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Campaign for Control of Disney Is in Full Swing

Laura M. Holson. **New York Times**. (Late Edition (East Coast)). New York, N.Y.: Feb 11, 2004. pg. C.1

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Abstract (Article Summary)

After attempts by Mr. [Roy E. Disney] and Mr. Gold to change the company from within were parried by Mr. [Michael D. Eisner], the two men left the board in November so they could publicly agitate for Mr. Eisner's departure. Their short-term goal is to get 35 percent of Disney's shareholders to withhold votes for Mr. Eisner and three other directors next month. Under an S.E.C. proposal released last October, reaching that threshold could force Disney to include alternate board candidates suggested by major shareholders the next year.

On this latest trip, Mr. [Patrick McGurn] said Mr. Eisner and Mr. [George J. Mitchell] laid out a succession plan, although they did not say who had been picked to succeed Mr. Eisner. Instead they said they were reviewing internal candidates, a departure from last year when Mr. Eisner said he held the name in a secret envelope.

Michael D. Eisner, top, is facing an aggressive movement to remove him as the chief executive of the Walt Disney Company. Two former board members -- Roy E. Disney, at right, and [Stanley P. Gold] -- are running the ouster campaign, using T-shirts, bumper stickers and a Web site to promote their message. (Photographs by Getty Images)(pg. C1); Michael D. Eisner, right, and Roy E. Disney during the rededication of the Magic Kingdom at Disney World in 1996. (Photo by Agence France-Presse -- Getty Images)(pg. C18)

Full Text (1366 words)

By all outward appearances Michael D. Eisner, the chief executive of the Walt Disney Company, is perfectly secure in his job, having consolidated his power in beating back a board revolt led by a nephew of Walt Disney, the company co-founder.

Yet as research analysts gather here at Disney World for a two-day investment conference starting Wednesday, Mr. Eisner is campaigning as furiously and aggressively to deride dissidents and sweet-talk investors as he ever has in his nearly 20 years at the helm. In the last six weeks, Mr. Eisner has met with more than 40 institutional investors, analysts and corporate governance experts in an attempt to quiet any criticism of his company's performance and his managerial style.

On Monday, the company released a letter to shareholders attacking the motives of Walt Disney's nephew, Roy E. Disney, and another former board member, Stanley P. Gold, who have embarked on a cross-country campaign to push for Mr.

Eisner's resignation or retirement.

Full-page color ads featuring a smiling Mickey Mouse are running this week in The New York Times, The Los Angeles Times and USA Today. And the analysts here are getting the star treatment, including helicopter rides over the park in a twin-engine chopper and also a cocktail party and private dinner with Mr. Eisner and his management team.

For Mr. Eisner, the campaign serves to blunt any perception of vulnerability, particularly given that the company's financial performance is expected to continue improving in the coming year and that the stock price has outperformed market indexes. Mr. Eisner is also upset by what he sees as a betrayal by Mr. Disney and Mr. Gold, according to people who have talked to him.

''His take on Stanley and Roy is that this is personal,'' said Patrick McGurn, special counsel for Institutional Shareholder Services, a research organization that advises shareholders on how to vote on proxy issues. ''They are mad at him and the board and are seeking vengeance.''

Mr. Disney and Mr. Gold have argued that Disney has lost its creative spark in the last 10 years, particularly in its animation division. Mr. Eisner's combative style, they add, has forced several talented executives to leave and led to the recent nasty split with Steven P. Jobs and Pixar, ending the companies' partnership after 13 years and hits like ''Finding Nemo'' and ''Toy Story.''

As Mr. Disney and Mr. Gold make the rounds of institutional investors, their public tactics have taken on a personal edge. They are selling ''Disappointed'' T-shirts (in Disney-inspired type) on their savedisney.com Web site. To help ferry disgruntled shareholders to the company's annual meeting in Philadelphia on March 3, they have arranged for travel discounts. And they plan to distribute bumper stickers with the message, ''Goodbye Michael Bring Back Roy. ''

That approach helps explain the decision of Mr. Eisner and Disney to respond in kind. ''Do not be misled,'' the board wrote in the letter to shareholders, warning that Mr. Disney and Mr. Gold were putting ''their own interests ahead of yours.'' Among other criticisms, the letter stated that the two former board members voted to approve, and in some cases championed ''the very business decisions they now condemn.'' One of those was the acquisition of Fox Family Worldwide in 2001 for $3 billion in cash and $2.2 billion in debt. (In a rebuttal letter, Mr. Disney and Mr. Gold said they had agreed to the investment based on faulty financial projections from management.)

Mr. Eisner declined to comment for this article. But Tom Staggs, Disney's chief financial officer, said that the company was visiting investors as a defensive move. ''Certainly right now, when there are people spreading misinformation and a negative story, it is incumbent upon us to be in front of shareholders about the facts,'' Mr. Staggs said. ''We've had a significant number of changes to the board and board processes and we don't feel we've done a good job getting that understood as we could have.''

Major changes undertaken in the last few months include ensuring that independent board members are truly independent and reducing the size of the board. But Mr. Eisner is still surrounded by board members considered very much on his side, like George J. Mitchell, the presiding director and former senator.

After attempts by Mr. Disney and Mr. Gold to change the company from within were parried by Mr. Eisner, the two men left the board in November so they could publicly agitate for Mr. Eisner's departure. Their short-term goal is to get 35 percent of Disney's shareholders to withhold votes for Mr. Eisner and three other directors next month. Under an S.E.C. proposal released last October, reaching that threshold could force Disney to include alternate board candidates suggested by major shareholders the next year.

While investors and analysts say it is unlikely that the 35 percent level will be reached, a smaller number could still show palpable investor discontent with Mr. Eisner.

''If 10 percent of shareholders withhold their votes that would be significant,'' said Sarah Teslik, executive director of the Council of Institutional Investors, an advisory group for shareholders. ''It would be an indication that Roy Disney has some place to go with this campaign.''

In advance of next month's meeting, that campaign took Mr. Disney and Mr. Gold to Mr. McGurn's Rockville, Md., office on Feb. 2.

In their presentation, the two men outlined what they said was Mr. Eisner's excessive compensation and their argument for splitting the jobs of chief executive and chairman, Mr. McGurn said.

Mr. McGurn has also received the Disney treatment. On Feb. 4 he was visited by Mr. Eisner for the second time, along with Mr. Mitchell.

On this latest trip, Mr. McGurn said Mr. Eisner and Mr. Mitchell laid out a succession plan, although they did not say who had been picked to succeed Mr. Eisner. Instead they said they were reviewing internal candidates, a departure from last year when Mr. Eisner said he held the name in a secret envelope.

"Mitchell's message to us was that the board was engaged," Mr. McGurn said.

Ms. Teslik of the Council of Institutional Investors, who has long been a vocal critic of Disney management, was visited last week by Mr. Eisner and Mr. Mitchell. Mr. Eisner, she recalled, said he did not like the notion that a successor be designated and groomed in advance, as General Electric did with the changeover from John F. Welch Jr. to Jeffrey R. Immelt. When she brought up what she regarded as lapses on governance guidelines, she said, Mr. Mitchell agreed to write a letter to the council outlining policies that were not in their guidelines but followed anyway.

"I told them you don't have a board that has a reputation to lose," Ms. Teslik said, "but one to make."

Mr. McGurn said they had not yet decided how to advise shareholders but, he said, "there has been a change in attitude" at Disney.

Ms. Teslik seemed more sympathetic to the concerns of Mr. Disney, who had been to her office a few weeks ago. "It takes a lot of courage to take on a powerful chief executive," she said.

The outcome of this contest will be decided in the next year, depending on the stock's performance. In the last year, Disney stock has outperformed the Dow Jones industrial average and the S.&P. 500. If it falters, many believe Mr. Eisner could be vulnerable.

[Photograph]
Michael D. Eisner, top, is facing an aggressive movement to remove him as the chief executive of the Walt Disney Company. Two former board members -- Roy E. Disney, at right, and Stanley P. Gold -- are running the ouster campaign, using T-shirts, bumper stickers and a Web site to promote their message. (Photographs by Getty Images)(pg. C1); Michael D. Eisner, right, and Roy E. Disney during the rededication of the Magic Kingdom at Disney World in 1996. (Photo by Agence France-Presse -- Getty Images)(pg. C18)

[Chart]
"Fighting Back"
Michael D. Eisner, chief executive of Walt Disney, has managed to lift the company's stock price, helping him to fend off those calling for his replacement.
Graph tracks Walt Disney stock price from 2002 to 2004.
(Source by Bloomberg Financial Markets)(pg. C18)