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Dear Michael:

I am responding to your challenge to let you know whether we can continue under the management structure at Disney we are presently under. The answer we really cannot. We have tried over and over again. We have discussed the problems over and over again. And the basic facts do not seem to change. You do not like being number two in a company, and I do not think you really understand or like or are capable of managing a public company in the Disney style.

We started having differences right from the beginning which I attributed to some misguided over-enthusiasm. Whether it was our August '95 adventures with Brad Grey or "shoot from the hip" interests in the TelCo deal without concern for anti trust problems, , I questioned my judgment in putting us together. By Labor Day I was wondering what it would cost in dollars and embarrassment to end our corporate partnership right away. Of course the Jamie Tarsas hiring and those tactics only made me more concerned that I brought somebody in with questionable judgment. Instead I decided to write you a memo on what the job at Disney should be. I pointed out in that Oct 10th memo that "short cuts lead to short earnings" that basically we "are an operating company" that we must be "human, humble, vulnerable, sharp, responsible and ethical",that we must lead "by example", must "concentrate on the operations", that we must not "go down over stupid, self-serving actions", that we must not be "above the rules or have outside conflict of interests", that we must always act like "Caesar's wife"

I wrote this memo to counter what looked like some bad instincts, instincts about political contributions from corporations, instincts about non profit donations, instincts about personal ownership of sports teams that would be inappropriate. I wrote this memo also to get you to concentrate in what really matters, quality and the bottom line.

October and November that first year was frustrating, constant personnel issues and judgment issues. I wrote memos to basically try to inform you of what priorities were needed without insulting you, whether on Hollywood Records (Oct 12) or children's

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programming (Oct 13). I tried to talk to you but never could get connected. Even on the plane, I could not get your attention. The phone was the most important thing in your life. Once I even told you that "There is no way to talk to you. You are too interested in talking to Laura Landro at the Wall Street Journal". You were late for almost all meetings. And often you lost your temper, to pilots , drivers, little people. .

Of course all the above is the past. You started off slowly with which I believe you would agree. You were nervous and wanted to impress everybody. And you would agree that this was a mistake. I tried to support you, was frustrated by you, and wanted to help, inform and possible guide you. By January I was really concerned about our relationship. I wrote to you that "your view that there is a conspiracy with the people around me toward you is ridiculous". I told you the "I find this attitude stressful, disingenuous, and counter-productive". I warned you that "it was not team playing". I warned back last January that "the press is getting wind of these stupid issues. It could be ugly...Many think now you come late to most meetings to show your independence. Everybody is looking at this situation, and it is silly. Why is the happening? Could any of it be your fault?" I know you did not trust anybody.

So where were we going into the Spring? Not good. Most of our executives were out of step with you. And that cadence problem basically was caused by lack of trust in you. As we've discussed many times, we all never knew when you were telling things the way they were. The truth was often hard to decipher.

March wasn't great. We had a really unpleasant conversation on March 15 about many things, including you not returning phone calls from people like Etiennece, including a slippery hiring (or attempted hiring ) of a chef, of wanting to fire the aviation department, home security, Jody, Richard, Sandy, almost everybody near to me. I even accused you are trying to be "royal". By the end of April, I hoped you were getting the point. I was frustrated because you wouldn't take anything and follow though. You seemed to be agenting not operating. The MacDonalds deal had no leadership. You did not seem to

want to get into the details and make things work. You just came to a meeting. You were more interested in talking to me about your name not being in the quarterly report that the biggest sponsorship arrangement in history. And when it all came to a head one evening you finally you did tell me that you never could have "been co-ceo" and certainly if I had died in my operation, you would have failed as "ceo". You did show me at that time that you understand something was wrong. At the same time you were very unhappy in a May dinner we had where you told me how much you disliked your job. You went so far as to complain that your personal costs(expensives) were so high and Disney did not handle everything the way CAA did. I tried to explain to you the difference between a public and private company. You obviously spent too many years getting unbelievable deals for executives with companies that did not care, or rather talent deals where leadership and real scrutiny did not matter.

Image is always important to you. When asked I did agree for you to go on the executive committee of the board. I have always wanted to support you and do whatever I could to give you the stature you needed. I could not give you the COO title and responsibilities until you understood what they were and how to exercise them. I had hoped that company operations someday would become as important to you as image. Operations done well would have made your image fantastic , but I could never convince you of that.

Michael, mostly a leader of a public company has to lead by example. It is in the little things. Your number of secretaries, the out of control renovation of your office, your attitude to costs. What do you think our executives think when you object to paying all the costs for Kimberly's Bat Mitzvah at the House of Blues, an operation owned partly by Disney? You were told you had to pay for their Saturday night lost profits. I have never checked. I hope you did. And what do you think people think when you and I get gifts and I turn them in and you don't. Even after your speech in Aspen about ethics and gift receiving, you wondered to me the very next day if you had to turn over to the company

an electronic gift from Idei. I hope you did. These kinds of things are frankly not what a leader should be doing or thinking. They are small but important. You should know that Sandy came to me on May 10 and told me unless you left the company, he would. He was tired of your manipulations, did not want to have to police everything you did. He gave me example after example, of your not telling the truth, of "handling" him and others, of the continuing problem. Thankfully I talked him out of leaving.

The problem that I will never be able to solve is the endemic one. You are just too old and successful to be number two in any organization, whether small or very large. In June of this year you wrote me that "for me, it's just not right. I have really nothing to do....I am fighting with the outside world"...you said "you have no real authority to do anything" that you have "no real investment in anything creative" even though I asked you to build Hollywood Records, Disney Interactive, and work with me on ABC and theatrical movies and television. For some reason, you have not addressed the music business the way I address animation or Broadway theater. In Interactive Media, you are involved from on high but not into the nitty gritty and we face enormous losses which frustrate you. But where were you. Certainly Steve McBeth doesn't keep you out of his business like Bob Iger and Joe Roth try to get you out of their. . You felt you "have no one rooting for your success". That may be true. Most people do not know where you are coming from. You made it clear in that letter that you "did not want to be perceived as a number two, not for ego, but for practical purposes". You told me "you really do not need me. You need someone like-Frank, someone who can be happy running point but not looking to grow". I don't believe you ever really understand what Frank did or what it means to run a corporation. You went on to say "my services and talents are lost in this set up." By the way, in responding to your letter in writing on July 5th. ( I spent a lot of time on that letter,) I talked about all the things you should be doing. "From day one" I said. I withdrew from several areas and suggested you take primary responsibility for our

international business and music businesses. "I assume you are supervising our entire interactive area. I assume you are leading strategic operations in several initiatives. I assume you are leading our efforts with the phone companies. I assume you are operating in television, movies and broadcasting". Michael, I wrote this letter to get things going correctly, but we never discussed it, you never have been in the Hollywood Records offices on the lot and were surprised when we discovered a projected \$100M loss next year in Interactive Media. And in Publishing, Consumer Products, ESPN, Radio or park operations you seem to have little interest maybe because I have not been deeply involved. When I am not involved you tend to not have an interest. This is a big company with a lot going on. I cannot believe you have nothing to do. I even wrote a whole page in that letter on Hollywood Records praying you would get into it. I was totally frustrated with your lack of attention to this business. And when you did something, I really questioned your judgment. During one week you let strategic planning hire an ex EMI executive to do a study on Hollywood records without telling them. Then you let Joe Roth hire Kathy Nelson and Robbie Robertson to go into competition with Hollywood records. Then you let Carolyn Bueg and Disney Records plan to take over sound track distribution. It is not important that you did not create these ideas. But you did let them happen? What is important is that you were suppose to be on top of this situation, and I was forced to come in and settle everything. Corporations just couldn't operate the way you were letting it happen. Revolution not evolution was about to happen.

You finished off that letter saying that you could "think of a lot of people who could help you more than me". I think I have finally come to the same conclusion. For one year I have tried to not face that fact. I am out of hope.

You feel the people who work directly for me are all terrible. You said in that same letter to me after the 25th Anniversary at Walt Disney World that you "cannot work with Jody". But you know I feel she is the best synergy person we have ever had and synergy

has been the edge we created here at Disney. You hated Steve Bollenback who was the best CFO in America and I believe you feel the same way about Richard. I know you do not like Sandy or John. Frankly to change out everybody on a winning team is a mistake. I cannot help it. I suspect your motives.

We do not agree on the way to handle the media. I feel distance and honestly and non manipulation is the way to go. You want to control or handle or humor the press. In your letter you told me to read "Peter Bart (of Variety) and I will better understand relationships". That's all you said. When the article came out you told me, he had sent it on to you before hand for "corrections and tone and editing". That is not how we should run the company. We are the media. I do not think your instincts in this company toward the media is the way to play it. And your bad press is not John Dreyer's fault.

Where does that leave us. I think we should part ways professionally. I believe you should resign (this is not a legal suggestion but a cosmetic one) , and we should put the best possible face on it. When we talked last Friday, I told you again that my biggest problem was that you played the angles too much, exaggerated the truth too far, manipulated me and others too much. I told you 98% of the problem was that I did not know when you were telling the truth, about big things, about small things. And while you were telling me that those dishonest days were over, you were deceiving me on a specific matter. I did not even ask about your recently failed Sony negotiations. But you volunteered that during the discussion with them "no financial terms were discussed". I knew that was not true because you told me so in the past. Then you said you only asked for \$1M per year. "No other financial disucssion took place", you repeated. I then said you had told me they "offered you three and one half million dollars per year". You said, "oh yes, but that was to Ron Olson". I mention this example only because it is quite typical. You know and I know that you and your lawyer are one and the same in a negotiations. Why would you shade the conversation like that? By the way, in addition I have been told by another source you asked for 20% of the profits. It

seems like a lot of financial conversations going on for not have had a financial conversation. I don't care about any of that. The Sony deal was over, but why you choose to bend the truth so often so far is beyond me: and doing it in the conversation where you were telling me you were changing is awkward. Michael, the more I dig with you, the more truth comes out. I really am tired of giving you the second degree. You must be tired of getting it?

You may think that so much of what I have written in this letter is petty. I know that. But the time is finally, once again, to be clear. It cannot work. And I want it to end as soon as possible. I want you to direct your energies to how to exit, not how to cure. We are beyond the curing stage. We are now in salvation. I would like to remain friends, to end this so it looks like you decided it, and to be positive and supportive. I tried that before with the Sony situation, but you did not want to work with me on that. I hope we can work together now to accomplish what has to be done. I am ready to work as hard as necessary and as long.

Michael.

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