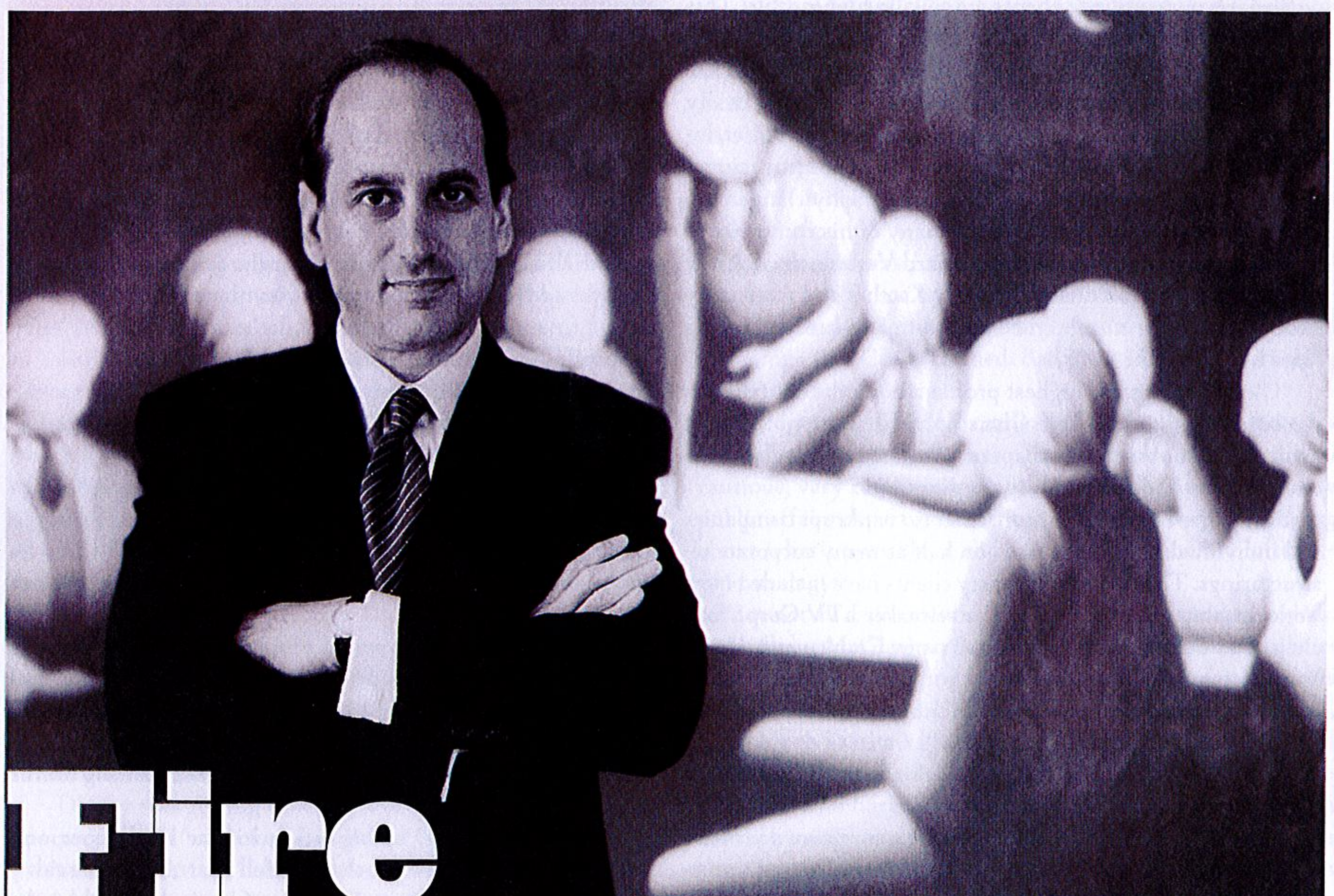
www.TheDeal.com

The Daily Deal & Silicon Valley News

Charting the deal economy

WEDNESDAY JULY 24 2002

VOL.8 NO.6



Fire stopper

SEC AFTER YOUR HIDE? FOR A FAT FEE, PR GURU MICHAEL SITRICK JUST MIGHT BE YOUR MAN

by Cheryl Meyer

American corporations today are in crisis, with many companies facing a fusillade of charges and public faith in business leaders sinking to its lowest levels since the Great Depression. Enter the fine art of "crisis communications," in which public relations pros tend to the interests and reputation of clients facing scrutiny from the media, shareholders or other quarters.

Perhaps the field's top practitioner is Michael Sitrick. As founder, chairman and CEO of **Sitrick and Co. Inc.**, in Los Angeles, he's made a specialty of doing damage control for a range of top executives, celebrities and even the Catholic Church.

Sitrick declines to disclose his current clientele, but since founding his firm in 1989 he has represented **Global Crossing International Ltd.** after its bankruptcy, **Exxon Mobil Corp.** after the Exxon Valdez oil spill, **Food Lion Inc.** in its battle with ABC over alleged health violations and **WellPoint Health Networks Inc.** in its botched 1995 merger with **Health Systems International.** Recently, Sitrick also advised one of Global Crossing's likely bidders, Los Angeles buyout firm **Gores Technology Group.**

As a 55-year-old former reporter, Sitrick's forte is helping clients accentuate the positive, no matter how dire the situation or negative the press coverage. His firm, staffed by former journalists from The Wall Street Journal, Newsweek and other media outlets, offers more than the standard PR duties by stepping in just when a deal is about to be announced or when a client is in trouble.

"He's really very good at taking the complicated situation and getting to the heart of the issue very quickly," said Alex Yemenidjian, chairman and CEO of **Metro-Goldwyn-Mayer Inc.** of Santa Monica, Calif. Yemenidjian has turned to Sitrick on numerous occasions, including in 1992 when French bank **Crédit Lyonnais** sued then-MGM mogul Kirk Kerkorian following the studio's rocky sale to an Italian businessman.

Sitrick's noncorporate clients are equally high-profile. This spring, the Catholic Archdiocese of Los Angeles hired him after dozens of current and former priests came under investigation by authorities in Southern California for sexually abusing minors. He also is advising actress Winona Ryder, recently arrested for shoplifting and drug possession, and singer R. Kelly, who was arrested on child-pornography charges.

But what sets Sitrick apart from many of his competitors, including New York firms **Citigate Sard Verbinnen, Kekst & Co., Joele Frank, Wilkinson Brimmer Katcher** and **Abernathy McGregor**, is the number of bankruptcy and restructuring cases he takes on.

"Clearly he has the highest profile among the PR firms in the bankruptcy area," said Christopher Beard, publisher of Frederick, Md.-based newspapers Turnarounds and Workouts and the Troubled Company Reporter.

Sitrick has represented more than 150 bankrupt companies and individuals and has worked on half as many corporate restructurings. The firm's bankruptcy clients have included New York clothing store **Barneys Inc.**, steelmaker **LTV Corp.**, food chain **Del Taco Inc.**, California's Orange County and actress Kim Basinger.

This year has been good for Sitrick and Co. Last year business was up 20%, and this year it will increase double digits over 2001, he said. In an average year the firm works with 200 clients, with rates of roughly $600 an hour.

"Our job is to let people know that the company does have a plan to get out of bankruptcy, to identify what caused a problem and what steps are being taken to fix the problem," Sitrick said. "A lot of companies think if they don't comment the media isn't going to write a story."

With so many companies under duress, crisis PR firms can help corporate managers better communicate their message to the public and investors, said John Boatright, executive director of the Society for Business Ethics and a professor at Loyola University in Chicago.

"If these firms can help them think through their decisions and present it to the public in an acceptable way, then I think they are performing a service," he said. "One thing that [firms] generally say is, 'Be up front, tell what you know and be open to the public.'"

That's the approach Sitrick's tried to take last year with **Dynegy Inc.** With the California energy crisis in full tilt, media in the state were assailing Dynegy and its energy industry peers for reportedly gouging consumers with high prices. Deborah Fiorito, Dynegy's executive vice president and chief communications officer, called Sitrick in to stem the tide of bad ink.

"Essentially what we were faced with was a reputation crisis," Fiorito said.

After flying to the company's Houston headquarters, Sitrick convened a meeting of reporters and editors to spin a Dynegy-friendly story. As a power producer, Dynegy wanted to differentiate itself from power traders such as **Enron Corp.** The strategy was to "make it clear that Dynegy was acting legally and ethically in the California power markets," Sitrick said.

By year-end, Sitrick also had landed then-Dynegy CEO Chuck Watson on the cover of Forbes Magazine, which did a flattering profile after the energy crisis had waned and the company's merger with Enron was terminated.

Sitrick also advises acquisition-primed companies before they do a deal, figuring out to best play the news. "He's a master of financial news trash talk, let's face it," said Henry Dubroff, editor and publisher of the Pacific Coast Times in Santa Barbara, Calif., and the former business editor at the Denver Post. "He's kind of gotten inside the psyche of the average business editor."

On the other side of the aisle, Sitrick helps execs strategize to get what they want. Several years ago one of his clients, an undisclosed defense company, was the subject of a hostile takeover. The company's CEO opposed the deal but wasn't sure how to fend it off.

"I said to him, 'What would cause this deal to fall apart?'" Sitrick said. The CEO said that if news surfaced that the deal would trigger the departure of key executives, that could threaten business at his company, which in turn could make it difficult for the prospective buyer to secure financing for the purchase.

Shortly thereafter, "A big article hit the local paper, and the banks got nervous and the deal fell apart," Sitrick said.

Although such ploys are a staple of business PR, over the years some have questioned Sitrick's tactics. In 1993, he represented wealthy businessman Bill Koch in his unsuccessful bid to buy a stake in Metro-Goldwyn-Mayer Inc., which was being sold by entertainment magnate Michael Ovitz and talent company **Creative Artists Agency**. In an unusual move, since CAA had not yet broached the deal with MGM, Sitrick issued a press release announcing Koch's unsolicited bid.

The deal fizzled, but Sitrick still defends that maneuver. "All I will tell you is my client was very pleased with the effort and publicity surrounding [the] ... acquisition of MGM," he said.

Then there are the clients that are in too deep for Sitrick to help. For example, Santa Barbara-based **Tenet Health Corp.**, formerly National Medical Enterprises, in June agreed to pay $55.8 million to resolve three federal probes that alleged fraudulent billing. Sitrick's firm had helped bail out NME in 1993, when the company faced more than 100 lawsuits by former patients, accusations of over-billing by insurance companies and federal and state investigations. Sitrick now only represents Tenet occasionally, he said.

Meanwhile, Dynegy's Watson recently resigned under a cloud and the company is looking to unload assets. Sitrick no longer represents the company, although he declines to say why.

Raised on the South Side of Chicago, Sitrick got his start as a reporter, working in both broadcast and print. But he quickly left journalism in search of a more lucrative career. "I was offered $160 a week to go into PR, and I said to my wife, 'I'd like to stay in journalism, but I prefer to eat,'" he said.

Sitrick then held a string of PR jobs, including at the University of Maryland, his alma mater; the City of Chicago's department of human resources; and Chicago PR agency **Selz, Seabolt & Associates** and **National Can Corp.**

Furniture retailer **Wickes Cos. Inc.** of San Diego recruited him in 1981, and a year later the company declared bankruptcy. During this time, Sitrick writes in his 1998 book "Spin," he helped repair Wickes' reputation by placing favorable profiles of CEO Sanford Sigoloff in various media outlets that highlighted the executive's accomplishments as a turnaround king.

Wickes emerged from bankruptcy protection in 1985, sooner than expected, and was acquired by private investors several years later.

In the late 1980s, executives at defunct investment bank Drexel Burnham Lambert, introduced him to **Shamrock Holdings** president Stanley Gold. Shamrock was the family investment bank of Hollywood tycoon Roy Disney, who at the time was trying to wrest control of **Polaroid Corp.**

Disney was getting killed by the Boston media and being portrayed as a "rapacious bandit" or "Roy the Raider." Gold was also under fire, being labeled an "asset stripper." Sitrick quickly lined up an exclusive interview with Gold for the Boston Globe. The chat gave the investment banker the opportunity to explain Shamrock's plans for Polaroid in a kinder light, according to Sitrick. The deal never materialized, but it launched Sitrick and Co.'s mergers-and-acquisitions practice, with the business subsequently evolving into a crisis-communications firm.

Today, despite the firm's premium prices, few clients balk at his fees. "You get what you pay for," said oil magnate Marvin Davis, who has worked with Sitrick for years.

"If you have a major business problem and you've got investment bankers and lawyers and accountants and other consultants, he is certainly at least as valuable as the other people charging $500 an hour," added Pat Garner, senior vice president of public affairs at WellPoint Health Networks Inc. of Thousand Oaks, Calif.

At least one client did recoil at Sitrick's billings. Orange County in the mid-1990s racked up a PR tab of more than $450,000 after the county government went bankrupt, though Sitrick eventually settled for a payment of about $365,000, according to published reports. Sitrick said his firm saved Orange County millions of dollars by keeping inaccurate reports about the county's bond portfolio out of the press. Had the stories run, bond buyers would have gotten cold feet, he said.

"Give me the $55 million, 1% of what I saved," Sitrick said.

Another Sitrick client, Los Angeles-based Gores Technology Group's Alec Gores, said Sitrick's efforts have boosted GTG's deal flow immensely by putting his company in the news. "I've also learned in the time that I've been with Mike that some PR is not all that bad," he said. "People have us now on the radar screen. Even though PR is something I didn't want, now I'm convinced it's the best thing that happened to our company."

Sitrick also was instrumental in advising managed-care company WellPoint in its 1995 deal to be acquired by Health Systems International. The merger ultimately flopped when the companies' CEOs clashed. Bad press followed, prompting WellPoint to hire Sitrick.

"A corporate public relations staff is usually almost totally focused on defense," Garner said. "It is also by nature very cautious, very risk-averse. What [Sitrick] brings to corporate public affairs departments is just a different way of thinking about what's possible, a consistently going-on-the-offense-type strategy."

But not all execs view crisis PR firms as corporate saviors.

William McGlashan Jr., newly appointed CEO and chairman of e-mail messaging provider **Critical Path Inc.**, said his San Francisco company never used an outside crisis PR firm, choosing to handle its media and public relations internally.

"I've got a very jaundiced view of PR in general," said McGlashan, who has steered CP through financial hardships, a federal investigation into its accounting practice and numerous shareholder lawsuits. "If your objective is to say we want a fair hearing, that's a different thing. Turning a sow's ear into a silk purse is another story, and I think [PR] firms are too often used to put a spin on a story that isn't fundamentally true."

Lloyd Greif, president and CEO of Los Angeles investment bank **Greif & Co.**, describes crisis PR firms as a "necessary evil." But such shops tend to be less effective today because business scandals are just too huge to fix, he said. Also, today's corporate troubles often unfold too rapidly for PR pros to manage the situations.

"Look at the headlines—[PR] is obviously not working," Greif said.

PR also has long been dogged by ethical questions regarding how far firms should go in representing clients' interests. Sitrick said he won't accept business if a potential client is "ethically not appropriate."

"All you have in this business is your credibility. So we work very hard to maintain it," he said. **D**