COMSAT HISTORY PROJECT

Interview with David C. Acheson

Interview conducted by Nina Gilden Seavey

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NG: Let's talk about initially, what your role was in COMSAT--actually a little bit of your biography, your tenure with the company.

DA: Alright. I came to COMSAT from my previous post at the U.S. Treasury Department where I was Assistant Secretary--initially Special Assistant to the Secretary and then Assistant Secretary of the Treasury for Enforcement--which gave me authority over all the Bureaus of the Treasury Department that have enforcement responsibilities. Before that, I had been U.S. Attorney for the District of Columbia. Those two government posts took me from 1961 into early 1967. Before that, I practiced law in a large firm for 10 or 11 years. So I came to COMSAT in, I think, February of 1967 as I remember--something like that. I remember being recruited, in fact, cross-examined, grilled, perhaps by two directors: one was an old friend of mine Bruce Sundlun, a classmate of mine at law school, we've been friends for many years here; and the other was Horace Moulton who was one of the AT&T directors and a lawyer himself, he was the General Counsel of AT&T. We had a wide ranging interview, a luncheon which ultimately culminated,

I guess, in their recommending me to be elected Vice President and General Counsel.

NG: What were some of the concerns that they raised at that meeting?

DA: Well, I'm not sure they were concerns so much. The one that sticks in my mind though, was that they weren't sure that I wouldn't go back and forth a lot between government and private life. They didn't want an officer who was going to give them a revolving door problem. Of course, I didn't have any idea what my career plans were, and least of all was I prepared to make some long-term commitment, but I think at the end of it they were satisfied that having come out of a six year tour of duty with the government, I wasn't probably going to go right back in very soon. So that problem went away.

NG: Do you think there were specific things that you brought, in terms of your own expertise, that the company needed at that time?

DA: I don't really know the answer to that, because that

judgment had to be made by the Board.

NG: But they didn't express that to you at that time?

DA: No, they did not express that to me at that time. I had been aware of course, that my predecessor, Alan Throop had been a specialist, really, in financings and had been preoccupied chiefly by the initial equity financing of the company--the stock issue. It was obvious to me that I wasn't being selected because of any securities experience, because I really didn't have any. So I think they wanted a generalist who would be able to deal with a whole variety of legal problems that came along.

NG: So here you are, you come on board, what are some of the first things--the issues--that you tackled at that time?

DA: That I remember? Oh, well, it's hard to remember the order.

NG: Well, I don't necessarily need the chronology.

DA: The first thing I remember having anything to do with the company was that I was invited to the dedication of the Pacific INTELSAT II Satellite. That was sort of a punctuation mark that opened my career at COMSAT.

The first few things of any size that preoccupied me were the procurement contracts for the ongoing INTELSAT III Satellites.

NG: With TRW.

DA: With TRW. That was a controversial procurement because the first two generations had been Hughes products and Hughes fought like a steer to keep INTELSAT III but, perhaps properly, the management decided to go with a different supplier.

NG: On what basis was that decision made, do you think?

DA: I don't really know. I think they had probably made that decision before I came aboard. We were involved in writing-up the contract, and getting all the terms and conditions straightened out; chiefly, how much of the compensation of TRW would come out of performance incentives during the life of the

satellite as opposed to payment up front, on delivery.

NG: Had you ever dealt with that kind of contract before? That was kind of unique?

DA: No, I read up on what they were doing, and it was unique. I think they had that arrangement with Hughes, too on INTELSAT II, but I know they did later on INTELSAT IV and V. The other thing that I recall very clearly, wasn't long after I came aboard that the plans of AT&T to lay new generations of submarine cables across the Atlantic came to the fore, and that underscored, for the first time in my consciousness and possibly for the first time in the management's consciousness, the ambiguous relationship with AT&T. The competitor relationship on one side and then the shareholder/customer relationship on the satellite side. All our minds began coming to grips with that problem about that time.

NG: And this was still in say '68?

DA: So we have INTELSAT III, we have the transatlantic cable, which was probably the one they called TAT V it may have TAT

IV....

NG: I think it was V at that time.

DA: Yes, the next thing that I recall emerging into a considerable problem was the highly aggressive, bureaucratic, jurisdictional attitude taken by the Federal Communications Commission. [The FCC role] which was sought to be expanded by the bureaucracy over there to really spread into everything we did. One of the most time consuming jobs [in the General Counsel's Office] that never had a beginning or end but just sort of got bigger all the time, was how to contain this encroachment of the FCC into the business decisions, the financial decisions, the customer decisions, the engineering decisions--really everything we did that had any impact on capital costs, or operating costs for that matter. They [the FCC] regarded [it all] as a regulatory concern and the logic of their position was that that wouldn't stop anywhere. It would just keep going like a lava flow until the whole company was eaten alive by the FCC. We were concerned that our employee population, our salary levels, our contract costs--everything would be overseen by the FCC and this very aggressive,

ambitious staff of the Common Carrier Bureau which really wanted to run the company. So we began about that time, although I think it had been begun before I was there,[1/] a relationship with the FCC which tried to keep the peace on the one hand and tried to firmly resist any further encroachments on the other. That was very hard to do.

NG: Do you think that COMSAT was an effective presenter of their case before the FCC?

DA: Oh, I think we did the best we could given that penchant by the FCC [to control the company]. And it got better later on, when the Commissioners changed and the staff changed and we began to deal with different people.

NG: So you think it was primarily an issue of personalities and philosophy at that time?

DA: I think it was primarily a question of our coming to understand the fundamental concerns of the FCC.

1/ add: to evolve

NG: Which were?

DA: And their coming to understand that concerns other than fundamental concerns, would not be permitted to enlarge this regulatory hold over the company.

NG: What was your perception of their fundamental concerns?

DA: So I think we gave a little and they gave a little in the end, and then when the personalities changed we worked out a pretty stable relationship. Well, the FCC concerns chiefly were: that capital costs should be related to the true needs of the public service--probably concern number one. They didn't know whether our....for example, our plans to fly and develop new satellites were being driven, in part, by the interests of the European public communications administrations in having a vast fleet of satellites which they would own and that would produce a big bureaucracy with lots of jobs in the French PTT and all of that. And those were legitimate concerns because those were bureaucracies that ran the telecommunications in every country but our own, really. I guess another thing they were concerned about was that the

technology should be proven enough so that we wouldn't have drastic failures of public communications service. Of course, we weren't about to let the FCC make the major engineering decisions but we had to satisfy them that what we were going to buy, how we were going to test it, and all that was calculated to produce a reliable public service. When they were satisfied that we knew what we were doing, and that the contractor knew what he was doing, then I think they backed off and did not ultimately take the position that the engineering department of the FCC really ought to run the show. Anyway, that was a long fought battle that ran into the early '70's, I would say.

NG: Let me ask you a question. Do you perceive that one of the concerns on the part of the FCC was that COMSAT was going to be making investments that would maintain its rate base at an artificial high?

DA: I think they were concerned about that, yes. Although, at the same time they had to realize the incremental addition to rate base by reason of flying a new satellite or developing a new satellite, was so small compared to the embedded rate base, or to a corresponding cable rate base, it was just laughable.

But still they were doing their thing, you know. They were trying to keep[2/] capital investment...they felt that in every mode of technology they had to test the requirement for capital investment; so that's what they did.

NG: Let's go back to two issues that I think are very important ones. One is that you mention this thing about the INTELSAT III. There had been a lot of controversy obviously over that satellite. From your perspective, as you went through the procurement process, what did you see were the problems that we had with TRW during that contract?

DA: I don't remember that much about it. But I do remember that the people in the engineering side of the company appeared to be satisfied with the test plan. The test plan was designed to make sure that the satellites were subjected to rigorous failure tests which were likely to minimize the chance of failures in real life; in the end they didn't. But looking at the test plan, I, as a lawyer, was certainly not able to say that it was an insufficiently testing test plan. The engineering department was satisfied with it. I guess we never

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2/ change: "keep" to "test"

did quite explain to ourselves what went wrong. I think, looking back on it, remembering my conversations with Sig Reiger, I think the engineers in COMSAT underestimated the dimensional changes in the bearings of the despun antenna that would result from long time exposure to the sun on one side. The whole business of how much that bearing would expand or contract with temperature changes, into the sun and away from the sun, I think was not probably sufficiently tested in the test plan. But that's only speculation on my part.

NG: So what you're saying really then is that it was more of a technical issue that arose with TRW and not necessarily a procurement issue or something that came from a more legal side of the house.

DA: Yes.

NG: Another issue that you raise in the submarine--the TAT controversy--is this relationship with AT&T. That's a prime early concern of the company.

DA: Yes, that's right. I think it gradually began to dawn on

the management and the Board in the sense that all of us as individuals began to be concerned by this duality of relationship with AT&T. But different individuals among us, I think, arrived at a troubled state of mind and then later at a state of mind that said this relationship has got to go, at different times so that we never had a sort of dramatic moment where the Board said, "OK, we've got to change it." It was a creeping sort of evolution. I remember being troubled by it, perhaps earlier than some, because we had to decide whether we would oppose the AT&T application in the FCC for the TAT V. We decided, as lawyers, that we should. We then had to persuade Joe Charyk and Jim McCormack that that was the thing to do. They were concerned, and properly concerned, that our new proposed venture into domestic communications really depended on AT&T. That was the first domestic satellite program you recall, although I've forgotten what it was called, but it was the one that was leased in toto.

NG: COMSTAR.

DA: COMSTAR. So there was an awful lot of: "Gee, we've got to end this relationship with AT&T, but gee, if we do right now

they'll probably not lease the satellites, and then we'll have no domestic program." Other people thought: "Maybe we can have a competitor relationship with them in international communications and customer relationship with them in domestic communications, and get them off our Board and get them to sell their stock." But then the same people were concerned that if we tried to push them off the Board they would say: "Well, we're interested in leasing your satellites just to make your operation viable. But if we don't hold your stock, we're not interested in making you viable." So I would have to say that in a rather intellectual way and in a highly staggered fashion, different individuals coming to comparable states of mind at different times, we sort of dithered with this problem for maybe three or four years.

NG: Can you tell me who might have had those opinions? Who were the different personalities....

DA: The FCC was a player in this game too. Because the FCC came to a view--probably about the time the TAT V opposition came along--that this relationship was too complicated; that it had too many conflicts of interest built into it and that it

was therefore very hard for the FCC to manage a straightforward regulation of us and AT&T in the relationship with the shareholder/customer competitor thing so complicated. I guess I would say that COMSAT finally came to a sort of collective management view that it would be better if AT&T sold the stock. But, probably AT&T did not come to that position until two things happened: one was IT&T decided to sell its stock. Ted Westfall was a very bright man, and he saw much earlier than AT&T saw or even some of the COMSAT management saw, that this triangular relationship was impossible. ITT wasn't going to be a good customer if we were always fighting about cable rights. Nor did they want to hold our stock if we were always fighting about cable rights. If they didn't hold our stock, they had really no interest in taking our circuits or ordering circuits from us, so that Ted finally said, "We have our thing to do, COMSAT has its thing to do, let's sever them and get out." ITT, being what it then was, it was probably no accident that they made that decision when the stock was selling at $81 a share. So, when they got out, I think the FCC people said "Well, we can't be the last ones to see that this is the thing to do, so it's time we pushed AT&T." We were then in the position of "We don't care, we are stakeholders in this thing,

we would like to see AT&T get out, but the battle is really between the FCC and AT&T." So I think we encouraged the FCC a little bit to lean on AT&T and we encouraged AT&T a little bit to agree to get out. But that corporate bureaucracy does not move as quickly as IT&T. When they decided to get out, the stock had fallen to $43 per share. That made it harder for them I think, to stick to that decision. Because there were some people saying, "Why don't we wait until it goes up again."

NG: Do you think that the carriers had exerted undue influence on the Board and had encouraged them to make decisions that were not necessarily in their interest?

DA: I never saw that. No, I really don't think so. We always looked for that. But I think the carrier directors--Westfall aside--the carrier directors--let's say IT&T aside--the AT&T directors and the Hawaiian telephone directors--or I should say the independent telephone directors--were terribly careful about that. But it's no secret that Westfall and Gene Black used to make speeches at the Board meetings complaining about our oppositions to their cable applications, [as well as] complaining about satellite earth station deals that Johnny

Johnson was making in Central America, and really carrying on their competitive warfare right in the Board [room]. I think that's one of the reasons Ted Westfall saw that they had to get out. It was too embarrassing, it produced a lot of argument on the Board. The AT&T people would be silent during those arguments and they became parochial arguments: ITT and COMSAT arguing their parochial interest against each other. Nothing could have made it plainer that the carriers ultimately had to go.

NG: Do you think that there was some fear on the part of COMSAT management about losing the expertise of the carrier Board members?

DA: No. There wasn't any expertise we needed at that point. We needed their support in the sense of their subscription for circuits, but there was damn little they knew about communications on the technological side that we needed. In fact, I don't recall if we ever got any technology from them.

NG: From what I understand, the real expertise that they attributed to specifically AT&T was their ability to deal with

the Europeans.

DA: Oh, well those were commercial relationships...

NG: And that they had those relationships developed whereas COMSAT did not.

DA: That's true. But those relationships far, from being used for our benefit, were used against COMSAT because they were always trying to get the Europeans to commit to new cables, and divide their traffic to load the cable before they loaded the satellite. So we never were helped that way.

NG: So in fact, you think that it helped to fill their cables.

DA: But, if you ask about their contribution to our technology, I would say that after Early Bird, I don't think AT&T contributed much. I believe their Bell Labs developments was kept very secret--as competitive secrets--which they should have been. The technology really all came from Hughes and the hardware people, the contractors, not from the carriers.

NG: Let's talk a little bit about diversification which occurred during the time that you were there. If you could just maybe start a little bit at the beginning: what were some of the issues that were raised--concerns that were raised at the time that COMSAT decided to go into other businesses other than just putting up international satellites. And what were some of the opportunities that they saw?

DA: Yes. Well, I think it's fair to say that, in those years, the international business was growing so rapidly that nobody foresaw that that would flatten out to be a real limitation on the growth of the company. I mean theoretically, everybody knew that sooner or later it had to; but it seemed way, way off. Our interest, my interest certainly, and I believe Jim McCormack's and Joe Charyk's interest in diversification was to get into businesses that were not subject to the statutory regulation powers of the FCC, which we saw as a limitation on our earnings, as a damn nuisance that you just had to live with all the time--driving us all nuts--and possibly as a source of some competitive problems. The FCC was always following its own dream of what the structure of American communications would look like. We didn't know where we would fit into that

picture, and we wanted to have some business opportunities that were not controlled by the FCC.

So we decided that unregulated businesses were the answer. The first one we saw as having a real promise was domestic communications. But ironically, the COMSTAR adventure was just a common carrier venture, subject to the FCC regulatory jurisdiction. However, we saw that as a way to justify an enlargement of the corporate charter and then get into perhaps equipment manufacture, get into commercial laboratory operations in which we would sell R&D (Sig Reiger was very anxious to do that and Bill Pritchard even more so) we would get into maritime communications--everybody foresaw small dishes on the decks of ships. But the really hot interest at that time was aviation communications. Today one forgets the adventure we had with Air Inc. Remember Air Inc?

NG: Aerosat.

DA: Yes, Air Inc. was the firm which supplies radio communications for the airlines--it did then and it does today, I think. What they were interested in, was a satellite system

that Air Inc. would lease from us so that the commercial airlines flying the ocean would have satellite communications with the ground the entire time they were flying. What happens now is that the moment you get over some point of the curvature of the earth, you've lost line-of-sight radio communications with your origin or your destination. So you're flying some one-third of your long distance oceanic flight without communications. Nobody likes that. So we saw this as a great revolution--which indeed it would have been. Then we started this complicated minuet with Air Inc. that went on for two years, or some long time, in which they said, "We want this, but we can't stand the cost of it all by ourselves, we'll have to see if the airlines will pick up some of the cost." The airlines said, "Well, God we'd love to have communications during an entire flight time, but is it worth all this extra money you have to pay?" So then somebody had the brilliant idea, "Let's go to the FAA and have FAA say, "This is a big safety requirement, and we will foot the bill for half of it or two-thirds of it or something, and Air Inc. would foot the bill for the rest;" and of course they'd be paid by the airlines. So we had another minuet with the FAA. It was so frustrating, it just went on and on and on. Every Board meeting, we'd

report these new nuances we were getting from the FAA and the Air Inc. and the airlines. And in the end, nothing happened because nobody wanted to foot the bill.

NG: So that was really the issue. The bottom line was the money issue.

DA: Yes, and there was a great advance in communications. It would have been a great adventure--absolutely nothing happened, it just totally crashed.

NG: Because there is a point where it just falls out of the discussion from what I can tell. Almost in a surprising way. The Europeans were also involved in that venture, I believe, there was the Canadians...

DA: Right, indeed so.

NG: What were our relationships at that time when the discussion just sort of fell to earth, so to speak?

DA: All I remember about it is that we kept going back to the

FAA and the FAA finally said, "Look we're just not interested. It costs too much, our budget is under attack, we just can't do this." I think the people in the FAA thought that it really wasn't something you could justify on the ground of safety. "Show me an air crash that could have been prevented by having radio communications." Nobody could really do that. So when they backed off, Air Inc. just said, "Well, we don't see any point in going on with it;" and as you say, there was never a big meeting where everybody declared this project officially dead, it just died because people stopped talking to each other.

NG: Let's go back and talk just briefly a little bit more about the domestic satellite situation.

DA: Well, satellites. There were several systems.

NG: Yes, COMSAT had this idea that because they had the monopoly on international satellites, the original argument that they presented to the FCC was that, by definition then, that almost in a transverse relationship, gave them a monopoly over domestic satellite communications. I never have been able

to understand the basis for that argument. Obviously you would have been making that argument at the time, no?

DA: I never believed that.

NG: Who did?

DA: I was never making that argument. It's possible we filed something with the FCC that said that. The regulatory people in the General Counsel's office, and to some extent myself, and to some extent the management, were saying to each other, "Look it's a weak--and in some ways--a ridiculous argument. But to the extent that there is a possible argument in the Satellite Act that says we have a domestic monopoly on satellite communications, we really should't give it up because it tantamount to giving up the corporate assets. And if we don't argue it"...you know how theoretical lawyers are, we could see the possibility of some shareholder bringing a suit against the management because they had given up this valuable franchise which was secured to them by the Satellite Act. Then in the law suit you'd have to argue that the Satellite Act didn't secure that monopoly and the guy or shareholder bringing the

suit would say it did and then the court would say, "We don't really know, but they never really pressed it, so well, maybe there is a ground for recovery there." Anyway we said, "Well, it's a long, long shot, but we probably ought to make the argument." We made it. The FCC said, "Don't be ridiculous, it was always the intention that COMSAT would be the chosen instrument for participation in this international consortium and it never went beyond that. Beyond that, you are just another guy who wants to put a transmitter in the sky and you are subject, in that role, to the domestic regulatory powers of the FCC under the Federal Communications Act. The Satellite Act has nothing to do with it." So, it was a little messier than that because some provisions of the Satellite Act went to our capital structure, to a whole lot of things that touched activities other than international communications. Nevertheless, it was clear the FCC probably was right, they certainly weren't going to let us do it without a court fight. So we finally said, "Ok, if we're not going to make this stick without six years of litigation going to the Supreme Court (which we did not expect to win) why hold up capital opportunities for six years of litigation? Why not say, "Ok, we'll go along with the philosophy: any number can play in

domestic communications. And then try to get in there early, with an attractive competitive proposal and be one of the early people who gets a foothold in domestic communications?" So that's what we did.

NG: There was a point which I read a report that said had COMSAT played their cards right in front of the FCC, that they could have had the whole ball of wax. The earth stations, the satellites, control over...

DA: Are you speaking now of the international stations?

NG: No, I'm talking about the domestic earth stations. And that the arrangement that was ultimately worked out with AT&T...there was a long sort of back and forth about who was going to own what, the shares, it got very complicated....how do you think that COMSAT portrayed itself during that specific set of hearings, i.e., the hearings that gave us what is now COMSTAR?

DA: Well, it wasn't just a question of what we had a right to, it was also a question about what our relations with our

customer were going to be. If we were going to ask AT&T to lease all the capacity of two satellites, it was clear we were not going to achieve that objective by going to court against them for ownership of the earth stations which carried their traffic. What we saw when we got into our talks with AT&T, and of course a great many other users too, we were at that time thinking about all kinds of special purpose systems for special purpose users. You would have one system for General Motors and General Motors would have an in-house telephone system by satellite connecting all its plants, offices, and everything all over the world; certainly all over the country. We saw that in each situation, you might have a different arrangement for the earth station ownership and operation. Some stations would be automatic and unmanned. If you had a customer who is really interested in manipulating his own communications like IBM, you might say, "All right, you operate the earth stations. We'll get you the signal to the stations, you take it from there." If you have a customer like General Motors that wasn't really in the communications business--but simply wanted a good telephone signal--then maybe we would own the earth stations and operate them, because he wouldn't care. In all of that, it became clear that AT&T was interested in owning and operating

its own stations. And it was in the communications business, it wanted the signals from us and it didn't take long for us to see that that customer wasn't going to come aboard if we didn't buy its own arrangements, its own proposals as to earth stations.

Then of course, about that time, we were beginning to think about the SBS arrangement.

NG: My next question. CML/SBS.

DA: That was the strangest joint venture you can imagine. We had MCI, Lockheed, and COMSAT. And I believe it was on the occasion of the very first call for capital contribution that Lockheed decided it no longer wanted to play and dropped out.

NG: Why was that?

DA: Because it didn't have the money to meet the call on its capital. Under the agreement, a majority of the investors could put a call down for capital contributions that everybody had to come up with. When we proposed to do that to start the

thing off, Lockheed said, "No, we don't want to put that capital in." We said, "then you'll have to get out." So they said, "OK." And I've forgotten who they sold out to, and maybe your records show that, but I sort of think, for a while we were going to buy the Lockheed share, or split it with MCI....

NG: Can you hold one second? [Tape is turned over] Ok, you were going to split it with MCI?

DA: I just don't remember how that was resolved. I don't recall whether we brought in a third party at that point or not. But, what I do remember is that we hadn't gotten very far toward thinking about restructuring this deal when it became clear that MCI wanted to get out.

NG: Why did they want out?

DA: Same reason, capital shortage. So, it was at that point that Joe [McConnell] thought we really ought to go to IBM and propose a network system that would tie IBM's customers to IBM. I think we toyed around with GE for a while. We knew that GE was in the timesharing business with computers and we thought

that a system that would tie all of its computers together with a service center would be a great idea. For some reason, that didn't come to much.

NG: Were they approached? Do you know?

DA: I think they were, but I think they just said they were not interested.

NG: Who approached IBM on the deal? On SBS?

DA: I think originally Joe Charyk did. Then I get a little bit hazy about when Aetna was brought into it.

NG: Why Aetna? That's a big question.

DA: Well, I'll tell you why Aetna. What I don't remember is when Aetna. But why Aetna was...we originally went to the FCC with a 50/50 system, COMSAT and IBM. The FCC said and some other carriers came in and said, "There is no way we are going to permit COMSAT and IBM to lock the system up. If it is locked up by them it will really mean that IBM will have

control of it because they'll be the customer, and if IBM has its captive satellite system, it will put it at a great competitive advantage over other computer people who need communications to make their computer business work." You may recall that the FCC had very ill-advisedly gotten itself into an endless policy proceeding, at that time, in trying to sort out how computers and communications would tie together. They'd bit off a job they couldn't possibly finish, and in the end agreed they couldn't finish it and stopped it. But, at that time, they were seized with this idea that they were going to control this new hybrid empire, and they said, "We will not let this go forward--at least until this proceeding is over. You've got to bring in a third party so that nobody has control over it. And somebody, and again I think it was Joe [McConnell] but it may not have been Joe, had a great idea, which was that if we had a guy with lots of capital and no interest in communications at all except as an investor, then IBM and COMSAT would really control the system and would only have to pay for two-thirds of it. So we went to Aetna, and by God, it turned out that's exactly what they had in mind. They wanted to invest in this. They thought it was a great pioneer operation with lots of potential, just from an investment point

of view. Then we went to the FCC with that and eventually got it through.

But I remember going up to IBM with Joe McConnell and Joe Charyk, the three of us went up to IBM and negotiated the joint venture agreement with IBM when it was a two-party deal. That was very entertaining. It was done with surprising informality. You think of IBM as a big bureaucracy. They had one lawyer helping them and that lawyer and I sat around and drafted for a couple of hours and then we got some papers together and then we sat down with Frank Cary and John Opel and Joe McConnell and Joe Charyk and we finalized the papers, made some changes, worked up a letter of agreement, [and] agreed on press release. I remember sitting with them in their lounge outside Frank Cary's office, and we were editing a press release or something, and somebody had written something on my copy of the draft and I was trying to figure out what it said, so...oh no, I had written something on Opel's copy and he was trying to figure out what it meant, and he asked me...I remember saying, "John can't you read between the lines?" And he said, "This deal is over right now!"

NG: Oh, no!

DA: And everybody burst out laughing.

NG: He obviously wasn't serious. What do you think happened to SBS?

DA: Well, it's clear what happened. They spent too much, they invested to much capital in a fancy system faster than they got commitments to take the service from customers. They did not think that this could happen in communications. The conventional wisdom has been that communications is exploding so fast that your projections of use are always low. It turned out their projections of use were high, and their projections of what it would cost were low. When you have that, I can guarantee you that everytime you'll have the same result: which is that it's not viable.

NG: You were actually gone before this happened, but I wonder if maybe there was some talk about this kind of thing when you were still there, which was not just the process of diversification, but acquisition of new companies. Was that in

the works?

DA: That had been talked about.

NG: What was going on?

DA: I don't remember[3/] being very impressed with Scientific Atlanta and proposing to Joe Charyk that we acquire Scientific Atlanta. But it never got to the point of talk with Scientific Atlanta. It was never proposed to the Board, I think it was just discussed, Joe looked into it, and I think it just kind of died; I don't know how or why. When I was there, we did, in fact, work on some acquisitions, and I'm trying to think the first one that was being worked on before I left. Maybe you can help me with the name of the company.

NG: Well, was it ERT?

DA: ERT. I think it was.

NG: Well, the actual acquisition would have happened later. I

3/ change: "I don't remember" to "I remember"

didn't know when it was initiated. Ok.

DA: Another deal that I remember when we were talking about diversifying and getting into...this is a very interesting deal, I spent a lot of time on this. We had a long discussion with GE up at Valley Forge one day, Joe Charyk and I and I think Reiger was along about....see GE wanted to get into the computer networking business.[4/] In fact, it's always been in the computer networking business. They wanted to do it by satellite, so we said, "We will make a great deal with you. We have designed a satellite ground station, small, automatic, service free, unmanned, just exactly what you need for your computer network. We will give you the specs, you will manufacture these at GE in Valley Forge, you will use these

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4/ change to: We had a long discussion with GE up at Valley Forge one day, Joe Charyk and I and I think Reiger was along, about GE getting into the computer business.

stations for your own system, and then you will commercially offer these stations to the world at large and we will get a royalty on all your sales." I remember Johnny Johnson opposed this deal for reasons that I don't remember. But the Board approved it and we went ahead. We wrote a license agreement with GE which both parties executed, and they began manufacturing these stations. I have no idea whatever happened to that program; whether they sold in large numbers, whether we got royalty revenue in any substantial amounts or what happened. It was an example of a tidy little deal, that was a clear step into diversification and not only just diversification of services but the first step, I guess, we took into the commercial sale of equipment.

NG: Do you remember what year that was?

DA: When did I leave? In '74?

NG: '74.

DA: I kind of think it was maybe '72--something like that. My most vivid recollection of it was we met with Hilliard Paige of GE during this discussion and then I discovered there wasn't any way to get from Washington to Valley Forge without either flying or taking the train to Philadelphia, and then having an

endless drive out to Valley Forge. But I discovered that we could charter a small twin engine propeller craft at National Airport and fly directly to Valley Forge. I've forgotten the name of the station,[5/] but it was a little airport, but it was sort of a local airport handling small civil aviation. It was about half a mile from the Valley Forge plant and office of GE. I flew up there with Bill Berman and Milton Nonkin, who was the procurement guy, with the General Counsel's office. Bill Berman was my deputy. I remember Bill just hated, he hated every minute of it. He didn't want to do it in the first place. I said, "Bill I need you at these meetings, and if you don't come to these meetings, you're really not doing your job." And he said, "Oh I'm worried about flying in a chartered plane. I'm worried that my insurance will lapse," or something like that.

And I said, "Look, God damn it, this is part of your job, let's just do it. I don't want to hear any more of this stuff." So we did. But he never quit bitching about it. He was terribly frightened by it.

5/ add: Wings

NG: Wouldn't have know that about him.

NG: Well, I wanted to ask you two sort of more general questions to see if you have any sort of things that you would like to bring into this that haven't been brought in. One is just about what you feel that the major achievements were during the time you were there and not only that but what were some of the failures--what were some of the roads that they may have taken at COMSAT...

DA: Well, the major achievement without a doubt was the vast success of the international system. I would have to say the failures--we are beginning to see the great difficulty of making it work--the large single failure, if you want to call it that, was successful diversification. There has not been successful diversification. There has been diversification, and in some aspects you can point to good satellite service that we've given the Navy, or this or that, but it's all been a small sideshow. There hasn't really been a major diversification. I'm not sure there ever will be although I'd really like to see it. I would have to say that perhaps a contributing reason for that, in any case a failure of

administration, was the seeming inability of COMSAT to bring aboard people who had seasoned, successful, commercial experience. We had plenty of guys from the government, from the military, from the Pentagon, from civil government life. We had a few people like Bruce Matthews and myself who came in from private life.[6/] I would have to say a lot of us found it an unrewarding career for the long term because of the confinement of the activities by FCC regulation and by the fact that the commercial expansion in other fields was so difficult--so unsuccessful. But we never seemed to bring aboard anybody who had a good, seasoned marketplace experience, and knew how to make things happen that would pay for themselves.

NG: To what do you attribute that shortcoming?

DA: I think it was first of all, I don't think Joe Charyk was adequately commercially oriented. He was a scientist, his experience outside of science had been in government and he tended to do things in a bureaucratic way. I think he thought

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6/ change: "came in from private life" to "had careers in private life"

that was the way they should be done, because that's they way they were done in government, which was his experience. Joe McConnell, perhaps more than anybody else, saw that failure in the company at large, tried to do something about it, but he wasn't there enough to really follow through and he couldn't make it happen.

I would say that the thing that probably caused me to leave the company was not the failure of the diversification, because I think I thought there was always another chance at that, but when the FCC required COMSAT to put all its non-INTELSAT activities into a subsidiary, I saw that as a great difficulty for me, because I should either go to work for the subsidiary and work on all the really interesting stuff, and loose touch with the parent management or stay with the parent management and loose touch, to some extent, at least have a layer between me and the really interesting work. I never did resolve that satisfactorily. I tried various ways of working arrangements with the people who were working with the subsidiary, COMSAT General, but in the end they were doing their thing and they were doing it their way. There wasn't really an opportunity or even a reason for the parent company General Counsel to run it

himself. And the rules of the game the FCC put down were very clear that the parent company could not run it directly. So I just thought, "Hell, this is an impossible dilemma." Neither is a satisfactory career, so that's why I left.

NG: Do you think that the parent company at that point was a rubber stamp for the Board of COMGEN?

DA: Yes.[7/]

NG: Ok. When you mention one of the great achievements, you said the international system obviously was the thing that stuck out in your mind. From what perspective: financial, international cooperation, what specifically are you talking about? What do you feel that made it so successful?

DA: Well the simplest measure that I found very impressive was the vast proportion, always growing, of total world communications that were on the system. It became, for practical purposes, a world communications monopoly. It had

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7/ add: But, of course, COMGEN was not really independent in the last analysis.

started, within the memory of us all as sort of an experiment and an experiment that you probably wouldn't have bet on very heavily. That is a great success, by my measures.

I always felt we didn't lean on INTELSAT enough to run a spare, economical, efficient operation. We were much too lax in letting INTELSAT become a fat, lazy bureaucracy with a vastly overblown staff, and vastly extravagant benefits and salary scales. Even their building is sort of a monument to run away extravagance. We were responsible for letting them set that pattern. We should have really stopped that hard, but I don't know why we didn't.

NG: Do you think that we gave away not just power, but technology to INTELSAT--through the international system?

DA: No, I think I'm thinking of something smaller than that. We had no choice when the utilization of COMSAT, the US, fell to the low percentages it fell to, I think it then became impossible for us to run INTELSAT. Everything that followed from that in the restructuring of INTELSAT was probably inevitable. But, when we had control of INTELSAT, when our

percentages were high, of use, ownership, votes, on the Board of Governors, and all that, we still let them go through this outrageous bureaucracy act which seemed to me to be a mistake.

NG: Do you think that was the trade-off, basically, for getting the international cooperation that we needed?

DA: Yes, I do. Yes. But I don't think it was a necessary trade-off. Of course, the foreign administrations wanted the big bureaucracy where they could put their friends and where minor officials could be given promotions and sent to glamorous places to serve and all that, given tax-exempt salaries; it was just marvelous from a patronage point of view. But, it's given INTELSAT a bad reputation in Washington. I don't know how important that is, maybe outside of Washington nobody cares. But INTELSAT has become sort of an object of ridicule in Washington--possibly along with World Bank,[8/] and the International Monetary Fund for all the same reasons: they're just a huge, runaway bureaucracy that has been turned into a big patronage operation that's gotten out of control. All we

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8/ change: "possibly along with World Bank" to "even more than the World Bank"

can say now is that we can no longer stop it, because we have such a small vote.

NG: Do you think now, in this era of increased competition, deregulation, that COMSAT is going to be able to hold its share of the market internationally and domestically? How do you think it's going to fair?

DA: Good question, good question. COMSAT will be able to hold it's share of the international market, because the satellite system put countries on the air that had never been on the air. That inevitably produced a great rise in their use of the system and the corresponding fall in COMSAT's percentages. But, sooner or later, and maybe even right now, you're seeing a leveling off of that initial change in proportion. Thereafter, I think COMSAT will probably keep its use up better than a great many countries will.

Domestically, I wish COMSAT were more enured to a competitive environment than it is. I think it's got a handicap in succeeding domestically because it does not have competitive discipline or experience. It doesn't have people who have it.

It isn't used to running lean, it isn't used to suffering when you lose sales, and all those things that make you a good competitor; it just has no experience at that. It's hard for me to see how it's going to compete with some of these hungry operators who are used to doing that.

NG: You don't think that they learned the lesson through SBS?

DA: Well, they learned it intellectually, but it doesn't say that you then know how to do it. The lesson of SBS is: how not to do it. It doesn't make you ready to go out on the track and do it. I think that's COMSAT's problem.

NG: Is there anything else that I haven't covered that you feel I might have glaringly overlooked about your tenure; any thoughts you may have?

DA: I can give you a comment or two which may or may not be along the lines of your interest, but maybe somebody ought to. I always felt the Board of Directors of COMSAT was not constituted in a way that would really help the company. McConnell's notion was to get a lot of big business shots,

leaders of some of the biggest companies: the biggest tire company, the biggest this or that company; and get them all to go on our Board so we looked like a very important company. But, it would only be to the most unsophisticated observer that that would make us look like an important company. What it looked like to us, to me, working with the Board a lot and attending all their meetings, was a bunch of guys who were becoming a little over the hill and were either retired or about to retire, who had only a very minor interest in what we were doing; for whom it was a tertiary priority. I would say that of the big names from business that Joe [McConnell] got on the Board, that were on the Board, the only one who was a really crackerjack director was Fred Donner and he was a statutory director--he was a presidential director--but he was my idea of what a big business director ought to be. He was smart, he did his homework, he was absolutely honest, he was absolutely candid, he was absolutely impatient with corner-cutting, short-cutting, softness, and laziness and all that stuff. But these other guys that came on the Board later they were very nice guys and they probably ran their companies well, but that didn't contribute a damn thing to the Board, really.

NG: What about George Meany? Did he contribute anything from your perspective?

DA: Yes, but he was a presidential director.

NG: Yeah, but again, like Donner...

DA: George contributed one thing, I would say, that he contributed to the sort of general environment of common sense in which the Board met. George was the kind of a guy, and Donner, too, Fred Donner both...curiously much the same those two guys, although from walks of life as different as you can imagine. They were both men in whose presence nonsense is uttered only with the greatest discomfort. They were people who liked relevance, who liked practical answers, who liked to keep it short, and who liked to do things that made sense. They didn't like to sit around and listen to fancy presentations, they were not impressed by multicolor charts, and they not impressed by--or I would say they were affirmatively unimpressed--by long, reflective discussions of problems that didn't lead anywhere. This was probably Jim McCormack's greatest failing. Jim was a very intelligent man,

with the best intentions in the world. But, his idea of a meeting was to go in and share your problems with all these wise men sitting around the Board, and reflect on them, and sort of talk them over, and those guys weren't used to that. They were used to getting presentations, being asked for an action, voting on it, and getting out of the room. And they took this as a sign of sort of a Hamlet personality in Jim--a sign of weakness, a sign of indecision, and it was fatal mistake.

NG: McConnell wasn't that way, though.

DA: It actually was that more than anything else that led to his being invited to resign. For just that reason, that it was antithetical to the temperaments of all those guys to work that way. Leo Welch was not that kind, Joe McConnell [was] not that kind, nobody was.

NG: What kind of a chairman was Joe McConnell?

DA: Impatient, arbitrary, amusing, very entertaining, bright, a lot of business experience, probably shrewd in his business

judgments, impossible to work with; he would forget the things he said he was going to do, and then he would remember erroneously the things he thought you were going to do, I thought he was terrible, really. I'm not saying that we should have kept Jim, but Joe was just impossible. He would leap to judgments--happily I got along with him very well--but he would leap to judgments about people that were caricatures of misjudgment. Donner, I thought, was just a superb director.

NG: What did you think of Jim Dingman?

DA: I liked Jim very much and I thought he was a very good director. I thought he was a very conscientious director, considering the essential conflict of interest that he was in. I'll tell you a story about Donner, I don't think he would mind, but earmark it not to be published without checking with me further...

NG: So noted.

DA: When he was nominated for his last term as a presidential director, I called him up and I said, "Fred," (I really did

this as a courtesy, because I don't[9/] think he needed the help) but I said, "Would it help you at all to meet with you before your appearance, before the Senate Commerce Committee, go over the material with you and talk about the hearing a bit and then I could go up with you."

He said, "Oh yes, that would be very helpful. That's very nice of you to suggest that." So we made a date and he said, "You make the date for the hearing with the committee and then I'll come and meet in your office for maybe an hour, hour and a half before and then we'll go up together." The date was fixed for the committee by me and I went out to the airport to meet him, as I said I would, in a COMSAT car. He was to get off the shuttle, I think he took the 9:00 shuttle, I went to meet him about 10:10 and I left the car, went down to the plane, watched everybody walk off the plane, no Fred Donner. So I called my office, and I said, "Has Donner called?" No call. So I went back to my office and I called his office, and said to his secretary, "Where is he?"

She said, "I thought he was with you, he was supposed to have

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9/ change: "don't" to "didn't"

gotten off the shuttle."

So I thought "Well, sooner or later he will call. I don't know where the hell he is or what happened." So I asked my secretary--I said, "I'm going to stay right here by the phone, you go out and get me a sandwich, I'm going to have my lunch here, I'll just stay here until the end of the day, until I hear from him." So at about 12:00, which was when we were...I called the committee, told them we'd lost Donner and he might be in the hospital. I made up all sorts of emergencies, and said we'd have to get back to them and cancel the hearing; they didn't mind too much. Donner called me about noon, and this sort of timid voice--very unlike Fred--came on the line and said,"David, is that you?"

I said, "Yes."

He said, "Is anybody else on the line?"

I said, "No."

He said, "Good, I want to tell you what happened, but be sure

you never tell anybody else, and never, ever tell Joe Charyk or Joe McConnell."

So I said, "Ok, what happened Fred?"

He said, "I took the wrong shuttle, I went to Boston."

NG: Oh no! Wrong-way Feldman.

DA: I had never heard of that happening before. He was the most organized man in the world, and he got on the wrong plane.

NG: Well, great.