

THE BEATLES GO BROKE



"We haven't half the money people think we have. . . . We're losing money. If it carries on like this, we'll be broke in six months." So declared John Lennon on 18 January 1969, putting his business in Fleet Street. Like his musical cry for "Help!" three years before, Lennon's financial SOS was not taken seriously. Nor is it any wonder. For years the press had been detailing the financial triumphs of the Beatles, with the result that the Fab Four were presumed to be the wealthiest young men in the world. In terms of gross income this estimate was accurate. As of December 1968, the Beatles had earned (according to an Arthur Young audit) \$154 million. Yet John Lennon had not exaggerated: the Beatles were virtually broke.

The only man who read Lennon's distress signal correctly was Allen Klein, manager of the Rolling Stones, the Kinks, and Donovan. Klein, a professional accountant, knew from long experience that even the most successful entertainers often wind up in grave financial trouble because of extravagance, mismanagement, or cheating. Time and again he had opened the books of some famous act and discovered that the star, living in luxury and acting as if he hadn't a care in the world, was actually teetering on the edge of bankruptcy. This had been the case with Elvis, who, if he had lived just one more year, would have gone bust.

Klein was also alert to Lennon's signal because the manager of the Stones aspired to manage the Beatles. "I got 'em!" he had shouted when he heard the news of Brian Epstein's death, but he was dead wrong. Eighteen months elapsed without his getting his foot inside the door. Meantime, Paul McCartney had started living with Linda Eastman, whose father, Lee Eastman (no connection to Eastman Kodak), was a New York attorney, deeply involved in music publishing and the art world. At Paul's urging, the Beatles had engaged Eastman's son and partner, John, to represent them in their business dealings. But when it started to look as though Paul might marry Linda, John Lennon set

about looking for a manager who would not be his partner's brother-in-law. That search led quickly to Klein, who remembered the astonishment he experienced when he first dialed Lennon's private number and heard the famous voice singing to the tune of "Three Blind Mice": "*We're not home! We're not home! Leave your name! We'll call you back—maybe!*" Klein left his name, and on the night of 27 January he opened the door of his lavish suite at the Hotel Dorchester to welcome John Lennon and Yoko Ono.

Allen Klein was a man whom many feared, as is clear from John Belushi's parody in Monty Python's *The Rutles*. Puffed up like an adder and so muscle-bound that he can barely walk, Belushi's Klein enters his office like a German tank plowing through a Russian barn; as his employees shrink in horror before his basilisk stare and golem stride, he disappears inside his lair with a couple of huge bodyguards—whom he throws out the door!

It was this Killer Klein image coupled with rumors of stock rigging, double-dealing with the Rolling Stones, and some IRS violations that haunted Klein from the first day he got involved with the Beatles. Actually, the accusations constantly aired in the British press came to very little: The run-up in the stock of Cameo-Parkway was due more to ineptitude than sharp practice and the Stones' principal complaint was simply that they rarely saw their manager. As for the IRS convictions, they were for failing to file small sums in payroll deductions, a case of negligence rather than of fraud. But in England, Klein was not in a good position to defend himself because he was perceived as a cunning and ruthless New York Jew—THE TOUGHEST WHEELER-DEALER IN THE POP JUNGLE, as one newspaper headline blared—out to rip off a national treasure.

John Lennon must have been startled the night he finally met the man who had generated this ominous aura; in fact, people with far less perceptiveness than Lennon are surprised when they first encounter Allen Klein because instead of a saber-toothed tiger with a phone in either paw and murder in his heart, they discover a stocky little guy with a distant resemblance to Buddy Hackett dressed in slovenly clothes and sneaks, who looks as if there's nothing he'd rather do than run out in the alley and play a fast game of one-on-one. His image as the sloppy little whiz kid from New Jersey galled the well-groomed British business establishment, but it immediately enthralled John Lennon. Compared with the gleaming Jack Kennedy style of John Eastman, Allen Klein came across as a fuckin' working-class hero!

Presenting himself much as he actually was was one part of Klein's act—the most obvious part. Less conspicuous was the enormous care with which he studied his prospects. "I'm not that smart," he mod-

estly averred, denying his most undeniable virtue: "I just prepare well." And how had he prepared for this historic occasion? When the Lennons came in, all tense and nervous, Allen had it fixed that they could sit right down and have a little nosh, which would immediately put everybody in a nice cozy relationship around the table. And the meal turned out to be a vegetarian's plain boiled dream, flawlessly catered to Lennon's queasy tastes.

Even better than the veggies was Klein's choice of table talk. John Lennon recalled: "The early thing that impressed me about Allen—and obviously it was a kind of flattery as well—was that he went through all the old songs we'd written, and he really knew which was *my* song and which Paul's. He'd say, 'Well, McCartney didn't write *that* line, did he?' And I'd say, 'Right!' You know? That's what really got me interested—because he knew what our contributions were to the group. Most people thought it was all Paul or George Martin [how about that assumption!]. And he knew all my lyrics, and he understood them—not that there's much to understand—but he was into it and he dug lyrics. So I thought, 'Well, anybody who knows me this well—just by listening to records—is pretty perceptive.'" So Klein's preparation paid off. Not only did he demonstrate his appreciation of Lennon's talent, but in doing so, he buffed up Lennon's easily tarnished ego by reminding him of all the great things he had done in the past. That reminder was worth a lot to a man given to self-doubt.

The skill that Klein exhibited in dealing with the prickly and unpredictable Lennon was just as apparent in the way he handled Yoko Ono. Never once did he exhibit a trace of that male condescension that drove Yoko crazy when she had to deal with the Beatles or their entourage. Klein spoke to her with precisely the same respect that he evinced toward John, implying that he saw them as equals. Lennon was as gratified by the way Klein made no difference between him and Yoko as by the way Klein constantly distinguished between a Lennon line and a McCartney line. So Klein didn't have to wait long for his reward.

After a couple of hours John said: "Listen, Allen, would you manage Yoko and me?" The words echoed that meeting seven years earlier, when Lennon had cut short the discussion by exclaiming: "Right, then, Brian—manage us!" Only now vastly more was involved than the fate of four unknown boys eager to land a recording contract. Nor could Lennon speak any longer for the others. He had to warn Klein: "You cannot manage the Beatles because they're already signed with Eastman."

Klein was not dismayed by this revelation. As he said, "You can always fire your lawyer." But he didn't offer his immediate assent, even though his financial situation was only somewhat less pressing than Lennon's. For though Allen Klein gave the impression of enormous

wealth with his £500-a-day hotel suite and his £100-a-day limo perpetually parked before the Dorchester, the truth was that he had only a few hundred thousand dollars in his corporate account, and only that week his right-hand man had told him: "You had better sign the Beatles or you'll find yourself going out of business." No matter. Allen Klein was a born craps shooter—and a born optimist. He knew when he was hot, and he knew when to pass. Now he played it cool, replying that he would be happy to manage the Lennons—but going no farther.

"Well, what do we have to do?" challenged the impetuous Lennon.

"I think we should sleep on it tonight," answered Klein.

"What's the matter?" snapped Lennon. "Don't you want it now?"

"Sure, of course," Klein smiled.

"Well, what do I have to do?" John demanded.

"I think that what we really should do," Klein answered, finally persuaded to pass, "is write and inform those individuals that you have direct contractual relationships with—tell them that you have asked me to look after your things and send them notes. But before you do that, *call* them so that it won't appear as if it is a cold and impersonal change."

Klein had his assistant, Iris Keitel, standing by in an adjacent room with her typewriter, but he decided to adopt a less business-like approach. Having gone into the room, he came out carrying the machine, which he set upon the floor with some paper. At three in the morning Yoko typed out the notes to Sir Joseph Lockwood at EMI, Dick James at Northern Songs, Clive Epstein at NEMS Enterprises, and Harry Pinsker at Bryce, Hanmer. The message ran: "I've asked Allen Klein to look after my things. Please give him any information he wants and full cooperation. Love, John Lennon."

By pushing Allen Klein into the ring to confront John Eastman, John Lennon was really preparing to square off against Paul McCartney. What would happen when they came to blows was prefigured in the initial encounters between the rival managers. On 3 February the Beatles held a meeting at which they voted three to one to engage Klein to look into their affairs, overriding Paul's opposition. The boys met next with Klein and Eastman. There was no contest. When Eastman said that he would like to accompany Klein to his meeting with Sir Joe, Klein turned him down flat, insisting that he must have a free hand to manage the Beatles' business, just as Eastman should enjoy the same freedom as their lawyer. Eastman summoned his father to the next meeting with Klein. As usual, Allen Klein was well prepared.

When Lee Eastman appeared in the conference room, he exuded that hale-and-heartily self-confidence typical of the old business ace who lunches regularly at the WASPy Grill Room of the New York Harvard

Club. But no sooner had he seated himself with his son and future son-in-law than he had the carpet jerked from under him. Allen Klein commenced the meeting by announcing with a teasing little smile on his lips that he had recently done a bit of detective work. He had been rewarded with an interesting discovery: Lee Eastman had started out in life with a different name. Until he was graduated from Harvard, his name had been *Leopold Epstein*! John Lennon exploded in a Goonhyena laugh. Then, quick as always to find the soft spot and needle it till the victim screamed, Lennon set about his work. For the balance of the meeting both he and Klein insisted on addressing Eastman as "Epstein." "Well, Mr. Epstein," or, "No, Mr. Epstein," or "If I had a name like Epstein," they went on, until finally the normally affable lawyer freaked out.

Leaping to his feet and staring down at his adversary, Eastman poured out his rage, denouncing Klein as a crook, a boor, a con man. "He called me everything he could think of," recalled Klein. "I just sat there and let him come out of the woodwork. He showed everybody what he was: emotional, pedantic, patronizing." Eastman, having vented his spleen, stormed out of the room, followed by his son and prospective son-in-law.

Violent as was Eastman's anger, it could not hold a candle to John Lennon's fury. "He was an animal! A fuckin' stupid middle-class pig!" ranted Lennon. "He thought he could con me with fuckin' talking about Kafka and shit, and Picasso and de Kooning, for chrissake! I shit on them!" So began the long war that would destroy the Beatles.

Although Paul disliked Allen Klein every bit as much as John hated the Eastmans, Paul finally agreed to empower Klein to make a thorough investigation of the Beatles' business. Nobody could have faulted that decision. Klein owed his original success in the music business to his unflinching ability to ferret out missing money.

For two months Klein sat at Apple, surrounded by a mountain of papers. When he finished his accounting, a giant neon sign flashed on in his mind. It read: SCHMUCK!

Brian Epstein, that little Lord Fauntleroy in long pants, had really done it! He had taken the greatest property in the history of show business and pissed it away in one bad deal after another. The whole thing was a nightmare. Every arrangement was wrong; every percentage inadequate. The worst thing was that the Beatles *were* broke, and most of what they had lost was gone *forever*.

To understand how badly Brian had fucked up, you had to take in turn each source of income and follow the money.

EMI RECORD DEAL

The Beatles' primary source of income was the royalties they earned from the sale of their records. These earnings were governed for the

first five years of the group's recording career by the provisions of the contract that Brian had obtained from EMI when the Beatles were still four unknown beginners. Naturally the terms weren't very good; in fact, they were appalling. The royalty on a single, for example, was exactly one British *penny*, which rose by a farthing (one-quarter of a penny) each year after the first, to reach the grand summit of two pence per record. Translated into the terms of the Beatles' principal market, North America, the contract authorized EMI's U.S. subsidiary, Capitol, to pay the Beatles on an album that retailed for four to five dollars exactly *six cents*. The normal rate would have been from twenty-five to fifty cents.

There was an obvious remedy, however. In the music business it's common to renegotiate beginners' contracts once the artists start earning the company big money. But here is where Brian was most delinquent. He would not consider going back to EMI to get a fair deal even when the Beatles took off like a rocket and pushed up the company's earnings in 1964 an incredible *80 percent*! Why not? Because, Brian insisted, he was a "gentleman," and a gentleman does not go back on his word—even if his clients are taking a screwing! So for three miraculous years, while the Beatles were the most profitable act in the history of the record business, they continued to be paid as if they were unknown beginners.

Finally, when the contract expired in June 1965, Gentleman Brian got his chance. What did he do with it? Absolutely nothing. So overwhelmed was he by all the different proposals made by his financial advisers that he stalled the negotiations for *a year and a half*. Meantime, the Beatles turned out *Help!*, "Yesterday," *Rubber Soul*, and *Revolver*—all without a contract! At last, on 26 January 1967, they signed the agreement that had taken so long to frame. It provided a sizable increase in royalties, from six to forty cents on a Capitol album, as well as a bonus of one million pounds; but the royalty was still inadequate, and the bonus was merely the money the Beatles had earned during the period when they were working without a contract. Even worse were the provisions governing production quotas and exclusivity. The Beatles bound themselves to turn out two albums and three singles a year for the next five years, but they remained under exclusive contract to EMI for the next *ten years*. In other words, Brian had bartered the band's entire foreseeable future for an increase that left them still far short of where they should have been years before.

PUBLISHING

The Beatles' music publishing business was embodied primarily in Northern Songs Ltd., established on 26 February 1963 by Dick James (born Richard Leon Vapnick), a washed-up pop singer turned hole-in-

the-wall song publisher, who became the luckiest man in the history of the industry. Getting in on the ground floor on the recommendation of George Martin (who was too ethical to take a proffered percentage of the publisher's share and consequently sacrificed a fortune), James set up a typical artist's company, reserving 50 percent for himself and his accountant and financial backer, Charles Silver, and offering 50 percent to Lennon, McCartney, and Epstein, who divided their share 40-40-20. (In 1966 the Beatles' portion was increased to 55 percent in exchange for extending their contract to 1973.) To avoid taxes, John and Paul assigned the writer's share of their songs to Lenmac Ltd., owned by them and Brian 40-40-20. For the record, John and Paul were signed to Lenmac as contract writers.

In February 1965 Dick James took Northern Songs into the market, where it did quite well. In the consequent reshuffling of the old arrangements, Lenmac sold out to Northern, providing it with all rights in the first fifty-six Lennon-McCartney songs. In return, John and Paul received £140,000 each (actually unpaid royalties already in the pipeline) plus 15 percent of Northern's shares, with a further 7 percent to NEMS and 1.6 percent to George and Ringo collectively. This was a tax-free capital gain, but it didn't represent what it should have because Lenmac had been underevaluated owing to the fact that its all-important American affiliate had never been audited. Now John and Paul set up a new company, Maclen Music Ltd., to house their future compositions, signing a seven-year agreement with Northern to handle the publishing of these songs.

SUBPUBLISHING

The international renown of the Beatles enabled Dick James to get into subpublishing in a big way, by either establishing companies abroad or entering into agreements with foreign publishers. The typical Beatles split with a foreign publisher was 85-15 (15 percent to the foreign house), but when Dick James controlled the foreign company, the split was 50-50—a revealing difference. The money that came back to Britain from foreign earnings was divided equally between the publisher and the writers. Since the United States was the Beatles' biggest market, the band's American company, Maclen Inc., became the key element in Dick James's operation. By retaining 50 percent of what this company earned in America and adding this sum to his half of the 50 percent returned to Britain, James succeeded in holding on to 75 percent of the Beatles' income from their largest source of publishing revenue.

Somebody must have blown the whistle on this practice because just before Brian Epstein's death, when the publishing contract came up for renewal, James wrote a highly ambiguous letter to Maclen Ltd.—

which is like your right hand corresponding with your left—in which he said that henceforth 85 percent of the American revenues would be transmitted to England, with only 15 percent remaining in the States. In this same letter, however, he inserted a sentence which ran roughly: “You will receive your money as before.” Dick James induced John and Paul to sign this letter, which had the effect of making them confirm the old arrangement under color of changing it in their favor.

In 1986 an English court handed down a landmark decision on such subpublishing practices. After reviewing the relationship of Dick James and Elton John, the court ruled that the publisher’s way of doing business was improper and illegal. (Shortly thereafter Dick James bent over at a card game to retrieve a card he had dropped and was smitten by a fatal heart attack.)

TOURING

Brian Epstein was so overcome by gratitude when Arthur Howes booked the Beatles on their first little package tour that he gave the promoter an option on all future tours of England by the Beatles. Enjoying a monopoly, Howes was in a strong position to hold down the band’s price. The Beatles never received more than 50 percent of the take, even though Howes could sell out his houses by merely announcing the main attraction.

Brian’s only recourse was to book shows that he produced himself, like the Christmas pantomimes. But these entailed a clear conflict of interest, because Brian was both buyer and seller, virtually all the talent coming from the NEMS stable. What’s more, when the Beatles worked for their manager, they worked for peanuts. In America, where the tours were run by GAC, the deal was a 60–40 split against a guarantee of \$25,000 per show. This was a standard break, but clearly, after their first, incredibly successful, tour, the Beatles could have gotten a bigger piece of the pie.

Brian’s ultimate solution to the problem of increasing the Beatles’ earnings makes a mockery of all those glowing accounts of how “honorable” and “upright” he was. A close friend, Peter Brown, has revealed that Brian always left every date with his “brown paper bag money,” the big chunk of cash that the promoter skimmed off the top without reporting it to the tax collector. Exactly how Brian divied up this unaccountable money will never be known.

MOVIE DEALS

When Walter Shenson and Bud Orenstein met Brian Epstein for the first time, they planned to offer him 25 percent of the net profits on their picture, but being seasoned businessmen, they first asked Brian what he wanted. Puffing himself up in what he took to be the manner

of a City magnate, Brian replied: "I wouldn't consider anything under 7.5 percent." Fortunately for the Beatles, the deal was reviewed by Brian's lawyer, David Jacobs, who demanded 25 percent.

Actually, any percentage of net as opposed to gross profits is fool's gold in Hollywood because of the movie companies' notorious book-keeping, which results in even successful pictures showing only small net yields. Because none of Elvis Presley's films ever earned him anything in profits, Colonel Parker insisted on getting his money up front, in a big guarantee, commencing with \$250,000 on the first picture and rising swiftly to \$500,000 against 50 percent of net. The Beatles were paid only \$15,000 a man to make their first film. They were lucky, however, because the combination of a low budget, modest marketing costs, enormous box-office receipts, and, above all, an honest producer earned them eventually a lot of money: \$7 to \$8 million on their first two films in the years between 1964 and 1980.

MERCHANDISING

A phenomenal act like the Beatles could anticipate making a pile of money by licensing its name and image for exploitation by manufacturers of paraphernalia. A man named Nicky Byrnes, with no previous experience in this business, copped the Beatles' merchandising rights in 1963 in exchange for 10 percent of the take. When Brian saw what a bonanza Byrnes was mining in the States, he insisted upon renegotiating the deal. The ensuing scuffle alarmed the manufacturers, who canceled their orders en masse, causing the Beatles to lose millions in potential earnings. Meantime, both Byrnes and Epstein went on issuing conflicting merchandising licenses that triggered a spate of costly returns.

Epstein tried to throw all the blame on Byrnes, suing him and being sued in turn. Brian had no case, but he could not afford to lose. So he engaged Louis Nizer, allegedly for \$1 million, and told him to push the action to the limits. In the next three years the Nizer organization filed 39 motions, every one of which was rejected by the court but each of which cost Byrnes a bundle. Byrnes retaliated by denouncing Epstein to the IRS, claiming that Brian was slipping the profits of the American tours out of the country without paying the requisite taxes. The IRS responded by attaching \$1 million of the Beatles' 1966 concert earnings, holding the money until 1976.

The punch line of the merchandising story is that the contracts were negotiated not with the band's company, The Beatles, Ltd., which held the rights, but with NEMS, which did not possess any proprietary rights whatsoever, being simply a management organization. This basic confusion about mine and thine in the relations between Brian Epstein and the Beatles can be discerned in other dealings. Allen Klein dis-

covered that Brian's American company, Beatles U.S.A., Ltd., wound up holding *Magical Mystery Tour*, to which it had no title. It was revelations of this nature that finally persuaded John Lennon that Brian Epstein was crooked.

TAX SHELTER

No matter how much the Beatles earned, their net income was bound to be but a tiny percentage of their gross so long as they were subject to Britain's incredible 94 percent income tax. The primary challenge to Epstein, therefore, was not making money but holding on to what the Beatles earned. The obvious answer was a tax shelter. Dr. Walter Strach, of the entertainment accounting firm of Bryce, Hanmer, established in the Bahamas a company named Cavalcade Productions that was owned 50-50 by the Beatles and Walter Shenson. The idea was to capitalize the company with £100,000 and then post the completion guarantees for *Help!*, which would enable the company to sequester the profits of the film beyond the reach of the American or British revenue services. Brian sought the advice of Lord Goodman, a wealthy real-estate developer, who was Harold Wilson's lawyer. When Goodman learned that the Beatles were involved in a tax shelter, he warned Brian that when it came out, it would make the boys look bad. The insecure and shamefast Brian, horrified at the thought of appearing a moneygrubber, took Goodman's advice and dismantled the Beatles' shelter. Harold Wilson rewarded the boys for their unwitting sacrifice by making them all members of the Most Honorable Order of the British Empire. Brian told the Beatles that they received the award for "increasing trade."

INCORPORATION AS APPLE

When the tax shelter was dismantled, an alternative method had to be found to reduce the burden of taxation. The Rolling Stones had adopted the practice of residing abroad for a year whenever the law permitted them to spend their foreign earnings outside England without paying British taxes on the money. Brian rejected this device in favor of another, far more questionable alternative: incorporation with an eye to going public. By a deed of partnership dated 19 April 1967, the Beatles sold 80 percent of themselves (exclusive of their films and music publishing) to Apple Corps, Ltd., which became the majority partner in a newly created partnership, The Beatles & Co., which replaced The Beatles, Ltd. as the group's basic business entity. As payment, the group received a tax-free capital gain of £800,000 plus salaries and the opportunity to charge off many of their personal expenses to the company, which would now be the official owner of their homes, cars, etc. But £800,000 was an absurdly low estimate of the

Beatles' total worth, which should have been measured in millions. Actually the figure had been suggested by the immediate availability of the \$1 million in cash that EMI was about to give the Beatles as a bonus for signing their new recording contract. A much better arrangement would have been to evaluate the Beatles at a more appropriate figure, like £4 million, which would have given each Beatle £800,000. Apple could have paid the money as it became available. As it turned out, once the boys had discharged all their debts, they were left pretty much where they started. Only now, all their future earnings were tied up in a corporation, which would make it much harder to recoup their money in the event the band broke up.

When Allen Klein gazed down at the bottom line of the auditor's report, he saw two figures that loomed up like tombstones. One was the Beatles' net income for 1968—a pitiful £78,000. The other was the Beatles' indebtedness to Apple, from which they had been obliged to take advances just to pay their bills. John was in the hole for £64,000, Paul for £66,000, and George and Ringo for £35,000 each. Clearly something had to be done quickly or the Beatles would come under pressure to start selling their remaining assets.

Klein's first target was NEMS, owned now by Queenie and administered by Brian's brother, Clive. NEMS continued to receive 25 percent of the Beatles' income, but it no longer performed any significant service. The obvious remedy was a buy-out, a procedure that John Eastman had already initiated by going with the Beatles to Sir Joseph Lockwood and asking for a loan of £1.25 million, the stipulated price. Allen Klein advised the Beatles against taking this road, warning them that they would have to earn £2 million to repay the loan. He told them there was a good chance that he could get NEMS for free because Clive Epstein might not want to go through the litigation that the Beatles could launch on the basis of Klein's audit. The grounds would be fraud, mismanagement, self-serving, overreaching, and conflict of interest.

John Eastman agreed that delay was advisable. On Valentine's Day he sent a note designed to stall Clive Epstein: "As you know, Mr. Allen Klein is doing an audit of the Beatles' affairs vis-à-vis NEMS and Nemperor Holdings, Ltd. [successor to NEMS]. When this has been completed, I suggest we meet to discuss the results of Mr. Klein's audit as well as the propriety of the negotiations surrounding the nine-year agreement between EMI and the Beatles and NEMS."

Clive read the writing on the wall. There was no time to be lost. He must immediately get out of this nasty business. Getting in touch with Leonard Richenberg of Triumph Trust, Clive sold NEMS for about £750,000.

Allen Klein reacted to this unforeseen development with characteristic swiftness and boldness. Walking into Richenberg's office, Klein congratulated his opponent on being a smart man. Then he told him that he wasn't as smart as he believed because the audit had disclosed the existence of enormous debts that Epstein had incurred back in the days of touring. What's more, there were so many lawsuits pending that defending against them all might bankrupt Triumph. Richenberg replied by showing Klein the door. Undismayed, Klein wrote a letter to the firm that collected the Beatles' royalties, Henry Ansbacher and Company, instructing it to remit the moneys henceforth to Apple Corps.

Triumph Trust responded by taking EMI to court. Meantime, more than £1 million in sorely needed royalties were deposited in a Lloyd's bank awaiting the outcome of the dispute. Richenberg sought next to strengthen his case by commissioning a Bishop's Report, which produced a lot of information that made Allen Klein look bad. All this stuff was leaked to the *Sunday Times*, which published it in a blistering article. At this point, with his bluff called and his nose bloodied, Allen Klein recognized that he would have to change his tactics and enter into serious and prolonged negotiations with Leonard Richenberg. Just at that moment a sudden crisis blew the whole Beatles' organization sideways.

John Lennon was lying abed one morning in March, reading the papers, when his eye fell on an item that jolted him bolt upright. Dick James and Charles Silver, the men who ran Northern Songs, had just sold their 32 percent of the company to Sir Lew Grade of the Associated Television Corporation (ATV), which already owned 3 percent. So Sir Lew's share of the Beatles' song bag now amounted to more than the Beatles' 30 percent. John went wild with rage and summoned Paul from East Hampton and Klein from Puerto Rico in a desperate effort to seize control of the company before it could be taken over by the detested Grade, the fat-cat, cigar-sucking boss of the British entertainment industry. What had inspired James to his treacherous act was fear that the Beatles would break up (he had no faith in them as individual writers), coupled with dread of Allen Klein. Actually, John and Paul had invited this disaster by resigning from the board of Northern Songs and relying on as their representatives lawyers and accountants who worked for Dick James.

The five-month battle that commenced now between the Beatles and Lew Grade was greatly complicated by the intervention of a third party, the so-called Consortium, consisting for the most part of financial institutions that owned or bought up shares in Northern Songs and then combined to play the middle between the contending giants. Sometimes the Consortium inclined toward ATV's stock offer, some-

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times toward the Beatles' offer, which was strengthened at one point when Allen Klein, reacting to Paul's refusal to pledge his shares as collateral, threw into the scales 45,000 shares of MGM, worth about £650,000. Every time a deal was set, some fresh development would knock down the house of cards. Meantime, Klein was busy working out the purchase of NEMS, which also held 5.4 percent of Northern Songs.

In July 1969, Klein came close to fulfilling his boast that he would get NEMS for nothing. For the 90 percent of the company they did not own, the Beatles paid £750,000 in cash and £300,000 in frozen royalties plus \$50,000 for NEMS's share of the Beatles' film company, Subafilms Ltd. (first two films plus *Yellow Submarine*), as well as 5 percent of the Beatles' gross record royalty from 1972 to 1976. Triumph bought in turn the 10 percent of NEMS owned by the Beatles for stock convertible for £420,000. Though it would appear that the Beatles wound up paying more than they got, the Triumph shares were worth \$400,000 *tax-free*—the equivalent of £4 million before taxes!

Klein was destined to go down in defeat in the contention over Northern Songs. On 9 September ATV finally succeeded in buying out the Consortium, thereby obtaining 54 percent of the Beatles' music publishing. Undaunted, Klein fought on, struggling to save something from the debacle. He negotiated stubbornly with Lew Grade, using as his leverage the threat that the Beatles would pull out and leave ATV with a wasting asset. What Klein was after was the American publishing, which he claims was right in his hand when once again Paul McCartney balked (on the advice of the Eastmans) and the Beatles were obliged to sell out, losing the marketing rights (but not the royalties) in 160 of their songs, while remaining obliged to write 6 songs a year till 1973. For their 35.5 percent of Northern Songs, they received equivalent value in 10½ percent ATV Loan Stock. John exchanged his 644,000 shares for stock in the face amount of \$1,288,000, redeeming the stock for cash on 31 October 1974. Paul, who had started buying up shares on the sly before things got tough, received proportionately more.

The emotional shock of loss of control to John and Paul is incalculable. The financial value was established pretty clearly in 1986, when Michael Jackson bought ATV's publishing catalog, whose principal item was two hundred Beatles songs, for \$47.5 million.

In May Allen Klein had signed a three-year management contract with the Beatles after Paul was outvoted three to one. Klein asked for 20 percent of any gross income earned beyond that mandated by the contracts in force before he took control. Subsequently, he enjoyed the full support of all the Beatles in his most important task: the renegotiation of the EMI contract, which still had eight years to run. His bargaining power was generated by a provision of the contract that

stipulated that the Beatles would cut ninety sides. Owing to the intense activity during the period of the White Album, the band was close now to fulfilling its quota. If EMI wanted the boys to continue producing, it would have to provide a fresh incentive. Allen Klein is regarded by even his worst enemies as one of the best negotiators in the music business. When he finished dealing with Sir Joseph Lockwood, the Beatles had a contract that elicited praise from even the grudging mouths of the Eastmans.

Under the agreement, dated 1 September 1969, the Beatles' American royalty would rise for the next three years from 40 to 57 cents not just on new releases but on "all existing product." (This paved the way for the lucrative reissues that Capitol produced in the Seventies.) After three years the royalty would jump up to 72 cents an album—nearly double what the Beatles were currently receiving. The only proviso was that the band's two previous releases had to have sold not less than a half million units each. The most important change the new deal entailed, however, was not the royalty increase but a radical change in the way the Beatles did business.

Henceforth Apple would become the proprietor of the Beatles' records in the United States, licensing Capitol to manufacture and distribute the product. This was the kind of deal that Klein had negotiated for the Rolling Stones, and it was to become the ideal of every major band. Its primary advantage was the absolute control it conferred on the Beatles, who now became in effect their own record company, with all that entailed in terms of policing the sale of their product. The tax advantages were also great because by keeping the American earnings in the United States, the Beatles would avoid paying the British taxes, which, heightened by surtaxes, could go as high as 110 percent.

With this total recasting of their all-important record contract, Allen Klein succeeded finally in putting the Beatles in the driver's seat. If they fulfilled their commitment to two albums and three singles a year plus one repackaged album—and if they maintained their customary sales level—they would have the kind of money with which they had always been credited.