May 2 - Edgar Bronfman Jr.'s dream of becoming an entertainment mogul hit a sour note today when one of the world’s biggest music acts all but accused him of financially stripping Warner Music Group. The group, Linkin Park, demanded to sever its ties with Warner—a move swiftly branded by corporate insiders as part of a cynical negotiation to extract a $60 million payment by exploiting the company’s vulnerability as it prepares to offer its stock for sale to the public. The Warner insiders suggested the band’s management, an agency called The Firm, is the driving force behind the action.

The stunning move by Linkin Park, one of Warner Music’s most successful acts in recent years, seemed calculated to have the maximum impact on the IPO, which may come as early as next week. And the Linkin Park news could end up complicating the prospects for Bronfman and his investment group, to score a rich payoff after owning Warner Music for the past year. They’ve already garnered lavish rewards after deep cutting thousands of artists and employees. As Warner has publicly disclosed the details to prepare the IPO, it has come under intense scrutiny by Wall Street, its artists and rivals alike. Linkin Park’s action immediately put the company on the defensive, forcing it to address speculation about the sentiment among other major Warner Music acts. Speculation focused on Green Day and Red Hot Chili Peppers, suggesting they are concerned about developments at Warner Music. Warner Music has firmly dismissed these suggestions, with one Warner insider saying that relations are solid with the two groups.

Already, however, the superstar heavy metal act Metallica has quietly repudiated some of Bronfman’s moves by dropping one Warner label for another. And several months ago, Kid Rock was the first Warner Music artist to criticize it publicly.

In demanding to be dropped from Warner Music, Linkin Park declared it was increasingly “offended and discouraged” by the flood of reports about the Bronfman-lead management and “corporate raiders” who together have “ridden the coattails of the creative community to extract massive rewards.” In the written statement, Linkin Park declared its intent to free its future from “the hands of a weakened WMG.” Artists, the group said, are getting severely shortchanged. By its accounting, Linkin Park alone generated 10 percent of Warner Music Group’s profits in the past five years. A Linkin Park partisan put the bottom-line figure at $250 million, meaning Warner Music cleared more than $6 for each of the 35 million albums Linkin Park says it has sold worldwide to date. “Linkin Park, their biggest act, will get nothing,” The Firm, the agency that manages the group, added in a statement. An official of The Firm denied that it demanded $60 million from Warner Music, calling the figure “inaccurate.” He noted that there was an offer on the table: $15 million for five albums.

Warner Music struck back, saying in a statement that “the band’s management is using fictitious numbers and making baseless charges and inflammatory threats in what is clearly a negotiating tactic.” The label, the statement added, “has made significant investments in Linkin Park, and they have always been compensated generously for their outstanding worldwide success.”

Warner contends that Linkin Park hasn’t accounted for anything close to 10 percent of Warner Music sales. According to people close to the company, the crisis began weeks ago with a letter from Linkin Park making a case for additional compensation because of their success. While Linkin Park claims sales of 35 million, Warner music insiders say the group’s sales have gone down since the first album. The
Warner insiders insist the group subsequently demanded a $60 million payment and a 50-50 split of profits, or else they'd go public. “We said, you know what, you go ahead,” one Warner insider said.

But the development could be another crisis point in the prolonged troubles of a company that seems constantly steeped in drama. Bronfman, heir to the Seagram booze fortune, joined forces with some of the financial world’s savviest investors to purchase Warner Music 14 months ago for $2.6 billion from Time Warner. At the time, Warner Music was showing signs of recovering from a debilitating internecine management crisis that pushed the company from the leading label group to an also-ran. Bronfman and his partners cut 1,600 employees and 375 artists, chopping $250 million in costs. At the same time, the new owners and top executives repaid themselves the $1.2 billion they’d originally invested and tens of millions in bonuses and fees, while retaining full ownership of the company. Despite the dramatic budget-cutting, however, Bronfman has spent at least $500,000 to redecorate his office, people close to the company told NEWSWEEK. (A Warner spokesman said the figure was exaggerated and that Bronfman had paid for the decorations himself.) Now Bronfman and his investors are in the midst of offering the company up for sale to the public at a value of $3 billion to $4 billion, at least double the purchase price. Although Warner Music is raising $750 million in the offering, only $7 million of the take is earmarked for company operations. If they haven’t already, the investors and top executives are set to pay themselves an additional $141 million before the IPO.

The company obviously had not counted on becoming a public company with one of its major acts in rebellion. Linkin Park’s next release was scheduled for next spring. But now the group has balked at recording further, even though it owes Warner Music as many as four more albums under its contract. “The band now wants off WMG and is weighing all of their options on how to best get new music to their fans,” Linkin Park said in its statement. In addition to touring and Internet distribution, it is looking into endorsements and merchandising. Citing precedents, Linkin Park noted that “for years bands like the Grateful Dead and Phish have performed new material live and let fans tape for free.” Adds one person close to the band: “They don’t have to follow the major label system.”

The development also seems to reflect a bitter split between Warner Music and The Firm. The powerful management company represents several Warner Music acts, including Michelle Branch and Staind. Warner Music insiders bitterly suggest The Firm and other managers aren’t facing the harsh economic realities of the music industry. The day of the super-rich deals have passed, they say.

Linkin Park’s public announcement follows rumblings of general discontent among artists and employees at Warner Music, however. Citing little support from Warner for his 2004 concert tour, Kid Rock has loudly complained that he needed new partners “that are more interested in music than IPOs.” NEWSWEEK has learned that Metallica hasn’t been happy with some of the moves, either. According to people close to the situation, the superstar heavy metal act dumped Warner Music’s Elektra label after it was merged into sibling Atlantic in a cost-cutting move. Instead of seeking to cut all of its ties, the group simply shifted to the Los Angeles-based Warner Bros. label. One Warner insider acknowledged that Metallica was disheartened by Elektra’s fate. Today’s Linkin Park move is unlikely to make other groups feel any better.

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