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Divining the Return on a Candidate's Investment

By MICHAEL LUO

At first blush, the 19 pages of financial disclosures that [Meg Whitman](#) filed earlier this year for her run for governor of California are a humdrum blur of ordinary, if sizable, investments — until one for more than \$1 million in an “entertainment/production” company called “Tools Down! Productions.”

Ms. Whitman, a billionaire and former chief executive of eBay, made the investment in late 2008, according to her campaign, taking a stake in a fledgling movie production firm started by none other than [Mike Murphy](#), a very prominent and much-sought-after Republican strategist.

In the months before the deal was closed, Mr. Murphy had been flirting with working on the campaign of Ms. Whitman's future rival in the Republican primary for governor, [Steve Poizner](#), the state's insurance commissioner. But he had an about-face.

The timing of the investment and its unusual nature — Ms. Whitman lists no other holdings in the world of independent movie production — raise some questions about its ultimate purpose: Was it strictly a business decision, or part of an effort to ensure that a coveted political strategist did not work for the competition? Or perhaps a way to sweeten the pot so he would eventually sign on with the right team?

What makes all this of interest beyond the give-and-take of California politics is that Ms. Whitman, one of the country's most visible and successful executives, is part of a bumper crop of self-financed, superrich candidates in races across the country, from Rick Scott and Jeff Greene in Florida to Linda McMahon in Connecticut and [Carly Fiorina](#) in California.

How such wealthy candidates might use their fortunes to manipulate the electoral process is a crucial question in all of these races. Indeed, if Ms. Whitman's investment were part of an effort to keep Mr. Murphy focused on show business instead of working for her prospective opponent, it would not be the first time that a rich candidate had used a personal fortune to sap the competition of talent. [Michael R. Bloomberg](#), New York City's billionaire mayor, for instance, made sure to snap up a platoon of top Democratic and Republican operatives early on in his most recent re-election bid.

And, of course, a race for governor of California, home to nearly one in eight Americans, is not a garden-variety election, given the money and the prestige involved, not to mention the potential springboard to higher, national office.

Ms. Whitman, certainly, has shown no hesitation about using her personal wealth as a weapon, putting \$90 million of her own money into the Republican primary. She easily defeated Mr. Poizner, who contributed \$24 million of his own to his campaign.

Mr. Murphy, who advised Senator [John McCain](#) in his 2000 presidential run, helped catapult [Arnold Schwarzenegger](#) to the governor's office in California in 2003 and had seemed poised to sign on with Mr. Poizner in the summer of 2008.

But Mr. Murphy reversed course — rather suddenly, from the perspective of many in the Poizner camp, said Michael J. Schroeder, an unpaid senior adviser to the campaign, as well as two others close to the Poizner operation who spoke on condition of anonymity because they feared reprisals from Whitman supporters.

On Nov. 4, 2008 — two days after Mr. Murphy responded to another entreaty from the Poizner

campaign by saying he was “tired of politics” and would definitely not be available to work for it — Ms. Whitman signed a partnership agreement with Mr. Murphy, taking an ownership stake in his movie company, according to her campaign.

“What I remember is, the guy was in, and there wasn’t any question about the fact he was in,” said Mr. Schroeder, a former chairman of the California [Republican Party](#). “Then, suddenly, something happened. At the time, we didn’t figure it out.”

Later, Mr. Schroeder and others in the campaign developed darker suspicions. “We found this investment,” he said. “It was finally like, oh, O.K., now I understand what happened.”

In a statement, Tucker Bounds, a Whitman campaign spokesman, said: “Meg’s prior investment in Mike Murphy’s entertainment company was fully disclosed as required by law, just like her other investments.” He added that Ms. Whitman, who served on the board of DreamWorks Animation, is “well versed in the entertainment industry.” Both Mr. Murphy and Mr. Poizner declined to comment.

In the end, Mr. Murphy’s political hiatus went into intermission quickly. By late 2009, he had already returned to politics. He became a “senior adviser” to his benefactor, Ms. Whitman, taking in fees of \$665,000 for his first six months, according to her latest campaign finance report.

With his proven track record in California and long client list of Republican bright lights, including [Mitt Romney](#) and [Jeb Bush](#), Mr. Murphy was clearly a major “get.”

The Poizner team seemed to be close to Mr. Murphy in the summer of 2008. He even observed two sets of focus groups on Mr. Poizner’s prospective candidacy, one in Northern California and the other in Southern. Several days later, and after a lengthy meeting with Poizner advisers in Sacramento, Mr. Murphy produced a five-page memorandum about next steps, dated July 11, 2008, including tidbits like: “The best way to win the primary is not to have one. Dominating the early party stuff will be important. Meg will be distracted with McCain for the next six months; we should jump early on insider stuff.”

Under campaign planning, he listed: "Opposition research on MW." Among the items he said needed be taken care of: "Murphy contract. Clarity on role."

But the end of July, Mr. Murphy seemed to have decided that he was not going to come aboard after all, according to a copy of an e-mail exchange between him and Brian Seitchik, then Mr. Poizner's campaign manager, provided by Mr. Murphy.

Nevertheless, Mr. Poizner kept after him. In October, Mr. Murphy once again told Mr. Poizner no, another former member of the Poizner team said, but Mr. Poizner urged him to think it over. A few weeks later, Mr. Poizner checked back with Mr. Murphy, who responded in an e-mail message that he had grown weary of politics and was planning to "check totally out of 2009 and 2010."

"Once you lose the fire on this stuff, trust me you're not good at it anymore," Mr. Murphy wrote in the message, dated Nov. 2, 2008, obtained by The New York Times.

The Whitman investment followed two days later.

A business investment, as opposed to a cash gift, offers tax advantages, including the ability to write off losses, as well as the avoidance of gift taxes. If the investment's purpose was actually political, there are also questions about whether it should have been legally disclosed as a campaign expense.

Mr. Murphy has long harbored Hollywood aspirations. He is a member of the [Writers Guild of America](#), West, and is represented by an agent at Creative Artists Agency. Mr. Murphy even maintains an office on the Paramount Pictures lot in Hollywood, and recently sold a script to [HBO](#) for a show on political consultants that is in development but has not yet been greenlighted, HBO says.

Mr. Murphy's movie production company, however, clearly remains in its infancy, with no credits to its name.

Nevertheless, Scott Kaufer, a friend of Mr. Murphy's who is an executive producer of a new show on TNT, "Memphis Beat," said he first met Mr. Murphy about three years ago and was so impressed that

he invited him to work on a script together.

“I rank Murphy’s talent and his instinct at the highest rung,” Mr. Kaufer said.

Ms. Whitman evidently agreed.

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