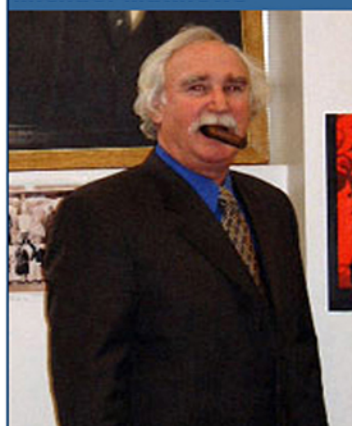




Behind The Music: The Entrepreneur

David Serchuk, 05.25.05, 2:00 PM ET

Michael Matthews



Founder of Electro-Harmonix

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Electro-Harmonix
pedals in action.**


 John Frusciante from Red
Hot Chili Peppers

 Guitarist Gerry Leonard,
who has played with David
Bowie

Ween

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NEW YORK - Floating on a cushion of pot smoke in 1970, entrepreneur **Michael Matthews** was told by his wife that he needed a goal in life. Matthews, then 28, had already accomplished a bit. He had founded an electric-guitar-effects company, and it was expanding rapidly.

Though stoned, Matthews liked to think big. So he picked a worthy target: to defeat death. He made a plan to double sales at **Electro-Harmonix** annually until he hit \$1 billion. Then he would fund an immortality think tank.

Amazingly, Matthews followed through on the sales plan, and for years it actually worked. But the think tank was never born. Ironically, this same plan would also ruin him several times: Instead of becoming immortal, he simply became an entrepreneur who refused to die.

The Bronx-born Matthews has always had a thing for business. He sold juice as an adolescent, had a short stint as a bookie in junior high and got an M.B.A. from Cornell University in 1965. But music always beckoned, and during summer breaks, Matthews booked band gigs. He declined an invitation to join up with a young, slick blues and R&B guitar player, Jimmy James. Not many years later, James would change his name back to his birth name, Jimi Hendrix.

Matthews got a sales job with **IBM** (nyse: [IBM](#) - [news](#) - [people](#)) but kept his ears open to music. When the Rolling Stones hit huge with "Satisfaction," a song trademarked by its nasty, fuzzed-out guitar sound, Matthews saw a window and created a guitar fuzz box called the Foxy Lady. He and partner **William Berko** sold the boxes for \$10 apiece, reaping a \$2 profit per unit. One sound product led to another, and by 1977 Electro-Harmonix had sales of \$3.3 million and controlled 50% of the market.

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Then trouble hit. He spent over a half a million dollars on 240,000 square feet of commercial space. The mortgage payments drained his cash flow, and sales, while strong, were falling behind the master plan. Matthews opened an office in Puerto Rico to avoid U.S. taxes and another in Japan. An effort to unionize U.S. Electro-Harmonix workers turned violent.

The whiz kid thought he could handle it all. "I thought I was the greatest. As great as I was, I was also pretty stupid." Electro-Harmonix went bankrupt in January 1982.

Matthews sold a piece of land in the Hamptons on New York's Long Island, bought in flusher times, to get back in the game. He partnered with **Atari** to develop an early speech synthesizer, but the U.S. gaming company nearly went bankrupt in 1984 during a crash in the videogame business. Japanese imports began crowding his guitar pedal business in the late 70s and finally won the battle. Electro-Harmonix went bankrupt again in 1985, devastating Matthews. Battling depression, he sought a new niche.

He found it in an emerging musical form, rap. Electro-Harmonix had developed a cheap, digital sampling device, and

Matthews licensed it to Japanese electronics company Akai for \$750,000.

Rather than stay in rap, Matthews used the cash to buy audio vacuum tubes from the Soviet Ministry of Electronics, which used them in military applications such as missiles and jet fighters. He knew tubes were used to power millions of guitar amps--musicians thought they sounded better.

Western production of these tubes had stopped decades before, as transistors were cheaper and sturdier. But the Soviets stayed loyal to the tubes up until the late 1980s, because in a nuclear explosion, they don't melt. So, working solo, Matthews phoned guitar shops to sell Sovtek tubes.

Sales at his new company, New Sensor, rose quickly, and Matthews expanded, buying surplus military-grade tubes made by stalwart manufacturers like **General Electric** (nyse: [GE](#) - news - people) and **Philips Electronics** (nyse: [PHG](#) - news - people) from the U.S. government. Matthews also bought new tubes from a Russian tube factory that he eventually purchased in 1999. By 2004, New York City-based New Sensor controlled 50% of the world's tube market, Matthews says, with sales of \$9 million.

Not that he abandoned his guitar pedal roots. With his old Electro-Harmonix pedals selling for hundreds of dollars as vintage, Matthews released new models--made initially from Russian submarine scrap. Today there are 36 Electro-Harmonix effects, and Matthews has invested \$600,000 in an emerging group of high-end units. Electro-

His products have gained a huge following, with members of the Red Hot Chili Peppers and Korn and musicians playing with David Bowie, Moby, Elton John and Sheryl Crow using them.

As for Matthews, he says he has learned from his prior flameouts. All bills are paid on time, he never overexpands and he never takes on debt. Now 63, he lives alone in an apartment at his factory, his life and work inexorably mixed.

"I'm no longer trying to whip death. I'm trying to enjoy life," he says. "It's nice to not have to compromise, to just do what you want when you want."

Full disclosure: The author worked in sales at Electro-Harmonix in 2002.