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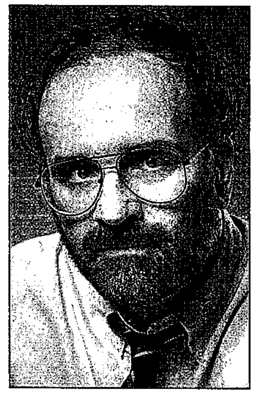

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Cover: ABC News's televised apology courtesy of The Tyndall Report

"TO ASSESS THE PERFORMANCE OF JOURNALISM . . . TO HELP STIMULATE CONTINUING IMPROVEMENT IN THE PROFESSION, AND TO SPEAK OUT FOR WHAT IS RIGHT, FAIR, AND DECENT" From the founding editorial, 1961

What Michael Ovitz Knows about Managing the News

by Neal Koch

The nation's press went wild last summer over the creation of the most formidable media colossus in history: The Walt Disney Company under chairman Michael Eisner seemingly swooped out of nowhere to swallow Cap Cities/ABC, and then to hire as Disney's president Michael Ovitz, the talent agent whom journalists had for years proclaimed "the most powerful man in Hollywood." "Ovitz, the top deal maker, joins Eisner, the most powerful showman," wrote *Time* magazine next to a full-page four-color drawing of Ovitz attired in royal robes and a gold crown, sitting on a throne. "Disney's stock-market value jumped by $1 billion in a single day as investors cheered the news of a backup for chairman Michael Eisner," reported *Newsweek*. Disney, announced *Variety* on page one, now "has created a new model for the media company of the future."

But nowhere in this avalanche of page one coverage was a full picture of Ovitz's track record. The Disney episode is the latest such example in years of deferential press coverage of Michael Ovitz and the

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Neal Koch, a Los Angeles–based journalist, is writing a book on the movie business.

feared Creative Artists Agency, which he co-founded in 1975.

For example, since Ovitz was about to take on fiduciary duties as the number two executive of a publicly held corporation — one so prominent that even before the Capital Cities/ABC purchase its stock was one of the thirty used to compute the Dow Jones Industrial Average — it would have been relevant to mention that he had previously failed to dispute federal charges of misusing pension funds. By the same token, coverage that repeatedly listed groundbreaking deals from Ovitz's past might have included more than passing mention that two of the most important deals on the list had later proved embarrassing disasters for Ovitz's clients.

Not only did Ovitz decline, as is his custom, to be interviewed on the record for this article, but his CAA spokesperson, Anna Perez, declined to speak for attribution as well. The tactic is just one out of an arsenal used by CAA on the Hollywood press corps: reporters can find themselves shut out of the information loop, their sources intimidated into silence. Reporters also say they fear that, to keep them in line, Ovitz leaks their exclusive stories to competitors. Nearly all the journalists who have covered Ovitz and were interviewed for this article not only declined to speak without grants of anonymity, but insisted that they be identified by the vaguer term "journalist" rather than "reporter" or "editor." "Are you sure you want to do this?" one editor for a national magazine implored this writer when told he was working on this story. "Are you *sure* you want to do this?"

Ovitz is not the first movie mogul to have frightened and charmed adulatory coverage out of journalists but he may be the most successful and sophisticated. An extensive, Nexis-assisted review of a decade's worth of press about him reveals, with some exceptions, remarkably superficial treatment. Why so? Partly, perhaps, to protect that most precious Hollywood commodity, access to the players; and partly, as reporters sometimes joke half-seriously, because crossing Ovitz could mean an end to career opportunities in the movie business.

Now that Ovitz has shifted arenas of power, from a privately held talent agency to a global media conglomerate, a glimpse into the iron-fisted press manipulation he practiced at CAA offers a cautionary tale for the journalists who will record the next chapter in his ascendancy.

This look also offers some insight into a key personality who will be shaping the shifting corporate culture for the journalists of ABC News and Cap Cities/ABC's newspapers and magazines, including *Institutional Investor* and *Los Angeles* magazine. While Cap Cities/ABC chairman and c.e.o. Thomas Murphy and former c.e.o. Dan Burke were broadcasters who generally supported a robust press, Eisner, wrote Ken Auletta in *The New Yorker* last August 14, "has no natural predilection for journalism. He tends to take a dim view of reporters." Ovitz, says one journalist who covered him extensively, "probably would prefer they were dead."

The Ovitz saga, as *Newsweek* noted in a cover story last summer, "has all the elements of a schmaltzy young-man-on-the-make movie." Starting in the William Morris Agency's legendary mail room, Ovitz rose to become a television agent, a post from which he was fired in 1975 when his employers got wind of his plan to launch, along with colleagues, their own agency. Working off card tables with their wives acting as secretaries, the men built CAA from scratch, in the process remaking the Hollywood talent business in large part by importing into filmmaking the television industry's strong-arm practice of "packaging." The strategy, in which Ovitz offered teams of actors, writers, and directors to studios in all-or-nothing deals, has resulted in movies like the Oscar-winning "Rain Man," with stars Dustin Hoffman and Tom Cruise and director Barry Levinson as the CAA package.

A cautionary tale for the journalists who will record the next chapter in his ascendancy

He made a name for himself as a mega-company deal maker too. Ovitz was consulted by Sony in its 1989 takeover of Columbia Pictures. Although the Sony–Columbia marriage later soured, CAA reportedly landed a $10 million advising fee in the deal. In 1991, Ovitz snared part of the Coca-Cola advertising account from Madison Avenue and then gave the world computer-animated polar bears and a sweaty, thirsty sun in its "Always Coca-Cola" campaign. The list goes on. "Along the way," wrote *Time* last August, "he made deals, fortunes, kings, and enemies."

Less well known, however, are Ovitz's missteps and overreaches. Why weren't readers provided with fuller accounts of some of the wrong turns that accompanied his successes? "I'd say there were two possibilities," offers the *Washington Post*'s media reporter, Howard Kurtz. "One is that the man actually does walk on water. Second is that the press has decided to pull its punches in dealing with him."

One example of the sin of omission is the way Ovitz's role in advising Sony in its purchase of Columbia Pictures from Coca-Cola has been trumpeted by reporters. Since brokers are generally considered to bear responsibility for matching clients with investments that are compatible on every level, it could have been relevant to mention in those stories the fact that since the deal was made in 1989, Sony has written off about half of its $8 billion Hollywood investment. (To be sure, when Ovitz declined to run the studio following its purchase, Sony hired as co-chairmen Peter Guber and Jon Peters, who were later dismissed at separate times following embarrassing incidents and major losses.)

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Similarly, articles frequently credit Ovitz with single-handedly brokering Matsushita's $6.59 billion acquisition of MCA in 1990 without noting that the two were a poor match, resulting in MCA's going back on the auction block in 1995. Matsushita took a bath in selling 80 percent of MCA to Seagram because the studio had performed poorly and had experienced such a cultural clash with Matsushita. Frank Rich, the *New York Times* cultural affairs columnist, was one of the few to point out that Ovitz "in essence, had helped destroy [MCA] by negotiating the original deal with the Japanese."

The Wall Street Journal, in its lead story August 15, speculated that Ovitz could lead Disney in "new directions" through, among other things, corporate acquisitions. It cited Michael Eisner's praise of Ovitz's deal-making skills as likely to be beneficial "across the spectrum at Disney." But nowhere did the long article mention the outcomes of the MCA and Sony purchases. Neither did any of *The New York Times*'s five stories that day focusing on Ovitz's move, including the lead story on page one. Nor did *The Washington Post*'s page-one article, nor any of the blanket coverage in *Daily Variety* and *The Hollywood Reporter*. It was the same at *Business Week*, *Time*, and *Newsweek*. Only the *Los Angeles Times* reported, deep in a 1,225-word news analysis on the front of its business section, that "many [critics] . . . noted Monday that the Japanese companies Ovitz brought to Hollywood have lost billions of dollars there . . . ."

Back in 1991, when Ovitz was still garnering laudatory coverage for CAA's unprecedented capture of part of the Coca-Cola advertising account and news stories were carrying reports of his behind-the-scenes role in negotiating a change in top management at Columbia Pictures, none of the stories, judging from CJR's Nexis searches, included news of an embarrassing allegation involving Ovitz and fellow CAA executives William Haber and Robert Goldman. The Labor Department's Pension and Welfare Benefits Administration alleged that they had transferred $1.249 million of CAA pension money into a downtown Los Angeles land development venture under the name of Toluca Investors, Inc., a limited partnership in which the three men were also general partners. Because the men were trustees of the CAA pension plan, this action would have violated the Employee Retirement Income Security Act. In a voluntary settlement that avoided a trial or admission of guilt, the defendants agreed to cease the activities the government claimed were illegal in exchange for having the charges dropped. Specifically, the three men agreed to sell their interests in the limited partnership to the pension fund. (But the pension fund's money stayed in the investment.) This consent decree was filed, along with the the government's complaint, on August 27, 1991, in Los Angeles Federal District Court, making it a matter of public record. Moreover, the Labor Department issued a national press release specifically, says Hal Glassman, chief of public affairs of Labor's Pension and Welfare Benefits Administration, because Ovitz's name was involved.

Yet apparently only three news organizations carried that story — the *Los Angeles Times*, on page two of its business section; *The Hollywood Reporter*, which barely rewrote the labor department's press release, adding remarks from Ovitz's spokesman calling the incident "at most a technical violation"; and The Associated Press, which, at 478 words, had the longest story. In March 1992 the incident was mentioned in a pseudonymous article in *Spy* magazine. Says Labor's Glassman, a former night city editor of *The Miami Herald*: "Why people didn't pick it up from AP is a real good follow-up question."

The National Mercantile Bancorp of Los Angeles is another case Ovitz would rather forget. And, for the most part, the press has accommodated him. It is an embarrassing tale of apparently poor business judgment. In February 1990, CAA — then majority-owned by Ovitz — bought just under 10 percent of National Mercantile, barely short of the legal definition of a controlling interest, which carries with it government-mandated disclosure requirements.

At the same time, a group associated with a Hollywood business manager, Gerald Breslauer, who had close ties to CAA, also bought just under 10 percent of the bank, making the two groups Mercantile's largest shareholders. According to a *Forbes* report, Breslauer — "Hollywood's most powerful money manager" — and Robert Goldman, CAA's c.f.o., "decided to pool their talents and some of their respective capital and get into the banking business." The buyers denied to the *Los Angeles Times* that they were working in concert. But soon after the purchases, there was a change in Mercantile's top management, and a banker who had worked closely with CAA at the much larger Security Pacific National Bank took the helm.

Basic reporting might raise questions about how closely the buyers had scrutinized the bank's finances before buying in. Right after the purchase, the bank, which had never *earned* more than $3.5 million in a year, posted a $1 million *loss* in a single quarter as a result of an outstanding $2 million loan made years before to a former S&L official (who later came under investigation by the FBI). Earnings dropped 20 percent the following quarter.

As business slowed, the bank's overhead soared, largely due to the pursuit of service-hungry entertainment customers. In all, according to the *Times*, efforts to boost the bank's entertainment business cost $800,000 — a considerable expense for a bank of relatively modest resources.

Yet existing entertainment clients began defecting, saying they feared that information about their personal finances could be used by Ovitz and Breslauer in business negotiations. Within nine months, CAA's investment lost half its value, the *Times* reported. And, between 1992 and 1994, shareholders again lost half their equity as the bank posted a 1994 net loss of $7.6 million, according to figures from Mercantile's government filings, as compiled by The Findley Reports, an industry publication.

The bank has also suffered a string of run-ins with federal regulators. Under government pressure in 1991, the bank agreed in a federal enforcement action to extensive steps to correct deficient lending, accounting, and management practices — again, a matter of public record. Then, regulators cited Mercantile for "substantial noncompliance," the lowest possible rating, with the Community Reinvestment Act, a condition the bank later remedied. CAA still appears to be Mercantile's largest shareholder, although spokeswoman Perez declined to confirm or deny this.

The *Times* story was the only extensive examination of Ovitz and the bank. Written by business reporters Michael Cieply and James Bates and headed THIS STARRY NEW HOLLYWOOD BANK IS NO HIT SO FAR, the 2,400-word cover story appeared in the November 11, 1990, Sunday business section. Another *Times* reporter, Alan Citron, wrote in a subsequent *Times Sunday Magazine* cover profile of Ovitz that "After this newspaper carried an article about the troubled bank investment, one of Ovitz's top lieutenants asked me about one of the reporters involved: 'Is he dead yet? No? That's too bad.'"

Cieply left the *Times* shortly afterwards to become a movie producer. In the intervening five years, with rare exceptions, no probing stories on Mercantile and CAA have appeared in the *Times* or, for that matter, any other major publications.

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How does Ovitz do it? A striking example is his media machinations last summer while he was dickering with Seagram over whether he'd run the spirit and beverage giant's newest property, MCA. At the same time *The New York Times* and *The Wall Street Journal* were reporting Ovitz's strong denials that any bargaining was going on, he was posing for a *Newsweek* photo and telling the magazine, exclusively and on the record, about the negotiations. A few days later, on the day his appointment to MCA was expected to be announced, *Newsweek* hit the streets with an eight-page cover story crowning Ovitz "King of the Deal." Although the *Newsweek* story was careful not to pronounce the deal actually done — it subsequently fell through — "there was uneasiness about whether we had been spun," says a *Newsweek* source, "about whether we had been manipulated. People were scratching their heads wondering."

If Ovitz can't always control the timing so closely, he is very effective at managing the spin. One of his techniques is to parcel information out to a journalist in morsels as he is reporting the story, telling him to call back again and again. Other times Ovitz may not return calls at all, keeping even his best reporter contacts on edge as to when he will be available and when he won't.

When a story seems to be escaping his control, Ovitz may give in and talk for the record. But usually only briefly. Typically he waits until the last moment, by which time he knows from his sources whom the reporter has already interviewed and what the drift of the story is. The reporter, on deadline, has all he can do to squeeze the new material into his story, leaving little time or opportunity to follow up with other sources.

If a reporter seems to be going off in a direction Ovitz doesn't like, he gets very hot, often claiming the reporter is acting unethically. "We cannot permit anyone to damage this agency," goes a catch phrase. And revenge can be swift. For instance, very shortly after a withering 1991 *Wall Street Journal* story by John R. Emshwiller and Richard Turner revealed CAA's boondoggle in representing a technology client, QSound, Ovitz told associates that Turner was "a dead man." Soon afterwards, *Journal* editors flew out to Los Angeles on a trip, the centerpiece of which was to be a brainstorming session with CAA agent John Ptak to map out a coming special issue on the international entertainment business. But the night before they were to meet, Turner received a call from CAA: Ptak shows only if Turner doesn't. To their credit, the editors canceled the meeting. "At least he followed through," Turner says of Ovitz. "You've got to respect him for that."

Ovitz can be just as intense when trying to charm journalists as when he intimidates them

Sometimes Ovitz goes after a reporter's sources. Several years ago, Lisa See, West Coast correspondent for *Publishers Weekly*, received a call from a studio executive she had quoted as saying he didn't like having to buy Ovitz's packages. "You have to help me out," she recalls him pleading. "Mike Ovitz doesn't like one of the quotes you used and told me he would never do business with me again. What can you do?" See solved the problem by sending a letter to her unhappy source saying, "I'm so totally sorry that you're upset. The quote was taken out of context and of course this is only one of the things you said."

Now See confesses, "I didn't think it was really out of context."

Ovitz's most extensive, continuing relationship is believed to be with the *Los Angeles Times*, say many journalists interviewed for this story. For example, while helping Matsushita buy MCA, Ovitz made himself a key source for *Times* reporters, feeding them material over the course of about forty stories done over about five months, strongly influencing the cast of the articles, newsroom sources say.

Ovitz possesses a "great instinct for any weak spot in a chain of command," explains one reporter with extensive experience covering him. "So he peddles up and down the line till he finds someone who will give him what he wants."

Forbes sources say that at their magazine they think that's editor-in-chief Malcolm S. (Steve) Forbes, Jr. Last February, an L.A.–based associate editor, Nina Munk, was finishing a story critical of Ovitz that she had spent six weeks researching under the enthusiastic direction of editor James Michaels and managing editor Lawrence Minard when Minard called, clearly upset, according to sources at the magazine. "I've got some really bad news," he is said to have told Munk, who had yet to turn in her first draft. "The story got killed."

Earlier, Ovitz and Steve Forbes had discussed the article. When Pat Weschler, then a *New York* magazine "Intelligencer" columnist, quoted unnamed *Forbes* sources as saying the article died at Ovitz's request, Steve Forbes and a company spokeswoman told *New York* that he had pulled the article because of a conflict of interest — *Forbes* was pursuing a joint business venture with CAA. But the company would not identify that venture to *New York*. CJR's calls were referred to *Forbes*'s spokesperson, who said of the *New York* magazine account, "We have nothing to add." Minard declined to comment.

"The quid pro quo," says Kim Masters, a reporter for *The Washington Post* and a contributing editor for *Vanity Fair*, "is that if he says something's not true — regardless of how unlikely that seems — he expects you to drop that story. If you print it, he thinks that's betrayal."

Ovitz can be just as intense when trying to charm journalists as when he intimidates them. Richard Turner, now a *New York* magazine editor, described the technique in his June 5 media column:

"The first time I was ushered into his office, he leaned forward in his conspiratorial whisper and went into studied praise of particular stories I'd written. He knew details about my family and asked flattering questions. He said he envied me because the less fashionable part of town where I lived had a better 'moral' atmosphere than L.A.'s glitzy West Side . . . ."

But the charm can take a quick turn for the sinister, as reporter Anita Busch discovered. Over lunch with Ovitz, Busch had had a violent allergic reaction to some MSG in her food. A few weeks later, she wrote an article for *Daily Variety* questioning whether Ovitz would improperly play a role in a Baby Bell deal CAA had brokered. The afternoon the article appeared, a gift-wrapped package arrived at Busch's desk. Inside was a jar of MSG, accompanied by a note from Ovitz that read, "Enjoy." ◆