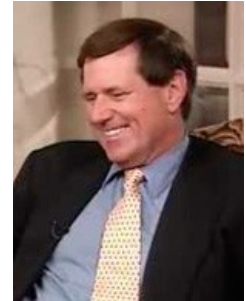


J. PATRICK MICHAELS

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Jim Keller

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INTERVIEW

KELLER: This is the oral history and video history of J. Patrick "Rick" Michaels, Chairman and CEO of Communications Equity Associates. We are conducting this interview in the Communications Equity Associates office in Tampa, Florida on October 20, 1999. This video history is made possible by a grant from the Gustave Hauser Foundation as part of the oral and video history program of The National Cable Television Center and Museum. Rick Michaels, as I said, is Chairman and CEO of the investment banking firm, Communications Equity. He is known as a super salesman, an entrepreneur, is on the Board of Directors of many, many companies and is an all-around good guy, in addition to being a member of the Board of Directors of The National Cable Center. Rick, to get started, give us a little bit of your background prior to the time that you got into this business.

MICHAELS: Well, I got in early in 1968 and I arrived in the cable business as a result of selling bibles door to door.

KELLER: In the South?

MICHAELS: In the South, no doubt about it. Five years of that. But I received my Master's degree from the University of Pennsylvania's Annenberg School of Communications, and I was fortunate enough to have the American Broadcasting Company fellowship, which was a combined program in communications and finance, from the Wharton School of Finance and the Annenberg School of Communications. It was an unusual program. I'd been interested in communications because earlier in my checkered career, I was the first American disc jockey in London in 1965 and later, as the nighttime classical music voice of New Orleans. After receiving my Master's degree, the company that I'd sold the books for was acquired by Times Mirror. Times Mirror, parent company of the Los Angeles Times, was interested in getting into the cable TV business and believe it or not, they hired me!

KELLER: Times Mirror bought the bible publishing company that you were working for? That's something I wasn't aware of.

MICHAELS: The Southwestern Company in Nashville, Tennessee had been around since the Civil War and they acquired it in 1967. I happened to be up in Nashville visiting my old friend Ted Welch, who's still a friend of mine after all these years. I was up looking around at opportunities, talking to Ted about the next step in my career and he said, "Well, what do you know about the cable TV business?" I said, "Well, you know, I've heard about it, attended a couple of lectures on the subject. Also, I had met the late Bob Beisswenger, who was head of General Instrument at that time and Walter Annenberg (I went to the Annenberg School) and they were all talking about cable TV." But I said, "I don't know a lot about it but I think it's probably going to be something big."

KELLER: How did you know that?

MICHAELS: Pardon?

KELLER: How did you know that? Did you just intuit?

MICHAELS: No, I'd heard a couple of these lectures. In actual fact, I'd also read quite a bit on the subject, like Ralph Lee Smith's original book, *The Wired Nation*, as well as a number of the earlier articles and books on cable. Cable TV looked like it had an interesting future, though regulations were to ultimately play a large part in its slow development. We all know, those of us who have been in there. But in any case, Ted called up Dennis Stanfill, who at that time was Treasurer of Times Mirror, later went on to be Chairman of Twentieth Century Fox. He called him and said, "Dennis, are you boys interested in the cable TV business? If you are, you're not going to believe this, but sitting right here in my study, drinking some of my whiskey, is a cable TV expert. This boy knows all about the subject and I think you ought to interview him." He said I could come up to New York and see their New York people and he would see me off on a plane the next day. So I got up to New York, got off, had a big limousine pick me up, went up to Manhattan and talked to them about the cable business. They were suitably impressed. They gave me a free ticket to Los Angeles, so I went out there and I met the Chandler family, actually the eldest Chandler if you can imagine that. Here I am, like 24 years old, I was very impressed with Times Mirror and having the opportunity to be considered but actually, I had an opportunity to spend a great weekend in Newport Beach with a second cousin of mine and after looking at the California beaches and all those good looking women, I thought to myself, "I don't know much about this cable, but this is the job for me."

KELLER: And then you were with them for how long?

MICHAELS: I was their first cable employee. I was actually assigned to corporate finance because they had not entered the cable business at that time. However, in 1969, we bought our first cable systems in San Clemente and Palos Verdes from Bob Cannon, ITT Cannon Electric, and I had the interesting task of installing the cable system at the summer White House in San Clemente when Nixon was in residence. So it was an interesting time. Times Mirror went on, of course, to acquire Long Beach and Palos Verdes, built up a number of cable companies. They transferred me to Florida in 1970 to head up their franchising operations here.

KELLER: And how long did you stay in Florida with Times Mirror?

MICHAELS: I was down here from 1970 until the end of 1972 when we sold our Florida cable holdings to TelePrompTer. That was an interesting early time in the industry, and Times Mirror was involved in the first overbuilds right here in Hillsborough County, believe it or not a three-way overbuild, which ultimately led Times Mirror to sell out their Florida holdings.

KELLER: That included a power company overbuild, didn't it?

MICHAELS: Yes, it did. I was in charge of franchising, so the ones I was successful at were St. Petersburg, Hillsborough County, Plant City, Haines City, a number of cities along Highway 27, Deland, Winter Haven and New Smyrna Beach. So we had quite a few hundred thousand homes that we put together down here, but Times Mirror didn't have any stomach for overbuilding and shouldn't have. They sold all Florida systems and franchises in 1972. I went to New York and went to work for a fund that lent money to cable companies.

KELLER: What fund was that?

MICHAELS: It was called Cable Funding. It was an interesting fund, a highly leveraged mezzanine fund, publicly traded, and really the first one to target cable TV, and it was put together by a blue chip Board of Directors, like Walter Cronkite, David Mahoney of Morton Simon and Mort Tanklon, who was a lawyer – but became a famous literary agent. Cable fundraising was founded by the late Martin Malarkey and whose idea was to provide high leverage financing for entrepreneurial cable companies. At that time, I worked for Harold Ewen, who's now Vice-Chairman of CEA. We had a pretty good go there. However, we were publicly traded, and the market crashed in 1974 when we had long gas lines and the prime rate went to twelve. Here we were sitting with 14 million dollars in cash; stock trading at 4 5/8 and a cash liquidation value of over 12. This set up a tremendous tender offer battle by several companies eager to get the money. Ultimately, we were sold to a combination of the Kuwaiti Investment Authority and the Stern-Rosenwalds. I don't know how they all got together, but anyway they wound up taking over our company.

KELLER: Alfred Stern?

MICHAELS: Indirectly, through a company called Starwood Management and they really went after cable funding for the cash. After they took over, I was fortunate enough to spend a couple of months on their payroll. I decided to turn down a great job which Jack Kent Cooke offered me, and then developed CEA out of my apartment, really advising entrepreneurs in terms of how to raise financing.

KELLER: You made an interesting statement in some of your papers that you put out. You said that your first mission was "to provide financial services to a select group." Who was in that select group?

MICHAELS: Well, early on, I did some of the financings like North Augusta, South Carolina and actually Beverly Harms, who still works with me, up in North Syracuse, New York.

KELLER: These were individual companies, not big ones?

MICHAELS: No, not big ones. I worked out of my apartment. Then as 1974 progressed into 1975, the cable TV business for the first time had a lot of financial problems because you remember, the prime rate went to twelve percent, and there was no money available from cable TV operators to borrow, especially "mom and pops." A lot of people had gotten into trouble through over leverage. There were companies such as GTE that were writing leases in those days; remember equipment leases?

KELLER: Sure do.

MICHAELS: People defaulted on the equipment leases. You had a lot of high interest loans from firms such as Walter Heller, James A. Talcott, etc. Five over prime! The companies they lent to needed help desperately, so I actually wound up getting in the work out business.

KELLER: You had a lot of the Economy Finance loans in that category, too, didn't you?

MICHAELS: Yep, sure did.

KELLER: Without a Jim Ackerman, though, this industry would have been very difficult to get started in.

MICHAELS: Very, very difficult. People like Jim Ackerman, Harold Ewen, even the late Jack Shineman. He was involved in the early days of cable TV for James A. Talcott, who, coincidentally, was the first financier of Adelphia, and the Rigas family at five points over prime. But those were difficult days but it opened up an opportunity for me to go in and actually reorganize cable companies. Believe it or not, that's how I got in the cable TV brokerage business because people in the cable business would think of CEA mostly as cable brokers.

KELLER: I saw it as the other way around. I thought you were a broker first and then went into the financial business, but it's just the reverse of that.

MICHAELS: Just the opposite. I got into the brokerage business because in some cases these companies we were working on had to be sold. That led me into buying and selling cable systems as an agent. In 1975 I was still just barely making it, doing financing deals. The first big deal I did which put some money in my pocket was with the late Alan McDonald and his brother Bill when they bought the cable system in Ottumwa, Iowa. I'll never forget the day.

KELLER: Those were the McDonalds from Georgia?

MICHAELS: Birmingham, Alabama.

KELLER: Birmingham, Alabama, right.

MICHAELS: I remember the day my daughter was born in Mt. Sinai Hospital, October the 12th, 1974, and I didn't have any money. In fact, I wondered how I was ever going to actually get my daughter out of there; I owed \$2,000 to the hospital. As fate would have it, I had one of those old fashioned answering services with these old ladies who'd take my calls and one of them rang me up at the hospital, finally got through to me. I thought maybe something had happened to my mother or something and I said, "What's going on, Gladys?" She says, "Oh, Mr. MICHAELS! I hate to bother you on this happy day, but I know you're going to be even happier when you find out that those McDonald boys are sending you \$40,000."

KELLER: That way you got your daughter out of hock?

MICHAELS: That's right. So that was my first brokerage deal of any magnitude prior to moving to Minneapolis in 1975. Actually, I'd made the commitment to move before I got that \$40,000. I had a very interesting client who actually never wound up in the cable business; his name will remain anonymous. He was extraordinarily rich. Actually I should say, his wife was the one who was extraordinarily wealthy. She was from one of the Midwest's wealthiest families. My friend used to like to take a drink (or two or three or four) and he used to come into New York and run around. We were to go out one night into town and he came to me and he said, "You know, Rick, I've got some terrible news." He was sitting up on the top of the Waldorf Towers in a four-bedroom suite which he had all year. Can you imagine how much that costs? So he was sitting there having a drink of whiskey and says, "You know, I have some terrible news." I said, "What's that?" He says, "You know, my wife is tired of all this running around so she's making me get rid of this apartment." And I said, "Well, that's terrible. What's the good news?" He said, "The good news is I'm going to offer you a job." I said, "Well, I'm not interested in a job, Paul." He said, "Well, you need a job. You're broke." I said, "Well, that's true, I am broke." He says, "I'm going to give you a job in Minneapolis." I said, "Well, what am I going to do?" He said, "You're going to look after my cable TV assets." I said, "Well, that's an interesting job because you don't have any cable TV systems." He said, "Yeah, but I want to go out of town to LA, Miami and New York and look for them."

LAUGHTER

KELLER: Rockin' tour, huh?

MICHAELS: So that's how I actually wound up going to Minneapolis. The next thing that was interesting in my career was I got a knock on the door one day from an old friend of mine, Jeff Marcus. We had been bachelors at the same time in Southern California in my days at Times Mirror. He'd gotten married, left TelePrompTer and believe it or not, was selling cable TV door to door for Bernie Carlin.

KELLER: Door to door?

MICHAELS: Door to door, down in Kansas.

KELLER: You did too for awhile, didn't you?

MICHAELS: Yes, sir. Early on I sold cable door to door at Times Mirror to learn firsthand about the business. So he knocks on the door and said he was tired of being down there in Kansas and wanted to do something different. He'd heard what I was doing and was interested in the cable brokerage business and everything. I said, "Well, I can't afford to pay you now. You'll have to pay your own way. I'm just sort of getting by myself." He said he needed a place to live. So he and Nancy moved in with my wife and daughter at that time and we all lived together for over a year in an 1,800 square foot apartment. So we got to be pretty good friends.

KELLER: I guess you would!

MICHAELS: Well, he was a pretty good Hearts player. I lost a lot of money on that over the year, too.

KELLER: Then what happened?

MICHAELS: Well, we began to make a little bit of money.

KELLER: Doing brokerage deals?

MICHAELS: Doing brokerage deals and doing a few finance deals and believe it or not...

KELLER: Excuse me, where were you going for financing in those early days, '73-'75?

MICHAELS: Mostly to the finance companies, the financed cable and some other media, although there were some banks already lending money, like First of Maryland. There were banks in the market. But the Hellers and the Economies [?], the Talcott.

KELLER: So you were going to high interest rate bankers at that point?

MICHAELS: Yes, but we actually graduated on into banks that were early banks in the business, like Chemical and other banks that were coming along and ultimately in insurance companies, like Teacher's.

KELLER: Did you get any Canadian money?

MICHAELS: We got some of the early Canadian money, too, from Toronto Dominion and actually, believe it or not, CEA's very first client was not an American but Canadian. The very first client I had when I opened up shop in my apartment was the late Jeff Conway, from Scarborough, Ontario and I helped bring Jeff into The States, acquiring the franchise for Fresno, California. I also brought David Graham of Cablecasting into the Atlanta deal. My earliest big clients were all Canadian companies. I used to travel to Canada all the time. That's really where we got our start was representing Canadian companies in the United States. Ultimately, and sort of digressing, but ultimately that led to my interest internationally and we got involved internationally outside of Canada in 1981. But in those early days in Minneapolis, once we started making money, Jeff and I, we decided that it was time to move. When we first moved up there, I mean, Minnesota's a nice state. I like the people and the cultural environment, but I didn't like paying the 19% state income tax. In those days, anything over \$25,000 was taxed at 19%. So, of course, when you're broke, it doesn't make any difference. 19% of nothing is nothing. But when I started making some money, Jeff and I decided we needed to move and we looked at a couple of different places and decided we'd come back to Florida because I'm a native Floridian. Even though I lived all over the world, actually grew up in Jamaica, and I went to school in England, I decided to come back to my home state of Florida and set up shop here in 1977.

KELLER: You grew up in England...

MICHAELS: Jamaica.

KELLER: In Jamaica, but then you went to England, you went to school over there for awhile at the London School of Economics and you did some work over there in radio broadcasting and other things, didn't you?

MICHAELS: Yes, I did. I was a disk jockey on one of the pirate radio stations. There was no legal commercial broadcasting in England in those days. There was only the BBC. So I was a rock and roll voice, morning man, on Radio City 299. We were on an old anti-aircraft fort nine miles out at sea beaming rock and roll and religion into London.

KELLER: It fit right in with your bible selling. The contacts that you made in London at that time, have they served you well over the years in your banking relationships in London?

MICHAELS: Well, I would say that those were so early that probably only one or two of those contacts survived. It was later, when I started going back to England in the 1980's, I built up, over a long period of time, more contacts. We were very early going international. In fact, there was virtually nobody other than equipment suppliers selling cable equipment overseas. There were cable operators going. There was no Ted Turner, no programmers. So we were pretty early on for what we wanted to accomplish. It wasn't really until we got into other businesses besides cable that we really became successful overseas. Today, of course, half of our 180 people work internationally and we have nine offices overseas.

KELLER: Well, as you recall, in the early '80's, when again, the recession had put the interest rates out of sight, much of the money in the cable industry was coming from Europe and from the European banks.

MICHAELS: It was the only place we could get it in those days at reasonable rates.

KELLER: When you started to make some money in the brokerage business at this point, what were some of the companies that you worked with?

MICHAELS: Well, of course, we did a lot of work for entrepreneurs, but I would say the companies that were our biggest clients were Storer Broadcasting, Wometco, TCI and Times Mirror. Early on in CEA's history, I'd say the biggest deal that we ever did, in the '70's, was to acquire CPI for Times Mirror from Jack Crosby and Fred Lieberman. But we did a lot of smaller transactions with companies that were building up in those days, as the MSO's were building.

KELLER: And that was the formation period of the industry and the MSO's in the industry. You mentioned that you dealt with Storer. When Storer was finally sold, it is almost a case study that almost any business school would want to look into, were you a part of that complicated transaction between Comcast, TCI, Storer in the interim period?

MICHAELS: Actually, sadly enough, with all the work that I'd done with Storer over the years CEA didn't participate in the final days as an agent for Storer. Right up until that time we did, but ironically enough, some of the best money I ever made was in those days when Storer was beginning to have problems. I had originally put together a company called Gulfstream Cablevision with Storer owning 80% and me and a couple of other folks owned 20%. We were the local minority partners and the systems were just across the bay over in Pasco County and northern Pinellas County. When they got in financial trouble, I then bought them out and sold it several years later, on New Year's Eve 1986, just ahead of the last day that you could sell without realizing double tax. As you recall, '86 was a great year, and we sold Gulfstream with 77,000 customers.

KELLER: Demise of the limited partnerships in '86, too.

MICHAELS: It was almost a record price. We sold Gulfstream to TCI in those days for like \$1,600 a subscriber in 1986, and of course as you know, most systems were selling for below a thousand dollars per subscriber in those days.

KELLER: After '82, '84, yes. What were some of the big deals? You said something about Phoenix. That you worked on a deal in Phoenix.

MICHAELS: Yes, one of the biggest things Harold Ewen and I worked on together – the trade which was meant to rationalize the Phoenix market, which had a lot of operators but in particular Storer and Times Mirror. It was a massive three-way trade. One of the more interesting earlier deals involved the first cable system I ever owned which was Red Lion, Pennsylvania, Mount Wolf and Gettysburg, Pennsylvania. The acquisition was actually financed utilizing Industrial Development Authority bonds, and that was way back in 1975.

KELLER: Tell me about that. That was an interesting aspect of cable financing, the industrial bonds. You were one of the first to get involved in them, were you not?

MICHAELS: Yes, what you really had to do was get the state agency to approve the project, but before you even got there you had to have a local government say that it was important to the economy and it was important for them to have cable in those days.

KELLER: Economic development within the community?

MICHAELS: Well, the problem was that this was a very rural area, with pockets of houses, like Gettysburg, so they wanted the cable. We bought a cable company that was there, but to expand it into the really rural areas was difficult. The system had a 15-mile truck run to service some of these places. We got the local authority to approve it and the state to bless it. What happened next was that actually there was a guarantee by the state, or by the authority, which is the tax authority which issues the bonds. As issuer, they can provide tremendous leverage. It was like 9 to 1 because the issuing finance company (in this case) had the guarantee which allowed for long term, low interest rate financing. It was a unique opportunity, but it was so difficult to put all those pieces together that IPA financing (for cable TV) never really caught on. There were two or three other similar deals done in the cable business in the early days, but it was so difficult to get all the approvals necessary it really never caught on.

KELLER: What other sources of financing did you bring about in the early days? I'd say early days '80-'85.

MICHAELS: Well, we were early into the insurance market, bringing insurance companies into cable as well as being involved with some of the Canadian banks and we also were involved in some of the early limited partnership structuring which was pretty unique.

KELLER: When you say unique...?

MICHAELS: Well, I would say that the way some of these were structured originally relating to MSO – entrepreneurial joint ventures. Believe it or not, we were involved, (if I am not mistaken), in the first one, certainly in the first two or three. I think on the first deal of this structure, it was probably the first TCI joint venture ever done whereby TCI took a minority equity share and would be actually passing on the discounts. In those days, not so much programming as equipment discounts because these were really early days before programming costs became major expenses. The equipment discount that TCI enjoyed, compared to what the small operator with three or four thousand subscribers had, was massive. And then, of course, CEA was involved in some of the early construction loans, which, as you recall, were really benchmark loans. They were initially structured to roll over your loan based on the number of subscribers that the system had. Ultimately, (in the good old days), we were able even to talk some of the banks into really advancing money on miles of plant, which was quite remarkable, for better or for worse.

KELLER: Well, they had a chattel on it so there's no reason why they couldn't take it down if they ever had to call it. In 1973, '74, '75, the advent of pay television on the satellite, HBO, at that point made financing tremendously more easy than it was before as I recall.

MICHAELS: Sure. Well, in 1968 the Federal Communications Commission, as you recall, put a freeze on the top 100 markets so you weren't able to really bring the signals in. It wasn't until 1972 when the FCC changed those rules. There really were no distant TV signals so we were out there knocking on doors, selling things like weather channels, which weren't exactly the most popular thing. So unless you lived in a really poor reception area, it was hard to sell cable. But then in April 1975, the first satellite signals for cable TV were delivered right over in Fort Pierce/Vero Beach, Florida to a ten-meter earth station, Scientific-Atlanta earth station.

KELLER: A hundred thousand dollars worth of earth station.

MICHAELS: Yes, sir. However, as you recall, before that, from the late 1960's or possibly from about 1972 when they loosened distant TV regulations in Washington, signals were transmitted via microwave, like Northeastern Microwave. HBO originally went over to John Walson's system via microwave ... I remember sitting over at a bar at the southern cable show with Ted Turner, after he had a few drinks, and I said to Ted, "Well, Ted, I need to get channel 17 to my client up in North Augusta. We don't have anything to sell up there and he can't afford a microwave so why don't you lend us money for the microwave hop." He says, "No, no, I'm going to do something new with channel 17. You just need to hold on. We're going to put it up on satellite." And this was about 1973-74, so it was well before they actually got this going. I said, "Ted, you've got to lay off that whiskey; you're dreaming." I said, "You're not putting that channel 17 up on satellite." In fact, just to show you what I don't know, it was so bad that I'd written an article for Cable News, you remember Bob Huston?

KELLER: Yes, I knew him well. I miss him, too. He was one of the fun guys in the business.

MICHAELS: Oh, no doubt about it. I'd written an article that Bob published. It was actually written, I think, in 1969 and it was "CATV Satellite – Pie in the Sky," an article that I had written about this subject because people were already talking about cable TV satellites. I had said in this article that it was highly unlikely that it would ever happen. Shows you what I know! It's almost as bad as the time that Chuck Dolan walked in my office when I was with Harold Ewen at Cable Funding in 1973. He said, "I've got a great opportunity for you guys." I said, "What's that?" He said, "Well, we're going to put cable out here in Long Island." I said, "I've never heard of anything so ridiculous in my life." But I agreed to go have a look, went and saw it. We drove around, looked around Long Island; I came back and told the Board of Directors, Marty Malarkey and the others, said, "You know, this guy Dolan, he must be crazy. He wants to put a cable system right out here under the Empire State Building." So we turned him down.

KELLER: That was before the satellite signals, before HBO?

MICHAELS: Oh yes! This was 1973.

KELLER: Okay.

MICHAELS: So, Chuck was well ahead of his time. He owned Sterling Manhattan which, as you recall, was a precursor to HBO. He talked to me about that too. I don't know if he remembers this, (I see Chuck from time to time), but one of the things that I remember about the Sterling Manhattan scheme, after he told me about Long Island, he said, "You know, I've got another deal." I say, "What's that?" He says, "Well, I'm putting in pay TV." I said, "Pay TV?" He said, "Yeah, I've got a company called Sterling Manhattan, but we're going to change the name to HBO – Home Box Office." I said, "Well, you know something? Pay TV is something I know a lot about. Pay television's been around since 1948, in Canada, outside of Toronto, it failed. The Los Angeles experiment with Pat Brown went down the drain."

KELLER: Sylvester.

MICHAELS: The experiment in Hartford, Connecticut with the coins, that failed too. So I said, "This deal is another way to lose money. If I were you, I'd forget about it." So some of my investment acumen is not as...

KELLER: Well, you didn't have a crystal ball.

MICHAELS: No, that's right.

KELLER: He did make a deal with Madison Square Garden, too, didn't he, for the sporting events up there?

MICHAELS: Yes, that was a very astute move in those days.

KELLER: It was programming.

MICHAELS: And sports, of course, were big.

KELLER: And Manhattan, there were areas, like in San Francisco where viewers couldn't get a signal even though they were right under the transmitter and that helped develop the big cable TV markets even before the advent of satellite delivered cable channels.

MICHAELS: That's right. Well, of course, there were a lot of good broadcasters in the early days, CBS, Triangle Broadcasting, who were big in cable.

KELLER: Cox.

MICHAELS: Cox, yes.

KELLER: Cox has stayed in over a long period, too.

MICHAELS: Yep.

KELLER: Have you ever done any deals with these people?

MICHAELS: Well, with Cox we've done deals in the past. Times Mirror, and in the early days with CBS. We did with Triangle because they had the original Fresno, California franchise, which they didn't build.

KELLER: Back to the Annenbergs again.

MICHAELS: Then, of course, there were some Canadians who we were involved with, not only to fund cable deals in the States. Some that were already involved here, such as Famous Players with CBS. They owned systems on the U.S. Canadian border.

KELLER: Famous Players had pieces of Toronto, Montreal, Vancouver, some of the other places up there before they wanted anyone to know they were in the business. You remember those days when they had to sneak it in?

MICHAELS: Yes, I do.

KELLER: When did you get into the international operations?

MICHAELS: 1981. We were approached by Cable and Wireless, which, of course, has become quite prominent, at least in the cable business in recent times, but is actually as old anyway. Cable and Wireless came to me to help them out in the West Indies. I grew up in the West Indies, went to school in Kingston, Jamaica. By 1981, a lot of the people who were my age were already becoming prominent in government, or were well-respected business people on different islands. Cable and Wireless had been an old colonial company. With the changing winds of independence in the '60's, the old colonial mentality had to go. They were under very heavy pressure from local governments to privatize or lose their licenses. In some cases, Cable and Wireless wanted to supply cable TV in the islands, but they were not well liked. So CEA actually started out doing lobbying work in the Cayman Islands, St. Lucia, Tortola and Bermuda and other places on their behalf. We did other "odd jobs" related to cable for cable wireless, but that was our first start.

KELLER: When you say odd jobs, what do you mean?

MICHAELS: Well, we found them somebody to actually design the cable system in St. Lucia once they got the license because they didn't have any cable people, they had no cable engineers. So we found them a contractor, first a design person and then a contractor to actually go in and do that. In the early days, we were really in the business to make money. I did all sorts of unusual things. I remember there was a company in Blackpool, England called Teleng. Now, Teleng probably made the finest amplifier that was ever made in those days for cable.

KELLER: Jack Evans.

MICHAELS: That's right.

KELLER: That name comes from way back.

MICHAELS: The only problem was that these amplifiers were enormously expensive. They were over engineered. So they had sent a bunch of them into the States, then they had decided they were going to get out of the business. They couldn't bring them back into England because they'd exported them under some sort of U.K. government sponsored export credit arrangement and they'd also moved them via Canada. So I had this guy fly over from Blackpool. He said, "Look, Rick, I have a warehouse full of amplifiers and I'd like to sell them." I said, "Well, that's not my real business." He said, "Well, you're a broker aren't you?" I said, "Sure I am." He said, "You like to make money?" I said, "I love making money." He says, "Do you think you can sell these things for me?" I got in touch with David Ramage up in North Dakota. He was a local contractor for independent cable guys. I said, "How'd you like to have a warehouse full of amplifiers that are like Rolls Royce's on the cheap?" He said, "This is too good to be true." So I actually wound up selling David the whole warehouse full of amplifiers and pocketed the commission for that job. So I think if you go to a small town up there in North Dakota you'll probably find a few of them still up there.

KELLER: Do you remember what the bandwidth was? How many channels it could handle?

MICHAELS: I sure don't.

KELLER: I don't remember either.

MICHAELS: I had another similar deal after I did that. I guess Oak somehow or other had some amplifiers made in Canada under an export arrangement. They'd put their logo on them up there, but they were made in Canada. They shipped them down to the States, and they had them stored in some place like Crystal Lake, Illinois. Anyway, they'd heard about my Blackpool exploits and they called me up and said, "We've got all these, we can't send these back to Canada but we're getting out of this business." I said, "Well, I'd like to do that." I can't remember who I sold them to but I sold a whole lot – they sent two tractor-trailers up to Illinois and picked them all up and I got my fee.

KELLER: No wonder you're called super salesman with some of the stuff that you've peddled over the years. One thing I want to go back to – you mentioned the English experiment. Few people recognize that the precursor of cable television in this country was actually the wire distribution of radio in London itself. Few people recognize that.

MICHAELS: Yep, Rediffusion.

KELLER: Rediffusion, right.

MICHAELS: Yes and Rediffusion, of course, they were actually an early client of mine, Rediffusion. They were also in the West Indies. They did Radio Jamaican Rediffusion, Trinidad Rediffusion, Hong Kong Rediffusion and they were active in the United Kingdom before World War II with pared wire for other channels of radio service, mostly in mountainous areas. But they were an early client. I did some work for them down in the islands as well.

KELLER: How did you ever get to Jamaica?

MICHAELS: Well, my stepfather was a lawyer and an accountant and he was from Florida. My parents went on holiday in the 1950's down there, fell in love with it. Of course, Jamaica, unlike today, was a place of pink gin and polo, movie stars like Richard Woodmark, Elizabeth Taylor, Errol Flynn, Noel Coward and Ian Fleming. It was a wonderful place. Just like a movie set. So they decided they were going to go there. They picked up the kids and moved them down there, no job or anything. Got in the real estate business and rental cars and whatnot and that's how I wound up there.

KELLER: When did you come back?

MICHAELS: I came back to go to Tulane in the early '60's. Let's see, I graduated from high school in 1961 and I came back to Tulane in New Orleans and then I went to the London School of Economics and then I went to Penn.

KELLER: There's a great story in some of your biographical information that gives your mother's reaction to you getting into cable television.

MICHAELS: Well, of course, my mother being in Jamaica in the 1960's didn't have TV. I graduated from the Annenberg School of Communications in 1968. There really was no television in Jamaica and, of course, she'd had TV in the States in the early 1950's and at least knew what it was. So I called her up and she said, "What are you doing?" I said, "Well, I'm going to work for cable TV." She said, "Cable TV. You're a Phi Beta Kappa, a Tulane Scholar, a Tulane Fellow, went to school in England. You had the American Broadcasting Company fellowship. We've spent a hell of a lot of money on your education and now you're going into something I've never heard of. If you starve, don't call me up. It serves you right."

KELLER: Is your mother still alive?

MICHAELS: Oh yeah, she sure is.

KELLER: What does she say about it today?

MICHAELS: Well, she says that she might have been wrong.

KELLER: You're currently now not only in cable television but virtually all media, aren't you?

MICHAELS: Yeah, over the years CEA, of course, moved from cable TV in a natural progression into broadcasting. We also represented a lot of newspapers in the early days. We did deals for Landmark Newspapers and the New York Times and people like this. Strangely enough, we never got into publishing, at least in the

United States, but then we did progress into radio and television.

KELLER: From the brokerage end of it?

MICHAELS: Brokerage and the financing end and then ultimately into entertainment and international got to be quite big and then, of course, subsequent to that we've gotten into communications technology, IT, e-commerce. We've had a real broad spectrum of interests and have been a full service investment bank for communications, media, entertainment and information technologies. We arrange financing for companies that have developed declassified intelligence and defense communications technologies. We've done some for Harris and other defense contractors.

KELLER: From technology to the movies, huh?

MICHAELS: Yeah, it has been an interesting run.

KELLER: You're currently involved in doing deals through funds, is that right? Your own individual investment funds?

MICHAELS: Yes, we have four lines of business. We have investment banking, which is our oldest business which includes a brokerage business and we have six offices in the United States and nine overseas.

KELLER: Would you name those please?

MICHAELS: Well, here we're in Boston, New York, Philadelphia, Tampa, Denver and Los Angeles and internationally we're in London, Windsor, Paris, Munich, Prague, Warsaw and a part-time office in Madrid; we're in Dubai, which I'll be back to in a minute; we're in Bombay and a part-time office in Kuala Lumpur. And then we have the funds management business and in the funds management business we have \$850 million under management now. We only invest in media, entertainment, telecommunications and e-commerce and communications technology. Five funds are international. They're based in London, Prague and Warsaw, Düsseldorf, Singapore and Sydney, Australia and we have one in New York and we're adding right now four others. We're considering a 500 million dollar worldwide mezzanine fund in London and New York, mainly into telecoms and convergence.

KELLER: Explain what you mean by mezzanine funding. You've used the expression a couple of times.

MICHAELS: Yes, this is really to provide additional leverage. This particular fund will be aimed at the disparity between the high yield market and conventional debt financing. A lot of people who want to do acquisitions, for example, are depending on the high yield or joint bond market to make this work. What happens is that when the bond market slows down, they can't get those institutional financings off. Their debt financing leverage contracts because banks won't lend the same leverage as a junk bond market. So it's the difference in leverage between high yield and conventional that is interesting. We provide that "expansion capital" and take warrants and/or equity kickers in the company. That's actually what Harold and I were doing in 1973 as cable funding. It's just a bigger pool of money to play with.

KELLER: What happened when the government started to reduce the number of high leverage investments?

MICHAELS: That hurt for a while.

KELLER: That was when? '88?

MICHAELS: Yes, in the '80's. That hurt us for a while but we continued to survive because we continue to look for new products. We've got these regional funds, such as the one for Latin America coming up – \$200 million. We've got a venture capital fund based at the University City Science Center in Philadelphia specializing in investments in e-commerce, e-health and the Knowledge industries. We have a follow on fund with Seaport Capital, succeeding our fully invested CEA Capital Partners in New York, which is our domestic fund. Those four funds alone total another billion and those efforts are underway right now. But our goal here at CEA really is to try to have, I would say, two to three billion under management within 24-36 months.

KELLER: In almost every case, as you told me earlier, when you develop one of these funds, you have a major investor before you get into it. You don't put it out to the general public in most cases?

MICHAELS: It's just like a shopping center. We want the anchor tenant and then we go out to find the rest of the tenants. So funds management is a big area for us and also the third area of business that we have we invest for our own account and have for 25 years. We've had a pretty good run there. We've had a 90.6% return for 27 years according to KPMG and that's just my colleagues and myself at CEA.

KELLER: Mostly in cable television?

MICHAELS: In the early days it was mostly in cable TV but we've invested in everything from Christian record companies to e-commerce companies to... well, the worst investment I ever made was in the theater business. We owned the 16th largest chain of movie theaters based in Charlotte, North Carolina. It was so bad I thought I was going to have to sell popcorn when it was all over. But we've had a pretty good run in private direct investing. We have a joint venture in the Middle East where we're advisors. It's called Communications Development Corporation. We do strategic advisory work out there for some big companies like Arabsat. For example, we advised Sheikh Mohammed in Dubai on his new TV project. We also have functioned as developers or principals for telecoms projects. We have a Saudi family who are our partners.

KELLER: Are you able to do business in all of the Middle Eastern, Arab countries?

MICHAELS: Well, we really wanted to be in certain ones because it's very, very hard to do business out there as a small company. Even if you're Morgan Stanley, it's hard to do business out there. We wouldn't be able to do business there in the Gulf if it wasn't for our partners who are very prominent. Among other things, they are major shareholders in the largest bank in the Middle East. So we were able to do business in certain countries out there.

KELLER: You've learned your lesson well in franchising; get the local influence before you do anything.

MICHAELS: Well, that's true, that's very true. You know I often think about the old days, talk about the Middle East, when I was out driving around in Oman – I've been to 94 countries now, some of them I don't want to go back to – but anyway, I was in Oman, I was driving around and I thought this is a far cry from the good old days when I used to drive around in Pennsylvania. I'd go over there to the BPOE and drink a little liquor and play low-ball poker with a local cable operator to try to get that listing.

KELLER: In most of my cases, it was trying to get rate increases out of city councils in Pottsville, Pennsylvania, Schuylkill Haven, and those places. Interesting days! How many people do you have working for you now?

MICHAELS: In the investment banking and merchant banking side that would be everybody except in the funds, because each fund is individually managed, I'd have about 180 in that group. The funds, if you take our existing funds, then we have another, maybe, 60 in that group. So it'd be a little over 240 people, all told.

KELLER: Worldwide?

MICHAELS: Yes.

KELLER: Now in the individual funds that you have based throughout the world, do you have your own employees there or are they employees of that particular fund?

MICHAELS: They're employees of the fund. We either manage directly or co-manage funds, like with ING Barings, a big Dutch bank. We have three of those with ING Barings. We co-manage them so the local management then reports to our Board of Directors. CEA is on the Investment Committee and we have a management group here in Tampa, CEA's Merchant Bank Group, and they work with the funds managers. In the case of the fund in New York, we run it ourselves. We have local management, but we don't have any partners in that one. In the case of the one in Düsseldorf, we were appointed by the government North Rhine Westphalia, so we run a fund for state banks.

KELLER: Say that slower, will you, so we can get that down. What was the name of the bank?

MICHAELS: The state in Germany is called North Rhine Westphalia and that's where Düsseldorf is the capital city. Five state savings banks and the West LB Bank, which is also another state owned bank, but it's one of the biggest banks in the world, 48th I think. These banks put up the initial \$65 million to invest in new media, Internet and telecoms related projects or convergence projects. We manage the fund for the banks. Now that was quite a coup for a little company out of Tampa, Florida to be appointed by the government North Rhine Westphalia.

KELLER: How did you manage that?

MICHAELS: Our German office is very well connected. They had the contacts. CEA's policy internationally is we have almost no Americans working overseas. I can't think of any really, other than operating internationally out of the U.S. All of our offshore offices are those foreign nationals. One thing about foreign nationals when you hire somebody overseas is they don't go home, they're already home. You put Americans out there, they want to come home.

KELLER: Interesting, out of all your associations and various activities and so on, you mention here that one time you served on the Federal Communication Commission's Local, State and Federal Advisory Committee. What did you do there and what did they do?

MICHAELS: That was back in the '70's and they were looking into the whole issue of local regulation franchising. Of course, as you know, cable TV fundraising was an early part of what I did for a living. I managed to wrangle my way on the Committee and it was really a way for the FCC to get industry figures to be on the FCC and citizens involved in the regulatory process in order to obtain input for the Commission. I thought it was valuable for me to participate in producing the input. As a cable company representative, I was interested in deregulation, and as minimal regulation as we could get. Interestingly enough though, I was actually nominated to be on the FCC. It is hard to believe. It was 1973. I was nominated at 24 or 25 years old to be a Commissioner on the FCC.

KELLER: That's interesting.

MICHAELS: So I had a nomination by Senator Chiles of Florida. Of course, I didn't get it, but it was interesting at that young age to be nominated as a Commissioner.

KELLER: Well, that's a presidential appointment and that would have been through the Nixon era, is that right?

MICHAELS: Yep, I'm still a Republican.

END OF TAPE 1, SIDE A

START OF TAPE 1, SIDE B

KELLER: Was that Citizen Advisory Committee, was that before or after the formation of Cable Bureau?

MICHAELS: That's a very good question.

KELLER: With Clay Whitehead and Dave Kinley and ...

MICHAELS: It was around that time because it arose, really, when they relaxed the restructured FCC regulation of cable TV – maybe it was time just before the relaxation of the regulation of 1972 for major markets. This is what the controversy was all about because, of course, the FCC froze the major markets in '68; cable systems couldn't bring any distant signals in and there was a lot of resistance then from broadcasters, theater owners and newspapers and everybody else to relaxing those regulations. So that's when they really put together this advisory commission and then, of course, the Cable Bureau came in, I think what? Around that same time, right?

KELLER: It was right around that time, I don't remember exactly when it was.

MICHAELS: Steve Ross, who was a young lawyer, he's still an FCC attorney in Washington, was a great friend of mine from those days. He was a young attorney on the Commission, as was a little bit later on, Bob Johnson of BET. You know, Bob used to be at the Commission as well. In those days they used to fly in there and try to make some of our thoughts known.

KELLER: Dave Kinley?

MICHAELS: Dave Kinley was there, absolutely.

KELLER: Some of the other guys that have come along pretty well too have always been on that. Where do you see your business going now? I know you're involved in the funds and you want to grow those as fast and have as many as you possibly can. You said, "What? You want to have \$500 billion?"

MICHAELS: No, no, no. That'd be nice, but I'd be happy to have \$3 billion under management. I think the thing is that we're dedicated to preserving some of our businesses, if not expanding them, like the cable brokerage business. I think that in spite of the fact that seven companies control 72% of all the customers...

KELLER: I was going to ask if there's any more business in that?

MICHAELS: Well, believe it or not, I think that independent operators, like the Bible says, "the poor will always be with us", I think so will independent cable operators. There will always be a few of them. It's just like the telephone business. There are 1,400 independent telephone companies still out there. So I think the cable business is still going to be good to us for a couple of years. We're interested in expanding our broadcast business and we're interested in really taking the next step in the cutting edge and being in the new areas, e-commerce, and we've been very successful in this arena. Of course, the problem is everybody there looks so young when you go there to see them. Our office in LA, I think the oldest person is 35, the next one was 31, the next one was 29 but that's what you need these days.

KELLER: What was your reaction to the AT&T/TCI deal?

MICHAELS: You mean the original deal when AT&T bought TCI? I think it's something that you look back to what John Malone was trying to do with Bell Atlantic; it's something that should have happened then. Bell Atlantic didn't close and then the AT&T deal followed through. My personal view is that getting rid of all the employees, all the competition, all the headaches of operating the plant, well, I say get rid of them. That's a great opportunity for a big company like AT&T, but it's not an entrepreneurial game anymore. It's with big guys who can move this industry on to the next dimension with convergence and everything else that's coming down the pike. But John still has his cake and is eating it too, with the Liberty tracking stock.

KELLER: With the programming end of it.

MICHAELS: And the other areas. Liberty Digital, where the Internet stuff is going. Liberty Livewire, where the transportation business is going – keep your eye on that, that's a new one coming up – and so I think that's the exciting thing about this business. People say, well how can you be traveling 250 days a year and still put up with 55? Well, I find it exciting because first of all, I love the people in the industry. We've got great people around here, like Harold Ewen, who has been a great personal friend of mine for all these years. He's 67, retired three times and never been able to quit for more than about a month. People like Tom MacCrory, who has been with me for years, 19 years. Ed Frazier has been here 23 years. We have a real good group of people to work with and that's, I think the older I get, the better I like being around people that I like and enjoy working with. And the second thing is that this is an exciting business because it's changing. It's just like coming to work, picking up a kaleidoscope, shaking it up, look up there and it's a new picture every day.

KELLER: Fortunately, you have good people working with you. How have you found those over the years?

MICHAELS: Well, actually, the best people that we've had over the years are people that for one reason or another are entrepreneurial and sort of independent thinkers. Mavericks, really, in the sense that if they worked for big companies, they really would not fit in. They're too independent for that and they work real well in this environment. I mean, we really set up the franchise, if you will, and the place to work with the contacts. The most successful people that work at CEA are the people that don't need a lot of direction. They call on me for advice, look for the strategy, but they're self-starters. The thing is if they weren't self-starters, they'd be working at the post office.

KELLER: I guess that's probably true. When you look back, in retrospect, in the cable business, what were some of the most exciting times that you found?

MICHAELS: Oh, I think probably for me some of the most exciting times were really some of the early deals and the people and the cast of characters that I had to deal with. It was almost like traveling through the pages of Alice in Wonderland.

Laughter

KELLER: That's a good description.

MICHAELS: Ranging from people like Oliver Swan. I don't know if you ever ran into the late Oliver Swan out in Arizona. When I visited his systems years ago, I said, "Where's the cable system?" First of all, we're driving through the desert; I didn't see anything out there but jackrabbits. He said, "It's right over there. That's an amplifier." I said, "That looks like a mailbox to me." He said, "Yeah, I build my amplifiers right in those mailboxes." From characters like that to a guy who ran a cable company, up in Pennsylvania. They wanted to borrow some money, quite a few million. This is when I was working for Cable Funding. I was driving around with him and he obviously didn't know anything about the cable business. "Well, listen here," I said "Pat," I had a nice Italian meal with him there in this town and I said, "how did you ever get in the cable business?" He said, "You know, the people who own this business are really good to me. I used to run numbers for them, but I got tired of that business so they retired me. They had a union problem up here. I took care of it real fast."

Laughter

KELLER: He was a manager then?

MICHAELS: He was the manager.

KELLER: Well, in the early days there were no managers and it took a long time before they started producing them in the graduate schools and other places.

MICHAELS: Oh, yeah. I remember in the real early days when John looked at cable TV acquisitions personally. Malone's always done his own deals, but years ago he used to actually inspect some of his acquisitions. I remember when I was trying to sell Red Lion and Mt. Wolf systems, which I ultimately did to TCI, he actually came out to see them. So I thought there's no better person to sell than myself, of course. So I got him out there and we're driving along. We had this 15-mile trunk run going up to Mt. Wolf from Red Lion. We're driving out of Red Lion and, of course, there were few houses being built here and there, and I was pointing out the growth. We started driving toward Mt. Wolf and he says, "You know, Rick, this doesn't look like a big growth market to me." Being in central Pennsylvania. I said, "John, of course this is a growth market." He said, "Look out the window." He said, "There's nothing there but a gigantic apple orchard." I said, "You didn't read that material I sent you?" He said, "What material?" I said, "There's a Daniels report that was put out that said there was a 700 unit mobile home park going in right over there."

KELLER: Were you the second cable broker after Daniels or were you third?

MICHAELS: I'm trying to think if there was... I mean there were some people probably that did a few... I was the second real full time cable broker. I think that in the real early days there were a few people kicking around like Alan Harmon. Glenn Jones actually did a few brokerage deals in the early days.

KELLER: Through Daniels though.

MICHAELS: Yeah, but I think when they made that transition, I think Alan and a couple people, Cliff Gardner, but he came along later. The only real firm that sort of endured, you have Daniels and, of course, they're still the biggest and Waller came along ten years later after we started and then the one that's still around is HPC Puckett.

KELLER: That's right. They are still out in Kansas, isn't it?

MICHAELS: Tom Puckett in San Diego, California. He started in Kansas.

KELLER: When did the big financial houses in New York start doing the cable deals?

MICHAELS: They really got into it in the financing area as the MSO's began to grow. In those days, you had sophisticated financial people like Monty Rifkin packaging financing; Bob Rosencrans and his crowd and then you had the larger companies, like Storer Broadcasting, Times Mirror. That attracted the attention of Wall Street. Companies like Times Mirror had Morgan Stanley as a corporate investment bank. So the Wall Street folks got a lot of the financing mandates from the bigger companies. CEA had to focus on the brokerage business because we couldn't really get in to the larger folks for financing. We were able to work with some of the middle-sized companies as they were growing. We made a good business of that in the broadcast business, too. We gave platinum card service to entrepreneurs, people like Bud Paxson. We did all his financing and then when he got really big we still provided financial advice to him.

KELLER: He was here in Tampa, wasn't he?

MICHAELS: Yes, one of the other interesting things in my career is that Home Shopping Network started on my cable system. Bud Paxson and Roy Speer started with two cable systems, one in Clearwater, which was owned by Newhouse, and Gulfstream Cablevision, which was principally owned by me. I was the original outside director of HSN when they went public. I got friendly with Bud and Roy and I remember telling them, I said, "Look, you know, this idea of having people come to an old shopping center to the HSN warehouse, and have people picking things up, isn't a big business, it's a local business. You need to go on satellite." They said, "No, no. These old people, they love to come in here and talk to these people and give them their packages. That's what this is all about." So ultimately Bud and Roy decided they were going to try and bought a bankrupt satellite company that produced industrial commercials. They also carried industrial films by satellite from St. Petersburg. The satellite was to shuttle industrial films so HSN purchased the transponder, and put Home Shopping up on the kind and, of course, the rest was history. Of course, Bud and Roy were getting a little cocky before HNS went public. I said, "You know, I think maybe since you guys are so out in front with this Home Shopping thing that you ought to think about bringing in some cable partners." They said, "Well, why would we do that?" I said, "Well, I think the way this business is, you need some partners." They said, "Nah, that sounds like the mafia. We don't want to do anything like that."

KELLER: You need to have access.

MICHAELS: "We got the idea and we don't need any help." So they went public. Of course, the stock shot up, attracting the attention of all of our dear MSO friends. Bud and Roy came back in one day and said, "You know, we found out something important." I said, "What's that?" They said, "We should have listened to you. All of the sudden now it looks like there's going to be some competition." I said, "Yeah, you know I took a look at those affiliation agreements. They're one year." I said, "That's like having McDonald's in the middle of Disney World with a one year lease."

KELLER: That's right. Peter Barton got involved in that too, up in Minneapolis, and brought that around with TCI participation.

MICHAELS: Oh yeah, sure did. We've been involved in a lot of programming deals here. A lot. I did the Family Channel, the original deal for the Christian Broadcast Network and also did most of Pat's media related work for many years. CEA sold the original Boston TV station to Murdoch; we sold his radio network in Florida; and we packaged and structured the entire deal for taking the Family Channel from CBN, brought in Malone, brought in TCI as an equity holder.

KELLER: Took your own advice.

MICHAELS: Took our own advice. Some that weren't so successful – I was Chairman of The Box. The Box started in 1985, I got involved in 1986.

KELLER: I don't remember that one.

MICHAELS: That's the music channel where you dialed up and got a music video; originally it was a toll call and ultimately it was a 1-900 call, you'd call. So some

deals have worked and some have worked not so well.

KELLER: You're involved in print media now. You said specifically more so overseas than you are in this country.

MICHAELS: Yeah, Outdoor is a big thing for us here and overseas as well.

KELLER: Outdoor advertising?

MICHAELS: Yeah. We've invested in Outdoor, we finance Outdoor, we broker Outdoor companies. We did the one in Europe when Schett sold their Outdoor for \$490 million this year; we were the agents for the buyer.

KELLER: How many big Outdoor companies are there in this country now?

MICHAELS: Well, they're like cable, outdoor companies consolidating very rapidly. That's why we're interested. There are three or four big major ones, like the equivalent of MSO's. Then there are some regional ones. The interesting thing about billboards is aggregating the markets and extending the lease on the sites because it's all about sites. But this aggregation business is somewhat similar to cable and we've done very well in the Outdoor business.

KELLER: You never got involved in any of the companies that were publishing cable television journals or other things, or did you? I should put it that way.

MICHAELS: Actually we did a couple of jobs. I'm trying to remember which ones we worked on. I think Video Age International but we didn't really get involved in selling any of them. Interestingly enough, one of the things that Bill Bresnan likes to remind me about the early days was that I was a ghostwriter for Cable News and I wrote under the name The Observer. I wrote those satirical articles for a couple of years that used to parody some people and they were very popular. I told Bob Huston, I said, "Well, you can never put my name on this because it's going to upset people." I said, "Unless somebody finds out who it is." A cable manager in Deland, Florida wrote in and said, "The only person I know that has a sense of humor like this is a guy named Rick MICHAELS."

Laughter

KELLER: So you were found out then.

MICHAELS: Found out, found out.

KELLER: Bob has been out of the business for some time now, hasn't he?

MICHAELS: Living in Sarasota, Florida, writing books.

KELLER: Right down the pike. I'd like to see him again; it has been a long time since I've seen him. What about the new programming companies, specifically Liberty and, of course, there are going to be others as they go along right now.

MICHAELS: Well, I think, you know, it's an interesting time for content and the relationship of content to technology and the relationship of content technology to commerce and the changing nature of information technology or the Internet phenomenon, particularly in the e-commerce area, business to business, business to government, business to health, health of consumers. This phenomenon that's going on right now will be the biggest change in the way Americans do business since the industrial revolution. The potential for good is dramatic but also understanding the sociological changes that are going to come with it is important because some of them won't be so good. There will be a big dislocation in certain areas of employment that won't bode well necessarily for everybody. There'll be a big impact on international commerce and the problem is that very few people in Washington really understand or have any inkling about the actual projection of how fast it's going to change.

KELLER: That was going to be my next question. Where do you see regulation coming into this business?

MICHAELS: Well, the problem is that what they're doing in Washington right now is that they're looking at being traffic cops on a two-lane highway. They're worried about sales tax, a level playing field for sales tax because the e-commerce people aren't paying and the retail merchant pays. They're worried about other things which might be more serious like pornography or whatever but they want to be traffic cops on small issues. The fact of the matter is that what America needs is America needs to be building the broadband highways of tomorrow to facilitate e-commerce and put it into a regulatory frame where it's going to work. The very idea that in these changes that are so dramatic that they can be regulated by the Federal Communications Commission based on all the subsequent regulations to the Communications Act of 1934 and the Department of Commerce is patently ridiculous. They have no real view of how all these trends are coming together in Washington, and I think it's going to be an opportunity if they get on top of it to keep American leadership on top for the next five years. If they don't seize it, we're going to have a lot of problems.

KELLER: Two questions: how are they going to get on top of it and how does the international banking community look at this development, this conversion development?

MICHAELS: Well, this again is another element of the whole financial market aspect and being able to influence and/or participate in the flow of money in international financing via Internet and e-commerce is important. I think the thing is that the commerce companies, the financial institutions are well ahead of the thinking in government. The thinking in government is myopic and I think that the answer is that there are certain people in Congress that are really sort of waking up to the fact that this is all a real trend. If you're going to go from, \$80 billion last year, in e-commerce revenues, or \$100 billion, whatever, and Forrester's projecting a few trillion by the year 2004, there's going to be a massive dislocation in traditional business. If you don't believe that, just think about the impact of Wal-Mart on the small retailer in small town America.

KELLER: They put them out of business.

MICHAELS: They put them out of business. This is the next round and the next round is going to be far more serious, particularly in the ability of businesses to go

direct and eliminate the middleman. That's what e-commerce is all about and in eliminating the middleman; they're going to eliminate a lot of jobs. There's going to be a lot less need for middle level management people, a lot less need for clerks and as commerce develops in this arena, there are going to be a lot of people that better be retrained or rethinking or they're going to be out of luck. So, this is something that Washington really needs to look at and I'm sad to say that there are not many people that are forward thinking. There are a few.

KELLER: Why Washington and why not the major American companies?

MICHAELS: Well, the companies are thinking about it, but the companies are thinking about what it means to them. They're not thinking about necessarily what it means to the country. They know they've got to be in it, they know they're going to make money at it if it's done right. A lot of them don't have great strategies either. They're trying to feel their way and find out how that's going to impact them, how it impacts the competition. One thing for sure, the media companies have woken up because they know that getting into this early is actually going to benefit them. Now, how would it benefit them? Well, people say audio and video streaming, that's going to be competitive to television. Well, maybe it's going to be competitive to television, the fact of the matter is you need to drive eyeballs there. So what has happened is Broadcast companies like CBS and NBC have been farsighted by exchanging media time for equity interest in these types of companies. That media time is just like an unsold airline seat. When that plane takes off the ground, an empty seat is worth nothing. So just like that spot that goes unsold at 11:00 at night, it's worth zero. So they've recognized that. Secondly, radio has enjoyed a huge resurgence because radio is a cheap way to promote Internet companies or e-commerce companies. Billboards. That's why the billboards are surging. You drive down the street and a huge number of the ads you see now are all oriented towards e-commerce and the Internet. They're trying to get people to see those sites, so it has been good for the media.

KELLER: You have seen also Microsoft and some of the technology companies investing in the cable operations now, such as Microsoft's investment in Comcast. Do you see this continuing? Paul Allen's investment in major cable operators.

MICHAELS: Well, the convergence of technology and content and software (as in the case of Microsoft) is going to accelerate, I think, in geometric progressions and it's those alliances that are going to be so important for the future. Not just the financial investment but it's the alliances that count, just like the old days of Liberty and the programming deals. Those strategic alliances are going to be critical. If you're going to be an observer of what's happening, it's really looking at those alliances that tell you where the power lies. Just seeing those formation of deals, interlocking alliances, will give you a real good view of which way the media, entertainment and telecommunications business is going to go and who's sitting on top.

KELLER: I'm going to put you on the spot just a little bit. Look into your crystal ball, and I know you've done it many times over the past 30 years or more, five years from now everybody believes there's going to be just a handful of major telecommunications companies in this country. I don't want to go international. Who do you see these being?

MICHAELS: I think probably you'll see combinations of the existing big ones aligned with either buying and/or aligning themselves with international alliances. So the fact of the matter is that you're going to find huge international companies like Deutsche Telecomm forming alliances in the U.S. as they will globally. But the telecoms companies, which have a big infrastructure or big customer bases, that's the thing. Customer base is to me still the king. So if you have an AT&T, maybe Qwest, they've got more fiber going in or you've got other fiber companies that are coming in, Global Crossings. Well, there's room for everybody as the amount of data being transported increases. There's room for a lot of competition but the transportation business is a commodity business. You don't make a lot of money in transporting things. You make a lot of money in owning the stuff that's going down the pipes. So it's that combination of owning the customer bases and owning content, such as an AT&T that's going to be, in my mind, a winning formula. Now, of course, anybody can ruin a good thing as we saw with IBM, the big blue almost went down, now it's made a resurgence. So, those companies that are well managed are the ones to look for.

KELLER: Do you think AT&T will be one?

MICHAELS: I think they definitely have an opportunity. And of course Microsoft – there's nothing that'll stop them.

KELLER: Are they going to take over Comcast? How about Bud Hostenberger coming back in on the top of AT&T now, AT&T Broadband Services?

MICHAELS: I think that will probably be a good thing. It depends on how active he is and how much time he's really prepared to spend because there's a big challenge there in terms of changing the culture of a company like AT&T.

KELLER: Leo Hindery couldn't do it.

MICHAELS: Changing the culture of something that has been a monolith is extraordinarily difficult to do but it has been done. British Telecom is a good example of Ian Valance changing the nature of British telecoms to become very successful. Look at British Airways, it was not done so well this year, but a lot of these people who've had extraordinary management talents have been actually able to come into these types of companies and privatizing and change a civil service mentality, terrible customer service, bad attitudes and they've been able to do it, but it takes an awful lot of work.

KELLER: Entrepreneurial companies, they have to become more entrepreneurial.

MICHAELS: Yes.

KELLER: The telephone companies learned that a number of years ago and it took them a long time to get it.

MICHAELS: Absolutely.

KELLER: Rick, I know you have a time problem right now. I do want to thank you for spending the time we have. I wish we had another couple of hours to do it. Maybe we'll do another one. There are certain topics that we haven't covered at this point.

MICHAELS: Well, I'm very appreciative of you being here and I'm glad to have been able to participate. It has been a great run since 1968, 31 years.

KELLER: Well, you'll be in posterity in The Cable Television library from now on. This has been a presentation of The Cable Center and Museum funded by The

Gustave Hauser Foundation for The Oral and Video History Program of The Cable Museum. Your interviewer was Jim Keller. Thank you very much, Rick.

MICHAELS: Thank you, Jim.

KELLER: I really enjoyed it.

MICHAELS: That's great. Thanks so much.

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