

HOLLYWOOD IN THE FIFTIES : RKO & MGM

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With the post-war decline of the movie-going audience and the growth of television the entire film industry entered a period of declining profits which forced the individual companies to diversify into the boom areas of television and recorded music. Some companies <sup>u</sup>acquired, some were the victims of acquisition. Of the majors, only Columbia and Twentieth Century-Fox are more or less pure movie companies, and neither, at the moment, are booming. (The financial community's regard for the movie companies is typified by the fact that MGM stock rose in a falling market upon the announcement that the company was retiring from the distribution business.) The movies always were, and still are a very shaky business to be in. Prone to booms and busts far in excess of the general state of the economy, demographic factors and other semi-predictable phenomena, the industry and the companies within that industry seem to undergo periods of smooth development suddenly broken by violent ruptures. Examples of such ruptures are the coming of sound, the Great Depression, disposal of the theatre chains, and the involved response to television which caused technological ruptures as well as the diversifications and mergers which fundamentally changed the economic base of the industry. These ruptures were shared by the industry as a whole. But each studio has its own history of development and rupture which is not always very closely tied to the technological and economic patterns of the industrial sector. The study of forces must be linked with the study of individual men in order to begin to understand the economic history of a studio.

Without conceiving of history as the exclusive product of heroes and villains in action one must account for the power of certain individuals in economic studies as well as in auteur studies. Intentions, of course, cannot be more than vaguely known, but actions can be seen and judged in terms of profits and losses in annual reports. In short, economic forces must be balanced by the study of financial auteurs when our subject is the history of the individual studio. The last few years of MGM, for example, cannot be grasped without approaching the television mentality of a James Aubry or understanding that Kirk Kerkorian, the majority stockholder, believes that the gaming tables of Las Vegas express the desires and drives of a nation better than the contemporary movies and are, therefore, a sure bet for an aggressive financier. Kerkorian dismantled MGM to prove that Las Vegas represents the Hollywood dream updated --here one can strike it rich, rub shoulders with the stars, be surrounded by glitter, gaze on harems, disengage one's morals -- in short, at Vegas one can realize one's deepest fantasies, just like in the movies of MGM's Golden Era. "That's entertainment!"

I have chosen here to detail the financial narrative of RKO because it most clearly shows the influence that individual financiers can have on an individual film company. Indeed, RKO is probably the extreme example of the economic auteur. Within a short period of time, RKO had two powerful bosses. One, Floyd Odlum, can be said to have built the studio, in a financial sense. The other, Howard Hughes, almost singlehandedly destroyed it. RKO was the only major studio not to survive the 50's in any viable form. Although the studio faced the same dismal economic forces which the other studios confronted, it failed where the others succeeded. The "why" is Howard Hughes; the "how" is outlined below.

Since RKO is best known to the public as the operator of the Radio City Music Hall, it is appropriate that the corporation had its origins in the theatre business. In 1883 B.F. Keith opened his first theatre in South Boston. This variety house was the foundation of the Keith-Albee circuit of vaudeville theatres, in which short films were <sup>soon</sup> used as chasers between acts and shows. A merger with the rival Orpheum circuit produced the famous K-A-O chain. In 1920, the controllers of K-A-O, a British firm named Robertson-Cole, built what was to be known as the RKO studio in Los Angeles, thereby committing the company to continuing film operations. In 1922 the company changed its name to the Film Booking Company of America and installed P.A. Powers (formerly of Universal) as chief. Shortly thereafter Graham's of London, a bank, gained control from FBO's former English owners. A Major H.C.S. Thomson, of the Indian Service, headed the operation for two years. Graham's control was bought by the Boston firm of Hayden, Stone and Joseph P. Kennedy was made president. Next to control FBO was Radio Corporation of America, under David Sarnoff. RCA merged FBO with the KAO circuit to form RKO Radio Pictures. Sarnoff hired David Selznick as production chief and built the Radio City Music Hall in Rockefeller Center. In 1933 Selznick left RKO and Merian C. Cooper moved up to the post of production chief. In spite of these expansionist activities, RKO refused to show a profit. The Depression had hit the industry hard, and RCA decided to call it quits. RKO went into receivership. It is here that our story starts with an account of the second life of RKO.

Floyd B. Odlum, financier, had raised his Atlas Corporation from a company with \$40,000 in assets to a net worth of \$75 million. In 1935, he decided to try his hand in a new line of business--he

would save RKO. Odlum bought <sup>almost</sup> half of RKO for a reported \$5 million and secured an option to purchase the rest. In 1940, when receiver-ship was terminated, Odlum was chairman of a reorganized company which boasted no outstanding debt and enough cash for twice its current liabilities. There was only one catch. Although Odlum was chairman, he did not have control.

The majority stockholders of the reorganized RKO were still RCA (David Sarnoff) and Rockefeller Center, Inc. (Nelson Rockefeller). Odlum watched from a position of impotence as the Sarnoff-Rockefeller interests installed George Schaeffer as President and instituted a new production scheme. The Schaeffer plan was to clean out the independent contract productions which formed the largest proportion of RKO releases, replacing them with "in house" production. But the new management seemed unable to make the home grown product pay. While the rest of the movie industry was enjoying a spectacular boom, RKO Radio Pictures Inc. (the production distribution arm of RKO as distinct from the theatrical chain) booked a half million dollar loss in 1941. In 1942, the loss widened to \$2.3 million. As a result, RCA and Rockefeller Center sold their remaining interest in the company to Odlum, and Schaeffer found himself without a job.

Odlum immediately embarked upon a crash program of increasing production at the studio. Charles Koerner was brought over from RKO Theatres as production chief. The cameras started grinding at a furious rate. RKO wound up 1943 with \$7,596,000 in production-distribution profits, while net income for the corporation as a whole approached \$7 million after taxes.

1943 proved to be RKO's best year. Although the Koerner regime remained profitable, production-distribution profits sank to \$5.1 million in 1944, 4.99 million in 1945 -- two thirds of the previous

earnings peak. In 1956, the peak year of the movie industry as a whole, Charles Koerner suddenly died of leukemia, closing the only Golden Age in the financial history of RKO. By the end of 1946, the studio was clearly in trouble. Although picture profits climbed to \$6.3 million, the gain was clearly of a transient nature. Production activity was at a snails pace and RKO seemed unable to develop or keep winning stars or producers. "Its studio had degenerated into a kind of rental lot and the whole picture operation was fast becoming a mere appendage of the theatre chain," according to Fortune. "Earnings under such circumstances could hardly go anywhere but down." But Odlum determined once more to try to bale out his investment.

Dore Schary was installed a studio chief in an attempt to generate enthusiasm and profits. The prestige of the studio rose due to Schary's penchant for "serious" ~~subject~~ pictures, but RKO Radio Pictures racked up a deficit for 1947 of 1.8 million dollars. Even before the year's dismal figures were reported, Odlum decided to sell out. RKO seemed a sinking ship in a still booming industry ; if the industry started to fail later, what was now a weak operation would become untouchable to any prospective buyer. Moreover, Odlum felt that the movies had reached the peak of their current cycle of boom and bust. Not only was attendance off a bit, but Representative Thomas' Communist hunt seemed to be zeroing in on Hollywood. After four months of "the most bizarre negotiations in film history" (no details given), Odlum sold his 929,000 shares to ~~one~~ Howard Hughes for \$ 8,825,690 , or \$9.50 per share. This was slightly above the current market price of RKO shares, but ~~slightly~~ less than the \$9 million Odlum thought he could get.

From the time that Odlum had gained control of RKO , the company's assets had risen from \$69 million to \$114 million. In the five years of 1943 through 1947 the company as a whole had

been profitable each year until the Schary disaster. For three years in a row net profits were booked between \$5 million and \$7 million, with the figure rising to \$12 million in 1946. In retrospect, Odlum seems to have known exactly when to get out of the business. RKO was destined never to show a picture-making profit again, except through resorting to dubious accounting practices.

Howard Hughes had dabbled in movies throughout his career. In 1928 he won an Academy Award for TWO ARABIAN KNIGHTS. HELL'S ANGELS, THE FRONT PAGE and Hawks' SCARFACE were among his later successes. In 1943 Hughes "put the bust in the boxoffice " with Jane Russell in THE OUTLAW , and personally designed Miss Russell's bra. The next year, Hughes went into partnership with Preston Sturges, whose career had already begun its decline, to produce some twenty films. The contract was dissolved by a "completely frustrated" Sturges in 1946 when it became evident that Hughes could not restrain himself from meddling in production decisions, however large or small they might be.

Although Hughes' reasons for buying RKO remain mysterious to Hollywood insiders and Hughes-watchers alike, it was speculated at the time of the purchase that the RKO chain of theatres would be useful in bailing out Hughes' investment in two personal projects--MAD WEDNESDAY (\$2.4 million cost) and the unfinished VENDETTA (\$3 million, so far). In addition, the purchase provided a means for Hughes to recoup the cash and prestige he had lost in his flying-boat fiasco. Five years in development, the plywood airplane had cost \$18 million in government money and \$7 million of Hughes' own fortune, yet only got 70 feet off the water. For only a million more, Hughes could own his personal movie studio.

The Hughes reign at RKO began in May, 1948. Although Dore Schary was retained as production chief it immediately became apparent who was really running the studio. Hughes ordered production suspended on two of Schary's pet projects -- BED OF ROSES and BATTLEGROUND. The impotent Schary resigned after two weeks of the Hughes regime. (Schary went to MGM as production head, bought the BATTLEGROUND script from RKO and turned it into the number two boxoffice success of 1948). Another Odlum holdover, President Peter Rathvon, was next to leave the Hughes studio. Odlum was replaced as chairman by the "suave, agile" Noah Dietrich, president of Hughes Tool, while Ned Depinet, another Hughes underling, replaced Rathvon as president of RKO. Sid Rogell was named production chief. The housecleaning was not restricted to officers of the studio. Seven hundred employees were fired during the summer of forty-eight, reducing the staff of most departments ~~from~~ 50 to 75 percent.

With his deputies installed at RKO, Hughes operated the studio at a distance. He never set foot on the RKO lot, but retained offices a mile away at the Goldwyn Studios. But his control over every operation was very close indeed. Once Hughes flew over the studio on his way to Tucson, declared it looked shabby and ordered that it be immediately painted. It was reported that an entire movie set was dismantled and shipped over to the Goldwyn lot to get Hughes' approval before production was allowed to proceed on the film in question. This transitional year (1948) is marked, however, by two outstanding releases: John Ford's FORT APACHE (RKO-Argosy) and Nicholas Ray's THEY LIVE BY NIGHT. Among the "in house" directors of the Hughes era are Ray, Richard Fleisher, Leo McCary, John Cromwell and Don Siegel.

The RKO loss for 1948, after seven months of Hughes, was \$5.6 million, four times the previous year's Odlum loss. Undaunted, Hughes



announced 49 major films to be released for the 1949-1950 season. 31 of these were to be made at the studio ; 18 were to be independent contracted productions. But because of lack of staff, low studio morale and the necessity of having Hughes personally approve of almost everything that went into a movie, the studio put only 12 films into production, while the independents produced not a single film. The 1949 loss for RKO Radio Pictures was \$4.2 million.

Early in 1950, two members of the board of directors resigned, and Hughes replaced Rogell with Sam Bischoff as production chief. However, Bischoff's role was immediately limited by the signing of the "wonder boys" -- Jerry Wald and Norman Krasna -- to a five year contract of "independent" production for RKO. During an exuberant press conference Wald and Krasna revealed that they expected to be even more independent than Zanuck<sup>at Fox</sup> and would assemble under the RKO roof "the smartest people since the Greeks" to make twelve films a year. The 1950 studio deficit ballooned to \$5.8 million, but Krasna and Wald had only been on the job four months by the end of the year. 1951 would be the test . Meanwhile, in accordance with the consent decree, RKO Theatrea Inc. was split off from the producing-distributing company, leaving \$10 million behind to pay off the studio's bank loans. After December 31, 1950, RKO was forced to sink or swim solely as a picture-maker. Therefore the Krasna-Wald gamble assumed huge importance in the attempt to revitalize RKO.

Krasna-Wald completed only two pictures in 1951, instead of the expected twelve, with two more in production by the end of the year. But RKO reported a net profit of \$335 thousand for the year through an accounting coup which delayed amortization of production. Under "normal" accounting practices, the studio would have lost some

\$622 thousand. Although either figure seems a tremendous improvement over the abysmal losses of the preceding two years, the turnaround was illusory. The first nine months of 1952 booked a deficit of \$4.8 million despite the \$2.5 million gross from a re-issue of KING KONG and a three month studio shutdown ordered by Hughes which presumably saved salary and overhead expenses. The ostensible (and perhaps the actual) reason for the shutdown was to facilitate the hunt for home-grown communists. Presumably, Reds could be spotted more easily if they were idle than when they were actively poisoning films in production? (One of Hughes' personal projects at RKO was I MARRIED A COMMUNIST, which he seemed to have offered to various directors and writers as a kind of loyalty test).

In September of 1952, Hughes suddenly sold his stock in RKO to a five man syndicate for \$7,345,940 (a million and a half less than he paid for it). This syndicate, headed by Ralph Stolkin, immediately started dismissing RKO personnel and making liquidation noises, under the assumption that RKO was worth more dead than alive. Shortly after their access to power, however, vulture-shy Hollywood was shaken by the revelation of the "unsavory" background of this syndicate. (Exactly what this background was, I have so far been unable to discover, much to my chagrin.) Unable to proceed either with reorganization or liquidation procedures, the Stolkin group pulled out after only fifteen weeks at the helm, forfeiting both RKO and \$1,350,000 to Hughes. From Hughes' viewpoint, the deal was rather nice. In less than four months the eccentric industrialist had regained his studio and turned a substantial profit.

The disturbing experience recounted above was bound to have its effect on what little production was stumbling ahead at the

studio. In 1953, RKO released only fifteen studio-produced features and rang up still another net loss. The next year's production was down to thirteen features, but Hughes claimed a small net profit for the year, although the reality of this profit is highly questionable. At this point, Hughes mysteriously offered to buy out all outstanding shares of RKO that he did not personally control at a price above their market value. Presumably unable to believe their good fortune, all stockholders sold to Hughes. For \$23,489,748.16, Hughes gained sole ownership of RKO at a time when it seemed that nobody in his right mind would want to have anything to do with it. In 1955, feature production fell to ten films. According to Allan Dwan, "They were token pictures to keep the studio alive -- Hughes wasn't interested in a big splurge."

In July of 1955, Hughes sold RKO to General Teleradio Corporation. General Teleradio, in turn, sold most of the RKO feature backlog to the Cochrane and Cantrell Cola Company for \$15 million. C&C Cola printed advertisements directly onto 16mm prints of the films and provided television stations with these films free of charge. ( Our print of CITIZEN KANE has a C&C label). Although General Teleradio produced a few low cost films, the studio was effectively out of business, except as a rental facility for television production. On April 20, 1958, Desilu Productions bought the Colegrove studio from General Teleradio, and the RKO agony was finally ended.

Sources : Variety

" RKO : It's Only Money -- A Hollywood Failure story " in Fortune May, 1953, p.123 on.

Standard and Poor's Basic Analyses (various years).

Dwan quote from the Velvet Light Trap, RKO issue.

Part TWO

STALKING THE LION :

MGM in the fifties

If the post-war MGM narrative is viewed as a drama, with its heroes and villains, the corporate story can be divided into four acts, each act possessing its unique development, crisis and denouement. The first act starts in 1946 when all is right with the industry and MGM, which is still a part of Loew's. The protagonists are L.B. Mayer and Dore Schary, who battle for the favor of Nicholas Schenk. Schary wins the fight and Mayer resigns with a handsome profit. The second act takes place from 1951 through 1957 and the cast of characters expands to include Wall Street bankers, among others. Corporate revenues continue to shrink and dissident stockholders threaten a take-over. The crisis is resolved when the Vogel management turns back the Meyer-Mayer-Pomlinson attack and accomodates the company to television. This second act is the story I will detail here. Schary, Schenk and Mayer now disappear from the drama. The third act finds MGM a separate entity from Loew's and stretches to the 1967 crisis when Phillip Levin attempts to take control. The O'Brien regime weathers the storm. The fourth act (still in progress) is dominated by Kirk Kerkorian, who buys control of the company and in 1973 takes MGM out of the distribution business and into the hotel/casino game, thereby shifting MGM's geographical heart from Hollywood to Las Vegas and redefining what it is to be in the entertainment business. Just who are the heroes of each act depends on one's point of view. Suffice it to say that Nicholas Schenk looms large as a villain.

At the end of 1955 it seemed probable that MGM, long the "class" company of the American film industry, would soon go out of business. The consensus on Wall Street was that Loew's was ripe for liquidation. Financial analyst Arthur Wiesenberger summed up the case for the vultures when he pointed out in an investment report that liquidation would yield stockholders \$60 per share, far more than the current market price of 21 3/8. Not only was the whole film industry sickly, compared with other industrial sectors, but Loew's-MGM seemed especially slow in adjusting to the decline of the movie audience and the rise of television. The Wall Street firms with interests in Loew's felt that a company with falling earnings in a doubtful industry was hardly worth the bother of keeping alive. Loew's returned only 2% on its investment, but its assets were huge. These assets could be converted to cash. Surely the money gained from dissolving the company could be invested more profitably. The "concerned" financial firms seemed sure to attempt proxy fights and would probably gain substantial support from disenchanted stockholders. Once Loew's was wrested away from the movie men, it would be dismantled for the benefit of all but current management. Clearly Loew's had to meet this threat if it was to survive. But how had the company fallen into such a dismal situation?

In 1946, the best year in the history of the film industry, Loew's seemed exceedingly healthy. Its prestige and income were the highest of any movie company -- a happy situation which had existed more or less continuously since the late 1920's. Although Irving Thalberg (already the patron saint of Hollywood producers) was dead, Nicholas Schenk was still president, and the formidable L.B. Mayer still ruled the production factory. From the vantage point of 1955, however, Loew's upper management seemed a bit too comfortable to adjust to the times. While its competitors cut their theatres

loose in accordance with the 1948 consent decree, Loew's postponed the inevitable. Schenk and Mayer seemed unable to believe that a good thing could end, and scoffed at the challenge from television. When David Sarnoff tried in 1949 to persuade Schenk to go 50/50 in partnership with RCA, a move that would have combined the largest movie company with the largest broadcaster to create an entertainment conglomerate of gigantic resources, Schenk disdained the once in a lifetime offer. ( The magnitude of Schenk's mistake is shown by the fact that 1973 assets of RCA were \$1.807 billion as compared to MGM's \$142 million , while RCA's net income was around \$175 million as compared to MGM's \$2.1 million. The figures are comparable because the growth of each company has been <sup>largely</sup> internal rather than via acquisitions. Remember that Sarnoff offered an equal partnership at the time.) It was business as usual at MGM, despite falling profits and an alarming desertion of stars from the studio.

The decline in the fortunes of Loew's-MGM became apparent during the regime of Dore Schary, who succeeded Louis B. Mayer as production boss in 1951. Schary had been brought to MGM by Mayer in 1948 when it was clear to Schary that he would be merely a highly paid office boy at the Hughes -controlled RKO. With Schary came his Battleground project, one of the big box-office successes of the year. The scholarly-looking Schary was "self-cast for the role of Hollywood's leading liberal intellectual", according to a FORTUNE article. "His contempt for the popular and his accent upon the 'serious' led to the gibe, 'We used to be in the entertainment business, but have sold our souls for a pot of message'". Schary soon became Mayer's rival at MGM, and Nicholas Schenk took Schary's side in the disputes. Irritated by Mayer's disregard for his life-style and picture-making asumen, Schenk accepted Mayers resignation with some relief. But

Schary's message was lost at the box-office. Jupiter's Darling booked \$2.2 million in losses, while Plymouth Adventure lost \$1.8 million. Nor were other Schary projects very successful.

Meanwhile, a growing stink of corruption could no longer be ignored by Loew's stockholders. The delicate odor was traced back to the office of Nicholas Schenk. Back in 1941, Schenk's payoff to labor racketeers had become a major scandal when Schenk admitted paying Willie Bioff and George Browne of the stage hands union \$50,000 raised by padding the expense accounts of his New York executives. Although this scandal seemed safely in the past, it was remembered by MGM-watchers when it became evident that an intricate web of nepotism pervaded Loew's operations. Relatives of Schenk and his friend "Carnation Charlie" Moskowitz (who served as MGM's treasurer) cluttered the payroll in many Loew's branches, while four key suppliers (carpets, posters, advertising, candy concessions) were dominated by brothers, nephews and nieces of Schenk and Moskowitz. Bloated salaries were yet another problem. These continued at high figures despite the declining revenues. In 1955 Schenk received \$171,786, Schary \$200,000 and Moskowitz \$156,429. Through it all, Schenk attempted to obscure the company's growing problems by declining to attend stockholder meetings in which he might have to dodge some pointed questions, and refusing to break down profit and loss figures so that losing operations could be pinpointed. Simultaneously, he sought to bribe stockholders into quiescence by declaring dividends in excess of earnings.-- a ploy which, on the surface made Loew's seem very profitable indeed. After all, they must be making money to pay such handsome dividends, or so the uninitiated were supposed to think.

Over the ten year period 1947-1956 MGM film production lost more than \$6 million, \$4.6 million of it in 1956. These losses were



offset and hidden by profits from the re-issue of old film hits. \$16.8 million was gained through reissues, Gone with the Wind accounting for \$11.5 million of this figure. Meanwhile, actual production had fallen to 20 features a year, but the MGM facilities were still maintained at a level capable of producing forty to fifty films annually. Studio overhead was correspondingly at an exaggerated level, costing \$10 million in 1956 alone.

Clearly, the very best that could be said for the Schenk operation was that it was highly inefficient. Most judgements were far less flattering. By autumn of 1955, the 1956 fiscal year was already shaping up as a disaster. Wall Street seemed ready to pounce on the company and tear it apart. Drastic action was required at Loew's if it was to be saved from the vultures.

The immediate answer was to kick Nicholas Schenk upstairs, thus by implication blaming him for the corporate sickness. (As we have seen, this blame seems richly deserved.) Schenk resigned the presidency in December, 1955, to become Chairman of the Board. In his new role as scapegoat, Schenk did not retain the power to raise his friend Moskowitz to the presidency, although he seems to have tried his best to do it. (Think of the thrill of horror such an elevation would have caused on Wall Street.) Instead of Carnation Charlie, the presidency went to Arthur Loew, 56 years old, son of the founder, head of Loew's International, fresh from overseas distribution coups. In retrospect, however, Arthur Loew's installation seems only a holding action to give the company breathing space. The plot was transparent to the Wall Street banking firms of Lehman Brothers and Lazard Frères. Their representative on the Board of Directors, after waiting a decent interval, charged that Arthur Loew was slow to clean house. One quarrel centered on the immense studio backlog of films, as yet

uncommitted to television. Still acting like liquidators, the bankers favored outright sale of the pre-1949 backlog, while Arthur Loew preferred a leasing arrangement which would benefit MGM in the long run but bring no immediate cash.

"The most serious weakness in the company's position, however, was the fact that Arthur Loew simply did not want to be president. He had taken the job reluctantly. He was impressed with the recollection that his father had died at the age (fifty-seven) that he was nearing. And he sensed new struggles for control of Loew's in the offing." (FORTUNE)

So, in October of 1956, Arthur Loew abruptly quit. The representatives of Lehman Brothers and Lazard Frères resigned from the Board of Directors, and the open struggle for control of Loew's began.

The first task of the corporation was to find another president. The job was offered to Pat Weaver, formerly of NBC. He declined. Lew Wasserman of MCA also spurned the offer. Nicholas Schenk, still very much a presence at Loew's, pushed Charlie Moskowitz. After two weeks without a chief executive, Loew's got Joseph Vogel. Vogel had risen through the ranks from the position of usher in a New York theatre owned by Loew's to the head of the theatrical chain by 1954. "a man of calm and deliberation," Vogel was said to be able to forecast the total gross receipts of a picture within \$100,000. He was respected by the Wall Street bankers and, best of all, had no association with Nicholas Schenk.

Not every stockholder was pleased with the choice of Vogel. One of these was Stanley Meyer, who Fortune described as "a bold and voluble forty-four year-old citizen of Hollywood." Meyer was the son-in-law of Nate Blumberg, the exhibitor who had become chairman of Universal. His direct film experience was limited to having once been a co-producer of Dragnet with Jack Webb.

In the words of Fortune :

" In 1955, following the sale of his 25 % interest in Dragnet, Meyer found himself with a little more than a million dollars and nothing grand to do. His ambition was by no means so limited as his experience, the high point of which was his services to Webb. These entailed some contract negotiations, handling public relations, and negotiating Webb's divorce settlement with actress Julie London. As Meyer once summed it up, 'I'm like the guy with the shovel that follows behind the elephant.'"

But early in 1956, Meyer set out to stalk the lion.

His first trip was to the bankers. But Lazard Frères and Lehman Brothers were unimpressed with Meyer's sales-talk. Rebuffed by Wall Street, Meyer soon found he had certain interests in common with Joseph Tomlinson , currently of Fort Lauderdale, Florida. Tomlinson was a "gruff and blunt man of forty-seven, a Canadian citizen, an M.I.T. graduate who had made his several millions building roads in Canada." Unlike Meyer, Tomlinson was not ambitious for power. But he was concerned by the shrinkage in Loew's profits and anxious to do something about it.

Stanley Meyer then remembered another valuable friend. It seems that Louis B. Mayer, age 72, was a godfather of one of the Meyer children, and L.B. just happened to share Meyer's concern over the sad state of MGM.

The three outsiders planned their attack. Since L.B. Mayer, as a person of importance, refused to go to New York, Joseph Tomlinson went to Beverly Hills. There, again according to Fortune,

"Tomlinson was awed by the grand boast of the old producer: ' Just let the word get around Hollywood that L.B. is back and the talent will come crowding back to MGM.' In turn, L.B. hailed Tomlinson as ' a real two-fisted guy. '"

For his part, Stanley Meyer decided that he, S. Meyer, would be president of the reorganized Loew's.

By October of 1956, the team was organized and the struggle for stockholder support began. The target date was Loew's annual

meeting in February.

At first, neither management nor the dissident team appeared to take their opposition very seriously, but only later realized the difficulty of the battle. Louis B. Mayer announced that "I could save this situation--turn it around right away--or I'll eat my shoes for breakfast." To guarantee that Mayer would gain the position to do so, the dissident team hired Ben Javits (the brother of U.S. Senator Jacob Javits ) as counsel for the sum of \$100,000. Vogel, in turn, retained David Karr and Simon Rifkind (a former federal judge ) as lawyers for management.

At a press conference, Tomlinson denounced the Vogel regime as merely prolonging the corrupt rule of Nicholas Schenk, and promised the return of L.B. Mayer, Schenk's old enemy, to clean house once and for all. But questions from reporters soon revealed that Tomlinson was ignorant of certain facts relating to Mayer's past at MGM. He did not know, for instance, that L.B. had been the highest paid executive in the United States for seven years running. Neither did he know that Mayer had in 1951 sold out his interest in MGM films produced under his management for \$2.75 million. Tomlinson retired from the press in some confusion.

The next blunder was Vogel's. Seven men would be elected to the Board of Directors in February, 1957, while six, all Vogel's men, were to continue as directors. The fight was to determine who -- Vogel or the dissidents-- would elect these seven, thus gaining control of the company. Vogel personally owned only 23,000 shares of stock, while Tomlinson had 200,000 shares. Clearly, Vogel needed all the help he could get. He went to Lazard Freres to ask assistance, but received only a lecture on the past and present sins of MGM. The bankers were not tipping their hand. Nor was it at all certain which way the legions of Loew's stockholders would vote in a showdown. So early in January, Vogel conferred with Tomlinson

In the hope that the roadbuilder could be persuaded to withdraw from the fight. But Tomlinson, through Javits, demanded that he be allowed to fill six of the seven vacancies on the board of directors. Surprisingly, Vogel agreed to the proposal, thus giving the dissidents equal representation on the board. Perhaps Vogel despaired of gaining enough stockholder support to retain the seats; perhaps he was merely tired of the battle. At any rate, he had given up something for nothing.

The thirteenth director, according to the agreement with Tomlinson, was to be "independent" of either side. Argument followed on who would choose the neutral member. The choice was left to the bankers, who picked Ogden Reid, president of the New York Herald Tribune. Thus, in the new scheme of things, Wall Street held the swing vote which would decide who controlled the company.

The question of which side the bankers would support was answered when Wall Street made it clear that anything involving L.B. Mayer was anathema to them. At the February 28 stockholders meeting, seven directors voted to keep the present management. Vogel had temporarily won the fight, but faced six hostile directors who vowed to go gunning for him. Given this situation, Vogel was far from gracious in victory, declaring MGM to be a "goddamn concentration camp."

Before the February meeting, Vogel realized that he had to immediately turn Loew's around in order to placate the bankers and firm up his shaky regime. In 1956-1957, he thus made several major changes at Loew's. He fired Dore Schary, replacing him as production chief by Ben Thau, a former casting director. Schenk and Moskowitz relatives were swept from their positions, and all MGM purchasing was opened to competitive bidding. It was arranged that Moskowitz would retire. Television leasing was accelerated

and long term contracts were made with independent producers and stars to ensure product while reducing overhead. The Vogel management realized that the days of the totally self-sufficient studio were finished in Hollywood.

For his part, Tomlinson became impatient for a quick end to the fight. He tried to interest Texas oil money in the takeover scheme, but the Texans held off.

The second "show-down" meeting was on July 12, 1957 at the Culver City studios. The pretext was a tour of the studios for the Board of Directors, most of whom had never seen a film factory in operation. Two of Vogel's "tame" directors were unable to attend, thus Meyer-Mayer-Tomlinson controlled a clear majority on the board. A motion for Vogel's removal seemed sure to pass when Vogel ruled the motion out of order and began to dissolve the meeting. A rump meeting of dissident directors ensued, in which L.B. Mayer and his crony Sam Briskin were elected to the board to fill the vacancies. The newly constituted Board of Directors then voted that the president of Loew's could make no decisions of importance without the advance consent of the (new) Board, thus limiting Vogel to figurehead status.

As might be expected, Vogel refused to recognize the new board's authority. The battle went to the courts and on August 26 the rump session was ruled invalid. Thus the Vogel regime was once more confirmed in its power.

Proxy fights generally end with a whimper. Instead of fleeing the field of battle, the losers remain encamped on the scene, making threatening speeches and vowing one and all that single battles do not determine <sup>the</sup> war. Later, they ingloriously fade away. In this case, however, the fight ended with the death of Louis B. Mayer

two weeks after an open proxy vote had been won by management on October 15, 1957. Rarely has a fight for control ended more decisively than at Loew's.

The later history of MGM (now cut off from Loew's ) involves still another epic proxy battle. The bid of Phillip Levin -- a "balding, bustling" real estate magnate -- for control of the company came to a stockholders vote in March, 1967. Levin wanted the company to diversify into real estate, make cheaper films, and in general streamline their operation. Although Robert O'Brien's management narrowly won the fight, it is especially interesting in light of the fact that Levin's plans for MGM were actualized by Kerkorian in the 1970's. At the time of Levin's battle, management was also discussing several merger schemes, first with Twentieth Century-Fox, secondly with Teleprompter. According to the Economist, the MGM -Fox merger "failed only because the Irving Thalberg executive suite on the MGM lot was not big enough for both companies executives".

Sources:

Ennet John Hughes, "M.G.M. : War Among the Lion Tamers " Fortune August , 1957, p.98 . ( All quotes are from this article. )

Robert Sheehan, "The Cliff-Hanger at M.G. M. " Fortune, October , 1957, p. 134 .

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Film Daily Yearbook, 1956, 1957, 1958.

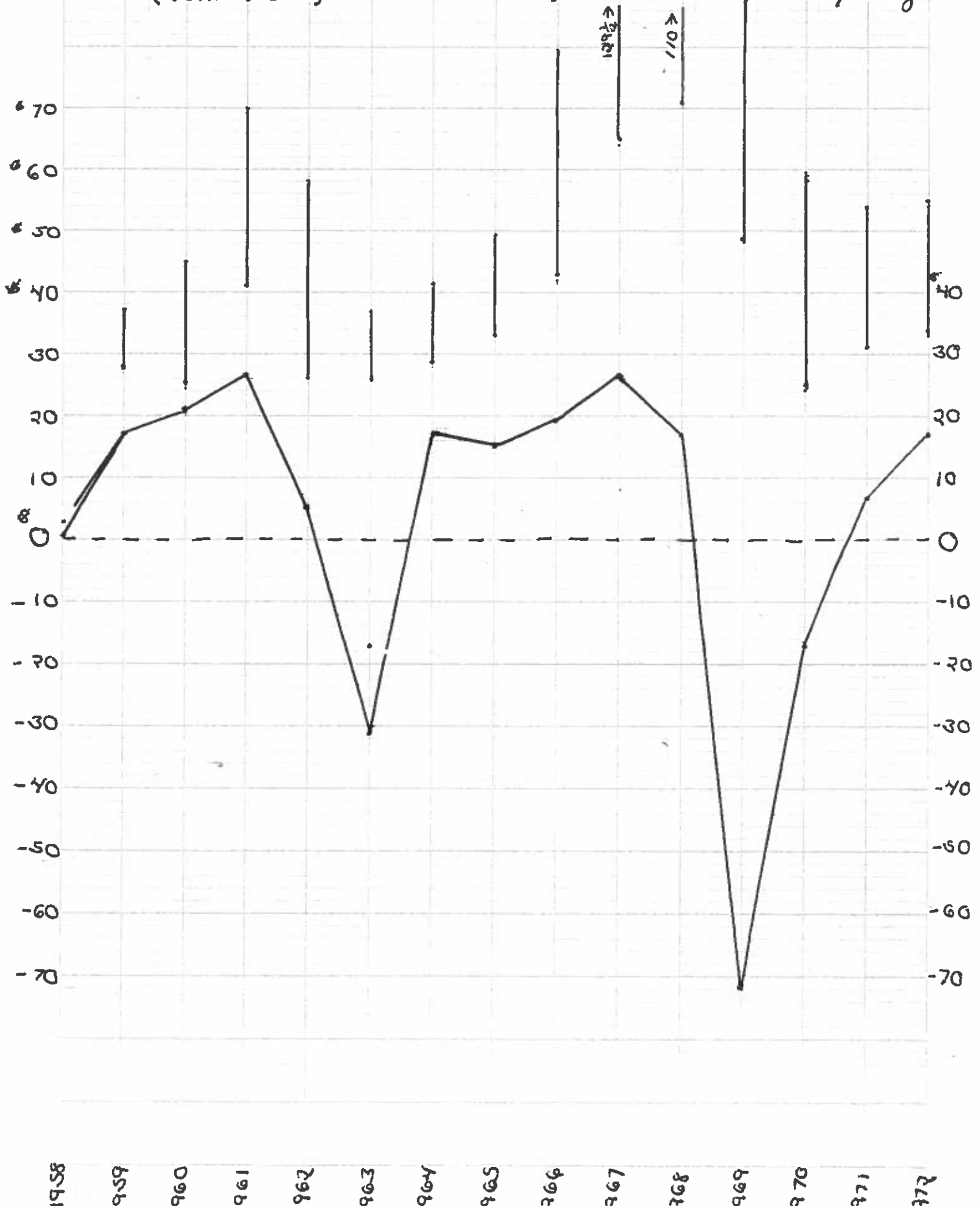
"MGM; Lion v. Levin" The Economist, March 11, 1967, pp.964-965.



# MGM NET INCOME BEFORE TAXES (millions)

STOCK PRICE  
(vertical bars)

1958 → 1972 Yrs to Aug 31  
Source: Standard & Poors Industry Analysis





Good and valuable stuff Dennis — may  
I have a copy (and of the previous one which  
I seem to have lost.)

I see you make no mention of the Bosley  
Crowthur books on M&M and on Mayer — is  
this because you regard them as unreliable?

(A)