MONEY FROM THIN AIR
The Story of Craig McCaw, the visionary, who invented the cell phone industry, and his next billion-dollar idea
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Craig McCaw’s business career started with a traumatic personal event – the death of his father Elroy in August 1969. At that time, Craig McCaw was a 19-year old sophomore at Stanford University.

Elroy McCaw had been a passionate and erratic yet highly successful businessman. He built a broad business empire in the post Second World War era, in the broadcasting and real estate fields. Elroy had a fairly eccentric business approach, in which few details were ever committed to paper. Despite his unconventional management style, Elroy McCaw pulled off some highly impressive deals – including the purchase of a New York radio station for $450,000 in 1953 which he sold for more than $20 million only seven years later.

“According to family tradition, Elroy made an appearance, wholly by accident, inside the White House during a top secret briefing for President Kennedy on the Cuban missile crisis. Elroy was late for a meeting with General Curtis E. LeMay, who had been called away to an urgent meeting at the White House. LeMay’s confused secretary thought Elroy was late for the top-secret meeting, and sent him on to the darkened briefing room. After sitting through a detailed briefing, it soon became clear to the FBI, Secret Service and Pentagon security officials Elroy was in the wrong place. He was detained for several hours while everything was clarified, and was later released to a friend who he cheerfully greeted, ‘Wait till I tell you what happened to me’.”
– O. Casey Corr

On the death of Elroy McCaw, it took about seven years for his wife Marion (who had also functioned as his bookkeeper) to sort through a tangle of oral promises, investments, contractual arrangements, collections and scheduled payments. Since the family didn’t have any idea what the estate would be worth during that period, Craig and his brothers (Bruce, John and Keith) continued their education.

“The trauma surrounding the estate enormously affected Craig McCaw’s evolving sense of himself as a businessman. It taught him the importance of carefully selecting people to trust, because no agreement, however lengthy, could anticipate everything or eliminate the dangers of dealing in bad faith. Finding good people, McCaw decided, was key to the type of company he wanted to run. He didn’t want a traditional company where everyone waited for the boss to issue directives. He wanted employees who understood the company’s overall goals and didn’t need the boss around to do their job.”
– O. Casey Corr

Craig McCaw’s educational experience was also affected profoundly by the fact he had dyslexia – which meant he was far more adept at listening and thinking creatively than at reading long and detailed written documents. Despite that, McCaw was able to graduate from Stanford University with a major in history and a reputation as a genuine “party animal” in the style made famous by the movie Animal House.

As a summer job while at university, Craig had actually been put to work by his father at a small cable TV operation in Centralia – about two hours drive from the family’s home in Seattle. This company, Twin City Cablevision, had about two hours drive from the family’s home in Seattle. This company, Twin City Cablevision, had 4,200 customers and generated monthly revenues of just $8,000. Craig worked summers doing everything, from selling subscriptions door-to-door through to helping the installers and assisting in the office.

With his father’s death, Craig took over running Twin City Cablevision from his room at Stanford. It later turned out the company was not, in fact, owned by his father’s estate but had been set up by Elroy McCaw to be owned by his sons. Elroy had just never bothered to tell anyone in the family the details. In fact, it wasn’t until The Seattle Times Company made an offer to buy Twin City Cablevision for $720,000 in 1970 that the actual ownership of the company was discovered. Craig managed to convince his brothers not to sell, and to leave their money in the company which he would take over as CEO.

“If you learn how to understand how to make something happen, you don’t fear failure so much, because you can make it happen again. Some people never understand how to do it.”
– Bruce McCaw

Just before graduating from Stanford, Craig McCaw made his first acquisition – a cable system in Winlock, Washington with 204 subscribers. He arranged to pay $50,000 with 25-percent down and the balance to be paid over the next eight years. Craig McCaw had made a start at building his own business empire, independent of what his father had achieved.

On his graduation from Stanford in 1973, Craig McCaw set up office at Twin City Cablevision’s corporate headquarters in Centralia – a converted gas station stripped of its pumps. He had a total staff of six people, three in the office and three field workers. McCaw was also younger (at 21-years old) than everyone who worked for him.

Craig McCaw soon repainted the vehicles, issued field staff with uniforms and started morning staff meetings at which employees were encouraged to act professionally. He also started delegating responsibilities intensively and deliberately, to decrease his involvement in routine matters.

Craig had, by this stage, married his college girlfriend, Wendy Petrak. She got involved in some of the business activities at first, but generally worked at creating a stable home environment. Craig’s mother, on the other hand, became a close adviser, serving as Twin City’s president and chairwoman.

Most people tended at this time to view the cable TV industry as a stagnant business, dominated by small mom-and-pop operations. Craig McCaw, by contrast, viewed the future of the industry ambitiously, and actively looked for ways to grow his business. He set a target to grow Twin City Cablevision from 4,200 to 10,000 subscribers. McCaw also thought he could run additional cable systems without adding any more staff.

McCaw attempted to buy a couple of small cable TV systems around California, only to be out negotiated by Gordon Rock, a Washington cable TV operator. Craig admired his success, and watched carefully how he was structuring acquisitions. Rock had come up with a strategy of leveraging his purchases by buying the new cable TV system’s assets rather than the company that owned the assets. By doing that, capital gains taxes could be eliminated, since the new assets could be brought onto the books of the existing company at an exceptionally low rate. In turn, the absence of a tax liability meant the seller could sell at a lower price and still realize the same result.

“Losing to Rock proved to be a stroke of luck to McCaw – the first of several occasions where he picked someone’s brain, absorbed the lessons and refined his own strategy as a result.”
– O. Casey Corr
By 1976, Craig McCaw was able to move his company office north to Seattle. He also changed the name to McCaw Communications Companies. By this time, McCaw was also gathering around him a nucleus of business experience and trusted lieutenants — including his brothers and people like Wayne Perry, a Seattle tax lawyer the same age as Craig McCaw.

Using the financing strategy he adopted from Gordon Rock, McCaw made his next acquisition — a 600 customer cable TV system in Selah, Washington. McCaw was now starting to use debt as a tool to get to where he wanted to be, although he was always careful to think through a contingency plan just in case.

“There are times when you really have to be good, because you’re scared to death and you know what can happen. It’s like walking a tightrope. In the good times, you can only fall six inches. In the bad times, you can fall a hundred feet. So you know that, at those times, you can’t fail.”

— Craig McCaw

Craig McCaw worked energetically to assemble a management team of people who could find their way around obstacles. In doing so, Wayne Perry rapidly became his closest adviser. The partnership worked extremely well — Perry could act as the inside man taking care of all the details, freeing McCaw to focus on the larger picture and vision. That was fortuitous, because in the mid-1970s, the cable TV industry was just about to a major revamp because of the launch of satellites.

Suddenly, cable TV operators had to come up with $100,000 to build an earth station if they wanted access to new channels like Home Box Office, the Entertainment and Sports programming Network (ESPN) and Cable News Network (CNN).

On the other hand, with the explosion of new channels, consumers became willing to pay twice what they had before — vastly increasing the cash flows of cable TV systems. And since banks were willing to loan at a multiple of cash flow, it suddenly became much easier to borrow the funds required to grow a cable TV business.

In other words, Craig McCaw was presented with an incredible business opportunity — the more he could hustle, the faster he could grow, and the faster he grew, the lower his costs would be, allowing him to fund even more growth. Combined, those factors meant it was possible to grow exponentially off a very small initial business base.

3.

In the late 1970s, McCaw was growing his company more rapidly than any of his competitors — making 12 acquisitions a year and bidding aggressively on any new cable franchises. His target was simple — 100,000 subscribers.

All of this growth was highly leveraged. The general modus operandi was: A cable TV system would be acquired, pay channels and other services would then be added to increase the cash flow, the assets would then be used as security for more borrowings and the cycle would start again. As long as the company delivered on its growth projections, everything worked just fine.

By 1980, McCaw Communications employed 200 people and had nearly 30,000 customers. The company was now starting to reach a stage where lenders would take it seriously. The Bank of New York was approached, and ultimately ended up lending McCaw $8 million to fund further expansion. And the next year, Affiliated Publications (the owner of the Boston Globe and other media assets) agreed to buy 45-percent of McCaw Communications for $12 million. (Within seven years, Affiliated’s investments in McCaw would reach $85 million, but the market value of that investment would exceed $2 billion).

“Big players that do business with McCaw habitually underestimate — often drastically — his cleverness and ambition. ‘At the time, Affiliated thought they were just making a peekaboo investment to buy part of the company and buy the rest later,’ McCaw later said. ‘But our intentions were to buy them.’ As it happens, he never did — but not because he couldn’t afford it.”

— O. Casey Corr

Armed with the capital provided by Affiliated, McCaw acquired an Oregon cable system with 60,000 subscribers. — which meant McCaw Communications was already near its target of 100,000 subscribers. Craig McCaw responded by setting a new target of 400,000 subscribers, which would make the company one of the largest cable TV operators in the United States.

“We always leveraged future growth. We would go to a programmer and say, ‘We’re at a hundred thousand subscribers today. We want you to give us the discounts equal to two hundred and fifty thousand subscribers and we’ll promise to be there by the end of the contract. If not, we’ll rebate you all the money.’ Programmers liked the idea because of the prospect of increased revenue from a larger subscriber base. It was a gamble, but in effect we allowed ourselves to get the discounts equal to the bigger players. Therefore we could compete in both acquisitions and our current financial performance. We had to grow.”

— Wayne Perry

While it may seem like McCaw Communications was taking a huge risk in these highly leveraged acquisitions, Craig McCaw himself had an entirely different perspective.

“I have a principle I live by. Never go through the front door unless you’ve got a back door, and the hardest thing to get people to do is to not commit themselves to one course of action but to think about what you’re going to do next. Playing chess with my father, I give him credit for that. I learned, if you haven’t thought three moves ahead and what if he does this and what if that happens, in today’s world you can’t predict what’s going to happen. You can take chances, but you never, ever play the game without an out. Maybe that’s from being a history major, studying everybody in history who has failed to have a back door, whether it’s Hitler, Napoleon and down the list. If you take a chance, always have a back door. That’s the fun of it.”

— Craig McCaw

To create back doors that could be used if necessary, the McCaw acquisitions team always put together very long, very detailed and ornate written documents. That created a little “wriggle room” and ambiguity. The McCaw team also went to extreme lengths to preserve cash — often extending payments until creditors were almost at the stage of suing the company or even resorting to tactics like mailing the wrong check to the wrong company — giving a couple of weeks of breathing space while the accounting “snafu” was sorted out and the correct checks could be issued to the proper party. A host of similar and other even more creative ideas were used in the ongoing effort to meet the company’s mounting obligations.
4.

While the cable TV side of McCaw Communications was growing rapidly, Craig McCaw also dabbled a little in pagers, starting a service in Centralia. However, his eyes were already on another new technology on the horizon—cellular phones. When the Federal Communications Commission announced in 1979 it was proposing to issue two cellular phone licenses for each city in the United States, McCaw sprung into action.

He formed a partnership called Northwest Mobile Telephone to enter a bid for the Seattle and Portland cellular phone licenses. By the time the FCC began the process of allowing companies to apply for cellular licenses in mid-1982, McCaw was ready to go. His partnership, now renamed Interstate Mobilephone Company, applied for cellular phone licenses in two markets—Seattle and Portland—and Craig McCaw also applied in his own company's name for four more licenses—in San Francisco, San Jose, Denver and Kansas City.

The process of issuing the licenses was, as usual, highly political and prolonged. The legal and administrative costs of entering license bids was staggering. And to add to the workload, licenses were being considered in three rounds. The first round was for the 30 largest markets, the second round for the next 30 and then a third round for the smallest market licenses. McCaw was working hard to apply for licenses in each round of the process.

It was a huge gamble in terms of money and energy. Interstate's legal and administrative costs alone exceeded $1 million, and there was a huge amount of skepticism whether or not cell phones would ever prove profitable. And if McCaw was fortunate enough to even win one or more licenses, there was then the challenge of finding enough capital to build a cellular system and get it operating.

In late-1973, the FCC started announcing its decisions. Interstate Mobilephone Company was granted a license in Seattle and Portland. But the new licensees were going to face some formidable competition in the marketplace—US West who had huge revenues and an established relationship with customers.

“People are driven by some adversity to want to do greater things. If life is too easy, you take the easy part of it. You have to be driven by competitiveness, which is usually driven by adversity.”

– Craig McCaw

Interstate did have one piece of luck in getting its Seattle business up and operating. The other license for that area had actually been granted to a US West subsidiary, NewVector. They had ordered equipment from AT&T, and then had canceled their order and bought from Northern Telecom of Canada instead. On hearing about this, Interstate approached AT&T with their order and bought from Northern Telecom of Canada instead. AT&T then sold the equipment to Interstate.

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5.

Despite all the frenzy in obtaining cellular licenses, the market uptake for the new technology was slow. In addition, the costs for building a cellular network ended up being higher than projected. In other words, profits looked a long way in the future when cellular technology first entered the market.

In view of that, MCI Communications decided to sell its cellular business—majority interests in six markets and minority stakes in licenses for five markets. Its asking price for the business? $120 million. And the only company not associated with one of MCI's direct competitors willing to pay that price was McCaw Communications.

The only roadblock lay in the fact McCaw didn't actually have $120 million. He could either choose to find a new partner to provide the funding required, or go with an alternative source of funding. McCaw turned to Salomon Brothers, who were confident they could raise the funding required by offering junk bonds—high interest rate corporate IOUs.
After a few months, however, it became clear Salomon were not going to deliver the funding required, so the McCaw team ended up going to Michael Milken at Drexel Burnham Lambert instead. He performed exceptionally well — within a few months, McCaw had $225 million in financing to complete the MCI owned cellular business acquisition and to buy two other cellular businesses from Maxwell Telecom Plus and Charisma Communications.

Ultimately, Michael Milken would raise around $2 billion for McCaw Communications over the next three years, generating $45 million in commissions for Drexel. While some companies were caught up in the controversy surrounding Milken, McCaw’s dealings with him were well executed and professional. Equally, all the investors who bought the McCaw junk bonds did well out of the transaction.

Once the purchase of the MCI business had closed, McCaw sold off the paging side of the business for $75 million. That meant McCaw had acquired MCI’s cellular assets for $46 million. Within just a few short years, those assets would be valued at more than $1 billion.

In retrospect, the MCI deal really put McCaw Communications on the map, and on everyone’s radar screen. Before then, McCaw was considered to be an obscure Northwestern cable TV operator dabbling in cellular. Afterwards, McCaw was suddenly one of the nation’s largest cellular operators outside the Baby Bells. In fact, McCaw now had an overall market share of 12-percent, only just behind Metromedia with 15-percent.

6.

“I make it a practice never to read what people are saying about me, because if you read what they say and care, they’ve won. It’s necessary that you insulate yourself from what others think. The greatest ideas you will ever have are the ones that other people don’t understand. And if you’re in that position, and you care too much about what they think, you will not do the right thing. And therefore, I purposefully have long ago decided that if I live by the moral code that I want to live by, then what people think of me is not so important, because I’m doing what I believe is right and I’m not trying to hurt other people. So long as my success, such as it is, does not come at the expense of other people, then I’m happy and I don’t mind if they don’t agree with me.”

— Craig McCaw

In 1986, almost everyone thought McCaw had it wrong trying to stay independent, and that it was only a matter of time until his company was acquired by one of the Baby Bells. That conclusion was reinforced when Metromedia agreed to sell their cellular and paging assets to US West’s New Vector for $1.65 billion. It was only at this point that Craig McCaw’s deal-making savvy was beginning to become fully appreciated. When he had entered into partnerships to acquire cellular licenses, he had negotiated a preemptive right to buy out his partners at whatever price they nominated. The catch, however, was that if he chose not to buy at whatever price they specified, his partners could be forced to buy McCaw’s stake for that same price. This forced them to set a realistic price, and since McCaw had sole discretion whether he would buy his partner’s stake or accept their offer to sell his stake at the same price, he had loads of leverage.

For all the enthusiasm about cellular assets, the cash flows were still far from impressive in 1986. McCaw’s 14,800 cellular customers generated only $297,000 in revenue that year. Nationwide, cellular had only attracted 462,000 customers — mainly due to the fact phones were still selling for $1,350 and typical bills for air time were more than $100 a month. Everyone was losing money on cellular.

McCaw Communications had $85 million in total revenues that year but Craig McCaw held firm to his belief cellular assets would skyrocket in value. He told his management team to pursue aggressively every opportunity to buy any cellular license assets that were available for sale.

That became more complicated because of the huge number of people applying for cellular licenses awarded in Round Four and Round Five. Thousands of speculators applied for licenses, won them and then sold them as quickly as possible. McCaw responded by putting several deal makers on the road, authorized to do a deal on the spot. They even developed a simple, one page purchase transaction agreement, which they would place in front of prospects with the direct appeal, “What will it take to get you to sign this agreement right now?”

All of these purchases required money, and McCaw was always raising funds. In fact, when he met with Michael Milken, he advised Craig McCaw that he was exposing the company by spreading himself too thin. Milken even went so far as to suggest McCaw should decide whether to focus on the cable TV side or the cellular side of the business, and sell whichever business they least wanted to grow.

After much soul searching, the decision was made to sell the cable TV business — which by 1986 had grown to 434,000 subscribers generating $107 million in revenue. As soon as word got out this business was for sale, an offer came in for $755 million — which McCaw accepted.

Again, McCaw structured this purchase very creatively. Despite the fact the transaction would take some time to complete, the buyer paid his money immediately and started getting the cash flows generated. The business was still being run by its existing management team, and if any of the transfers did not get the necessary regulatory approvals, a price adjustment would be triggered and that franchise would be sold to a third party. That meant McCaw got the funds immediately while the buyer’s interests were also protected — the ultimate win-win situation.

To provide further funding for growth, the decision was also made to take McCaw Communications public in 1987 — raising $2.39 billion from the sale of 13 million shares plus another $400 million through bonds sold to investors. This was the largest IPO ever carried out by a company based in the northwestern United States, coming one year after Microsoft had carried out a $59 million IPO.

While some people would consider going public to be the ultimate business accolade, Craig McCaw considered it to be “the worst day in the history of our company” The reason why? All of a sudden, McCaw Communications was on everyone’s radar screen. The company would no longer be able to operate as a low profile entity. In addition, being public would place pressure to generate short-term profits when the company was attempting to make long-term acquisitions.

Despite those misgivings, however, the IPO was successful, and demand for the shares was very strong. The company now had 750 employees, owned 94 cellular licenses for markets serving 37 million potential customers, had $1.3 billion in assets and $150 million in annual revenues but no prospect of profits in the near future — with losses of $120 million the year before the company went public.
The holy grail of the cellular industry was to provide a truly national service. McCaw was close to building a system that would allow national roaming, but the company lacked coverage in two key areas: New York City and Los Angeles. Despite that, Craig McCaw told his engineers to figure out the technical challenges and put together whatever would be required.

To fill in the gaps, McCaw Communications developed a good strategy. First, they enlisted the help of British Telecom, who invested $1.5 billion for a 22-percent stake of McCaw Cellular Communications. Then, they attempted to negotiate a friendly merger with New York-based LIN Broadcasting, who controlled the cellular licenses in New York, Philadelphia, Dallas and Houston. And finally, after that approach was rebuffed, McCaw launched a hostile takeover bid for LIN Broadcasting.

The takeover battle raged for the second half of 1989. The intensity heightened when BellSouth entered into a protracted bidding war against McCaw for LIN Broadcasting. As a result, McCaw’s initial offer of $5.85 billion ($120 a LIN Broadcasting share) proved to be inadequate. The price was raised a couple of times, and a bevvy of affiliated transactions took place as McCaw scrambled to find enough money to raise his bid.

By the end of the entire takeover process, McCaw Communications ended up buying 51-percent of LIN Broadcasting for $154.11 a share (a total of $3.4 billion), with an agreement to buy the remaining 49-percent within five years at a price to be set by the independent directors of the company. Bell South chose not to better this offer, and McCaw had won.

What worried analysts most about this transaction, however, was the tremendous amount of debt this burdened McCaw Communications with — about $5.2 billion in long-term debt, to be exact. Many commentators wondered whether McCaw’s success would ultimately turn out to be a phyrrry victory.

Even those closest to Craig McCaw, such as Wayne Perry, wondered whether or not their grasp was exceeding their corporate reach. Almost without exception, every analyst thought McCaw had overpaid for LIN Broadcasting.

“Craig McCaw will come up with ten ideas. A few of them, no one in the world would have thought of them. They will make you unbelievably successful if you follow them. Two of the ideas are average or okay. A bunch of the ideas, you won’t have a clue what he’s talking about. And a bunch of the ideas will make you broke so fast. The trick with Craig is to differentiate out that set.”

— Wayne Perry

Worries about McCaw’s ability to service its debt load combined with the indictment of Michael Milken in 1989 to create negative market segment. McCaw Cellular Communication’s share price fell from $36 (a market valuation of $6.5 billion for the entire company) to $11.50 (a $2 billion valuation). That was especially worrying for British Telecom, who were seeing the value of their McCaw stake decreasing in value.

Since McCaw was facing interest and construction payments of $500 million in the next two years, Craig McCaw again sprung into action. He called his closest group of managers together, and told them to start selling assets to raise the funds. Predictably, they failed — mainly because they were more attuned to buying things rather than selling them.

Ultimately, however, McCaw was able to raise $200 million by selling some licenses and rearranging some earlier transactions. That would give the company a little room to move, but not much. And the company still faced questions over what it would do about its $3.5 billion in long-term debt.

While thinking over these problems, Craig McCaw came to the conclusion what was needed was a partner with financial clout. And to him, there was only one company with experience in the communications industry that qualified — AT&T. So in early 1990, McCaw and his newly appointed company president, Harold Eastman (a former senior vice president of Allied-Signal) set out to befriend AT&T.

“We weren’t always sure whether we wanted the giant to know whether cellular was a good business or not. It’s always a two-edged sword. If people know what you’re trying to do and they recognize it’s a good idea, they may try to do it themselves. So that really put us in the course of doing one of two things: either being enemies with AT&T or friends.”

— Craig McCaw

Within a reasonably short period of time, the AT&T managers started discussing the idea of AT&T injecting $1 billion into a joint marketing arrangement with McCaw. The discussions dragged on for months and months, but nothing definitive could ever be agreed upon — primarily because of AT&T’s insistence its brand name could not be linked to anything that might not perform as advertised. And at that stage of development, cellular was still very much a mixed bag in performance terms.

Finally, in the summer of 1992, Craig McCaw suggested they try a different tack. His strategy was simple — offer AT&T an option to buy the entire company, but do it in such a way that AT&T would think it was their idea. The McCaw negotiating team were able to do just that, and weeks of intensive negotiations followed.

Then, in November 1992 (just days after Bill Clinton’s impressive electoral defeat of George Bush), AT&T announced it was preparing to buy one third of McCaw Cellular for $3.8 billion — with the money to be used to buy British Telecom’s 22-percent stake and reduce long-term debt by $2 billion. Furthermore, AT&T announced it was paying the McCaw family interests $100 million for a seven-year option to purchase their shares, exercisable for $600 million plus interest at 7-percent a year.

In effect, AT&T was offering about $1 billion to Craig McCaw and his family and other insiders to buy them out of McCaw Cellular. The news was well received by everyone in the marketplace — including Craig McCaw himself who understood for him, this would mean he’d be out of a job.

“I’ve never had more fun than I’m having today. I get to work with wonderful people in a great cause and a fun business, at a time when the risks are huge and the opportunities are huge. But jeez, if somebody retired me today, I wouldn’t mind. I’d go do something else. I’d take soybean oil and put it in diesels. It’s environmentally smart, and we grow it right here in our own country. You could run the city buses in New York within 2-percent of the efficiency of diesel fuel. There’s so much to do.”

— Craig McCaw

However, the deal announced in November 1992 never came to fruition. As the management teams from both AT&T and McCaw went further down the road of determining exactly how a marketing partnership between the two companies would work, more and more sticky issues emerged. It therefore became preferable for AT&T to simply acquire McCaw. Craig McCaw agreed to this logic, and in August 1993, he and his closest advisers negotiated terms and conditions.
AT&T ended up buying McCaw Cellular for $11.5 billion in AT&T stock. Significantly, the new purchase arrangement had one glaring omission — Craig McCaw and his family were to be paid the same amount as all the other stockholders. There would be no premium for their controlling interest in the company. Which is not to say they weren’t going to benefit from the sale. In fact, the McCaw family would receive almost $3 billion worth of AT&T stock, which would generate an income from dividends alone of around $57 million per year. The acquisition took longer than anticipated and had numerous regulatory hurdles to overcome, but finally in September 1994, McCaw Cellular Communications ceased to exist and AT&T Wireless Services took its place.

With the sale of McCaw Cellular, Craig McCaw found himself at a loose end. He was invited to join AT&T’s board of directors, and he even attended ten or twelve meetings as an observer to see what the board worked like, but found it a little too stifling. So he declined the invitation to join AT&T’s board.

Significantly, when the McCaw Cellular purchase agreement was put together, there was no noncompete clause included. In other words, there were no restrictions on Craig McCaw competing with his former company. It soon became clear he was still very interested in the telecommunications industry. Most observers, in fact, concluded he was itching to get back into wireless.

The opportunity to do so looked like arising quickly. The FCC announced that it would auction off a dedicated spectrum band for a new type of wireless technology called “personal communication services” (PCS). In effect, PCS was a more efficient digital system which promised lighter phones, longer battery life and the ability to transmit data as well as voice.

Craig McCaw formed a new company called ALAACR Communications to bid for the purchase of PCS licenses in New York, Minnesota, Salt Lake City, Alaska, Spokane and Portland. In all, McCaw made bids totaling $800 million, attracting widespread attention.

However, while the bidding for purchase licenses grabbed the public spotlight, Craig McCaw was quietly negotiating with Morgan O’Brien, the chairman of a company called Nextel. This company had quietly been acquiring licenses for Specialized Mobile Radio (SMR) spectrum — the type of communications used by truckers, cabbies and plumbers. With the introduction of digital technology, the distinctions between cellular, PCS and SMR were rapidly diminishing. Yet, of the three, SMR spectrum was being sold at bargain prices due to a lack of interest from the major players.

Craig McCaw managed to negotiate a purchase agreement under which he and his brothers would invest up to $1.1 billion in Nextel stock over six years in return for effective control of the company. The purchase agreement also had a number of other provisions which allowed McCaw to dictate the direction the company should move.

All of a sudden, Craig McCaw was back in the communications business. Nextel then had licenses covering the top fifty markets in the United States — almost creating the long sought after national coverage. With the announcement of McCaw’s involvement, Nextel’s stock rose 25-percent almost overnight. The industry waited to see his next move.

“Nextel is logically concentrated on something that allows it to do something very well and something that others are not already doing. You do not ask a duck to fly really fast; you ask it to fly and land in water. Essentially, this product is amphibious — both instantaneous push-to-talk and also interconnect and data services. If cellular is Chevrolets and Hondas, this is a Jeep. It’s a more flexible product. You can have, for instance, five or six people working in stream-of-consciousness mode. They would pick up the receiver and reach the whole group or just one person. They could never accomplish that with a switch-based telephone.”

— Craig McCaw

Within a year of McCaw’s involvement, Nextel achieved an impressive turnaround. The company secured a $1.65 billion line of credit for development funding. It extended its service to more than 200 U.S. Cities. Nextel also started investing aggressively in foreign markets — Canada, Mexico, China, the Philippines, Indonesia and South America.

Over the next four years, the market value of Nextel increased 600-percent. The company was now serving 3.6 million customers, and was active in ten of the world’s twelve largest markets. Microsoft announced it was investing $600 million in Nextel and developing a new Internet based product called Nextel Online.

Impressively, Craig McCaw’s success with Nextel was made without him even assuming an active day-to-day senior management role within the company. As ever, he worked carefully to put the right people in place, and then delegated most all decision making to those people. That left McCaw free to focus on the larger picture issues, rather than getting caught up in all the details.

That point was not lost on Morgan O’Brien, the chairman of Nextel, who commented:

“I was enthusiastic from the outset because McCaw has a very special talent, insight and ability to see the future. Plus he’s bold. Look at his track record. It’s like getting the world’s most astute consultant. You can never buy McCaw’s interests and talent. The only way you can get him is to have an arrangement where he benefits from his involvement.”

The fact that Craig McCaw didn’t take a day-to-day position with Nextel was far from incidental. Quietly in the background, he was also working on another ambitious telecommunications project — a company called Teledesic, a blend of “telephone” and “geodesic”. This company is focused on the communications potential of satellites, or to put it another way, the space equivalent of a fiber-optic communications network.

The objective of Teledesic is breathtakingly simple — to deliver high-end communication anywhere in the world while matching the cost and performance of land-based systems. To achieve that, a system of 840 fixed-orbit satellites will be needed, plus another spare 80 satellites in case any get hit by space debris. And the cost of building is staggering when it is considered one satellite alone can cost upwards of $100 million. Not to mention the fact only about 75 satellites a year were being launched worldwide.

To complicate the project still further, Teledesic wasn’t the only company seizing on the ultimate communications prize. The Motorola backed Iridium and Celestri systems, Globalstar,
Canada’s Odyssey, ORBCOMM and SkyBridge all had plans which had similar competitive elements, if not the same all encompassing objective.

“Human beings from the time they discovered seeds have been enslaved to places. You move to a place, ruin it and then move on. Now we’re going back the other way, where machines are really beginning to serve us. You can create the information communications structures that support a really different economy.”

– Craig McCaw

The decision was made to focus Teledesic on broadband communications – which would allow customers to use teleconferencing, long-distance learning and high-speed computer communications at any point on the planet.

“McCaw’s approach to making money is indirect. It’s how you create and build value. If you do that, there are lots of ways to make money. You’re not going to make money very long if you’re not creating value.”

– Russell Daggat, CEO, Teledesic

The real challenge to the future success of Teledesic isn’t technical – it’s regulatory. The system will only operate if each country, and each regulatory system within each country, agree to work together. That promises to be a daunting challenge in and of itself.

To offset that challenge, Craig McCaw is not alone in the Teledesic venture. In late-1993, he approached Bill Gates, the CEO of Microsoft, with a proposal to invest in Teledesic. After carrying out his own evaluation, Bill Gates agreed to invest an undisclosed amount.

By 1994, McCaw and Gates owned about 30-percent of Teledesic each, with AT&T owning 28-percent and 10-percent being held by Ed Tuck, a venture capitalist who had laid the foundation for Teledesic by developing its first business plan. Most analysts doubt Teledesic will ever succeed.

“It’s the stupidest thing I’ve ever heard of. I think it is extremely unlikely that Teledesic is going to happen or make money. On the other hand, if it does happen and does make money, it will make a preposterous amount of money. It will make an amount of money the likes of which no one has ever seen in recorded history, because basically they will have established an impervious monopoly in whatever markets they manage to penetrate.”

– John Pike, director, Federation of American Scientists

Despite all the skepticism, McCaw has managed to line up some high caliber partners for Teledesic. Boeing announced that it would invest $100 million and become Teledesic’s prime satellite contractor. When it and Teledesic couldn’t agree on what it would be paid, Boeing was replaced as the main contractor by Motorola – who also agreed to drop their own Celestri project. Despite this snub, Boeing still retained its investment in Teledesic. Motorola also agreed to buy a 26-percent stake in Teledesic for $750 million. And Motorola was joined by Matra Marconi Space SA of France and Saudi Arabian Prince Alwaleed bin Talal bin Abdul Aziz Al-Saud as equity investors.

Teledesic is scheduled to begin operations in 2004. Whether or not the company achieves its goal remains to be seen. The recent bankruptcies of Iridium and ICO Global Communications of London haven’t discouraged Craig McCaw and Teledesic from moving forwards. In fact, McCaw even managed to put together a group of investors to buy control of ICO’s assets in exchange for funding commitments of up to $1.2 billion.

As usual, Craig McCaw is making a communications industry investment which everyone else says is crazy.

“It’s like Christopher Columbus setting off from Spain and hoping there’d be things on the other side. There’s much more unknown here.”

– Craig McCaw

In addition to his involvement in Nextel and Teledesic, Craig McCaw also had a couple of other projects underway. One of them involved the carriage of telecommunication traffic by fiber optic cable between major cities, and the interconnection of local calls with the long-distance carriers. McCaw foresaw that whoever controlled these switches would be in a strong position in the marketplace.

To exploit that opportunity, McCaw started a new company in 1994 called FiberLink and funded it with $55 million of his own money. He also put in place a hand picked management team, and told them to get into the fiber business. He didn’t tell them how to do that – that was a detail they were supposed to figure out for themselves. But he did mention he wanted the new company to achieve $1 billion a year in revenue as quickly as possible.

McCaw even brought in Jim Voelker (with a deep background in telecommunications) to be president of the company and instructed him: “You know more about this business than we do. Go do what you think is right. Don’t ask anybody here for advice.”

Soon, FiberLink was going to small- to mid-sized companies offering them a package of local and long-distance services at competitive prices. In fact, by 1996, FiberLink changed its name to NEXTLINK and was active in 23 markets in seven states.

When NEXTLINK went public in 1997, Craig McCaw sold 30-percent of the company for more than $550 million – a pretty impressive return on his original $55 million investment about three years earlier. But the best was still to come.

In mid-1999, NEXTLINK paid $700 million to purchase spectrum in the form of Local Multipoint Distribution Service (LMDS) licenses. LMDS allows data and voice to be transmitted over short distances. By acquiring these licenses, NEXTLINK was now able to provide fixed wireless service to about 95-percent of the U.S. Population – effectively allowing NEXTLINK to bypass the regional Bell companies which had always had a choke point by controlling the vaunted “first mile” of service from the consumer to a switch.

Suddenly, NEXTLINK executives were focusing on a goal of $10 billion a year in annual revenues – which would represent just 5-percent market share of the local-and long-distance business.

And, most impressively of all, Craig McCaw’s retained stake in NEXTLINK – even after realizing a return of $550 million on his start-up investment of $55 million – was, by late 1999, worth more than $3 billion.
“NEXTLINK could always get help from McCaw’s other assets, including Nextel, Cable Plus – a private cable TV company the serves apartment buildings in thirteen states, and eventually Teledesic. With cable playing an increasing role in the delivery of voice and Internet services, Cable Plus could become a stealth weapon for picking off even more Bell customers. These certainly make interesting puzzle pieces, but how do they all fit together? Perhaps Craig McCaw was indeed assembling his own version of AT&T, becoming a letter-day version of Theodore Vail. But McCaw was hard to know and harder yet to predict. Maybe he did have a plan, or maybe he wasn’t quite sure where he was headed. Yet each step along the way brought its own huge payoff. By late 1999, McCaw’s share in NEXTLINK alone was worth more $3 billion. Not bad for the ‘interested consultant’ who had never even set foot in a NEXTLINK office.”

– O. Casey Corr

So, what are the keys to Craig McCaw’s impressive and numerous business successes?

1. He always retained business flexibility and had a “back door” which could be used if things didn’t quite go to plan. Time and again, Craig McCaw showed a rare willingness to change business plans on a dime – which is an asset in the highly volatile and evolving world of telecommunications.

2. Trust the people hired to run the business. McCaw delegated meaningful amounts of authority to them, and then get out of their way. In his later companies, Craig McCaw has almost managed to turn this skill into an art form, giving his managers objectives and then leaving them to figure out the best way to achieve that. He also fully supported any decisions they made, and insisted they go ahead and make decisions without getting his approval.

3. McCaw always retained control in every business enterprise he became involved in. That allowed him to move the companies in the best direction without interference.

4. Take risks, and don’t be afraid of building a company which will require significant amounts of capital to grow in the future. Time and again, Craig McCaw has taken risks analysts discouraged or others thought foolish. Yet, his vision of the future has proven to be unerringly accurate. That has delivered a significant competitive advantage to him.

5. Maintain a low public profile. Craig McCaw tried to stay “under the radar screens” for as long as possible. That allowed him to develop projects more fully before subjecting them to public scrutiny – which vastly enhanced the quality of his ideas.

6. Embrace impossible ideas and take unconventional paths. Craig McCaw has been termed a visionary simply because he’s spotted business opportunities other people assumed were worth little. He achieves that by refusing to get too caught up in details, and looking at things from the customers perspective rather than the businessman’s perspective.

7. Focus first and foremost on creating value for the customer – even if that requires huge expense. Craig McCaw always steadfastly refused to cut corners whenever anything involving the quality of the product delivered to customers was concerned.

8. Go for huge payoffs in substantial markets. Craig McCaw has always focused on large multi-billion dollar markets.

9. Keep it simple. Invariably, McCaw found simple solutions for complex problems while everyone else looked for complex solutions that were unworkable.

10. Pursue excellence. Craig McCaw defines that as the one thing that gives real meaning to life.

“What lies ahead for Craig McCaw? Expect the unexpected. He could spend years staying on course, expanding his companies and enjoying the result. But just as his face begins to appear again on the covers of magazines that celebrate his triumphs, look for a change. He hates routine. He gets restless when a venture begins to succeed and his presence is less essential. Having built and sold two national companies, McCaw could wake up one morning and decide to sell one or all of his present companies. He could pull in new partners, raise his bets and propose something even more exciting, built around something bigger than the parts of his disparate enterprises. No one can yet say what McCaw’s final legacy will be. It could be his known companies or some embryonic venture kept off the radar. Whichever, it will bear the influence of a great and wholly American entrepreneur. Putting the stamp of his unique personality on business, keeping private his secret places, resisting the powerful pull to be conventional, playing the wizard to a dumbfounded audience – Craig McCaw’s greatest achievement may simply be staying true to himself."

– O. Casey Corr

“I can’t quite figure out how McCaw gets his ideas. I used to try and go back and reverse engineer and see what it was – frankly less to test him than to see if I could get a little ahead of it. But in spite of my work to stay abreast of a wide range of things, Craig McCaw is the first person in my life who used the words ‘cellular’ or ‘Internet’ to me – and he doesn’t read as much as I do. I don’t know where he gets it. I just hope he keeps a clear channel.”

– Wayne Perry

“I’m a master of the obvious. So whenever I have an idea that I think is obvious, I pursue it.”

– Craig McCaw

“McCaw made one fortune in cable TV and another in cellular telephones. Now he’s building a telecommunications empire of staggering potential through a collection of companies he controls. Each company alone is breathtaking in its ambition, hunger for capital and risk-taking management style. Together, they provide a glimpse at the depth of McCaw’s ambition: one company capable of providing high-speed data access to any point in the world.”

– O. Casey Corr
Creating money out of thin air may help in the short term, but in the long run reduces the value of U.S. dollars. "Or the U.S. government can raise taxes," Chinn added. Kimberly is the reference editor for Live Science and Space.com. She has a bachelor's degree in marine biology from Texas A&M University, a master's degree in biology from Southeastern Louisiana University and a graduate certificate in science communication from the University of California, Santa Cruz. Her favorite stories include animals and obscurities. A Texas native, Kim now lives in a California redwood forest. 'Loan money actually invested by customers. They would be stopped from creating such accounts out of thin air and so would become the intermediaries that many wrongly believe they now are.' Because I am a vocal critic of the private finance sector, many assume that I would agree with Wolf and Positive Money on nationalising money creation. Not so. I have no objection to the nationalisation of banks. But nationalising banks is a different proposition from nationalising (and centralising) money creation in the hands of a small "independent committee." Indeed, the notion to my mind is preposterous. Money from thin air? Is this claim true of the banks? If it were the real situation, then the banks could solve their own needs for bail-out! Inscription: On recto: "Due by William A. Burke, Fifty Cents, Payable on demand, to bearer, Staunton, in Virginia Bank Notes when presented in sums of not less than Five Dollars." View. On the Frequent Autumnal Pressure in the Money Market, and the Action of the Bank of England. Article. W. Jevons. View. Dirty money. Article. Feb 2012.