

# Business Day

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Reuters

Bob Guccione, publisher of Penthouse, says he believes that his brand of pornography may be on the way out. A heavy debt load and failed ventures have not helped matters.

## Cybersmut and Debt Undermine Penthouse

By DAVID CARR

Bob Guccione, the publisher of Penthouse, fought for decades to introduce pornography to mainstream audiences. In succeeding, he may have built a gallows for his once hugely successful magazine. Pornographic images of every bent are now just a click away on the Web, often at no charge, and Penthouse, which once sold almost five million copies a month, now has a circulation of 650,000.

The auditors of Mr. Guccione's debt-ridden company, General Media, the parent of Penthouse and affiliated enterprises, stated in its annual report that the company would not be able to meet interest and amortization payments of almost \$13 million this year on loans that carry a punishing 15 percent interest charge.

General Media's liabilities exceed its assets by \$22.3 million, and if it fails to meet its payments on \$52 million in debt, its trustee, the Bank of New York, "could assume control of the company," the annual report said. Calls to the Bank of New York were not returned.

Mr. Guccione, 71, acknowledges that the run of Penthouse magazine is at an end. There is "no future for adult business in mass market magazines," he said. "The future has definitely migrated to electronic media," he said, adding that he expects to be part of it.

That is a breathtaking acknowledgment for the man who vied with Hugh Hefner and Playboy in the race to cash in on the American male libido. According to Mr. Guccione, Penthouse grossed \$3.5 billion to \$4 billion over the 30-year life of the company,

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# Cybersmut and Crushing Debt Undermine Penthouse Magazine's Decades of Success

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with net income of almost half a billion dollars.

Unable to speak publicly because of the effects of throat cancer, he answered faxed questions from his 45-room, 17,000-square-foot town house in the East 60's of Manhattan, one of the largest private residences in the city. On Thursday, the house was put on sale for \$40 million, according to a real estate broker. Some of the \$200 million in art work Mr. Guccione has collected — including works by Degas, Renoir and Picasso — have been pledged as collateral against business and personal loans.

For three decades, the effusively decorated house served as a headquarters for Mr. Guccione's far-flung interests. Neither satisfied by nor ashamed of his status as a pornographer, Mr. Guccione sought to wriggle out of the pigeonhole and overreached in the process. His efforts at more general interest magazines — *Omni* and *Longevity* — failed. He spent millions on an unsuccessful attempt to develop small nuclear fusion reactors, financing a team led by Robert W. Bussard, a nuclear scientist.

"Those kind of mistakes can be devastating," said Larry Flynt, publisher of *Hustler*. "The secret to my success is that I stayed away from what I didn't know."

Mr. Guccione's gamble on Atlantic City was probably his costliest. In 1978, he announced plans for a \$200 million casino at a site on the Boardwalk. He never received a gambling license, and the four-story steel structure sat rusting for 10 years while an elderly homeowner, Vera Coking, held out and stymied him. Mr. Guccione switched his efforts to a joint venture with Ramada Inn to develop a \$140 million luxury club near the entrance to the city. That fizzled, as well, and he sold both

parcels, with the proceeds being used to pay down a \$28 million loan from Kennedy Funding of Hackensack, N.J. Calls to Kennedy Funding were not returned.

The enormous misstep may have been just one more ill-advised effort to diversify, but the explosion of pornography on the Internet in ever more customized ways may accomplish what the Meese commission on pornography, the Rev. Jerry Falwell and Andrea Dworkin, the anti-pornography activist, failed to do: the shuttering of *Penthouse*.

"I'm delighted that Mr. Guccione may be going out of business," Ms. Dworkin said. "The problem is that he is being replaced, quite possibly, by something that is much worse."

Mr. Guccione stumbled into the

## A once-prosperous publisher overreaches.

business to begin with. He was born in Brooklyn and wandered Europe as an artist in the 1950's and 60's and worked as a journalist in London, before noticing in 1965 that Mr. Hefner's *Playboy* was storming the newsstand there. After a shoestring introduction in England met with spectacular results, *Penthouse* arrived in the United States in 1969 and was a hit.

Working with his wife and lifelong business partner, Kathy Keeton — a classically trained ballet dancer from South Africa who was a star on the European exotic dancer circuit — Mr. Guccione offered a darker and more overtly political appeal to male readers. In addition to depicting nude women in more explicit poses, *Penthouse*, "the magazine of sex, politics and protest," as it describes itself, was among the first magazines to recognize the plight of Vietnam veterans. His blithe willingness to use exploitative images of nude women infuriated feminists and conservatives alike.

He published a number of big-name writers — from Harrison E. Salisbury to Stephen King — but over the years, he was most often in the news for persuading famous or infamous women to pose nude, including Vanessa Williams, the former Miss America; Gennifer Flowers; and

Paula Jones (twice).

Mr. Guccione's publishing practice of objectifying every body part of a woman save her tonsils, along with his penchant for massive gold jewelry, positioned him as the more transgressive half of the duo of Hefner/Guccione. But he was conservative in his personal habits, choosing not to drink, smoke or use drugs, and he was a devoted husband, according to friends and associates.

In the mid-90's, Mr. Guccione responded to the growing threat from digital pornography by making his magazine even more explicit, depicting various sexual acts. The change did not please newsstand vendors, and what had been a mainstream publication became a magazine whose distribution was often restricted to pornographic bookstores.

The loss of newsstand revenue was critical, and circulation decreased 33 percent from 1997 to 2001, according to the company. The publication was never advertising driven, and the circulation decline led to a net loss of \$10 million last year, compared with a net income of \$5.5 million in 2000. The company has cash on hand of \$2.4 million, down from \$6.4 million in 2000.

"In the end, the decision to go hard-core is part of what brought *Penthouse* down," said Dian Hanson, a former editor of *Leg Show*, an adult magazine, who is now working on a two-volume history of the men's magazine industry. "*Penthouse* had a name and a reputation, but when people looked inside, they were shocked at what it had become. Once they went hard-core, they lost a lot of their placement at newsstands. Men's magazines are an impulse buy. It takes a lot more determination to drive to a windowless cinder block building out on the highway than picking up a magazine while you are out buying some milk for your family."

Over at *Playboy*, the next generation of adult entertainment is being handled by Mr. Hefner's daughter, Christie, but even though Mr. Guccione's daughters and a son work for General Media, he had a very public falling out with his namesake, Bob Guccione Jr., after financing and then closing *Spin* magazine in 1987. Mr. Guccione Jr. found new financing and began publishing the magazine on his own. The two have not spoken in more than a decade, and Bob Guccione Jr., who now publishes *Gear*, a men's lifestyle magazine, declined to comment on the relationship, saying only that he wished his



Jack Manning/The New York Times

In 1973, Bob Guccione chose photographs to be used in an issue of *Penthouse*. At the time, the magazine was a serious rival to *Playboy*.

father well.

Ms. Keeton died in 1997 after a long fight with breast cancer, a loss that associates say had a profound effect on Mr. Guccione's business and personal life. She is still listed on the masthead of *Penthouse* as president and chief operating officer.

*Penthouse*, which had been on a long, slow slide in much of the 90's, seemed to go off a cliff after Ms. Keeton died. With a declining franchise in adult publishing and crippling losses from his attempt to build a in Atlantic City, Mr. Guccione sold off a group of automotive magazines in 1999 to Emap Petersen and used the \$30 million in proceeds to reduce his debt. Under the leadership of Ms. Keeton, *Penthouse* had moved aggressively into digital technologies in the mid-90's, but the explosion in sources of pornography has gradually reduced revenue from electronic businesses. Revenue in the online portion of General Media's business was down 30 percent last year, to less than \$10 million.

"Ultimately, given the way that he is going, the company will probably be split up," said Dennis McAlpine, an independent analyst on Wall Street. "Somebody is going to buy off the individual pieces, but the problem is going to be getting clear title to those pieces."

A longtime business associate said that he was still waiting for Mr. Guccione to pull, if not a bunny, something else out of his hat.

"People have counted him out again and again, and Bob always finds a way," the associate said.

By fax, Mr. Guccione manages to sound realistic while still posturing as the unrepentant sophisticate of old.

"As far as our liquidity issues and the auditor's 'going concern' opinion, we are not sticking our heads in the sand," Mr. Guccione said. "Although I can't discuss specifics, suffice to say that we are addressing these concerns and expect to be in business for years to come."

But given the scarcity of profits, the ubiquity of a formerly precious commodity and the preponderance of his debts, one of pornography's emperors is a little short on clothes.

"I think it would be shocking for something as large and well known as *Penthouse* to go down," said Ms. Hanson, the former *Leg Show* editor. "Porn works on the Web because it is free, and more importantly, you don't have to go into the convenience store and face the smirking young woman at the cash register to get it. Now, you just turn on the computer."

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