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INTERNET MAVERICK

FROM ENTREPRENEUR AND INVESTOR TO ENGINEER AND ONLINE PORN BROKER, NET
RENEGADE HAS FOUND WAYS TO CASH IN ON WEB'S NICHE COMMUNITIES

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Article Text:

The meeting in the San Francisco high-rise could have been like any of the thousands of mundane sales presentations held daily in the business world. Except for the topic: sex.

But it was sex and a business proposition that brought Gary Kremen, CEO of Grant Media, to visit. Dressed in jeans and a long-sleeved shirt covering his chunky, 5-foot-10-inch frame and hiding the Grim Reaper tattoo on his shoulder, Gary Kremen listened as Eurekster CEO Steve Marder explained how his search engine start-up works.

Then Kremen made his pitch: Because many of the niche online communities using Eurekster's search engine are adult-oriented, Grant Media could give them paid search results from adult Web sites. Kremen's company, Grant Media, would divide the ad dollars with Eurekster.

'Our motto is, 'We'll deal with the adult industry so you don't have to,' ' Kremen said.

Once again, the 42-year-old Kremen is going where few will tread. Over a two-decade career that includes founding Match.com and running Sex.com, the high-tech renegade has often walked the line between mainstream and underground.

Grant Media is just the latest twist in a career that defies categorization: Serial entrepreneur. Venture capitalist. Legal combatant. Prankster. Pornographer.

Marder listened, and with a handshake, agreed to a limited trial that later was expanded. It was one more small victory for Kremen's strategy of exploiting the unlikely niches of the tech economy.

'We have a lot of respect for Gary, and people like Gary,' Marder said. 'At times, he can be seen as a maverick. And that's very interesting to us.'

From the start, Gary Kremen has sought opportunities in places that might make others squirm. He operates outside the comfort zone of what he calls the 'old white boy Silicon Valley network' of entrepreneurs and venture capitalists who have grown too conventional for his tastes.

'I've always figured that was the place to make money,' Kremen said.

Unusual resume

His unconventional resume includes pioneering online personals with Match.com in the early 1990s and fighting a 3-year court battle to recover the rights to the Sex.com domain name.

Along the way, Kremen branched into venture capital, investing in everything from other people's lawsuits to troubled VC funds. He once bought a stake in a San Jose company called Cool Heat which makes outdoor heaters that look like palm trees for restaurants. Two years ago, he bought a patent he previously had authored from a company in bankruptcy and then flipped it for a \$1 million profit. Kremen even spent a year trying to get adopted by a California Indian tribe so he could invest in their casino rights.

'It's a little bit addictive being around him,' said Margo Evashevski, a private investigator who does financial research for Kremen's investments. 'He sees things that nobody else sees. And he finds ways to make money.'

At times, Kremen can be both abrasive and hilarious. He insists he's mellowed since the days when he would physically restrain employees from leaving the office if he felt they weren't working hard enough. He can also be a fiercely loyal friend and a romantic. He's offering a \$50,000 bounty to anyone who introduces him to the woman he marries.

'I've never met someone who can have you laughing so hard one second and then have you in tears just like that,' said Steve Klopf, the former chief operating officer of Sex.com, the adult search engine that Kremen owned and operated from 2001 to 2006.

His successes have at times been blunted by poor business decisions or a temper that has alienated business associates. When Kremen was losing money on the NetAngels venture fund run by Ron Conway a couple of years ago, he broke a taboo among venture capitalists and their investors by publicly blasting Conway for his performance in a story in the Mercury News.

'We should have had a more rigorous screening process, because we would have never let him invest in our fund,' Conway said.

Still, many others wouldn't hesitate to work with Kremen.

'Sometimes he's a little brash,' said Ron Posner, a local angel investor. 'But that's typical of an entrepreneur who wants to get an edge.'

Blue-collar beginning

Gary Kremen's career path began early, in a blue-collar Chicago home. The proximity to wealthier neighborhoods bred a lifelong resentment of people who had it easy.

Kremen taught himself computer programming in high school during the late 1970s. He also had a love for pranks, such as planting a program that spelled

profanities on the computer of a teacher he disliked. After college, he moved to Silicon Valley, where his job in computer security programming exposed him to the Internet.

In 1987, he enrolled at Stanford's Graduate School of Business because he felt, "while engineering is cool, money is where the power is."

Not long after graduating, Kremen and his friend, Ben Dubin, started Los Altos Technologies, which developed security software from a house they shared.

Working with Kremen could be exhilarating and intense, Dubin recalls. At his best, Kremen moved quickly on ideas. At other times, Kremen could be obsessive, chewing rubber bands to calm his tension.

Once, when Kremen wanted Dubin to work rather than go on a date, he grabbed Dubin's car keys and threw them into their algae-filled swimming pool.

They managed to raise a couple million in private equity and sold the company in 1996 for a healthy return.

Even as their business chugged along, Kremen had started working on a new company, Electric Classifieds.

To prove that online classifieds could work, Kremen focused on one category: personals. The result was Match.com. Initially, it was just text, with potential suitors faxing pictures to each other. Users filled out detailed profiles of themselves and the type of mates they were seeking.

The concept took off, particularly after the release of Web browsers allowed the site to combine photos with profiles. The media, rushing to cover the Web phenomenon, sought out Kremen. He eagerly told the tale of how he started the company because he couldn't get a date.

One story ran under the headline, "Why the Founder of Match.com Can't Get a Date" and included a large photo of Kremen holding flowers and looking sad.

But the quality that has most helped and haunted Kremen -- his tenacity or stubbornness, depending on your view -- was already on display. Because he wanted to run his own venture, Kremen rejected an offer to merge with one dot-com that later went public and would have made him millions.

In 1997, Match.com's VC investors sold the company for \$8 million over Kremen's objections, largely because they considered personals to be less than reputable.

All Kremen got was \$50,000 and a lifetime account (username: "TheFounder"). And he's still single.

To make things worse, Kremen discovered around then that someone had stolen one of the many Internet domain names that he had registered for in the early 1990s: Sex.com.

Three-year fight

The man who stole Kremen's domain name was Steven Cohen, a two-time convicted felon. Cohen forged a letter in 1995 to Network Solutions, the company that

registered domain names, claiming Kremen had given him the name. After Cohen gained control of Sex.com, he turned it into a porn empire.

Kremen sued to get it back. Winning took three years and more than \$5 million in legal bills -- money Kremen had thanks to the IPOs of several companies he had backed. When a court ruled that Kremen was the rightful owner of Sex.com in November 2000, a judge ordered Cohen to pay Kremen \$65 million.

Cohen vanished into Mexico.

All Kremen has recovered so far is Sex.com and Cohen's seven-bedroom stucco house in wealthy Rancho Santa Fe, just north of San Diego. It's where Kremen lives when he's not in his San Francisco condominium.

The back yard has an in-ground hot tub and swimming pool plus a tennis court. The main bathroom has two saunas and an above-ground whirlpool tub; the kitchen is cavernous, with 35 cabinets and four refrigerators.

'Most of us would sell it,' Dubin said. 'Not Gary. He'll call Cohen at 3 a.m. in the morning and say, 'Hey, I'm sitting on the toilet in your bathroom.' That's just Gary.'

While the house was a nice trophy, running Sex.com turned out to be more challenging than expected. Many people figured owning the name would be like having a license to print money. Under Cohen, Sex.com was a jumble of links to adult Web sites who paid to be on the site.

But those fees fell dramatically after the dot-com bust. Kremen needed to come up with a new business model. Kremen turned down a giant in the online adult industry who offered to run Sex.com and pay Kremen \$400,000 a month, plus 40 percent of profits. Kremen wanted to run the business.

Eventually, Kremen turned Sex.com into a paid adult search engine, which delivered links to adult Web sites to people looking for porn online. Kremen eventually hired Steve Klopff to be his partner in running Sex.com.

They expanded the company's staff to 20 over the next couple of years and the site began generating enough money to pay off Kremen's considerable debts. Kremen got another boost in 2004 when he received a reported \$15 million for settling a lawsuit against Network Solutions -- then owned by VeriSign -- claiming that the company which originally ran the domain name system had mistakenly handed Sex.com to Cohen.

But the name Sex.com brought Kremen attention and criticism that grew tiring.

So when a domain name broker casually raised the possibility of selling the name last year, Kremen realized he was ready to let go. In January, he sold it to a Boston-based adult company for \$14 million.

'It was bittersweet in its own way,' Kremen said. 'But it feels good.'

New start

But Kremen kept the back-end technology, which became Grant Media. Using sophisticated algorithms and Internet traffic management tools, the company's network delivers lucrative sex-related advertising to mainstream search engines so they don't have to solicit them directly.

Grant Media is located in an office building Kremen recently bought in a decidedly ungentrified part of San Francisco's Mission District.

Grant Media consists of three full-time employees besides Kremen. It's signed up about 1,000 customers and partners and is growing steadily.

'Our dream is that everyone will want to outsource the adult business to us because they don't want to be in that business,' Kremen said. 'Public companies think this space is dodgy.'

Moving on from Sex.com hasn't been easy. In late October 2005, Cohen was arrested in Mexico and is being held in a local jail for contempt. Kremen's legal team continues to comb through piles of documents from Cohen to see if he has any money -- and where it may be. With interest, Cohen owes Kremen \$82 million.

Meanwhile, Kremen has been hopscotching around the country, sizing up potential investments in everything from solar technology to wireless bill payments.

And in April, he launched his latest legal assault on the Internet establishment. He sued the American Registry for Internet Addresses, a non-profit corporation that distributes and registers the central Internet addresses for people in North America.

Kremen believes the corporation has an unfair monopoly. It's a battle that could take years and large sums of money.

'Am I going to make huge amounts of money off this?' Kremen said. 'No. But their anti-competitive behavior is just wrong. And if I don't do this, who will?'

FIVE THINGS TO KNOW ABOUT GARY KREMEN

1. In August 2001, he hired a plane to skywrite 'Sex.com' above Burning Man to flout the festival's ban on commerce and advertising during its annual gathering in the Nevada desert.
2. He's attempting to visit the highest point in every county in California.
3. He collects pictures of California missions.
4. He has two cats, Cleo and Juliet.
5. His favorite movies are 'Scarface' and 'Three Days of the Condor.'

GARY KREMEN

(box) Birth date: Sept. 20, 1963

(box) Birthplace: Chicago, Ill.

(box) Position: President and CEO of Grant Media

(box) Previous jobs: Technical staff, the Aerospace Corporation, 1985-87; co-founder of Los Altos Technologies, 1991-93; founder and chairman, Electric Classifieds, 1993-96; president and co-founder of NetAngels.Com, 1996-97; president, Sex.com, 2001-January 2006

(box) Education: Northwestern University, bachelors degrees in electrical engineering and computer science, 1985; Stanford University School of Business, M.B.A., 1989

(box) Family: Mother, Harriet; father, Norman; sister, Julie

(box) Residence: Rancho Santa Fe and San Francisco

(box) Other interests: Exploring obscure California back roads, camping, reading history, working out

Source: Mercury News

Caption:

PHOTO:KAREN T. BORCHERS - MERCURY NEWS

Philanthropist

PHOTO:KAREN T. BORCHERS - MERCURY NEWS

Venture Capitalist

PHOTO:KAREN T. BORCHERS - MERCURY NEWS

On the edge

PHOTO: RICHARD WLISDOM - ASSOCIATED PRESS Serial Entrepreneur

PHOTO: PHOTO PROVIDED

Family Guy

PHOTO: PHOTO PROVIDED

Prankster

PHOTO: KAREN T. BORCHERS -- MERCURY NEWS Grant Media CEO Gary Kremen, right, and Eurekster CEO Steve Marder talk business in Kremen's San Francisco office.Photos (7)

Memo:

Catching up with Gary Kremen

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