

## Judge hits pause on CBS-Redstone brawl, halting changes to CBS board

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In a day of high drama even for the media industry's most combative family, Shari Redstone spent Wednesday furiously trying to outmaneuver CBS in a boardroom brawl for control of one of America's most storied media companies.

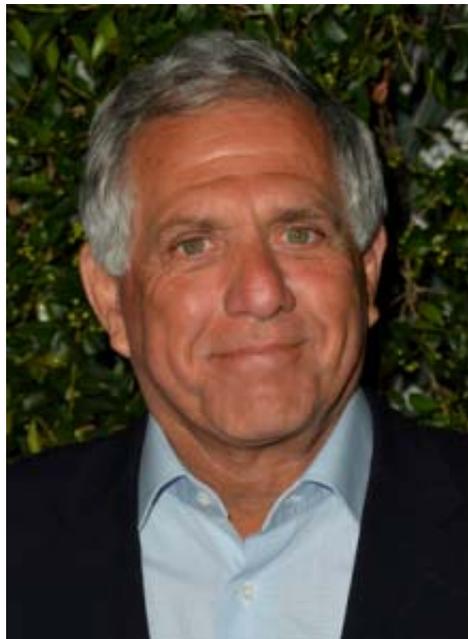
The Redstone family risks losing control of CBS, which has been part of its media empire for nearly two decades and includes America's most watched network. CBS board members, after months of behind-the-scenes tension, earlier this week began taking steps to strip the company's controlling shareholders — the Redstone family — of its power.

CBS' independent board members maintain that Shari Redstone — the daughter of the pugnacious billionaire Sumner Redstone — has been undermining the broadcast company by attempting to exert her will over the company, even if her decisions harm rank-and-file shareholders. She has been pushing to reunite Viacom with CBS, which her father split apart in 2006, but CBS has been cool to the idea.

"This is getting down and dirty," said Lloyd Greif, a veteran Los Angeles investment banker. "There is no way either party comes away from this without getting bloodied."

Analysts said that the escalating battle is unprecedented and that there is no clear indication who will come out the winner. CBS' respected chairman and chief executive, Leslie Moonves, also is on thin ice. Should he and other CBS board members lose their case against the Redstones, then Moonves' illustrious career could be over.

"I've never seen anything like this in four decades as a dealmaker," Greif said.



Shari Redstone has said CBS and Viacom would be stronger if merged. Leslie Moonves disagrees. (Stephen Smith / Sipa USA/TNS)

"We are talking about lasting damage on both sides."

CBS contends merger talks have wiped out \$7 billion in market value, harming rank-and-file shareholders. Last year, CBS shares were trading as high as \$70 a share, but lately have been hovering around \$50 a share. CBS fell 1% on Wednesday to \$53.83.

The wrangling comes during an important week for CBS and other major television networks, which have been rolling out their new fall schedules to hundreds of advertisers in prestigious venues around New York City.

Wednesday was CBS' turn. As Moonves walked out onto his favorite stage at

Carnegie Hall, the advertisers and entertainment executives in the room gave him a standing ovation. Moonves appeared choked up. He hesitated, nodded his head, then asked the audience: "How's your week been?"

USC business professor C. Kerry Fields said the situation was "highly unusual and unique."

"It appears that nothing short of Moonves — and other members of this board — leaving will satisfy National Amusements," Fields said, referring to the Redstone family investment vehicle. "But Wall Street is definitely behind Moonves and his management team."

On Wednesday a Delaware judge, Andre G. Bouchard, issued a protective order to prevent further changes to CBS or its board.

About an hour before the hearing, the Redstone family, through National Amusements Inc., took the extraordinary step of changing CBS' bylaws. The move appeared aimed at thwarting a planned vote by the board to weaken the Redstones' hold over the company.

The Redstones mandated that any major changes at CBS would have to be approved by 90% of the CBS board. Such a move ensures that no decisions are made without the support of Shari Redstone and her allies on the board.

The action appeared to trouble the judge, who will issue a formal ruling on CBS' request for a restraining order tomorrow.

The high-stakes showdown in court comes after four months of behind-the-scenes tensions between Moonves, other board members and Shari Redstone. She wants to merge CBS with another media company the family controls, Viacom, which owns MTV, Comedy Central, BET, Nickelodeon and the struggling Paramount Pictures. CBS does not want to be saddled with the troubles of the weaker Viacom, and on Sunday a special committee of the CBS board determined that such a merger was not in the company's best interest.

That conclusion was a rebuff to Redstone, who believes the two companies would be stronger together as traditional media compete with such technology giants as Facebook, Google, Netflix and Amazon.

CBS plans to hold a special board meeting Thursday to issue a dividend that would dilute the Redstones' control over the company's affairs. The family's voting stock would be reduced from nearly 80% of the shareholder vote to 17%.

CBS said there was a provision in its charter that allows for such a dividend. It asked the judge to block the Redstones from making any changes to its board before Thursday's vote could take effect.

"National Amusements Inc. believes the irresponsible action taken by CBS and its special committee put in motion a chain of events that poses significant risk to CBS," the Redstone family said in a statement midday Wednesday. "Due to the magnitude of this threat, NAI was compelled to take this measured step to

protect its position while also mitigating further disruption to CBS."

CBS has said it feared that the Redstone family would unilaterally make changes that would harm CBS shareholders. The Redstones' bylaws change reinforces the company's concerns, CBS said.

"The latest step by NAI provides further evidence of why we concluded that we had no choice but to file our action in the Delaware courts, in order to protect the interests of all CBS shareholders," CBS said in a statement after the bylaws change.

Late Tuesday, the Redstones filed a brief in the lawsuit, calling CBS' attempts to eliminate their voting control "egregiously overbroad and unjustified" and said the move would be "an unprecedented usurpation of a controlling stockholder's voting power."

The Redstones' National Amusements asked the judge to deny CBS' request to block the Redstones from making changes at CBS before Thursday's board meeting.

There is deep distrust on both sides. Moonves has bristled over media reports that Shari Redstone has been conducting a stealth search to replace him.

Moonves prides himself on his successful 12-year run managing the broadcasting company with little management oversight from the Redstones. But that changed in the last two years as the family patriarch, Sumner Redstone, who turns 95 next week, became ill and Shari Redstone began taking a more active role in Viacom and CBS.

Legal experts have called CBS' gambit to dilute the Redstones' power the "nuclear option." The Redstone family told the judge that such a severe remedy was not warranted, saying there was no clear evidence that Shari Redstone planned to make changes to the board.

National Amusements called CBS' effort "extraordinary both in scope and finality in response to unsupported allegations."

Shari Redstone already has one close ally on the CBS board: Robert Klieger, a Los Angeles attorney who served as Sumner Redstone's personal lawyer when the patriarch was sued by a former female companion. Klieger successfully represented Sumner Redstone in that fraught 2016 court case when the former companion, Manuela Herzer, tried to get Sumner Redstone declared mentally incapacitated. In 2017, Klieger joined the CBS board.

Last Friday, Klieger approached another board member, Bruce Gordon, and said National Amusements wanted a third board member, Charles Gifford, removed from the board before CBS' annual shareholders meeting Friday. In its brief, National Amusements said it had concerns with Gifford that stemmed from unspecified "incidents" that occurred in 2016 and 2017. (Gifford, 75, is a former Boston banker who has served as chairman emeritus of Bank of America Corp. since 2005.)

Earlier this week, National Amusements said the board member, whom it now revealed as Gifford, had engaged in "bullying and intimidation."

Gifford was not immediately available for comment. CBS defended Gifford on Wednesday, saying in a statement that he has "always conducted himself with courtesy, integrity and staunch dedication to all of our shareholders."

"It is unfortunate and revealing that NAI has resorted to baseless personal attacks against a member of CBS' board," CBS said in its statement. "The allegations regarding him are not only vague and unsubstantiated, they are utterly inconsistent with our knowledge of him."

CBS noted that Shari Redstone had previously supported Gifford's involvement in an important CBS board committee. In addition, six weeks ago, National Amusements said in a regulatory filing that it planned to support the reelection of all current CBS board members, including Gifford.

The corporate wrangling comes just two years after National Amusements unilaterally made sweeping changes to Viacom's board — moves that were announced via a fax that arrived in the office of Viacom's then-chief executive late one Friday in May 2016.

That dispute also wound up in a Delaware court, and Viacom Chief Executive Philippe Dauman eventually resigned. That helped clear the decks for Shari Redstone to install Bob Bakish as the new chief executive of Viacom.

Talks about a Viacom-CBS merger broke down over her push to have Bakish serve in an influential role at the combined company.