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September 11, 1985

PERSONAL AND CONFIDENTIAL

Mr. William Bowe
United Press International
750 Old Hickory Blvd.
Brentwood Commons One
Brentwood, Tennessee 37027

Dear Bill:

In case you did not see the September/October edition of the Columbia Journalism Review, enclosed are copies of two stories which will be of considerable interest to you.

If the rest of the people at UPI are of the same caliber and fiber as you, I have no doubt you will all weather the storm.

As always, please do not hesitate to telephone me if I can provide any assistance to you.

Best regards to Cathy and the kids.

Sincerely,

Daniel

David W. Andich

DWA:jch
Enclosures

COLUMBIA
JOURNALISM
REVIEW
SEPTEMBER/OCTOBER 1985

UPI's disaster story

What went on — and what went wrong

by KATHARINE SEELYE and LAWRENCE ROBERTS

Three months after he had become part owner of United Press International, William E. Geissler was still brimming with excitement and plans. So when he ran into an editor from the foreign desk outside the company's world headquarters in New York one warm September day, he welcomed the chance to brag. Standing on the corner of 42nd Street and Lexington Avenue, Geissler put his briefcase down on the subway grate and, as the trains rumbled underfoot, launched into an animated monologue about UPI's bright future. "We stood there talking for about forty minutes," the editor recalls. "He talked about how great things were going to be. And at the end the words he used were something like, 'Someday there will be no Associated Press. We're going to run them out of business.' "

Such hyperbole was a hallmark of Geissler and his partner, Douglas F. Ruhe, the self-styled media entrepreneurs who acquired the world's second-largest wire service from the E. W. Scripps Company in June 1982 (see "How Scripps Got Rid of a Hot Potato," page 32). Another hallmark was that things rarely turned out quite the way they were planned: rather than driving their chief competitor out of business, the two presided over the financial collapse of UPI. In less than three years the company landed in bankruptcy court with $45 million in liabilities, leaving a crippled news operation and a lot of questions about how it all happened.

What follows is a reconstruction, based on dozens of interviews over several months, of the jolting roller-coaster ride on which UPI management took its more than 1,200 domestic and foreign employees over the past three years. It is a tale of naiveté and pie-in-the-sky optimism brought down to earth by a desperate need for cash; of a company that poured millions into questionable ventures that have yet to yield dividends, then "raised" money by not turning over to the IRS its employees' withholding taxes; of an ambitious company chairman who, after vanquishing the owners and taking a big raise, asked the staff for a wage freeze and additional economic concessions. It is a story of men whose dealings diminished the effectiveness of an organization that for seventy-five years had been a respected disseminator of news to hundreds of millions of people all over the world — dealings that were brought to national attention in a story sent out over the service's own news wires. And, finally, it is a cautionary tale that makes clear how fragile is the life of a news service that, if nothing else, has served to keep the much larger and better-financed Associated Press on its toes while providing editors a chance to compare separate accounts and come to their own conclusions regarding the nature of a story.

Euphoria . . . and early worries

From the very start, Ruhe and Geissler were on the defensive. They were young — Ruhe was thirty-seven, Geissler thirty-five — they were unknown, they came from unorthodox backgrounds, and Ruhe had a knack for undiplomatic candor, as when he told a newspaper convention that UPI offered no advantage over the AP. To bolster their credibility in the journalism community, the two quickly brought in men with established credentials — Bill Small, former head of NBC News, as president, and Maxwell McCrohon, former editor of the *Chicago Tribune*, as editor-in-chief.

Skepticism among the staff was gradually allayed as the owners ticked off ideas for new ventures, injecting purpose and excitement into a company that had been sleepwalking for years. Small opened more than twenty new bureaus. He subsequently named regional science and business editors, beefed up the investigative, sports, feature, and graphics departments, and set up a city news service in Los Angeles. True, in early 1983 UPI laid off more than fifty middle-

Katharine Seelye is an editor at The Philadelphia Inquirer. *Lawrence Roberts, a free-lance writer living in Boston, resigned in January as UPI bureau chief in Madrid.*

CJR/Jeff Frazier

The optimists: *Douglas F. Ruhe (left) and William E. Geissler thought they could turn a money-losing company into a profit maker and, in their view, they succeeded. Others, however, think their tenure was disastrous.*

level managers, but with the money thus saved it hired reporters in the field. And in time there was a perception that the basic news service was on the upswing.

On an overseas inspection tour, Small told UPI news executives in London, "I never want to hear the excuse that a story wasn't properly covered for lack of money" — music to the ears of editors perennially urged to "downhold" expenses. In a coup, Small was able to sign The Times Mirror Company to a full-service agreement covering all of the chain's papers. This was the largest such contract in UPI's history.

"Suddenly there was a euphoric feeling," one former sales executive recalls. "The marketing people really felt the company now had a fighting chance." With an increased sales staff, the total value of contracts signed in 1983 was more than twice that of the previous year, hitting $16 million. It would double again in 1984.

But not everyone was euphoric. Len R. ("Rob") Small and Cordell Overgaard, two minority shareholders who had been brought in before the acquisition, were among the first to perceive that Ruhe and Geissler were in over their heads and seemed unwilling to confront key problems.

One of the owners' first obligations was to negotiate a contract with the Wire Service Guild. Rob Small, who is not related to Bill Small, says that Geissler, who negotiated the contract "unilaterally," wanted to raise wages because he thought journalists should make more money. By UPI's standards, the wage increase — 20 percent over three years — was generous, providing editorial employees parity with their counterparts at the AP for the first time in decades.

But Small, who was worried about the company's financial situation, was troubled by the contract, and he cites it today as one of the reasons he left UPI. "It is very difficult to have a cost-control program without addressing the issue of wages," he says.

Small had further cause for concern when, in late 1982, International Management Consultants, a New York firm that specializes in turning around ailing companies, handed in its situation report. "We were already worried," Small recalls. "Then their predictions said we were running out of cash." To save money the report recommended that the company immediately fire 400 editorial employees, according to Ruhe, who adds that, in the face of enormous pressure from UPI managers not to make the cuts, he rejected the consultants' advice. To Rob Small and other executives, this was just one more indication that there was no realistic strategy for putting UPI on track. Ruhe and Geissler "had tenacity, energy, street smarts, charisma, and some classic entrepreneurial skills," says Small, who is back behind his desk at the Moline, Illinois, *Daily Dispatch,* of which he is editor and publisher. "But the key was that they lacked a sense of organization, of priorities, a sense of urgency. They didn't know the big problems from the little problems, and we had a big problem — the meter was running." The company was losing $1 million a month.

In mid-January 1983, Small and Overgaard decided to confront Ruhe and Geissler with what they saw as the company's problems and to vent their dissatisfaction. On January 26, at a meeting in Ruhe's room at the Grand Hyatt Hotel in New York, they told Ruhe and Geissler that the company needed between $6 million and $15 million. Ruhe disagreed. Then, Small recalls, "I tried to get across to Doug [Ruhe] that he was a creative, imaginative guy but that we needed a more methodical person to run things. He wasn't interested. He just shook his head. There wasn't that much dialogue. Cordy and I said we would step aside. There wasn't a big fight." Says Overgaard: "I think their reaction was one of relief."

Rob Small and Cordell Overgaard, who had been with UPI for only seven months, bowed out.

The cash crunch and the 'idiotic' Reuters deal

One day near the end of that year, UPI president Bill Small received an odd telephone call from a friend, a vice-president of the Tribune Company in Chicago. He hated to bother Small about it, he said, since it was only a matter of a few hundred dollars, but the Tribune Company could not seem to get UPI to pay for the daily delivery of newspapers to the Chicago bureau.

In 1984 a cash shortage became increasingly apparent — and embarrassing. Telephones in some bureaus were intermittently cut off for nonpayment of bills. Reporters who had paid for travel and lodging out of their own pockets were not being reimbursed. Stringers, fed up with the long delays in their payments, began drifting off to the competition. American Express cards issued to executives and bureau chiefs were canceled. Clients abroad were running out of paper for their photo machines and could not get UPI to ship more. What cash there was, it seemed, was being wasted. A new Spanish-language radio-news network for U.S. Hispanic stations sucked up nearly $2 million and produced no revenue. The installation of satellite dishes for clients was handled so haphazardly that in some states the land lines were inadvertently left in place, forcing UPI to pay for two parallel delivery systems.

The plan to move UPI's operational and corporate headquarters out of New York turned into a fiasco. The owners wanted to move the corporate offices to Brentwood, Tennessee, near their own homes in suburban Nashville, and they hoped to increase efficiency and save money by putting all the news and photo desks under one roof at a new world headquarters in Washington.

At first, the owners worked out what Ruhe termed a "creative financing" scheme, which they believed would yield them the ownership of a renovated office building near Farragut Square in Washington — for no cash. The owners spent at least $100,000 and several months on plans to remodel the building, Ruhe says. Then the developer with whom they were working went bankrupt. The company hastily looked around for another building, finding one at 14th and I Streets, across from a block of sex shops.

The problems did not stop there. Expensive radio studios were built, only to be torn down and rebuilt because they had not been adequately soundproofed. Dozens of members of the New York staff had been told to give up their apartments and sell their houses in anticipation of moving, so when the move was delayed UPI had to pay hundreds of thousands of dollars to put them up in hotels. Ruhe admits that these snafus cost the company roughly $1 million.

Taken together, these signs were ominous indeed. Rumors of UPI's imminent collapse, which had been circulating since the late 1960s, were now taken so seriously that in the spring of 1984 Ruhe felt compelled to issue a company-wide memorandum. "The fact is," he stated in the May 18 memo, "that UPI is very much on track in its turnaround. . . . All of the vital indicators — improved sales, market share, news product, operations — are right on target for profitability. . . . We're in business today, we'll be in business tomorrow, and very much in business next year."

A few days after this memo was issued, what was perhaps the last genuine display of optimism burst forth from the ninth floor of the new Washington headquarters. Two top executives marched out of their offices waving little British flags and singing "God Save the Queen," while stunned secretaries looked on. The executives were celebrating the sale of UPI's overseas pictures division to Reuters, the British-owned news agency, for $5.76 million.

In hindsight, this deal was viewed as one of the most foolish concluded under the Ruhe-Geissler management. The picture side was where UPI's aggressive, seat-of-the-pants style seemed to work best, and some editors rated it the most successful part of the company's operation. While UPI officials say that their own books were never sophisticated enough to determine whether Reuters obtained an independently profitable entity, many now argue that the price was absurdly low. For its money, Reuters received twenty-four functioning picture bureaus, dozens of experienced photographers, a working distribution system, millions of dollars in long-term client contracts, and a head start on Agence France-Press, which was also organizing a world-wide picture service.

"The picture deal was the most idiotic deal that was ever made," says Mike Hughes, executive editor and vice-president in charge of UPI's international division. "We gave it to them on a platter. Even if Reuters worked around the clock [to organize its own service] it would have taken them three years just to put all the transmitters in place. I'd say a conservative guess is that we saved them twenty million dollars and five years."

Risky businesses: from Focus to UPI

The decision to accept Reuters's price was made in a panic when UPI discovered it did not have enough cash to meet both the payroll and a scheduled loan payment to Foothill Capital Corporation, a Los Angeles firm. The picture sale

Short-term partner: *After just seven months with UPI, publisher Len Small returned to his Illinois newspaper.*

courtesy *The Daily Dispatch*

UPI/Bettmann

Some deal: *Pressed for cash, Ruhe (right) sold UPI's overseas pictures division to Reuters in May 1984 for $5.76 million.*

was "a crisis move," in the words of one high-ranking executive. "We had to have that money by Friday."

For Ruhe and Geissler, such hand-to-mouth financing was standard operating procedure. This becomes clear from a look at how they managed the one television station they owned before coming to UPI.

It was a struggle just to get their UHF station — WFBN in Joliet, Illinois — on the air. First, they had to raise money. When they couldn't get enough from friends and relatives, they had to sign for substantial loans. According to papers filed with the Federal Communications Commission, it took them two years — from 1978, when they formed Focus Broadcasting Company, to 1980 — to obtain a license; a third year passed before the station went on the air. "Unfortunately," Ruhe wrote in a February 27, 1981, affidavit, "the many obligations we have incurred to get this far are falling due faster than we can meet them. . . . We are already stretched to the financial breaking point by the debts we have incurred in trying to put Channel 66 on the air."

When Focus could not afford to operate WFBN as an independent station, the company ran it as a pay-TV service, taking on a series of subscription operators. During the changeover from one group to another, Ruhe says, the incoming operators did not want their air time "interrupted" by news, so the station canceled its locally produced 6 P.M. newscast. When one of the station's klystron tubes failed, the station was left to limp along at half its authorized megawattage.

Nonetheless, Ruhe and Geissler continued to apply for more television licenses, knowing full well the difficulties and expenses involved. By the summer of 1985 Focus's broadcast interests had been expanded — through a thicket of complicated transactions involving cross-ownerships among relatives, friends, and business associates — to include three other stations. Like the Joliet station, none has turned a profit.

It was shortly after they had arranged their house-of-cards financing for Focus that Ruhe and Geissler acquired UPI. To put the wire service on a more solid footing they sought funds from more than 100 investors. None materialized. Yet Ruhe persisted. "It is a creative challenge to figure out how to get from here to there and survive," he says now, trying to explain why he plunges into ventures for which he has insufficient funds. "I can make my living at other things, but I'm not happy in a risk-free situation."

The $2.3 million question

The situation at UPI was certainly not risk-free. The new owners inherited a money-losing company and they could never stick to an orderly strategy for stemming the losses and raising new capital. In fact, Ruhe and Geissler seemed to spend money so freely — "they could find more useless ways to dissipate cash than a normal person could think of," says one insider — that in short order they were desperate for cash. To meet payments, they took out a $3 million loan from Barclays. But to carry out certain transactions designed to raise quick cash, they replaced the Barclays contract with a $4.8 million loan from Foothill Capital at a higher interest rate. The rate, according to Ruhe, ranged up to 25 percent. Although they gave their personal guarantees for the Barclays and the Foothill loans, they never invested any of their own money in UPI. (Ruhe says that, as a result of their television holdings, he and Geissler are worth $6 million to $10 million each.) Instead, the owners patched together a number of short-sighted transactions, like the sale of the overseas pictures division to Reuters, that undermined UPI's value. They sold off several properties — among them, UPI's half interest in the international commodity news service, Unicom; its one-third share of the television film company UPITN; its New York photo archives; its data base; and rights to its electronic transmission system providing news for cable television and personal computers. In addition, they set up more than a dozen little spinoffs, with names such as UPI Focus, UPI Ask, UPI Media, UPI Real Estate, and DataServe. Yet UPI itself seemed to be receiving very little in return.

The nature and extent of these various activities began to emerge after the company filed on April 28, 1985, for protection from its creditors under Chapter Eleven of the U.S. bankruptcy code, claiming $45 million in liabilities.

Papers filed in bankruptcy court in Washington revealed, for example, that UPI had kept money that should have gone to the Internal Revenue Service, to the employee credit union, and for employee health insurance and union dues. And it had pocketed collections from overseas clients for comic strips such as Peanuts and Garfield, collections that, as the agent for United Feature Syndicate, UPI should have sent on to the syndicate.

A week after the filing, UPI investigative reporter Gregory Gordon moved a story on the UPI wire outlining publicly for the first time what a number of UPI employees had suspected all along: "United Press International's chief owners," Gordon wrote, "reneged on a pledge to invest $2 million in the wire service and channeled millions of dollars of scarce company funds into questionable venture deals, present and former UPI officials say. . . . Ruhe and Geissler . . . also paid $2.3 million to their own management company and hundreds of thousands of dollars to consultants who provided no useful products."

The *Nashville Banner* chimed in with hard-hitting stories of its own: "In times of desperation . . . ," wrote Cathy Schulze on May 14. "Focus officials and others in a complex web of subsidiaries would merely telephone officials at UPI and ask for money. Up until last fall . . . cash would be transferred to them by wire."

Ruhe denied the charges. He told Gordon, for example, that the "pledge" to invest $2 million had been contingent upon the sale of the Joliet station — a sale that has yet to materialize.

And recently, during the course of a seven-hour interview, Ruhe once again denied the charges. He insisted vehemently that there was nothing illegal or unethical about the $2.3 million payment from UPI to Focus. (An audit being conducted by creditors in the bankruptcy proceeding is examining this payment; as of this writing, no conclusion has been reached and no charges have been filed against anyone.) Ruhe said the $2.3 million covered "fees" paid over three years to Focus, whose seven to fifteen employees ultimately "saved" UPI. A small amount, he added, "probably" ended up paying for functions unrelated to UPI during a one-year "transition period" when Focus's management of its handful of television stations overlapped with its management of UPI. Ruhe would not list the specific services that "saved" UPI beyond saying, "We turned the company around. . . . It was losing a million and a half dollars a month; it's now cash-flow positive."

Geissler, like Ruhe, dismisses any suggestion of wrongdoing. "It's all froth," he asserts, "and it's all beside the point." In the future, Geissler goes on to say, criticism that he and Ruhe mismanaged the company "won't even be a footnote."

Enter Nogales; exit Ruhe and Geissler

By September 1984, however, when UPI was asking its employees to take a 25 percent wage cut, the perception that Ruhe and Geissler had mismanaged the company was pervasive. And it eventually cost them control of the company. Through some deft behind-the-scenes maneuvering, the man to emerge with the power was Luis G. Nogales.

The son of migrant farm workers in California, Nogales had gone to Stanford Law School and had become an executive with Golden West Broadcasting — where, through business dealings with the Joliet station, he met Ruhe and Geissler. A year after they took over UPI, they hired Nogales as executive vice-president.

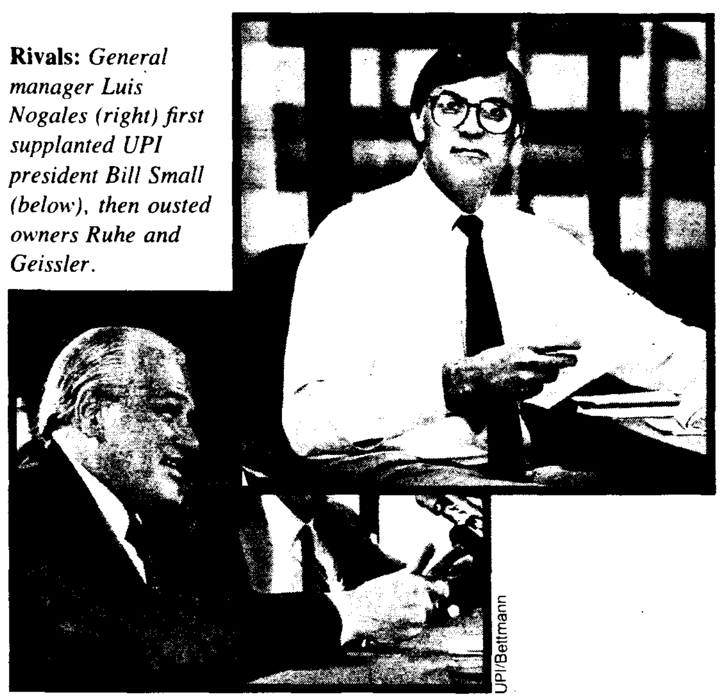
Nogales, then forty-one, and president Bill Small, then fifty-six, viewed each other as rivals from day one. Within a year, Nogales had won the confidence of the owners, as Small never had. He was made general manager in August 1984. In early September, shortly after UPI's financial woes were made public, Ruhe called Small to Nashville. There, he told him that he wanted to cut short his contract, scheduled to run until 1989.

That weekend Small learned that his dismissal had already been announced in a UPI story. On the advice of his lawyer, he continued to report to his New York office. When UPI officials had the lock changed, Small entered through a side door; UPI then called a security guard, but Small refused to leave without a written notice of his firing. He later filed a multi-million-dollar breach-of-contract suit, which is still pending.

The owners and their new president were faced with the task of keeping UPI operating despite a severe cash crunch. Ruhe says he and Nogales came to an agreement about how to do it: "Luis was supposed to be controlling costs, and I was supposed to bring in the cash by making the deals."

Before long, however, their relationship began to fray. Nogales, saying Foothill Capital had "lost confidence" in Ruhe and Geissler, joined the lender in March to force them out. Foothill officials presented them, in effect, with an ultimatum: appoint Nogales chairman or lose Foothill funding. Instead, Ruhe and Geissler fired Nogales, intending to replace him with William C. Payette, a respected ex-UPI man and former head of United Feature Syndicate. But their rebellion was short-lived: the need for Foothill's cash forced them to take back Nogales and relinquish control. In May, Ruhe and Geissler made an attempt to reassert their authority and for a few weeks it was unclear just who was in charge. Nogales eventually came out on top.

Ruhe still fumes over what he calls the "coup," charging that Nogales "stole" the company from him and Geissler. He says Nogales managed to paint a picture of Ruhe and Geissler as inept and corrupt so that he could "justify" taking control. Ruhe acknowledges that Nogales's charges were "given credence because of the cloud that hung over us from day one." But, he contends, it was Nogales who hurt the company more by taking it into bankruptcy court, an unnecessary step, he says, taken not for financial reasons but simply so that Nogales could gain control. The company did not have to risk the stigma of bankruptcy at that point, Ruhe argues, because by that time it had achieved an operating profit — for the last quarter of 1984 and the first quarter of 1985 — its first in twenty-two years. (That profit,

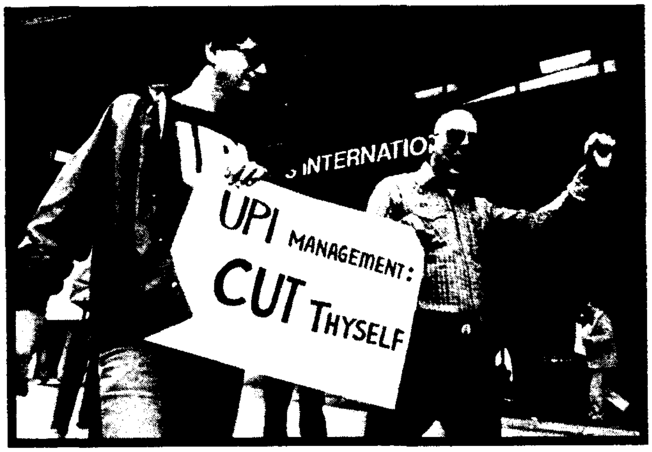


Rivals: *General manager Luis Nogales (right) first supplanted UPI president Bill Small (below), then ousted owners Ruhe and Geissler.*

CJR/Harlee Little

UPI/Bettmann

courtesy The Guild Reporter



The Guild militant: *In June, when UPI called on employees for more concessions, the Guild suggested cutting back elsewhere.*

of course, was made possible in part by the employees' extraordinary decision to take a 25 percent wage cut.)

At first, UPI employees supported Nogales, whose chief appeal seemed to be that he was against the owners. But the honeymoon did not last long.

The firing line

On Saturday morning, April 27, 1985, one day before UPI filed for bankruptcy-court protection, Jerry McGinn, the UPI bureau manager in Spokane, Washington, was lying in bed, feeling that life was good. As a speaker at a roast in honor of a high school football coach the night before, he had been a success, and his wife had promised to bring him breakfast in bed. "Up she came with a tray of food, flowers, and all that," McGinn recalls. "On top of the plates was a telegram. So I asked her, 'What's that — a joke about last night?' 'I don't know,' she says. 'Why don't you open it?' I did. And it said, 'You're fired, terminated as of April 26.' So that was my breakfast in bed."

McGinn, thirty-nine, who had been with UPI for twenty-one years, was one of about eighty U.S. editorial employees who received identical telegrams. The cutbacks closed eleven U.S. bureaus, leaving nine states to be covered by only one reporter each.

Among those who felt that the episode was an insult to employees — who had kept the wire going despite the 25 percent wage cut — was Steven Christensen, editor of the ten-state Pacific division. He resigned in protest.

Christensen and other editors had been told weeks earlier to expect another round of layoffs. But when he came to work that Friday in San Francisco, word had already spread that UPI was about to go into bankruptcy. That afternoon, he was hooked into a nationwide conference call with other division editors and executives.

"We were informed that the staff cuts we had been told about, plus deeper ones, had to take place immediately, that the notices would be sent by Western Union that night," Christensen recalls. "It was Bobby Ray Miller [vice president for labor relations] who told us, said he had been ordered, to get the names of those to be fired."

Nogales, who handed down the order, says that he had to demand the cuts be made immediately because division managers had failed to make them before. "When I showed up in Los Angeles to negotiate with Foothill and I had not accomplished those reductions, they questioned whether I could ever get it done," Nogales says. The dismissals yielded "a positive cash flow" and appeased Foothill. He adds, "Why would anybody lend you money if you can't show that you can repay it? That's something this institution needs to learn — there isn't anybody out there that's going to give you funding every year because you're such a hot-shot UPI collecting the news for the benefit of the world. You live within your budget."

Christensen was ordered to cut fifteen of the 123 people in his division, which had lost twenty others in the fall of 1984. He says that he felt obligated to make the choices, but then resigned that night to protest unfairness not only to the reporters but to the clients as well.

"One of my concerns," Christensen says, "was that laying off fifteen more people in the division caused some real reductions in the service. The clients were going to receive a much smaller service on Monday than they had on Friday."

Around the country, UPI staff members concluded that they no longer had time for anything but the bigger stories. The layoffs and cash problems left many areas inadequately covered. When Karen Ann Quinlan died in New Jersey on the night of June 11, after having lain in a coma for ten years, no UPI staffer was on duty in the state and UPI was far behind on the breaking story. When on May 31 tornadoes swept through Pennsylvania, Ohio, and western New York, killing eighty-nine people, the usual UPI photo stringers, owed back pay, refused the summons to help out.

UPI's share of the play on many of the major national and international stories remained good, editors say, a tribute to the service's characteristic hustle, and its sports, features, and graphics departments remained strong. Even so, morale was abysmal. On at least two occasions paychecks bounced before the company could cover them. The White House refused to allow UPI reporters to accompany President Reagan to Europe this spring without cash up front; the *Los Angeles Times* and the *Chicago Tribune* covered the payment.

Clients were certainly aware of the problems, and this showed in cancellations. "The business has been evaporating at a rate you would not believe," says a high-ranking executive. "The company is daily bleeding to death." Another UPI official says that once the company filed for bankruptcy-court protection, clients were "concerned that UPI was going out of business." Small newspapers that took UPI as their only service were especially worried.

Typical was the 13,600-circulation Flagstaff, Arizona, *Daily Sun*. "Our state coverage is probably a lot more incomplete because there's no depth in the report," admits managing editor Richard N. Velotta. "We're not getting as much as we were. To give them credit, they [UPI reporters] are working their butts off, but no amount of hard work can make up for their problems. They've lost a lot of stringers in the outlying areas, and it's impossible for them to keep as good a pulse on things. AP now outstaffs UPI by as much as three to one. In fact, they've hired away some of UPI's best people. Simple mathematics says they're going to have better coverage."

The AP has benefited from UPI's problems, enjoying an unusually large increase of at least fifty newspapers in the first six months of 1985. The AP sales pitch regarding the uncertain future of UPI has been "subtle," says Velotta. "They just hint at it, saying things like, 'Gee, I wonder what's going to happen to them tomorrow?' "

By this summer UPI was suffering a dramatic loss of clients, most of them radio stations. As their contracts come up for renewal, clients routinely give notice that they are going to cancel, with the expectation that they can bargain for a better deal. Normally, UPI saves about 70 percent of those who give notice, but by June, according to a UPI sales executive, UPI was receiving about twenty cancellations a week and was saving only about 30 percent of them. Moreover, new business had all but dried up. Still, UPI officials maintain that UPI can survive as long as the larger newspapers and broadcasters, which provide most of the revenue, continue to take its service. And, with a few exceptions, most of them are retaining UPI and paying a special 9.9 percent rate increase that the agency asked for last March. "Some people are going to think it's more productive to spend the money they spend on UPI elsewhere," says Gil Spencer, editor of the New York *Daily News*. "But *we*'ll hang on if *they* can. I think it's nice to have a competitive situation."

Down to the wire

Within UPI, with the owners out of the fray, tension was rising between Nogales and the employees. In June, when Nogales asked the Wire Service Guild for an additional $1.1 million in economic concessions, it came out that he had taken a 90 percent raise, to $171,000 — shortly before filing for bankruptcy court protection. (Nogales explains that as CEO his salary could not be less than that of the editor-in-chief and that he needed money for constant legal advice.) Deep resentment among the employees, together with unexpectedly strong resistance to the concessions, forced Nogales in mid-July to cut his salary by 25 percent. Still, the union refused to discuss the concessions, saying that UPI was withholding financial information, and on July 19 Nogales asked the bankruptcy court to reject UPI's contract with the Guild. In response, the union asked employees for authorization to call a strike. As of this writing, the court had turned the dispute over to a federal mediator.

While fighting the union, Nogales was also trying to undo some of the damage done by the two owners — exploring ways of reclaiming assets and recouping funds. For example, he sent a bill for $1.8 million to a company called Fintext, in Glens Falls, New York. Fintext, using half the monthly fees that UPI clients paid for their stock-reporting service, was supposed to develop a state-of-the-art stock report by June 1984. More than a year later, however, Fintext had produced little more than a ream of questionable loans and payments. (Ruhe, who defends the investment, and maintains that the system will be valuable to UPI, says he expects it to be phased in late this summer.)

In exile in Nashville, Ruhe and Geissler appeared to be left out in the cold, with nothing to do but wait for the creditors and managers to sell their company out from under them. But, as was often the case with the two partners, things were not exactly as they seemed. They still had a hold on the company's future. Exercising their right as owners, Ruhe and Geissler had, early on, transferred UPI's tax credits for post-1982 operating losses to their holding company, Media News Corporation. Ruhe says that he and Geissler planned to use the credits as a bargaining chip to retain a minority interest in UPI if it were ever sold. The $35 million credit, which could be used to reduce taxes should UPI make a profit in the future, may be one of the company's most valuable assets to a buyer.

In the midst of all the maneuverings, there was one ray of kindly light: Judge George Bason, Jr., was assigned to preside over the bankruptcy case and Bason was guided by an appreciation of the special role of the company that was in disarray before him. As his early rulings made clear, he was sympathetic to the idea of maintaining a second wire service. So sympathetic, in fact, that he ruled that UPI should use its limited cash to keep employees' health benefits up to date rather than pay the back taxes it owed the IRS.

"This court finds the First Amendment is a tremendous and powerful reason" for denying the claim by the IRS, he wrote on May 15. In his decision, he cited "the primary importance of preserving a free press . . . the concept that a free press is essential to a free democratic government."

But if UPI is to survive and flourish, it will need more than the help of an understanding judge. For one thing, it must diversify. Part of its underlying financial weakness is that it has failed to anticipate and adapt to basic changes in the news business. As a wholesaler of news, UPI stood around idly while newspapers, the main retailers of news and the chief source of the agency's revenue, dwindled in number and evolved technologically. UPI took little note of how Reuters, which had also faced financial problems about fifteen years ago, had confronted these challenges and diversified into news services, mainly dealing with highly specialized financial news, which it sold directly to banks and other businesses. Reuters, robust today, receives 95 percent of its revenue by providing financial information to the business community. The AP, moving slowly but steadily in the same direction, now receives 10 percent of its income from such sources. But UPI is still lagging behind at 8 percent, an amount so small, says a UPI official, that "it is hardly ever factored in."

If UPI were ever to gain some credible leadership, a leadership possessed of a vision of the future that doesn't sacrifice the news report, it might spare the journalistic community the tortured debate over whether two wire services are really necessary. Of course they are. Two sources are always better than one. But haphazard management and antics like those of the last three years have given American newspaper publishers a good excuse to think they can manage just fine without one of them.

How Scripps got rid of a hot potato

The acquisition of UPI by Douglas F. Ruhe and William E. Geissler in June 1982 was a puzzle to the news industry. Former 1960s political activists and adherents of the Baha'i faith, the two men were little known outside of Nashville, where they owned a firm called Focus Communications whose chief asset was a struggling television station in Joliet, Illinois. They were not exactly the sort of people whom the E. W. Scripps Company, UPI's corporate parent, had been looking for to take the financially ailing news service under their wing.

But UPI was losing approximately $1 million a month, and while U.S. news organizations were generally unhappy about the prospect of UPI's going under, they had proved unwilling to pay the cost of keeping it afloat. Scripps had simply reached the end of its rope. "By the time Ruhe and Geissler came along," says a former UPI executive, "UPI had become such a hot potato that they were ready to toss it to anyone who would grab it."

UPI/Bettmann

The Founder: E. W. Scripps

UPI's forerunner, United Press, was founded in 1907 by Edward Wyllis Scripps, a freewheeling midwestern publisher, for the express purpose of making a wire service available to all. In defiance of the powerful Associated Press cartel — an exclusive club that could blackball dailies that competed with its members — Scripps offered his service to anyone who could pay for it.

The AP was and remains a publishers' cooperative that simply bills its members for expenses. UP, by contrast, had clients, not members, and had to dig into its own pocket to cover any losses. And because UP was much smaller it had to undersell its rival to stay in the game.

Both wire services flourished through World War II. Then came an event that, according to Roger Tatarian, who retired in 1972 as editor of UPI, "changed the entire nature of news-agency competition." In 1945, in response to an antitrust suit filed by the Justice Department, the U.S. Supreme Court ruled that the AP could not deny its service to anyone. With every paper now able to get AP, UP had to fight harder for clients.

Still, for more than fifteen years UP continued to show a profit. At its peak in the early 1960s, by which time it had merged with Hearst's faltering International News Service to become UPI, the agency had nearly 6,000 domestic clients, including more than 1,000 newspapers. But faced with a steady decline in the number of U.S. dailies, and with stiff competition from new, supplemental news services, UPI began losing both money and clients. By the time Ruhe and Geissler took over, the agency had only about 4,200 domestic clients, fewer than 800 of which were n papers. AP, by contrast, had about 7,000 domestic cli including nearly 1,200 newspapers.

UPI's difficulties can be charged in part to its pa company. E.W. Scripps was a profitable conglome whose assets included fourteen metropolitan dailies, b ran UPI with a legendary cheapness when it came to salar supplies, and facilities. In the 1970s, although Scri helped UPI out with lines of credit, it generally reacte client losses by demanding cuts in staffing, which in t resulted in more client losses.

Furthermore, says one former executive, "they ne encouraged new concepts. After a while you just didn't tr One glaring example of shortsightedness had to do with plan by both wire services in the late 1970s to switch fr expensive phone lines to satellites for transmitting news customers. This required outfitting each client with a ceiving dish. AP supplied the dishes free, but Scripps fused to put the necessary $20 million up front. "With t twenty million dollars you could have saved six million one year," the former executive says. "Instead, we w with a half-assed program of having the client buy the di So you ended up with some clients in an area on satel and others on land lines. We ended up with two deliv systems that were costing us a fortune."

In 1978, after much agonizing, the Scripps board of rectors voted to re-examine the company's ownership UPI. "We didn't specify sale as the mandated solutio says board chairman Charles E. Scripps, a grandson of founder. "But we did specify that something be done.

The company looked first to the journalistic commur Scripps executives figured that support from a consort of three dozen news organizations could keep UPI in b ness, and it won pledges from about two-thirds of the essary number. But some of the biggest organization- The New York Times Company, The Times-Mirror C pany, and Knight-Ridder Newspapers among them balked, saying they could not persuade their stockhol to invest in an ailing enterprise.

Though disappointed, Scripps didn't give up. Accor to Roderick W. Beaton, who was president of UPI fo years until his retirement in 1982, the company "went group of the biggest publishers in the country and h private meeting with them in New York and put it to cold turkey: 'What do you fellas want to do about it?' no one raised their hand. No one said anything. . . .

"If I were a Scripps," says Beaton (who was not a meeting), "I'd have to say to myself, Why am I the su Why am I the mule being kicked?"

In 1980, hoping to find a buyer with a sound pla keeping the agency operating, Scripps hired First B Corporation as its financial agent and put UPI on the b Enter Ruhe and Geissler, who had only just managed their Joliet TV station on the air. "UPI fit our plans f future," says Ruhe. "We saw the possibility of cr