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ACCOUNTABILITY AND RHETORIC DURING A CRISIS: WALT DISNEY'S 1940 LETTER TO STOCKHOLDERS

Abstract: In 1940, Walt Disney was faced with crafting a message of corporate accountability under duress. His company, the product of his creative genius, had been forced to submit to public accountability. It had a pressing need to raise preferred equity finance for a major expansion during a period of market uncertainty, war, and reported losses. This paper conducts a "close reading" of the "Letter to Stockholders" in Walt Disney Productions' 1940 annual report, the first such letter signed by Walt Disney. The letter's rhetorical features, including metaphor and ideology, are examined in the context of the times. What is revealed is an accountability document skillfully crafted with the exigencies faced by Disney's company firmly in mind. The letter offers suggestive insight to the world as Disney made sense of it. The paper contributes to understanding the use of rhetoric by top management in activities related to aspects of financial accountability and reporting. It also helps to understand better a significant public persona of the 20th century, Walt Disney.

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SCOPE AND OBJECTIVES

Analysis of annual reports, including letters by CEOs to stockholders, has a long history in management and accounting literatures. Discourse by CEOs is important not only because of the power that corporate leaders wield in their own organizations, but also because of their political and cultural influence generally. Since such discourse may be viewed as a form of sense making [Weick, 1995], its study also has value because the CEO may be talking or writing at least partly to himself or herself, and in so doing creating, justifying, and reacting to the world thus fashioned. We think, talk, and write to help us learn and understand what we then know [Lakoff and Johnson, 1980; Lakoff, 1993; Weick, 1995]. CEOs are no different.

The many papers which have examined CEOs' letters to shareholders included in corporate annual reports have had a focus *other than* exploring the metaphors and ideologies at play within such discourse (e.g.; Bettman and Weitz [1983]; Salancik and Meindl [1984]; Hager and Scheiber [1990]; Jones and Shoemaker [1994]; Abrahamson and Amir [1996]; Thomas [1997]; Courtis [1998]; Hyland [1998]; Devinney and Kabanoff [1999]). This paper follows a path largely untrodden in previous studies of stockholders' letters in accounting annual reports. It explores, by means of a "close reading," meaning in the narrative of the stockholders' letter of the first public annual report of the global company which still bears Walt Disney's name. Such accountability narrative merits close reading since it is part of the "battery of belief-forming institutions" [Tinker, 1985, p. 82] top management uses to define the language by means of which its self-accounts are to be written. Our close reading is performed with an interest not only in "examin[ing] the way discourses are constructed in order to achieve certain effects" [Eagleton, 1983, p. 205], but also to help reveal more about the author.

The close reading we conduct is similar to Slagell's [1991, p. 155] "close textual analysis" of Abraham Lincoln's second inaugural address during the American Civil War, in which she "considers the speech in relation to its historical setting" (pp. 155-156). Of course, in contrast to an American president's inaugural address, CEOs' annual letters to stockholders are mundane, common discourses of seemingly minor importance. It is perhaps *because* of their commonness and institutionalized, periodic, calendric role in the functioning of our socioeconomy that such common documents deserve scrutiny. Letters to stockholders, written by CEOs and published in corporate annual reports, are too important a part of the ideological paraphernalia of our society to be ignored or brushed aside as *mere* rhetoric.

The chosen text is the letter to stockholders included in the annual report of Walt Disney Productions, issued in respect of the financial year ended September 28, 1940, and signed by Walt Disney. Disney's company had been compelled to seek outside capital to finance the expansion of its studio. Our analysis uncovers aspects of the public persona of the then very prominent Walt Disney, a person reputedly "the most significant figure in graphic arts since Leonardo" [Garraty and Carnes, 1988, p. 131, citing British cartoonist David Low]. He, or his alter ego, is revealed, *inter alia*, as a skillful financial and business rhetorician whose discourse reveals ways of thinking that accord with the ideology of the market [Carrier, 1997]. Such microanalysis of an accountability text prepared by top management is consistent with entreaties for accounting-related narratives in annual reports to be investigated "to better understand the motives and attitudes of management and the communication process" [Jones and Shoemaker, 1994, p. 174], and, more generally, with polemics in recent accounting literature encouraging "greater use of narratives in accounting and management research" [Llewellyn, 1999, p. 233].

The particular Disney stockholders' letter we analyze deserves special study for three additional reasons:

- First, it is the initial stockholders' letter of the Disney Company, a corporation that today has global importance in the entertainment and communications industries.
- Second, the letter was a public and permanent document signed and most likely substantially crafted by Walt Disney (perhaps with contributions from his brother Roy).[1] Thus, it has potential to provide insight to Disney's public persona at the time and seems likely to add to historical understanding of this acknowledgedly charismatic, yet complex business and cultural leader [Boje, 1995; Bryman, 1995]. We cannot say with certainty (nor can anyone we expect) that Walt Disney physically drafted

[1]Attributing authorship unequivocally to Walt Disney solely or substantially is difficult if not impossible. While acknowledging this lack of strong, unequivocal proof of authorship, we take some solace that it is the "metaphoric Walt," as mentioned in the next footnote, that may be of sustaining importance. As Schickel [1968/1997, p. 44] wrote: "In the last analysis, Walt Disney's greatest creation was Walt Disney." There is no doubt that the "metaphoric Walt" signed and is accountable for the letter.

the 1940 stockholders' letter. However, in view of his reputation for keeping "a sharp eye on financial arrangements" [Capodagli and Jackson, 1998, p. 185], his multi-skilling philosophy, his acute awareness of the "bottom line," and his obsession with careful attention to small detail [Capodagli and Jackson, 1998, pp. 7, 181-185], it seems likely that he was strongly implicated. Watts [1997, p. 260], a Walt Disney biographer, referred to "Walt's comments" in his brief reference to the company's annual reports of the 1940s. In addition, Schickel's [1968/97, p. 256] detailed descriptions supporting Walt Disney's dominant role and "father figure" persona in regard to his company, provided strong, albeit circumstantial, evidence that Disney had at least some significant hand in the letter's crafting.

- Third, since stockholders' letters in recent Disney annual reports make explicit, favorable reference to "Walt" [Amernic, 1998], a "metaphoric Walt" may influence current-day Disney CEOs.[2]

The paper proceeds as follows. The next section provides context for the letter and its analysis. The third section examines rhetorical qualities of the letter, except for metaphor, which is analyzed in section four. A final section contains concluding comments.

CONTEXTUALIZING THE DISNEY STOCKHOLDERS' LETTER

The Stock Issue–Features, Reasons, Consequences: In 1940, Walt Disney Productions, as the company was then known, was a relatively small film production studio in terms of financial and tangible assets, but not in terms of reputation, expectations, and innovation. It had just gone public by issuing 155,000 shares of $25 par value, 6% cumulative, convertible preferred stock (see Exhibit 1). As a consequence, the Disney brothers' company became publicly accountable. Its first annual report, for the fiscal year ended September 28, 1940, was issued in December 1940. That report is the focus of this paper. Of particular interest is the letter to stockholders, a text not only proffered to the public domain but also *personally* associated with the company's chief executive. The letter to stockholders was signed by Walt Disney and was included as the first main component of the report.

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[2]A reviewer has drawn attention to the prospect that a "metaphoric Walt" helps provide flexibility in justifying present business practices of the Disney corporation. He could be used in much the same way as Sam Walton might be used as an ongoing mythic figure at Wal-Mart Inc.

EXHIBIT 1
Selected Financial and Other Information About Walt Disney Productions in 1940

Reported net income or loss for fiscal year ended September 28, 1940*	A loss of $1,259,798
Total assets reported on balance sheet as of September 28, 1940*	$8,562,137, of which $4,926,557 represented costs associated with feature films and short subjects (in other words, "soft" assets)
Stockholders equity reported on balance sheet as of September 28, 1940#	$5,787,646
Number of employees*	1179 (as of September 28, 1940)
Number of feature animated films released in fiscal 1940*	one (*Pinocchio*)
Total reported production costs for feature animated films released in 1940*	$2,595,380
Number of shorts ("cartoons") released in fiscal 1940*	ten
Average production costs for a cartoon released in 1940#	$22,548

*from 1940 annual report.
#derived from information in 1940 annual report

Disney was prompted to raise capital from the public, according to the *New York Times* [February 22, 1940, p. 35, col. 7], by an immediate need to provide permanent capital for the company's huge expansion program then nearing completion—a $3 million, 51-acre studio complex in Burbank, California. In 1940, *Time* magazine [March 25, 1940, p. 77] put it thus:

> Last week, with its second full-length feature, *Pinocchio*, ready for a nation-wide Easter week opening, Walt Disney productions applied to the SEC for permission to sell 155,000 shares of $25 par, 6% cumulative convertible preferred stock. Purpose of the $3,875,000 offering: to pay off bank loans incurred in building the company's new studio at Burbank, Calif., and to provide working capital for four more features now in production: *Bambi, Wind in the Willows, Peter Pan, Fantasia.*

Disney had a long history of reinvesting profits from his animated films and other revenue sources. He did so to meet ever-rising production costs and to help ensure even better films in the future [Hollister, 1940]. As early as 1934, *Fortune* magazine [1934, p. 91] described Disney as reinvesting profits "for the sole purpose of making his films more beautiful, more elaborate, more nearly perfect." But, by early 1940, earnings had taken an unexpected battering for three principal reasons: the lukewarm box office response to *Pinocchio*, Disney's difficulties in containing costs, and the effects of the European war.

Bryman [1995, pp. 9-10] summarized the position confronting Disney:

> Largely as a result of *Snow White*'s success [released on December 21, 1937], Walt realized that feature film production had to become the Studio's main focus, and soon afterwards work began on *Pinocchio*, *Fantasia*, and *Bambi*. In order to accomplish this level of production effort...the [Disney] brothers decided to build a new studio. In the summer of 1938, they placed a deposit for a new purpose-built studio in Burbank. In effect, the new studio building would consume the bulk of the profits from *Snow White*. The move was completed in May 1940, by which time the studio had about 1,100 employees. The Studio's financial position began to deteriorate [in 1939]. Both *Fantasia* and *Pinocchio* performed poorly at the box office and produced sizeable losses, the former especially so, since they had proved very costly to produce. Also, Disney's European market had all but dried up as a result of the war...the Studio was heavily in debt and was forced to issue [preferred stock] shares to the public in April 1940, *a move to which the brothers had always been opposed* (emphasis added).

The reasons for the preferred stock issue merit some elaboration. While the audiences responded very positively to *Snow White* ("The $1,500,000 borrowed to make *Snow White* was repaid within three months..." [Hollister, 1940, p. 700]), there was always the risk that after the initial successes, the movie-going public would consider such films just a fad and would quickly lose interest. Disney's next animated feature, *Pinocchio*, released in 1940, fared poorly. It was a challenge to create and produce full-length, animated films involving cartoon characters that audiences would pay to see. The market for feature films of this type was new and unproven.

Additionally, Disney was struggling to maintain profitability in an environment characterized by a rapidly changing technology in animation and movie making. He was confronted by market uncertainty and considerable production risks posed by the challenges of new technology (i.e., coping with the special sound equipment requirements for *Fantasia*). It was a challenge as well to maintain control over costs while at the same time striving for better quality ("The average pay is higher than the average in any other Hollywood studio" [Hollister, 1940, p. 700]). In a sense, his problem was similar to that now confronting computer hardware and software companies.

The European war[3] also had a major impact on the studio by limiting the company's ability to release pictures in any of the countries at war. This constrained the market for basic cartoon shorts and, even more importantly, for new features. Given the technological and cost-control risks associated with new, full-length, animated films, losing the potential to spread some of the market-acceptance risk was a serious blow – audiences in foreign markets might have resulted in a future stream of revenues even if the domestic market eventually regarded these films as mere fads. Furthermore, currency regulations, as well as fluctuations in foreign exchange rates, reduced the company's revenues from pictures already released in foreign countries. And even domestic cinema goers might be less inclined to spend their disposable income on going to the theater, given the prospect of U.S. involvement in the war.

So, at the time Walt Disney signed the 1940 letter to stockholders, Walt Disney Productions was in a precarious position. It had to learn to master new technology. It had a product with a potentially vast market, but that market was largely unproven in the longer term. The European war was beginning to have an impact and seemed destined to create further havoc with film distribution and markets, both worldwide and domestically. The intimate control exercised by Disney over every facet of the business[4] was being strained by rapid expansion and the challenges mentioned above, as well as by the need to raise funds through a public stock offering. Schickel [1968/1997, pp. 49, 247] described Disney's attitude within the context of this difficult time in the following way:

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[3] Although it had provided significant support to Britain and its allies, the U.S. did not enter World War II until after the Japanese attack on Pearl Harbor, December 7, 1941.

[4] According to Hollister [1940, p. 700]: "Walt is the spark plug of production. No story starts toward a picture until Walt has bought or invented it, shaped it, tried it out, and given it a push...Throughout the production pattern of every picture Walt threads in and out like a guiding outline...Walt knifes into the most minute step of the most microscopic element..."

> ...The precariousness of the family's livelihood undoubtedly shaped his own desire not merely to succeed but to do so in a particular way—namely, to avoid surrendering any part of his autonomy to outsiders and to hold his company's stock and its decision-making power as closely as he could.
> ...Indeed, in 1938 he had every reason to believe that he could afford a money-losing experiment [that is, *Fantasia*]. But with *Pinocchio* unable to perform as expected abroad and with the potentially profitable but difficult *Bambi* put aside in order to devote full effort to *Fantasia*, he was suddenly in perilous straights. Far more than should have depended on *Fantasia*.
> And the situation worsened even as the film approached completion. Early in 1940 the banks shut down the Disney credit line entirely, and in order to raise operating capital he was forced in April, 1940, to offer stock to the public for the first time—a step he feared would mean dilution of his control over the enterprise...it was a psychological blow that was perhaps harder for him to take than it would have been for other men.

To exacerbate matters, the company had incurred a significant loss in 1940 (see Exhibit 1). Thus, it was an opportune time for Walt Disney to display the charismatic leadership for which he became famous. The thesis of this article is that he did so partly through skillful rhetoric employed in the 1940 letter to stockholders. To contextualize further the circumstances leading to the stock issue and the environmental circumstances in which Disney's letter to stockholders was composed, it is important to develop a better understanding of the history of the Disney company and the persona of Walt Disney, subjects to which we now turn.

Company History: In 1924, Walter Elias Disney, a 23-year-old cartoonist, opened a small animation studio in a storefront in Los Angeles with his older brother Roy. The business was known as the "Disney Bros. Studio," but when it moved into new premises near downtown Los Angeles in 1926, it became the "Walt Disney Studio." Disney's early ventures endured hardships typical of many business startups.[5] Walt Disney went bankrupt before his move from Kansas City to Los Angeles and his subsequent initial success in the late 1920s. He is reported to have said: "When I was 21, I went broke for the first time. I slept in chair cushions in my studio in Kansas City, and ate cold beans out of the can" [Boje, 1995, p. 1024].

The company achieved its first major success when its animated cartoon, *Steamboat Willie*, featuring the new *Mickey Mouse* character, was shown at the Colony Theater in New York on November 18, 1928. Although the company's cartoons were very popular, by the early 1930s the Walt Disney Studio was struggling to survive since, among other problems, animation costs continued to rise. But its fortunes were soon to improve. Lucrative merchandising agreements were negotiated, granting permission for images of Disney characters, such as *Mickey Mouse*, to be used on manufactured items.[6] With the release of the company's first feature animated film, *Snow White*, merchandising agreements were at the forefront of what was called "a new dimension in fashion merchandising" [Bristol, 1938, p. 13].[7] The introduction of color to improve cartoon quality led to an Academy Award and commercial success for the studio's first color cartoon, *Flowers and Trees*. Other innovations in animation, such as providing cartoon characters with unique, focused personalities (as in *The Three Little Pigs* and for characters such as Pluto, Donald Duck, and Goofy) appealed to Depression-era audiences.

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[5]Problems included decreasing profit margins on their products (cartoons) as they endeavored to make technical improvements to satisfy their market, as well as hardball tactics by their financial backers (who lured away several of Disney's animators). The material for this and several following paragraphs draws upon Bryman [1995], unless otherwise noted.

[6]The *New Internationalist* [1998], the *Walt Disney Company 1997 Fact Book*, and de Cordova [1994] are drawn upon to disclose that, "In 1930 the first international licensing contract for the sale of Mickey Mouse merchandise was signed...[and that]...the first Mickey Mouse watch was sold by Ingersoll Watch Company in June, 1933" [*New Internationalist*, 1998, p. 19].

Disney's approach to licensing his animated characters for commercial exploitation was highly successful very quickly: "...in 1932 sales of Disney character articles had totaled $300,000, in 1937 they were $35,000,000" [Bristol, 1938, p. 15]. That success has become institutionalized; in modern times there is a well established and curiously seamless fusion of cinematic art with consumerism: "Every Disney animated film comes bundled with a complete marketing strategy for merchandise, interactive games and a line of children's books" [*New Internationalist*, 1998, p. 28].

By 1934, the company employed 187 staff. Walt Disney decided to expand into the feature film business since "it was becoming increasingly difficult to combine the growing costs of animation... with the inherently limited returns that could accrue from shorts" [Bryman, 1995, p. 9]. The company's first feature-length animation movie, *Snow White and the Seven Dwarfs*, which opened on December 21, 1937, was a great success, at first critically and then commercially.[8] The company began other animated features (*Pinocchio*, *Fantasia*, and *Bambi*), while continuing to produce cartoon shorts. It soon outgrew its studio facilities. Plans for a new, custom-designed studio were hatched in the summer of 1938, and the company, now with about 1,100 employees and called "Walt Disney Productions," moved into its new studio in May 1940. The decision to focus much of the company's efforts on very expensive but potentially very profitable feature animated films, as well as the related need for new production facilities, prompted the company to raise funds from the public through a preferred stock issue in April 1940. It subsequently released its first published annual report in December of that year.

Disney Persona: By 1940, Walt Disney was acclaimed widely as an international success. Indeed, even by the early 1930s, Disney had reached a position of eminence that matched the greatest of Hollywood stars. His admirers included Italian conductor Toscanini and Russian film director Eisenstein, among a glittering array of adoring fans [Costantino, 1991, p. 12]. Disney's *Mickey Mouse* character became "a national figure, an international attraction, and finally a cultural totem" [Garraty and Carnes, 1988, p. 130]. Critics from New York to Leningrad were said to "gravely laud him" [*Fortune*, 1934, p. 89].[9] In 1934, his comedies were exhibited in 88 countries, and he was said to be "an international hero, better known than Roosevelt or Hitler, a part of the folklore of the world" (p. 89). Watts [1997, p. 124] described the cultural influence of Disney in the 1930s in the following way:

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[8]One wonders whether modern-day audiences would have been so receptive to a female hero who was "young, virginal, pretty, sweet-natured and obedient" and unfazed by domestic drudgery through absolute belief that "a handsome owning-class chap [would], someday soon, come and save her" [Maio, 1998, p. 12].

[9]All references in this section are taken from *Fortune* [1934], unless otherwise indicated.

> Universities...provided reinforcement for the notion of Disney animation as art. In 1933, the College Art Association helped arrange an exhibition of Disney drawings in New York. Five years later, Harvard, Yale, and the University of Southern California granted honorary degrees to Walt Disney...

The lengthy and major profile of Disney and his film-making operations in *Fortune* magazine in 1934 portrayed him as a myth-maker. His products were said to enthrall audiences throughout the world by bringing them to a "delicate balance between fantasy and fact, poetry and comic reality." They were said to appeal to the simplest emotions and to give pleasure. They had "plasticity" – nothing in a Disney film was impossible (p. 88). The themes of his cartoons were such that "courage overcomes wickedness and fear; industry triumphs over dalliance; false ambition gives way to resignation" (p. 88). In sum, they were short morality plays. They were the epitome also of what has become known as "disneyfication" – "sanitized, safe, entertaining and predictable" entertainment [Ellwood, 1998, p. 8].

Disney has been described as a moody, deliberately "ordinary," informal man who, although having "rural gusto and naïve fancy" (p. 90), nonetheless had an imagination renowned for its fantastic quality (p. 146). He was a stickler for high artistic standards; he made daring and innovative use of music, sound, and folk material; and he was reported to "mistrust the shoddiness and hypocrisy of the pseudo-artist" (p. 146). His personality was said to have been shaped by "a nostalgic yearning for romance or simple values" and to have been affected by a "frugal, authoritarian and moralistic" father [*New Internationalist*, 1998, p. 8].

But as Boje [1995] has argued, Disney had a "darker side." The *Dictionary of American Biography* claimed that Disney became "self-satisfied, intractable, arrogant" and was "probably never the quite generous father of a gifted flock that he seemed on the surface" [Garraty and Carnes, 1988, p. 131]. "The discerning eye," it was said, could find in his programs "breaches of taste, philistine wisecracks, a milking of the nostalgic mood, slipshod cultural references, a growing dependence on received folklore and other people's classics, and an increasingly slick technical achievement of rather tawdry effects" [Garrety and Carnes, 1988, p. 131]. His character *Mickey Mouse* was said to have been flawed by a streak of sadism, and the film *Fantasia* was adjudged by some as a "pretentious hodgepodge." He was alleged to be "both paternalistic and domineering...he brooked no dissent, rewarding loyalists with favors and punishing dissidents" [*New Internationalist,* 1998, p. 8].

RHETORICAL QUALITIES OF THE 1940 LETTER TO STOCKHOLDERS

The Writer: In 1940, Walt Disney was not just another ordinary corporate CEO writing a stockholders' letter for the first annual report of a relatively small, new public company. As we have shown above, he was a cultural sensation. He had been written about rather extensively in the 1930s in major national publications such as *Fortune, New Yorker, American Magazine, Scribner's, New York Times Magazine, Time,* etc. [Bryman, 1995]. He was also someone who guarded with zeal his prerogatives to lead and to control the results of his genius [Hollister, 1940]. As Bryman [1995, p. 10] claimed, he was "forced" to issue shares because of the company's debt. How might a cultural icon, whose creative genius had long been publicly acknowledged, contemplate the writing of a stockholders' letter as part of a compelled accountability flowing from the apparently unwanted, but financially necessary, public offering? This question is important in a rhetorical sense since "the speaker's life, insofar as it is public, forms a long prelude to his speech" [Perelman and Olbrechts-Tyteca, 1958, p. 320].

The Audience: Modern annual reports, including the stockholders' letter, often have many audiences with diverse and partly conflicting interests. These audiences include current and potential stockholders and debt holders, financial intermediaries, employees, unions, competitors and the public-at-large, among others. While it seems reasonable to surmise that Disney's 1940 letter was an important part of financial reporting intended for similar diverse constituencies, perhaps the first among equals was the new group of preferred stockholders. Disney was in a somewhat invidious position for he had just been provided a financial lifeline to sustain his company. He was confronted with the problem of crafting a document mainly intended for the company's new preferred stockholders. He needed to be alert to the potential they had to constrain his ownership and his pursuit of all things associated with his icon status. He would need to acknowledge the various operating and market difficulties the company had faced and the difficulties it might face in the future. Additionally, he would have to explain effectively how top management (that is, the Disney brothers) was firmly in control and leading the company towards future success. In clear and compelling terms, he would need to analyze the company's performance and prospects so as to encourage strong and unwavering adherence to Disney's leadership of the newly public company. His letter would have to serve as a public vehicle for sense making [Weick 1995, p. 13] by preferred stockholders and others interested in the company, including himself and his brother.

Rhetorical Characteristics of the Initial Substantive Section: The 1940 "Letter to Stockholders" is reproduced in Appendix 1. Its second section, following immediately after the warm but respectful welcome, is headed "NEW STUDIO." It is reproduced below with each sentence labeled for reference:

NEW STUDIO
[Sentence 1] At the time of the sale of the 6% Cumulative Preferred Stock, the Company was constructing and equipping its new studio. **[Sentence 2]** This studio was substantially completed and equipped and virtually all of the Company's production operations were transferred thereto by the end of May, 1940. **[Sentence 3]** As a result of the increased facilities, the Company has been able to augment its production of completed footage by more than 100% and has succeeded in lowering the cost of production per foot substantially. **[Sentence 4]** Therefore, the Company will be able to carry out its new policy of releasing two or more feature subjects each year as well as a large number of short subjects. **[Sentence 5]** As a result of the reduction in costs, short subjects are now being produced at a figure which the management believes will result in profitable releases even though sources of income in certain foreign countries now at war are no longer available.

Sentence 1 links the preferred stock issue (that is, the resources provided by the "Stockholders" to whom the entire letter is addressed) with the positive, forceful activities of "constructing and equipping." While the "ing" endings are a weak example of rhetorical use of repetition (*homoioteleuton*), the effect is made rhetorically stronger by culminating in the fulfillment of a major task ("completed," "transferred," "succeeded"). This is an extremely positive section of the letter, with good use of forceful action words and a strong sense of direction. Indeed, Sentence 4 beginning "Therefore, the Company will be able to carry out its new policy..." assures that promises will be kept and that the company has a logical, rational plan unfolding as it should. It establishes the following close, sequential linkage:

New financial resources from preferred stock issue

↓

New, larger studio

↓

Increased capacity and efficiency

↓

Lower unit costs

↓

Increase in number of features released and short subjects

↓

Expected profits

This piling-up of arguments in support of expected profits, rhetorically a sort of *diallage*, which Lanham [1991, p. 51] explained as "bringing several arguments to establish a single point," creates a sense of moving forward with an active, in-control management in charge.[10]

[10]Within this piling-up of arguments are other rhetorical devices. First, repetition of the phrase "As a result of" at the start of sentence three and sentence five interlaces two references to cost reduction. Such phrasal repetition verges on *anaphora*, whereby the same words "are repeated at the beginning of successive clauses..." [Lanham, 1991, p. 11]. Second, the use of action-oriented, decisive words and phrases such as "At the time of the sale;" "was constructing;" "was substantially completed;" "were transferred;" "As a result of;" "has succeeded;" "Therefore;" "will be able;" "now being produced;" and "will result in" is the textual equivalent of *epitrochasmus*; that is, "a swift movement from one statement to the next; rapid touching on many different points" [Lanham, 1991, p. 70].

There is also a short, almost completely self-contained, five-sentence, morality-tale narrative of the American success story in this passage. It seems fitting that Disney the storyteller would incorporate narrative into his CEO discourse in the stockholders' letter. After all, if important external constituencies, and internal ones as well, buy into top management's strategic narrative, such discourse has certainly served its purpose [Barry and Elmes, 1997]. The uncertainty associated with the business is incorporated subtly, almost unobtrusively, by the use of words "substantially" and "believes" and the rather soft introduction of the threat to "sources of income in certain foreign countries now at war."

The story narrated in this passage seems almost as fictional as a Disney cartoon, thereby making the rhetorical quality of the section more interesting. The company had borrowed considerably to establish its new facilities and expand its work force. It had done so believing that more lucrative opportunities would flow from animated features rather than from short subjects. But cost control problems, some market resistance, and the European war had intervened. This had compelled the Disney brothers to do something they did not want to do – issue preferred stock to reduce part of the debt and provide them with some liquid funds. Given these events, it is contestable whether Disney was in control of his company to the extent that might be demanded. Thus, his use of rhetoric was adept and skillful impression management, directed to portraying what was arguably a mirage; that is, of Disney being decisive and in control of all dimensions of his company's affairs [Salancik and Meindl, 1984].

"EFFECTS OF THE WAR" and "PRODUCT": The contrast between the second and third sections is dramatic. While the second section was upbeat and optimistic, there unfolds in the third section a series of negative news about the impact of the war, again characteristic of *diallage*. The first sentence of this section ["The effect of the war in Europe upon the affairs of *your* Company has been serious and the full measure thereof cannot yet be determined" (emphasis added)], stands in stark contrast to the previous section's final sentence in which the war was blamed almost as an afterthought for making "sources of income in certain foreign countries" "no longer available." Why the sharp, sudden alteration in message? Perhaps it had to do with Walt Disney's problems as a leader and an entrepreneur in 1940. He had an unpalatable story to tell in his company's first public annual report, especially about the almost catastrophic problems with *Pinocchio*. According to

the 1940 annual report, $1 million of the $2.6 million cost of producing this animated feature was written off during the year because of the combined effects of market conditions and the excessive costs. (See Appendix 1 under the heading "PINOCCHIO.") Thus, first serving up some bad news about the impact of the war, the effect of which had already been marginalized to some degree at the end of the previous section, might be seen as a skillful use of "order" as a rhetorical device.

But the rhetoric is even more skillful and subtle. Disney refers to "the" Company on 44 occasions in the letter. Only once, and in this section, does he refer to "your" Company. In doing so, he heightens the emphatic effect, helping to steer home the implications of the bad news to shareholders. His tone, for whatever reason, is almost accusatory, as if the shareholders were answerable for the bad news.

The letter begins with very good news about increasing production, reducing costs, and anticipating profits. These successes were due to factors presumably controllable by management. The next section describes the potential impact of the war in very general terms – the war being, of course, beyond the control of management. The following section, headed "PRODUCT," describes the even more sombre news about *Pinocchio* and the possible bad news about *Fantasia*. The bad news about *Pinocchio* is first reported as due to "the conditions prevailing throughout the world" (see subsection headed "PINOCCHIO"), in other words, beyond management's control. Despite this, later in the same subsection, the letter mentions the company's growth ("the transition period through which the Company passed when it changed its policy of making one feature in two years...to a policy of producing from two to four features a year...") and the "discarded work of untrained personnel," "the schooling and training of personnel," and "inadequate plant facilities" before moving into the new studio.

The portion of the third section devoted to *Fantasia* reminds the reader that the company is an innovator, and that innovation sometimes requires changing strategies and profit expectations. The remainder of the fourth section provides a barrage of upbeat news about new animated features, cartoons in process, and other sources of revenue.

Disney's Rhetorical Use of Accounting: Aho [1985] and Carruthers and Espeland [1991] have argued that accounting is powerfully rhetorical. Disney displayed an innate understanding of this feature of accounting in his stockholders' letter. Under the heading "GENERAL," Disney attacks the strictures of accounting convention by invoking a statement made in the company's formal, legal prospectus inviting subscriptions in the preferred stock issue. The portion of the section reads as follows (sentences are numbered for reference purposes):

> **[Sentence 1]** In considering the profit and loss statement of the Company, it is worth while to repeat the following statement made in the prospectus offering the 6% Convertible Preferred Stock:
> **[Sentence 2]** "The Company's principal income accrues according to the rapidity with which its features are exhibited in theatres and, accordingly, the relationship between dates of release and dates of accounting periods has in the past produced and will probably continue in the future to produce wide variations in earnings as they may from time to time be reported. **[Sentence 3]** This is made more pronounced by a program which contemplates the release of only one or two features per year. **[Sentence 4]** In connection with SNOW WHITE AND THE SEVEN DWARFS, the Company adopted a policy of writing off the entire cost of the picture against the first revenues received, and the Company may in the future follow this policy with respect to all of its feature productions. **[Sentence 5]** Consequently, if any given accounting period closes at a time when revenues have failed to exceed the costs incurred in connection with the production of a feature released during such period, it is possible that a loss may be reported in such period notwithstanding the fact that an actual profit may eventually be realized on such feature."

In Sentence 1, Disney invokes the authority of the prospectus, a legal document that had been approved by the California authorities. This appeal to authority, or *apomnemonysis* [Lanham, 1991, p. 191], gives added weight to the text. Such a rhetorical move is quite consistent with the central role that appeal to authority, often embodied in GAAP, serves in modern accounting. The prospectus excerpt is cited in sentences 2, 3, and 4 to tell of the company's virtuous accounting by which the entire cost of animated features is written off against the first revenues received, a conservative accounting policy, at least in the short run. In sentence 5, the excerpt suggests strongly that resulting accounting losses are an artifact of the interplay between this conservative accounting policy and the arbitrariness of the relationship between accounting periods and revenues. In effect, Disney signals to the letter's readers the company's sobriety of purpose by using a conservative method of accounting.[11] But he then draws upon this excerpt from the preferred stock prospectus to urge readers not to take the resultant accounting too seriously. Rhetorically, he seems to want to have it both ways; e.g., conservative accounting shows evidence of the social virtue of conservatism, but accounting itself can be relied upon only to an extent. Can he have it both ways?[12] Can Disney both draw upon the authority of accounting to influence readers and almost at the same time plead the arbitrariness of certain accounting conventions, such as the accounting period convention? Accounting is such a rhetorically serviceable and elastic mode of representation and argument that it is not surprising that Disney, the creative storyteller, employs it thus.

However, the conservative method of revenue recognition chosen by Disney had a decidedly unconservative side as well. Feature animated films whose costs had been fully recovered could be taken off the shelf and distributed again with 100% of the producer's revenues during these re-releases going directly to the company's before-tax profits. This happened with *Snow White* in 1940—that year's income statement in the annual report included revenues of $103,526 from the reissue of *Snow White*, but revealed no costs in 1940 since all production costs for the picture had been recovered in previous years. So the conservative accounting used by Disney had a temporal dimension—very conservative in early years in which feature film production activity was high and unconservative once such features were completed

[11]Indeed, the financial statement footnotes in the 1940 annual report reveal the method of accounting to be conservative twice over. Not only were profits on an animated feature not admitted to the company's accounting system until all of a feature's costs of production had been recovered, but Disney did not account for any revenues at all until cash was received from a film's distributor.

[12]A reviewer raised this dual nature of accounting argument in the stockholders' letter.

and went into re-release. Since 1940 was one of these "early years," this unconservative side remained unobtrusive during the crucial year of 1940.

In the 1941 stockholders' letter, Walt Disney demonstrated further his rhetorical capability to use accounting strategically. He constructed, or more likely had his accountants construct, a detailed accounting comparison between the company's 1941 and its 1940 results. He included this comparison near the beginning of the 1941 letter (see Appendix 2). He was using accounting information to show that in spite of a reported loss of $789,297 in 1941, many features highlighted in this artfully constructed comparison suggested strongly that great progress had been made in 1941 as compared with 1940. Constructing such an unusual accounting schedule and placing it near the front of his stockholders' letter, where it more or less dominated and conditioned perceptions of the rest of the letter and perhaps the rest of the entire 1941 annual report, was a skillful rhetorical move. The authority of the accounting information used, drawn from the audited financial statements, was *apomnemonysis* combined with "order" in persuasive harmony.

The "Summary of the Balance Sheet and Income Statement," presented in the 1941 Stockholders' Letter, seems skillful rhetorically in another sense as well. It presented a gross mass of numbers across 3 x 8 digit columns, 26 rows long. Clearly, the notions of accounting materiality and "rounding" had not been embraced by Disney or his accounting advisors, as the financial data were presented to the precise dollar and cent. Although this may have reflected Disney's reputation for "attention to detail," it may also have been a rhetorical ploy. This so-called "Summary" was a visual onslaught likely to test, and find wanting, all but the most determined, accounting-trained readers. Perhaps it was a visual metaphor used as a rhetorical device, a way for Disney to vent his frustration with the complexity and confounding nature of accounting methods and practices. For such a skillful graphic artist, one who was renowned for the most beautiful of screen images, the "Financial Summary" was out of character. Whereas Disney was a creative graphic artist, adept at fashioning compelling and beautiful screen images, when it came to conscripting something as mundane as accounting data to craft the (financial) story he wished to tell, the end result was metaphorically a barrage of numbers bereft of aesthetic appeal, but perhaps a classic rhetoric move. More simply however, this could have merely been brother Roy's influence.

The Rhetoric of an Accountability Document: It is not surprising to find that the 1940 letter to stockholders was well constructed rhetorically. After all, Walt Disney had by this time a universal reputation as a master storyteller. So why would he not use this talent in telling his company's financial story during a period of crisis in a way that might be expected to garner positive reaction from his audience? Financial reporting, in both its qualitative and quantitative aspects, is like all text, and discourse generally, unavoidably rhetorical. Disney was as skilled at giving a financial account as he was at giving an account of Mickey's latest adventure. Understanding the inherent rhetorical nature of such discourse is important to understanding the role such discourse plays in accountability.

Indeed, in any accountability document (such as a set of audited financial statements, a stockholders' letter, a variance report, a corporate press release), there is a vast array of rhetorical choices available which the author might apply with greater or lesser degrees of awareness. Such choices, made even subconsciously by the author, influence the perceptions of the audience. Our analysis of some rhetoric features of Disney's letter has merely touched the surface of possibilities; for example, we might have explored more deeply the argument schemes apparent in the letter [Warnick and Kline, 1992], examined ways in which the letter dealt rhetorically with its composite audiences [Myers, 1999], analyzed text structure, and metadiscourse [Hyland, 1998], etc. Having established, we submit, that the letter was crafted skillfully in a rhetorical sense, we now focus our attention on the nexus between rhetoric and ideology. We read Disney's letter with *metaphor* uppermost in mind since it is largely through metaphor that we might begin to understand a text's "ideological agenda that is apt to be hidden from view" [Postman, 1993, p. 124].

METAPHOR IN THE 1940 LETTER

Metaphor is a central aspect of rhetoric. Among recent contributors to the extensive literature on metaphor, Eubanks [1999, p. 195] has made a case that:

> ...metaphor is rhetorically constituted. No metaphor is spoken or written except in the context of a sociohistorically bound communicative situation. Therefore, all metaphors are inflected by politics, economics, philosophy, social interests,

> professional commitments, and personal attitudes – in short by the whole of our cultural and conceptual repertoire. Because metaphors are inflected, we cannot explain how they work unless we consider concrete instances of metaphor, taking into account how inflections constrain the way metaphors are uttered and understood.

Eubanks asserted that metaphors are "fundamentally responsive," and thus cannot be understood by themselves (i.e., "atomized"), but rather only in relation to "metaphoric and literal concepts that are already in motion within a culture's (or subculture's) discourse." As a consequence:

> Because metaphors are concretely responsive and because competent speakers and writers are aware, consciously and unconsciously, of the interplay of metaphors and concepts, the utterance of a metaphor carries rhetorical benefits or costs...Speakers and writers build consensus and risk rhetorical capital when selecting and reenvoicing metaphors. However, they manage that risk complexly by claiming, ascribing, and shifting the metaphors they utter [Eubanks, 1999, pp. 195-196].

Metaphor theory has a long, rich, and unsettled history. Some contend that metaphor is simply flowery but unnecessary. But many scholars would agree with Postman [1996, p. 174] that "a metaphor is not an ornament. It is an organ of perception." Others suggest intriguingly that thought itself is fundamentally metaphorical [Gibbs, 1994], and that metaphorical language is merely the surface manifestation of an underlying cognitive mapping between two domains–a target domain and a source domain [Lakoff and Johnson, 1980; Lakoff, 1993]. Considerable persuasive evidence, much of it summarized by Gibbs [1994], provides support for the view that metaphor is basic to thought, and that there are systematic relationships among metaphorical structures. For example, Lakoff [1993, pp. 222-224] wrote about a metaphorical mapping hierarchy whose highest level is the fundamental "event structure" metaphor.

Scholars in a wide variety of fields have taken up the seriousness of metaphor. Harrington [1995] argued persuasively that German race ideology was made more virulent through metaphoric processes; Dunn [1990] showed how the "root metaphor" of the new industrial relations has facilitated the erection of a new industrial relations paradigm; Miller and Fredericks [1990] argued that metaphors used in a major educational policy document revealed a particular ideological predisposition that foreclosed alternative recommendations; Daughton [1993] claimed that Franklin Delano Roosevelt's use of metaphor of a holy war contributed to the immediate impact and enduring influence of his first inaugural speech; and Postman [1996, p. 174] pleaded rhetorically and, of course, metaphorically to educators by asking: "Do I exaggerate in saying that a student cannot understand what a subject is about without some understanding of the metaphors that are its foundation?"

We suggest that the metaphor, "the company is a sentient being on a purposeful journey traversing an at-times hostile environment," permeates the 1940 Disney stockholders' letter, and that this metaphor is consistent with the fundamental and pervasive event-structure metaphor hierarchy described by Lakoff [1993]. Evidence supporting this contention includes the following metaphoric language from the section headed "NEW STUDIO": (1) "...the Company was constructing and equipping its new studio," (2) "...the Company's production operations...," (3) "...the Company has been able to augment its production...," (4) "...the Company will be able to carry out its new policy...." These may be argued to be instances of verbal reification, but they are also instances of attributing sentience and purposiveness to the Company. Such ways of talking and writing about companies are commonplace, and it is perhaps *because* they are commonplace that they are rhetorically important.

There are numerous other instances of reification of the company as an active agent that has commercial "affairs" (e.g., "EFFECT OF THE WAR": "The effect of the war in Europe upon the affairs of your Company..."); that takes action (e.g., "PRODUCT": "...the Company delivered to RKO Radio Pictures, Inc."); that enjoys benefits (e.g., "PINOCCHIO": "...there have accrued to the credit of the Company..."); that creates saleable names and characters (e.g., "SHORT SUBJECTS"); that has expectations about the future (e.g., "GENERAL": "...the Company expects to have three new feature pictures in general release..."), etc. Perhaps the most important language manifestation of this metaphor is under the heading "PINOCCHIO" in which Disney writes: "...the transition period through which the Company passed when it changed its policy of making one feature in two years...to a policy of producing from two to four features a year." Here, we have a company that not only pursues the sentient activity of changing a policy, but also has to endure passage through a transition period on its journey.

An obvious objection to this analysis might be that these are *merely* words, and besides, many managers talk and write about their company in similar ways. But that is the point; "managers work with words" [Jonsson, 1998, p. 411]. The modern theory of metaphor suggests strongly that words matter *because* they influence the way those uttering those words think and act.

Calling a company "a sentient being on a purposeful journey traversing an at-times hostile environment" has several implications and entailments. The company, a sentient being, knows best through its means of cognition and decision making (i.e., its leadership) about its goals and how to achieve them; about which path through the at-times hostile environment to take; and how to adapt when circumstances change. Therefore, acknowledging the interests of other stakeholders is limited and perhaps utilitarian. These other stakeholders are not part of the being itself (i.e., the company) unless they submit to the authority of the company as a sentient being—a strongly managerialist view. Further, any obstacles in the path are adversaries and goals are non-negotiable.[13] To see the consistency of these ideas in Disney's managerial discourse, we take a brief look at the 1941 stockholders' letter (see Appendix 2).

In the section "LABOR RELATIONS" in the 1941 stockholders' letter, Disney describes the company's journey as "beset by labor troubles" and ventures the observation that this obstacle to purposeful travel has occurred in 1941 "[f]or the first time in its history." This section describes Disney's view of the famous 1941 strike, a view in sharp contrast to Disney's hostile, and perhaps at

[13]A reviewer, rightly in our view, proffered objections to a version of this metaphor which we called "the company is a sentient being on a purposeful journey" as follows: "Could there be an explanation that is a little less grand? Basic company law tells us that limited liability companies enjoy separate legal form. It could simply be that what is seen here is a playing out of that, with the company being accorded its own identity in the text as a consequence of this commonplace usage..." While undoubtedly this is true, a reader of Disney's stockholders' letter would be prudent not to ignore the strong, pervasive strain of Midwestern independence that several scholars have attributed to Walt Disney [Bryman, 1995; Schickel, 1968/1997; Watts, 1997] and which seems to have conditioned greatly his conception and attitudes towards his company, the product of his creative, emotional, and physical labors.

times illegal, anti-union activity summarized in Boje [1995], Schickel [1968/1997], and Watts [1997]. If we think of a "company as a sentient being on a purposeful journey," then what do we think of the people who attempt to unionize and *impede* the journey? Disney characterizes the 1941 cutbacks which led in part to the union activity and to a subsequent strike as a "program...designed to bring output in line with results reasonably to be anticipated from the distribution of the Company's pictures under present world conditions." He portrayed it as a technical problem that required a *reasonable* technical solution. Thus, the union advocates and strikers, who Boje [1995, pp. 1014-1015] pointed out had several complaints about their inequitable treatment by Disney, were the source of the "labor troubles" that "beset" the company. The impression is one of Big Labor and its goons ganging up on the company (the American Federation Of Labor is mentioned, as are "secondary boycotts" and "'hot cargo' activities"). The arbitration award is described as being "imposed" on the company (the word is used twice in the section). So the metaphor established in the 1940 stockholders' letter is carried over to the 1941 letter and is consistent in its entailments: unreasonable employees joined a union and went on strike, preventing the company from implementing a reasonable program to help it on its journey. Then, despite "[r]epeated efforts by the Company to effect a settlement," government came in and arbitrated a settlement, which imposed several bad things, further impeding the journey. However, everything "is now operating smoothly" in spite of these obstacles.

Despite these comforting words, Disney was apparently in no mood to have future journeys disrupted by what he regarded as ideologically perverted union behavior. The 1941 strike is said to have caused him to become "a militant anti-communist" and, in the 1950s, "a [secret] special FBI agent charged with passing on information about supposed communist infiltration" of Hollywood [*New Internationalist,* 1998, p. 8]. His embrace of a business structure of vertical integration in which, for example, his company controls not only the production of film and television programs, but also controls their distribution and associated product licensing and retail merchandising sales, points to the adoption of the metaphor of the uninterrupted journey as a tangible business goal.

Carrier [1997, p. 51] described "a public language" of "the Market model" which he alleged:

> ...provides the vocabulary and conceptual equipment that make it relatively easy to define certain sorts of things as problems and relatively hard to define other sorts of things that way. Just as it influences the sorts of problems that can be addressed, so it influences what is likely to appear as an acceptable, plausible solution.

Like a *lingua franca*, such a version of the "Market" helps create "an external reality that [people] have to adopt if they are to communicate with others" [Carrier, 1997, p. 49]. Carrier was concerned with the idea of the "Free Market" in the 1990s, and how such a richly complex metaphor affects people's arguments, decisions, and public debates. He traced the most important historical roots of the "Market" to 18th and 19th century Britain. Importantly for purposes of this paper, he concluded that "...in popular consciousness the idea flourishes best in the United States, with its long traditions of that secular, acquisitive individualism and concern with equality of process rather than of outcome that form part of the Market" [Carrier, 1997, p. vii].

Disney's ideological notion of his company is metaphorical in the same sense as Carrier's notion of the "Market." Disney's company is related intimately to Carrier's "Market," for the company metaphorically pursues its life-journey largely by entering into transactions within the ambit of this metaphorical market. And since, as Carrier [1997] reminded us, such a metaphorical market is a "Free Market," anything that interferes with such metaphorical freedom is to be treated with non-metaphorical hostility (e.g., the national labor union with which Disney's striking employees allied themselves in 1941). Perhaps warfare was not restricted, metaphorically or otherwise, just to Europe in 1941.

Eubanks' [1999, p. 195] contention that "all metaphors are inflected by politics, economics, philosophy, social interests, professional commitments, and personal attitudes" seems apt here since the fiercely independent and self-made Disney probably could conceive of *his* company in no way other than the metaphoric representation described above. His discourse in the 1940 and 1941 stockholders' letters set out his ideology and philosophy of management and management control. Such discourse represented, in effect, the way he made sense of the world.

SUMMARY AND CONCLUSIONS

We have used the themes of *rhetoric* and *metaphor* to examine the 1940 stockholders' letter of Walt Disney Productions, the first such accountability document signed by Walt Disney, and, to a lesser extent, the 1941 letter. These letters provide an accounting, a story, that Disney intended to craft within the confines of the tensions between his company's financial exigencies and his creative, iconic persona. Walt Disney was as skilled in designing financial reporting and accountability narrative and discourse as he was in creating animated cartoons and features. The letters seem crafted with the goal to forge allegiance with the new preferred stockholders firmly in mind in spite of his strong resentment. And if we take seriously the current literature of cognitive metaphor, the letters also reveal features of Disney's thinking, especially about key social and economic institutions. In sum, although the narrative part of financial accounting examined here is rhetorically and linguistic complex, the analyses conducted expose the types of insights that help render management and the companies they lead more understandable. Disney as accountant was ever as complex as Disney the cultural icon.

An ongoing and important task addressed by historians is that of revealing and analyzing the character, personality, and behavior of corporations and their CEOs. In pursuing that task, important insights about corporations and individuals have been sourced from many quarters. But rarely have historians delved into the narrative discourse of CEOs in annual reports when seeking to add to the arsenal of information they marshal in support of biographic profiles, corporate histories, or other historical text. This paper provides an example of how analysis of narrative discourse by CEOs in annual reports can add to and enrich understanding of leading corporations and their chief executives.

The insights offered through adoption of a "close reading" of CEO text have been demonstrated clearly here. By focusing on the rhetorical, metaphorical, and ideological features of Walt Disney's 1940 letter to stockholders, insight into the behavior and character of Walt Disney and the Disney Corporation is provided. Our analysis reveals Walt Disney to be a skillful, yet subtle rhetorician, whose rhetorical capabilities encompass a deft capacity to manipulate accounting data strategically. Disney was not only a master storyteller in the surreal surrounds of the cinema where he could exploit the glitz and glamor of visual and sound imagery. Perhaps somewhat surprisingly, he is revealed as very adept also in a grey and glamor-free domain with which few would remotely imagine associating him – financial reporting. Our analysis reveals Disney as a very clever storyteller in weaving rhetorical magic in the realm of the mundane – accountability narratives in an annual report.

By exploring Disney's use of metaphor, we show how further perspectives can be developed and how this assists us in entering theoretical speculations about Disney's ideological motivations. Our analysis yields results which, in the main, are contrary to the popular, ambient image of Walt Disney; that is, as the wholesome, friendly "Uncle Walt." Somewhat perversely, we find evidence consistent with what we reported earlier as Walt Disney's "darker side." He is revealed as something of an enigma, the cultural icon who seemed almost as adept at crafting financial narrative in a hard-nosed business world as he was at fashioning animation.

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APPENDIX 1

Letter to Stockholders for the 1940 Walt Disney Productions Annual Report

To the Stockholders of Walt Disney Productions:

In April, 1940, Walt Disney Productions sought and obtained the participation of the public in its business through the sale of 155,000 shares of 6% Cumulative Convertible Preferred Stock, and the Board of Directors herewith submits its first annual report to the Company's new stockholders.

Included herein are financial statements of the Company for the fiscal year ended September 28, 1940, accompanied by the report of the Company's auditors, Messrs. Price, Waterhouse & Co. We invite your attention to the notes which are attached to and constitute an integral part of the financial statements.

Your management believes that it will be of interest to our 1,800 stockholders to supplement the information shown in the financial statements with the following additional facts pertaining to the Company.

NEW STUDIO

At the time of the sale of the 6% Cumulative Preferred Stock, the Company was constructing and equipping its new studio. This studio was substantially completed and equipped and virtually all of the Company's production operations were transferred thereto by the end of May, 1940. As a result of the increased facilities, the Company has been able to augment its production of completed footage by more than 100% and has succeeded in lowering the cost of production per foot substantially. Therefore, the Company will be able to carry out its new policy of releasing two or more feature subjects each year as well as a large number of short subjects. As a result of the reduction in costs, short subjects are now being produced at a figure which the management believes will result in profitable releases even though sources of income in certain foreign countries now at war are no longer available.

EFFECT OF THE WAR

The effect of the war in Europe upon the affairs of your Company has been serious and the full measure thereof cannot yet be determined. It has been impossible to effect an orderly release of the Company's pictures in any of the countries at war and in many countries it has been impossible to effect any release whatsoever. In fact, in most of the territories dominated by the Axis Powers, the release of American pictures has been forbidden. In addition, currency restrictions and regulations, as well as fluctuations in foreign exchange rates, have served to reduce further the Company's income from such pictures as were already released in foreign countries.

PRODUCT

During the year, the Company delivered to RKO Radio Pictures, Inc., the organization currently distributing our pictures, one feature picture and ten short subjects and has in current production a number of other features and short subjects. Developments in connection with the Company's product are summarized as follows:

PINOCCHIO:

PINOCCHIO was first shown at the Center Theatre in New York on February 7, 1940, and at the Pantages and Hillstreet Theatres in Los Angeles on February 10, 1940. It was subsequently released for general exhibition on February 23, 1940. To the end of the Company's fiscal year, September 28, 1940, this picture had earned gross world film rentals of $1,673,956.54 of which $1,627,331.79 represented film rentals from the United States and Canada. The Company has received from its distributors as its net share of the world film rentals,

$976,211.94. In addition, there have accrued to the credit of the Company, certain funds in Great Britain and Australasia amounting to £5818.7.5, which have been blocked by currency restrictions.

The Company has prepared Spanish and Portuguese language versions of this picture which are currently being shown in all the countries of Central and South America, as well as in the Philippine Islands and Portugal. No income from the Spanish and Portuguese language versions of PINOCCHIO is reflected in the above-mentioned film rentals as the picture was released in those countries too late for any such revenue to be included in the year ended September 28, 1940.

The total cost of producing PINOCCHIO was $2,595,379.66 and it is now anticipated that this amount will not be recouped under the conditions prevailing throughout the world. Accordingly, a charge of $1,000,000 has been made to provide for the excess of cost of this picture over the estimated total revenue.

The picture PINOCCHIO was planned and production was started prior to the outbreak of the European war. Consequently, it was budgeted on a program contemplating income from all countries where SNOW WHITE AND THE SEVEN DWARFS had been released. In addition, this production suffered from excessive cost which was a direct result of the transition period through which the Company passed when it changed its policy of making one feature in two years (SNOW WHITE was released in January, 1938), to a policy of producing from two to four features a year as presently projected. These excessive costs cannot be segregated as they very largely represent discarded work of untrained personnel. PINOCCHIO was produced during a period of development and expansion. These factors which included the schooling and training of personnel to meet the increased production needs, together with inadequate plant facilities at the old studios, contributed in no small measure to the high cost of this production.

FANTASIA:

FANTASIA was exhibited for the first time at the Broadway Theatre in New York on November 13, 1940. This picture is an innovation in the field of entertainment, featuring Leopold Stokowski and the Philadelphia Orchestra in a program of music as interpreted by Walt Disney and the Company's staff of artists and technicians. FANTASIA is being presented by methods never before employed in the exhibition of motion pictures. The exhibition of this production requires special sound equipment and the Company has contracted to purchase sufficient equipment so that the picture can be distributed simultaneously in twelve theatres. It is now planned to distribute the picture by the "road show" method in the first-run cities of the United States, Canada and other large centers. The management believes this method of distribution will result in an eventual realization of revenue in excess of that which would be realized by ordinary methods of distribution. However, this method of distribution will require a longer period of time for the Company to recoup the cost of the picture.

OTHER FEATURES:

Three other feature length pictures currently in production are planned for release during the fiscal year ending September 27, 1941. THE RELUCTANT DRAGON is a combination of animated cartoon and "live action" comedy, featuring the well-known humorist, Robert Benchley. BAMBI is a dramatization, through the medium of the animated cartoon, of the well-known book of the same name by Felix Salten. A distribution contract for both of the last-mentioned features has been entered into with RKO Radio Pictures, Inc. The name and basic story of the picture, DUMBO, THE FLYING ELEPHANT were purchased by the Company and are being developed by our staff into a feature length cartoon.

Among the features scheduled for release in 1942 are PETER PAN and WIND IN THE WILLOWS.

SHORT SUBJECTS:

During the fiscal year ended September 28, 1940 the Company delivered to RKO Radio Pictures, Inc. a total of ten short subjects and contemplates delivery of twenty short subjects during the fiscal year 1941. These pictures continue in high popular favor and should prove to be a profitable part of the Company's business inasmuch as the increased efficiency made possible by the new plant has materially reduced production costs.

The Company has recently extended its releasing contract with RKO Radio Pictures, Inc. to cover a fourth series of eighteen short subjects.

The Company presently has twenty-eight short subjects in various stages of production.

OTHER ENDEAVORS

Names and characters created by the Company and licensed for use on merchandise, etc. continue to have a wide-spread appeal. Royalties from this source, from books and music, and revenue from comic strips and art sales, constitute a substantial portion of the income of the Company.

GENERAL

The inventory of pictures in process at the close of the fiscal year was the largest in the Company's history. The total cost of the feature length and short subjects in production was $3,650,256.67. These pictures represented a total film length of 44,490 feet. In addition there were 149 stories in our inventory on which we had spent $367,275.41. The system of budget control both as to cost and output was revised when the Company moved to the new studio, with the result that both feature pictures and short subjects are presently being completed on schedule and at their budgeted costs.

Your management has reduced expenses and has taken aggressive steps toward lowering production costs by increasing efficiency and eliminating dispensable activities.

In considering the profit and loss statement of the Company, it is worth while to repeat the following statement made in the prospectus offering the 6% Convertible Preferred Stock:

"The Company's principal income accrues according to the rapidity with which its features are exhibited in theatres and, accordingly, the relationship between dates of release and dates of accounting periods has in the past produced and will probably continue in the future to produce wide variations in earnings as they may from time to time be reported. This is made more pronounced by a program which contemplates the release of only one or two features per year. In connection with SNOW WHITE AND THE SEVEN DWARFS, the Company adopted a policy of writing off the entire cost of the picture against the first revenues received, and the Company may in the future follow this policy with respect to all of its feature productions. Consequently, if any given accounting period closes at a time when revenues have failed to exceed the costs incurred in connection with the production of a feature released during such period, it is possible that a loss may be reported in such period notwithstanding the fact that an actual profit may eventually be realized on such feature."

During the fiscal year ended September 28, 1940, the Company had only one new feature picture—PINOCCHIO—in release.

The Company also re-issued SNOW WHITE in the United States and Canada in July, 1940. This was released as the WALT DISNEY FESTIVAL in conjunction with four Walt Disney short subjects and is currently doing a satisfactory business.

During the next fiscal year ending September 27, 1941, the Company expects to have three new feature pictures in general release, in addition to its quota of new short subjects. These pictures should reflect the benefit accruing to the Company by reason of the training and skill acquired by the artists during the last three years. While the serious effect on the Company's business caused by the loss of foreign markets cannot be minimized, nevertheless your management now believes it has adjusted the Company's operations to a schedule of production and costs designed to be independent of those markets.

CAPITAL STOCK

At a meeting of the directors held on February 24, 1940, the capital stock of the Company was reclassified into 755,000 shares, of which 600,000 shares were designated as Common Stock (with a par value of $5 a share), and 155,000 shares were designated as 6% Cumulative Convertible Preferred Stock (with a par value of $25 per share). 300,000 shares of Common Stock ($5 par value) were thereupon issued in exchange for 150,000 shares of Common Stock

($10 par value) previously outstanding, and 45,000 shares of Common Stock were issued as a 15% stock dividend on the new amount of outstanding stock. 10,000 shares of Common Stock were issued to Walter E. Disney and Roy O. Disney in consideration of the cancellation of $200,000 indebtedness of the Company to them. 150,000 shares of preferred Stock were sold to the public through underwriters for net proceeds of $3,412,500 and 5,000 shares were sold to officers and employees for $125,000.

An initial dividend of 37 1/2c was paid July 1, 1940, to the Preferred stockholders of record June 15, 1940, and a regular quarterly dividend of 37 1/2c was paid October 1, 1940, to Preferred stockholders of record September 16, 1940. The regular quarterly dividend of 37 1/2c payable January 1, 1941, to Preferred stockholders of record December 16, 1940, was declared by the Board of Directors at a meeting held December 2, 1940. This dividend will be paid from the Company's initial surplus. No dividends were paid on the Common Stock.

DIRECTORS

During the year, Edward M. Francis resigned as a director of the Company and in his place the board elected Jonathan B. Lovelace as the representative of the Preferred stockholders in anticipation of Paragraph 9 of Article 5 of the Articles of Incorporation, as amended, which provides that:

"Holders of the Preferred Stock, voting separately as a class and entitled to one vote per share, shall be entitled at the first annual meeting of the Corporation after the close of the fiscal year ending September 28, 1940, and annually thereafter, to elect one Director of the Corporation to hold office for a term of one (1) year and until his successor shall have been elected."

EMPLOYEES

At September 28, 1940, the organization consisted of a total of 1179 employees.

The Directors want to take this opportunity of thanking all members of the organization, whose loyalty and co-operation have contributed in such large measure to the continued progress of the Company.

FOR THE BOARD OF DIRECTORS
WALTER E. DISNEY, *President.*

APPENDIX 2

Letter to Stockholders for the 1941 Walt Disney Productions Annual Report

To the Stockholders of Walt Disney Productions:

We submit herewith as part of this annual report to stockholders financial statements of the Company for the fiscal year ended September 27, 1941, accompanied by the report of the Company's auditors, Messrs. Price, Waterhouse & Co. We direct your attention to the notes which are attached to and constitute an integral part of the financial statements.

FOREWORD

In our annual report to stockholders issued in December, 1940, and covering the fiscal year ended September 28, 1940, we stated, "the effect of the war in Europe upon the affairs of your Company has been serious and the full measure thereof cannot yet be determined." It was evident that the loss of foreign markets necessitated a sharp lowering in production costs in order to assure a profit from the remaining markets. The Company immediately took steps toward that objective. Since the date of that report there has been a further deterioration in the foreign markets and the Company again found it necessary to reduce materially its operating expenses and personnel in order to consolidate its position. As this program was being placed in effect, a strike was called by a minority group of the Company's employees. This development, discussed later in this report under the heading "Labor Relations," resulted in a retardation of our production schedule and interfered with the delivery and exhibition of product already completed.

Following is a summary of income account and balance sheet items taken from the financial statements published on pages 8 to 10 of this report, compared with corresponding figures in last year's report:

Income Account	Fiscal year 1941	1940	Increase (decrease)
Income from short subjects less amortization	$ 457,391.61	$ 131,668.88	$325,722.73
Income from royalties, comic strips, art work, licenses, etc., less costs	185,253.97	267,898.90	(82,644.93)
Income from "Snow White and the Seven Dwarfs"	139,173.23	103,526.10	35,647.13
Total	$ 781,818.81	$ 503,093.88	$ 278,724.93
Administrative and selling expenses	420,127.32	649,354.68	(229,227.36)
Balance	$ 361,691.49	$ (146,260.80)	$ 507,952.29
Interest expense	150,988.55	113,537.25	37,451.30
Profit (loss) before provision for losses on features	$ 210,702.94	$ (259,798.05)	$ 470,500.99
Provision for excess cost of features over estimated net income	1,000,000.00	1,000,000.00	
Balance (loss)	$(789,297.06)	$(1,259,798.05)	$ 470,500.99
Balance Sheets	**September 27, 1941**	**September 28, 1940**	**Increase (decrease)**
Cash and receivables	$ 156,020.52	$ 132,410.20	$ 23,610.32
Inventories at cost:			
Pictures in process, etc.	2,882,713.43	4,093,119.94	(1,210,406.51)
Unamortized picture costs	4,874,006.16	1,833,436.66	3,040,569.50
Total current and working assets, before deducting reserves	$7,912,740.11	$6,058,966.80	$1,853,773.31
Deduct provision for excess of cost over estimated net income from feature pictures	2,000,000.00	1,000,000.00	1,000,000.00
Current and working assets as per balance sheet	$5,912,740.11	$5,058,966.80	$ 853,773.31
Bank loans	$3,371,669.03	$1,932,992.24	$1,438,676.79
Other liabilities, reserve for taxes and deferred income	907,273.30	841,499.11	65,774.19
Total liabilities	$4,278,942.33	$2,774,491.35	$1,504,450.98
Excess of current and working assets (as stated) over all liabilities	$1,633,797.78	$2,284,475.45	$ (650,677.67)
Deposits in foreign banks at current rates	1,060.61	1,088.70	(28.09)
Land, buildings and equipment at cost less reserve for depreciation	3,005,161.18	3,263,170.31	(258,009.13)
Copyrights, trademarks and patents less reserve for amortization	7,892.77	8,613.67	(720.90)
Deferred charges	234,186.31	230,297.68	3,888.73
Total net assets, as per balance sheet	$4,882,098.75	$5,787,645.81	$ (905,547.06)
Funds not taken into books representing blocked currencies at current official rates, approximately	345,000.00	22,000.00	323,000.00

The comparative figures taken from the income account show the progress made in reduction of costs. The Company shows a profit, after all charges but before provision for excess cost of feature pictures over estimated net income therefrom, of $210,702.94 as compared with a loss of $259,798.05 in the fiscal year ended September 28, 1940. The income account does not reflect the reduction in costs of feature pictures as DUMBO was not released until after the close of the fiscal year. It does, however, reflect the working off of the inventory of high cost shorts and restoration of a satisfactory profit in that division. Last year the Company provided a reserve of $1,000,000 to write off the excess cost of PINOCCHIO. The Company has estimated its expectancy of return from all of its feature product, and as a result has set up a provision against a possible loss in the amount of $1,000,000.

The comparative figures taken from the Balance Sheet show that while pictures in process have decreased $1,210,406.51, the unamortized value of completed pictures has increased $3,040,569.50, giving a net increase in inventory (before reserve) of $1,830,162.99. This increase, which was largely financed by bank loans, is due primarily to the delay in the general release of FANTASIA, and to labor difficulties experienced at the time of release of THE RELUCTANT DRAGON. The Company now has two feature pictures ready for general release, DUMBO and FANTASIA. A third feature, BAMBI, is practically completed. With current operations reduced by 50% from last year, a steady reduction of the bank loan is anticipated.

Blocked currencies are not included in the Company's accounts until received. In October, 1941, the British Government entered into an agreement with the motion picture companies whereby 50% of the blocked currencies previously impounded in Great Britain was released. One-half of this amount was immediately payable and one-half is payable in April, 1942. The Company, since the date of this report, has received approximately $65,000 as part payment of its share of impounded funds. Australia and New Zealand have not yet released any of that portion of our revenue which those countries impounded.

PRODUCT

During the fiscal year under review the Company released its feature picture FANTASIA. Initially this picture was distributed directly by the Company through the medium of road shows using "Fantasound" rather than through normal distribution channels. The picture was presented in thirteen cities (New York, Boston, Los Angeles, Philadelphia, Detroit, Chicago, San Francisco, Pittsburgh, Cleveland, Buffalo, Minneapolis, Washington and Baltimore) and while a few of the engagements were disappointing, the aggregate results indicated a picture with wide appeal. The length of the New York and Los Angeles runs broke all existing records since the advent of sound.

Experience gained from the exhibition of FANTASIA in the above-mentioned cities demonstrated that a nation wide distribution of this picture with "Fantasound" was impractical. It was therefore decided to abandon "Fantasound" and generally release the picture through normal distribution channels. Our sound engineers succeeded in combining the various "Fantasound" tracks into one composite track, enabling the Company to present FANTASIA in motion pictures everywhere.

The company entered into an agreement with RKO Radio Pictures, Inc. for the distribution of FANTASIA throughout the world. Spanish and Portuguese versions have been prepared for the South American market, and the picture has already been released in Rio de Janeiro and Sao Paulo, Brazil; Montevideo, Uruguay and Buenos Aires, Argentina. FANTASIA is also being currently released in England and Australasia.

It is now planned to place FANTASIA in general distribution in the United States immediately following DUMBO. In preparation for this general release, test runs were made in representative small towns to guide in editing this picture.

THE RELUCTANT DRAGON

This picture was completed and delivered to RKO Radio Pictures, Inc. on April 17, 1941. It was first put into general release on June 20, 1941. Revenues obtained from this picture were seriously affected by the strike, due to picketing at various theatres throughout the country. It has been released in Great Britain and Australasia. Spanish and Portuguese versions have been prepared for the release of the picture in South America.

Although results to date have been disappointing, we are confident of the return to the Company of at least $500,000 and have provided in the inventory reserve for the balance of the cost.

DUMBO

DUMBO was completed and delivered to our distributor September 11, 1941. Because of selling conditions in the industry the picture was not generally released until the middle of December. The picture was pre-shown in the Broadway Theatre, New York, beginning October 23rd, and has been well received. In the trade and press it is getting excellent exploitation and publicity.

DUMBO is our first all-cartoon feature picture budgeted and produced subsequent to the outbreak of the European war and the loss of our foreign markets. The picture was produced at a cost well within present market possibilities and is of a quality that assures, in our opinion, a profitable return.

SHORT SUBJECTS

During the fiscal year ended September 27, 1941, the Company delivered to RKO Radio Pictures, Inc. a total of twenty-two short subjects. Our costs have been reduced to meet present market conditions and the pictures continue to be a profitable source of revenue.

Under date of April 11, 1941, the Company extended its releasing contract with RKO to cover a fifth series of eighteen short subjects.

The Company now has 22 short subjects in various stages of production.

BAMBI

The Company's feature picture BAMBI has been in work for over three years and is now practically completed. As now scheduled it will be delivered to RKO Radio Pictures, Inc. on or about the first of February, 1942. Completion of this picture was delayed at least three months by the strike. It was the last of the feature pictures projected on the basis of the pre-war markets. Its cost will be substantially higher than DUMBO but will be approximately $1,000,000 less than the cost of PINOCCHIO. It is the consensus of opinion of those who have seen the picture that it is the best the Company has ever produced for entertainment value and quality of production.

FEATURES RELEASED IN PRIOR YEARS

During the fiscal year ended September 27, 1941, PINOCCHIO, which was first shown on February 7, 1940, returned a gross film rental of $554,730.74 of which the Company's share amounted to $387,100.12. This brought the total gross film rental on September 27, 1941, to $2,228,687.28 of which the Company's share was $1,363,312.06. The amount received in 1941 would seem to assure recoupment of the balance of the unamortized negative cost of $233,439.64 after giving effect to the reserve set up last year. The Company's share of blocked currencies resulting from the showings of PINOCCHIO had a value at official rates of approximately $240,000 at September 27, 1941. This amount is not included in the figures quoted above.

SNOW WHITE AND THE SEVEN DWARFS which was first shown in December of 1937 returned to the Company the sum of $139,173.23 in the fiscal year ended September 27, 1941.

OTHER ENDEAVORS

The licensing of names and characters created by the Company continues to have universal commercial appeal but revenue has fallen off during the year mainly because FANTASIA did not lend itself readily to such exploitation. Certain of our licensees also were beginning to feel the effect of defense priorities. However, royalties from this source and from books, music, comic strips and art sales continue to be substantial sources of income.

LABOR RELATIONS

For the first time in its history the company was, during 1941, beset by labor troubles. Early in May the Studio launched a program of reducing operating expenses and personnel, designed to bring output in line with results reasonably to be anticipated from the distribution of the Company's pictures under present world conditions. As this policy was being initiated, a strike was called (on May 28, 1941) by Screen Cartoonists Union, Local No. 852, an affiliate of the International Brotherhood of Painters, Paperhangers and Decorators of America (A. F. of L.). A majority of our employees stayed at work and during the nine weeks of the strike the Company's production proceeded satisfactorily. However, due to secondary boycotts and "hot cargo" activities on the part of sympathetic unions it became impossible to deliver and exhibit our product.

Repeated efforts by the Company to effect a settlement were unavailing. Finally, a commissioner from the National Conciliator's Office intervened; arbitration was agreed upon and an award was eventually rendered. Among other things, the award imposed the following: a close shop; reinstatement of all strikers; and 100 hours' retroactive pay for strikers. In relation to our proposed reduction of personnel, the award also imposed a formula under which a certain percentage of strikers had to be retained pro rata to non-striking employees. However, it required the Union to take in as a body without prejudice and at a nominal initiation fee employees in its classification who had remained at work during the strike.

After a period of four weeks of complete shutdown, necessitated by protracted negotiations, the Company resumed operations on September 15, 1941. The Studio is now operating under the terms of the award which, unfortunately, is in many respects very ambiguous and is silent on several disputed issues. However, the plant is now operating smoothly.

DIVIDENDS AND SINKING FUND REQUIREMENTS

In a letter addressed to the stockholders under date of June 14, 1941, you were advised of the reason for the omission of the preferred stock sinking fund payment due April 1, 1941, in the amount of $50,000 and of the deferment of the quarterly preferred dividend due July 1, 1941. The necessity for conserving working capital pending the orderly liquidation of the Company's inventory of completed feature pictures caused omission of the $100,000 preferred stock sinking fund payment due October 1, 1941, and deferment of the quarterly dividend on the preferred stock due on that date. Consideration will be given to resumption of payments when and as a comfortable working capital position has been re-established, but no prediction can be made in this respect at this time. The dividends on the preferred stock being cumulative, all arrearages in such dividends as well as fixed sinking fund payments must be paid before any dividends may be paid on the common stock.

GENERAL

Our principal problem now is one of orderly and satisfactory liquidation of feature product. Within the Studio production is going forward and costs are in keeping with present markets. The Company is operating with less than 50% of the personnel and pay roll of May, 1941. Our working capital position is strained because of the large amount of money tied up in feature negatives–DUMBO, FANTASIA and BAMBI. With proper liquidation of these three features, it is believed the Company will reduce its bank loan to a nominal figure or liquidate it completely and restore its working capital position to a satisfactory level. DUMBO and BAMBI are feature pictures which will have none of the problems of distribution presented by FANTASIA. Both are excellent pictures and should do satisfactory business.

For the current year, the Company is continuing its production of short subjects and has three feature subjects available for production, of which one would ordinarily be completed during the 1942 fiscal year. However, your management is making its facilities and equipment available for Army, Navy and other Government films in connection with national defense. We are now working on short subjects in cooperation with our Government's plans to promote hemispheric solidarity and are also producing a series of short subjects for the U. S. Navy and five short subjects for the Canadian Government. New feature product is being curtailed in favor of federal defense work. The volume of defense film work required of us will determine the extent of work done on feature subjects during the current year.

In summary, we are still in an adjustment period brought about by world conditions and the consequent loss of markets, but we believe we have sustained the major shocks of this adjustment. Pictures being projected will be properly budgeted and produced for present restricted markets. Our experience with DUMBO and our short subjects gives us every confidence in our ability to meet these conditions satisfactorily with respect both to cost and quality of our product.

FOR THE BOARD OF DIRECTORS
Walter E. Disney, *President*