a-year franchise. Kwatinetz won't say what this makeover cost, but Pony has yet to turn an operating profit. Sales eventually flattened, says Baram, partly because the sneaker design didn't evolve: “The marketing was getting ahead of the quality of the footwear.”

Last March, The Firm sold 60 percent of Pony to Global Brand Marketing, Inc., footwear licensee for Diesel, Mecca, and Nautica, for \$11 million. (The Firm still controls 40 percent of Pony and will continue to shape its marketing.)

“Pony was a home run in terms of learning,” Kwatinetz says. “We learned about how retail works, what motivates consumers, about trends, ad campaigns. By being in the Pony business we learned lessons that we could apply to being in the Fred Durst business and the Jennifer Lopez business.”

CRITICS ASK WHETHER THE FIRM CAN EXPAND INTO SO MANY AREAS AND STILL run its core business of managing clients. Other critics ask whether Kwatinetz is the man for the job. Some suggest he is too rock-and-roll to shoulder up to the Eisners and Meyers of the world. As much as he dislikes it, and as much as he tries to convince the media it's not important, Hollywood is paying attention to his behavior and his personal life. And Kwatinetz is making it plenty easy. He attended the Hamptons premiere of Brittany Murphy's summer comedy *Uptown Girls*. When a *New York Times* reporter asked the giggly starlet (and Firm client) the name of her silent date, she cooed, “His name is Jeff, he is my love.”

But what really seems to intrigue Hollywood's chattering classes is Kwatinetz's reported erratic behavior, both in and out of the office. In a town where *Schadenfreude* is more popular than Scientology, Kwatinetz's enemies are willing to spend hours taking easy shots at his rising star. But his friends say his “tough times” are no different from “what half of Hollywood goes through every year,” says a close associate.

“I think whatever problems Jeff may have had,” says Endeavor's Patrick Whitesell, “are behind him.”

CRITICS OF KWATINETZ'S TASTE ARE SURE TO HAVE STRONG FEELINGS ABOUT HIS next target for global domination: soda pop. Last summer, The Firm inked a U.S. partnership to market and distribute Virgin Cola, becoming the first Hollywood rep agency to directly take on the soft-drink business. Though Virgin distributes soda in 20 countries, it has failed to make a significant dent in the home of Coke and Pepsi.

Kwatinetz will be going head to head with premium potions (think Mountain Dew and Red Bull) aimed at the skater set and developing flavors with such wink-wink names as Virgin Cherry and Virgin Blonde. In typical fashion, he thinks his shot at soda profitability won't be hurt by the brand power of Coke and Pepsi. “Look,” he says, “the Stones sell more tickets than anyone. But kids still want to buy the next hot rock band. A 17-year-old wants to find something he can call his own. We have that.”

By early fall, Kwatinetz was busy placing bids on two more mothballed consumer brands, one valued at \$80 million, he claims, refusing to reveal any more than that. “We're an acquisitive company,” he says. “We believe growing the company is in our clients' interest as well as our own. In the end, we're bringing more power to our clients.” ■

“YOU LOOK AT JEFF AND SAY ‘THAT GUY RUNS A COMPANY? THAT GUY HAS THIS THING GOING ON?’”

SAYS CAMERON DIAZ. “THEN YOU SEE THE EXCITEMENT IN HIS EYES, AND YOU THINK ‘OF COURSE!’”