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MEMORANDUM FOR THE FILE

Bob Ellsworth met with me for lunch on Friday, January 12.

Bob said that he had one matter of business to discuss with me involving one of the clients of his firm. He said, "as you know and as we discussed once before, we are investment bankers for the Washington Post Company. We took them public, we set up their stock plan and we have not been altogether happy with the way in which they are performing."

Bob said there were several problems with respect to the Post.

1) The increasing independence of reporters. He pointed out that reporters are more and more becoming independent of any authority, including their own editors.

2) The fierce competition now going on between the Post and the New York Times. This, he said, was bad for the President and for the Presidency as well as for the Post.

3) With postal rates going up dramatically in the next five years, Newsweek will be a serious financial problem to the Washington Post Company.

Under these circumstances, Lazard Freres is concerned with the future of the Post. Their concern is intensified, according to Bob, by not only these problems, but the fact that the Administration appears to be bent on hurting the Post. Bob said that he and his partners didn't

mind the Administration fighting the Post, newspapers, but that it was now starting to hurt the price of the Post Company and the stock. He specifically referred to giving exclusive stories to the Star, which was hurting the Post syndicate and the challenges to the Washington Post stations in Jacksonville and Miami. As Bob put it, "we don't mind your fighting with the Post as a newspaper, but it is the Post Publishing Company that is going to pay the price". I told Bob that the Post had brought this on itself, that they had completely broken it off with us and that if they were hurt financially, Lazard Freres had no one to blame but Kay Graham. He said that was not the case, that Kay Graham was being very cooperative, understood the problem and that they felt that Ben Bradlee was perhaps responsible for the unfair coverage of the Administration.

I suggested that perhaps the Post newspaper should be split away from the rest of the Post's business enterprises, then we could just fight an open, honest war with the Post and would leave alone other Post properties. Bob said he would explore this. He explained that the newspaper made about half of the net operating revenues, the TV stations about 1/4, and Newsweek about 1/4. I told Bob that I thought his figures were preposterous, that Kay Graham looked upon the newspaper as her plaything, that it was grossly mismanaged and I suspected it was making no money at all, but was rather being carried by the

TV properties. Bob indicated I was very perceptive.

I asked Bob what he was after and he said that he had been authorized by his partners to have this discussion with me, that in effect they would live to make peace with us and that in this way, perhaps cut back the influence of the New York Times. He made the point over and over in the conversation that the intense rivalry between the Times and the Post for scoops would always constitute a threat to the Presidency and to this President in particular. I told him I didn't see how we could possibly reach any accommodation with the Post, that only a complete change of management could be of any interest. I told him that I knew of a group that would buy the Post tomorrow if Mrs. Graham would like to sell. Ellsworth said he might explore this, that Mrs. Graham would be interested in selling everything but the newspaper, that that really was her first love and she really wasn't "all that bad". He said, "you would be surprised" to find out how cooperative and agreeable she really can be.

I'm convinced, based on the lunch, that the Post is hurting, that their investment bankers are putting pressure on them, that our feeding the Star and attacking the Post TV stations has Wall Street concerned over the Washington Post's financial future, particularly since second class mail rates could make Newsweek very unprofitable. If Newsweek became unprofitable and the two TV station licenses were lost, or even tied up in extensive litigation, the Post as a newspaper

would have to carry the entire operation which it probably cannot do.

I told Ellsworth that I wanted to think about our conversation, that I knew what he was getting at, that I didn't see how any "accommodation" would be possible, but that if we were to seek one, I would do it through him. I suggested that perhaps we might see some evidences of good faith. Maybe the Post could show us something like a few obviously friendly editorials on how well the President is handling the Vietnam War, perhaps a firing of Bradlee, and some straight coverage for a change, maybe they could start putting the Watergate case back inside the paper where it belongs instead of blasting it across the front pages.

Clearly the Post is very, very worried. Twice in the conversation Ellsworth let it out that his partners had talked with Kay Graham and I suspect she is feeling the pressure of Wall Street and is genuinely worried about how far we will carry our campaign.

Charles W. Colson
Special Counsel to the President