THE CONTINENTAL CABLEVISION STORY

FROM COMMUNITY ANTENNA TELEVISION

TO THE INFORMATION SUPERHIGHWAY
THE CONTINENTAL CABLEVISION STORY

FROM COMMUNITY ANTENNA TELEVISION

TO THE INFORMATION SUPERHIGHWAY
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>IV</td>
</tr>
<tr>
<td>Acknowledgments</td>
<td>VI</td>
</tr>
<tr>
<td>Chapter One (A Greater Purpose)</td>
<td>8</td>
</tr>
<tr>
<td>1963–1970</td>
<td></td>
</tr>
<tr>
<td>Chapter Two (From Modest Beginnings)</td>
<td>46</td>
</tr>
<tr>
<td>1970–1975</td>
<td></td>
</tr>
<tr>
<td>Chapter Three (Transforming the Business)</td>
<td>78</td>
</tr>
<tr>
<td>1975–1980</td>
<td></td>
</tr>
<tr>
<td>Chapter Four (Overdrive)</td>
<td>118</td>
</tr>
<tr>
<td>1980–1985</td>
<td></td>
</tr>
<tr>
<td>Chapter Five (The Big Leagues)</td>
<td>152</td>
</tr>
<tr>
<td>1985–1989</td>
<td></td>
</tr>
<tr>
<td>Chapter Six (Twenty-fifth Anniversary)</td>
<td>186</td>
</tr>
<tr>
<td>1988–1989</td>
<td></td>
</tr>
<tr>
<td>Chapter Seven (Pushing the Envelope)</td>
<td>206</td>
</tr>
<tr>
<td>1990–1995</td>
<td></td>
</tr>
<tr>
<td>Chapter Eight (Expanding Services at Home and Abroad)</td>
<td>232</td>
</tr>
<tr>
<td>Chapter Nine (Becoming MediaOne)</td>
<td>262</td>
</tr>
<tr>
<td>1995–1997</td>
<td></td>
</tr>
<tr>
<td>Chapter Ten (Beyond Continental)</td>
<td>288</td>
</tr>
<tr>
<td>1998–present</td>
<td></td>
</tr>
<tr>
<td>Appendix I (Continental Cablevision Directors)</td>
<td>318</td>
</tr>
<tr>
<td>Appendix II (Selected Cable Metrics 1965–1995)</td>
<td>319</td>
</tr>
<tr>
<td>Appendix III (Investor Returns Realized If Held to Sale to US WEST)</td>
<td>320</td>
</tr>
<tr>
<td>Image Credits</td>
<td>322</td>
</tr>
<tr>
<td>Notes</td>
<td>325</td>
</tr>
</tbody>
</table>
I AM CERTAIN THIS PROJECT WOULD NOT HAVE BEEN UNDERTAKEN had I known at the outset how much work would be involved. But once we began, it was clear that we needed to push on. So many of the major players in the Continental story who could have added both depth and color are gone: both my parents (who fortuitously had kept an album of early newspaper clippings which proved invaluable to this effort), Art Snyder, Bob Luick, Murray Howe, Alec Howard, John Gutknecht, Bud Herring, Bill Elfers, Ray Joslin, Jim Robbins, and Bill Clancy, to name just a few. Their absence leaves a hole in this work and in my heart. Some important players have been missing for years and have proved “unfindable”: Janet Stewart, Connie Hirsimaki, Regina Dibble, Jim Barger, and Fred Crabtree are important early players on that list. And the recollections of those still with us, including my own, are often fragmentary and certainly fading with time.

So once begun, there was no turning back. This work would have been far better if begun a decade earlier. The information in the later chapters is certainly more accurate than that in the earlier ones because there are a number of colleagues who experienced the events and have been able to confirm various details. But I suspect even with their help, misstatements have occurred. I take full responsibility as the final reviewer for all of those.

My original motivation in trying to record this story was to inform my three children about events that happened well before their age of awareness and to offer to aspiring entrepreneurs a glimpse of the joys and inevitable disappointments of exploring unchartered terrain and “company-building.” And for all who lived “the story,” I hoped to provide a refresher on the culture that was Continental and how satisfying it was for all of us.
It was an amazing 33-year run! The duration and scale exceeded the wildest dreams of two freshly minted Harvard MBAs who in 1963 were searching for a promising venture, and who happened upon Bill Daniels, a former Golden Gloves boxer and Navy pilot, a future Colorado gubernatorial candidate and lifelong doer of good works, who throughout the 1960s and ’70s was the “John the Baptist” of cable, calling out for all to hear the amazing promise of what was then called community antenna television, or CATV.

It was that serendipitous meeting with Bill that spawned Continental Cablevision and started the company on a path to prominence in the fast-growing communications industry. In that process, Continental created more than 10,000 jobs, trained a cadre of industry leaders, and, as my father modestly observed, “paid a lot of college tuition” for the families of its managers and investors.

So here is the best our collective memories could assemble in telling The Continental Cablevision Story. Three-plus decades of challenges and excitement—a fleeting almost-Camelot moment from 1963 to 1996.
I CAN’T START THIS NARRATIVE WITHOUT ACKNOWLEDGING

the tireless efforts of former Wall Street Journal business reporter Scott McMurray at The History Factory, who did much of the research, interviewing, and writing of this history. Similarly, I owe great thanks to Scott’s colleagues Erica Rose and Michelle Witt, who painstakingly edited numerous drafts, and to Alden Hathaway, who sorted through endless photos and materials for the graphics. Michelle Shirey and Amanda Guilmain at The History Factory deserve great thanks, too, for the design and layout of the book, as does production manager Damion Boulden. Particular thanks to my Pilot House Associates colleague Sharon Siegel, who spent many hours poring over musty old stockholder letters and SEC filings to generate the information in Appendices II and III. Additionally, I want to offer a shout-out to Tim Neher, Bill Schleyer, Nancy Hawthorne, Rob Stoddard, and Ben Gomez, who plodded through multiple drafts. It is certainly a better work for their vigilance.

I also owe heartfelt thanks to my endlessly patient wife, Barbara, who graciously accepted my peripatetic schedule through our courtship and for 15 years with Continental, MediaOne, and AT&T. It involved countless early-morning goodbyes and late-night returns, and family vacations and social events interrupted by conference calls. Add to that a full dose of entertaining bankers, industry colleagues, and international partners. It was not an easy introduction to married life. I could not have maintained the required focus without her unwavering love and support, for which I am eternally grateful.

Likewise, I am deeply indebted to my longtime colleague and friend Robert Sachs, who oversaw the editorial process and contributed hundreds of hours over three years to oversee this project, from finding and hiring The History Factory to facilitating more than
60 interviews and scouring each of many drafts. Robert’s judgment was surpassed only by his patience for the endless delays that resulted from my compulsive editing.

Over my Continental years, I was blessed with the support of three really amazing assistants who made the often frenetic pace manageable. Janet Striff, Continental’s second employee, started with me in Ohio and moved to Boston in 1969 when Irv Grousbeck and I relocated. She was my right hand for over a decade and was followed by two much-loved “personal managers”: Janet Gleason/Nevins and Nancy Daley. The three of them kept me on time and largely out of trouble for the full life of the company. They knew every name on the Rolodex (a device of the time), who should get through, who could wait, and who was to be avoided. That kind of support is an art form.

While Continental existed, I tried as frequently as possible to thank my loyal and hardworking colleagues for the company they were creating. I can’t complete these acknowledgments without doing that one more time. Continental’s unique record is nothing more, or less, than the cumulative talent, energy, and accomplishment of a team that grew to number in the thousands. Thanks to that amazing group who collectively created what was Continental Cablevision. I am very proud of what you accomplished and the legacy we have left.

— Amos B. Hostetter Jr.
ON NOVEMBER 22, 1963, Amos B. Hostetter Jr. found himself walking the country road linking Fostoria, Ohio, and the nearby town of Tiffin. The cable television company that “Bud” Hostetter and his partner, Harold I. “Irv” Grousbeck, had founded six months earlier—the ambitiously named Continental Cablevision Inc.—still existed only on paper. But it would become far bigger than they ever imagined.

That afternoon, Hostetter carried a roll of maps as he walked the planned route the cable would travel between the two towns. He noted poles that needed to have power or phone lines moved up or down to make room for the coaxial cable that soon would buzz with television signals. While hardly standing out from the other wires, coaxial cable at that time already had the capacity to carry an unheard-of 12 television channels to each residence, only hinting at the technology’s potential.

With many rural markets in the Northeast already claimed by cable television rivals, it was no accident that the two Boston-area entrepreneurs were prospecting in the countryside of northwest Ohio. Typical television viewers in Tiffin or Fostoria counted themselves lucky to get both of the stations broadcasting in black and white from Toledo,
50 miles to the north, by positioning a rooftop antenna just so. The stations in Cleveland, Columbus, or Detroit, roughly 80 miles away, might as well have been broadcasting from outer space.

Continental Cablevision Inc. co-founders Harold I. Grousbeck, left, and Amos B. Hostetter Jr. first met while undergraduates at Amherst College.

“A COMMITMENT TO CREATING SOMETHING OF VALUE”

Hostetter was five utility poles east of Lehmann’s Lodge, a combination diner and bowling alley on the outskirts of Fostoria, when he heard the news flash: President John F. Kennedy had been assassinated while riding in a motorcade in Dallas.

Twenty-six-year-old Hostetter, whose sense of service had been shaped by family, church, and a prep school honor code, had been deeply moved by the President’s youthful energy and idealism. Kennedy’s brutal slaying immediately cast Hostetter’s budding business venture in a new light.

“I just thought there needed to be some greater purpose in what we were doing,” he recalled, the emotions of that day clearly visible on his face decades later.1

It proved to be a defining moment for a generation that had been challenged by their President to make a difference and to make the world a better place. Neither Hostetter’s career nor those of many others would ever be the same. He, Irv Grousbeck, and the leadership team they would recruit worked tirelessly over
the years, and not without their share of challenges, to build a business they and their employees could be proud of. One that gave back to the communities it served and at the same time became a model of enlightened for-profit management, not just within the rapidly growing cable television industry but also for the broader telecommunications sector that, within the span of Continental’s 33-year corporate life, would assume a dominant role in the global economy.

The right team focusing on the right industry at the right time in the development of telecommunications technology; a financial sector and investors willing to place major bets on the young team’s success; and most important of all, the careers of the more than 10,000 individuals who over the years worked for what was repeatedly hailed by its industry peers as the most respected company in cable television: This is The Continental Cablevision Story.

“I WANTED TO BE ON THE OPERATOR SIDE”
If his life had gone according to plan, Hostetter would have been back in Cambridge in 1963, working toward a doctorate in economics at Massachusetts Institute of Technology (MIT) and a career in academia. After completing his MBA and a required stint in the army, Hostetter started in the MIT doctoral program in 1962. He quickly realized that he was on the wrong track. “It was very mathematical and very theoretical, and the kids were scary smart. I said, ‘This is not for me,’” he recalled. “So I dropped out after one semester and went to work for Cambridge Capital.”

Cambridge Capital, a Small Business Investment Company (SBIC), was an early venture capital firm. It invested in promising smaller companies in a variety of industries. The venture capital industry itself was born in the Boston area to help commercialize many of the technologies that had been developed at MIT and Harvard during World War II. It played a leading role in making the Route 128 corridor around Boston a technology hotspot in the early years of the computer era. Early venture-funded success stories include Teradyne, Digital Equipment, and Control Data.
In the spring of 1962, Hostetter was sent to Keene, New Hampshire, to explore a small investment opportunity for Cambridge Capital. Cable television industry pioneer Bill Daniels, who during the previous decade had played a leading role in introducing the world of outside investors to first-generation cable industry entrepreneurs, was brokering the sale of a small cable system. The main investor was to be another SBIC, Narragansett Capital Corp., which was run by former Textron chairman Royal Little. But the asking price for the system was $550,000, and Narragansett’s investment cap was $500,000. Cambridge Capital was being asked to invest the remaining $50,000 for a small stake in the venture. On Hostetter’s recommendation, Cambridge Capital agreed to the deal and named Hostetter to the cable company board to keep an eye on its investment.

A pioneering broker and owner of cable television systems, Bill Daniels brokered the 1962 sale of a small cable system in Keene, New Hampshire, to a group of investors including Cambridge Capital, which put junior employee Amos Hostetter on the cable company board to oversee its investment.

In researching the industry in advance of doing the deal, Hostetter went to New York City to meet with Ray Armstrong, a leading expert on cable television financing. Armstrong was an officer of Starwood Corporation, the investment office of the
The Road Not Taken

Hostetter might have seemed destined for a career in finance when he was growing up in Short Hills, New Jersey, the son of a very successful stockbroker, Amos B. Hostetter Sr. By the time the younger Hostetter was at Amherst, his father had switched his focus to the commodities markets, where he achieved near-legendary status.

Hostetter briefly followed in his father’s footsteps. He and Helmut Weymar, a high school friend, decided they would find a way to profit from 1962’s freeze in the Florida citrus crop. At the time, there were no futures contracts tied to the citrus markets, so they went to Quincy Cold Storage in Boston and arranged to buy 1,000 oversized cases of the actual commodity—frozen orange juice. To finance the purchase, they convinced Arthur Snyder, an aggressive 40-year-old officer at New England Merchants Bank, to lend them $10,000. They asked Quincy Cold Storage to keep the frozen juice and paid the storage fee. Six month later, with the freeze having decimated the orange crop and sent orange juice prices soaring, they sold the same cases back to Quincy Cold Storage, repaid Snyder, and made a $10,000 profit on their investment without ever “taking delivery.”

Amos B. Hostetter Sr., one of the initial investors in his son’s cable television company, helped hone the skills of a generation of commodity traders and hedge fund managers as a founding director of Commodities Corp.

Fairly certain that he would never escape his father’s shadow if he continued in commodities, Hostetter turned his attention to creating Continental Cablevision. Weymar, on the other hand, had found his calling. He created Commodities Corp., and Amos Hostetter Sr. served as one of his founding directors. The trading firm built one of the most successful track records in the commodities field, based largely on the trading methods of the elder Hostetter. Some of the most successful multibillion-dollar hedge fund managers of the modern era, including Bruce Kovner, Paul Tudor Jones, Louis Bacon, Mike Marcus, and Jim Simons, got their start at Commodities Corp.
Exploring Business Opportunities

Irv Grousbeck, who grew up in Northampton, Massachusetts, had intended to major in psychology at Amherst College. Then he decided to get some real-world experience and volunteered one summer at the area home for the mentally challenged. “I lasted three days,” he recalled. “There was nothing threatening about it; it was just desultory work and a depressing setting.” Back at Amherst for his junior year, he signed on for extra economics classes on an honors track and graduated with majors in both psychology and economics.

After Amherst College, Continental Cablevision’s co-founders crossed paths a second time at Harvard University’s Graduate School of Business.

Also in his junior year, Grousbeck, involved in the rushing process for his fraternity, met freshman pledge Amos Hostetter Jr. The two became friends and remained in touch before reuniting at Harvard Business School, with Grousbeck graduating in 1960 and Hostetter in 1961. After working for the accounting firm of Arthur Young & Co. for a year and a half, Grousbeck returned to the business school—the first year as a research associate and the second as an instructor, although he spent most of his time writing case studies. During this period, he talked frequently with Hostetter about various business ventures.

“The partnership idea evolved over a period of months,” Grousbeck recalled. “We started looking at various ventures on an opportunistic basis. We didn’t have an industry focus. I remember we looked at a company called Kestrel Inflatable Toys, out in Western Mass. . . . I remember looking at things like residential fuel oil companies, indoor tennis centers, bowling alleys.” Fortunately, Grousbeck said, Amos was introduced at Cambridge Capital to the rapidly growing cable television industry, and the two quickly focused on starting their own cable company.
The more Hostetter learned about the cable business, the more he liked it. In fact, after just six months he had determined, “I wanted to be on the operator side, not the financing side of these deals.” He discussed the opportunity with Irv Grousbeck, a close friend from his Amherst College days. They agreed this was the kind of business they had both been looking for since graduating from Harvard Business School.

The industry status quo appeared to play to the young entrepreneurs’ strengths. Hostetter and Grousbeck could make turnkey deals with leading suppliers for the cable, amplifiers, and other hardware required, as well as for construction of their systems. What the industry most needed was what they brought to the table: expertise in finance and marketing.

Cable technology was still in its infancy with plenty of room for growth. Customers proved extremely loyal once they were signed up, and a creative approach to bank financing held out the promise for substantial value creation with little money down. All of which assumed, of course, that the partners had what it took to turn an ambitious idea into a reality.
PLOTTING THE FUTURE

Hostetter and Grousbeck laid a series of maps of the Eastern United States on the empty dining room floor of the Weston, Massachusetts, carriage house that Grousbeck and his wife, Sukey, were renting in the fall of 1962, comparing the maps to broadcast coverage maps included in *The Television & Cable Factbook*. The pair looked for areas that fell into the gaps between major market broadcast stations or received a signal from only one broadcast station and then checked to see if the area was already being served by cable. Dismayed at the extent to which cable entrepreneurs had already staked claims in most of the country’s unserved and single-station markets, they reset their criteria. They decided they would have to venture into markets served by two broadcast stations, even if conventional wisdom up to that point was to pursue markets with less off-air television available.

ON TO OHIO

The most inviting white space on the broadcasting maps that Grousbeck and Hostetter studied was in central Ohio. In April 1963, they agreed Grousbeck would take his Volkswagen Beetle and go on a road trip to get a firsthand sense of the opportunities in different towns. Mansfield, Ohio, was his first stop. Wanting to see for himself the quality of local television reception, he visited several appliance stores. To his dismay, the signals were alarmingly clear. He assumed the homes in the area were equally well served by broadcast signals. “Well, that was really a bad call,” Grousbeck said. “If I had just bothered to look around the town, I would have seen these enormous towers strapped to the sides of the houses that went up much higher than the rooftops, where people were reaching very high to get the signals from Cleveland and other broadcast centers.” In fact, Mansfield later proved to be an excellent market for cable TV.

Grousbeck phoned Hostetter back in Boston with the bad news. As long as he was in the area, they agreed that Grousbeck should press on to nearby Lima and Findlay and try his luck in those towns.
Television Pioneers

After decades in development, broadcast television made its commercial debut in America at the 1939 World’s Fair in New York City. By 1941, nearly 30 television stations were broadcasting, mostly from major cities, and the technology was a clear hit with American consumers. The surprise attack on Pearl Harbor in December 1941 and the US entry into World War II, however, put the proliferation of TV on hold.

The immediate postwar years rekindled demand for TV at such an unprecedented pace that three hundred applications for new stations were filed by late 1948. To cope with the onslaught, the Federal Communications Commission (FCC) initiated a temporary freeze on new broadcast licenses.

Also in 1948, Leonard Parsons, a radio station owner in Astoria, Oregon, came up with a solution to a common complaint of the millions of Americans who lived too far from a broadcast station to receive a television image. He constructed an antenna on the rooftop of the Astoria Hotel and managed to pull in the broadcast signal from KRSC-TV in Seattle, Washington, 125 miles away. By the middle of 1949, he had hooked up about 30 neighbors to the antenna. Over the next few years, several appliance store owners began erecting community antennas on hilltops in Pennsylvania, West Virginia, Oregon, and a few other states, and running cables down to low-lying areas below to bring television to residents that broadcast signals couldn’t reach—and to entice them to buy television sets! Cable television, known first as CATV, or community antenna television, was born.

The FCC freeze on broadcast licenses proved a godsend to the nascent cable industry. Many of the industry’s pioneers, including Parsons, might very likely have started broadcast stations if that had been an option in the late 1940s. By the time the freeze was lifted in 1952, cable had proliferated beyond its initial start in Pennsylvania and Oregon. Bill Daniels and others followed the initial group of pioneers into the cable field and expanded the industry base while at the same time attracting scores of professional investors and lenders.13
Lima and Findlay, which received weaker television reception, offered potential. There was just one problem: representatives from Cox Enterprises had already been in both towns for weeks. Cox was an established media company with plenty of cash in the bank; its founder, James Cox, was a former governor of Ohio. Grousbeck moved on once again to the next set of nearby towns, Tiffin and Fostoria.

When a Cox employee operating under the banner of Miami Valley Broadcasting later came to Fostoria and indicated Cox was interested in applying for a cable franchise there, Grousbeck and Hostetter replied that they would do the same in Findlay, which was, of course, a bluff. A franchise gave the successful applicant a nonexclusive right to use municipal rights of way to construct and operate a cable system. “Two guys in their twenties with no reputation and no money—we didn’t want to pick a fight with Cox,” Grousbeck recalled. However, the Cox representative took them seriously enough that he agreed to an unofficial “standstill agreement.” Cox would stay out of Tiffin and Fostoria if Hostetter and Grousbeck withdrew from Lima and Findlay.

**CAREFUL GROOMING**

A small but prosperous manufacturing and farming community on a bend in the Sandusky River, Tiffin was governed by a city council, which was presided over by a local barber. So whether they needed a trim or not, Grousbeck and Hostetter regularly took their turns in the barber’s chair during the franchise application process. “I would go in there every 10 days to get my hair cut because I got 30 minutes of undivided attention with the guy. I could talk to him about, you know, what a great deal cable would be for residents of Tiffin,” Hostetter recalled. The grooming paid off. The two appeared before the Tiffin City Council repeatedly over a period of weeks to answer the questions that dogged cable in its early years. If giant community antennas pulled broadcast signals out of the air, would there be enough signal left for individual rooftop antennas? What effect would radiation from the tower have on the local population? The cable franchise application was approved in early August after the prescribed
three readings at successive city council meetings. Press coverage noted that Cox had withdrawn its application.17

Grousbeck and Hostetter successfully repeated the franchise application process in Fostoria, 11 miles away, a week later. While the towns would be served by separate systems, the pair eventually determined the municipalities would share a common community antenna located halfway between the two, on Gordon Feindel’s farm just north of the rural hamlet of Bascom. With two franchises in hand and a tower location identified, it was up to the entrepreneurs to deliver on their franchise proposal’s promise of more—and better—television service.

Tiffin and Fostoria were small towns, as were most cable television markets. But their combined population was 39,000, or roughly 10,000 homes, putting them among the top 10 percent of markets served by cable television at that time.18 As of June 1963, there were more than 1,100 operating systems in the United States serving over one million homes. While impressive for an industry still in its teens, the numbers represented just two percent of the nation’s homes with televisions. Total cable television industry investment in plant and equipment to that date was estimated at $450 million.19

“HERE’S WHAT I’M PREPARED TO DO”

Even before the two had started the franchise application process, Hostetter had been working to secure financing for their startup. In the summer of 1962, Hostetter, who shared a weekend rental house in Marblehead, Massachusetts, with his cousin Jane Danforth and her family, ended up commuting to and from Boston with Arthur Snyder, the New England Merchants National Bank lender from whom he and Helmut Weymar had borrowed money for their frozen orange juice investment.

“Arthur was a great talker and wanted to know what I was going to do with my life,” Hostetter recalled. “So in commuting back and forth that summer, he grilled me for hours on our planned venture.”
Continental Cablevision’s founders appeared before the Tiffin City Council repeatedly to answer questions and ease concerns about the novel technology, as noted in an August 6, 1963, story in the Tiffin Advertiser-Tribune.
“At the end of the summer he said to me, ‘Look, I want you to talk to anyone who you think might finance this, and find out what’s the best deal you can get. And then come and see me and I’ll tell you whether I can improve on it.’”\(^{20}\)

New England Merchants Bank loan officer Arthur Snyder made an initial $10,000 loan to Amos Hostetter Jr. to finance a commodities trade and later provided key financial backing that would enable Hostetter and Irv Grousbeck to launch Continental Cablevision.

Snyder’s offer sent Hostetter on a multistate odyssey in search of bank backing for the proposed cable venture. He met with most of the major banks in New York, Philadelphia (an early cable equipment supplier, Jerrold Electronics, was based nearby), Chicago, and San Francisco. By early 1963, he had met with more than 30 banks. The responses, Hostetter said, were all but identical: “It’s a wonderful idea. We’d love to back you when you get to positive cash flow. Come back then, and we’d be happy to provide financing.” Such offers were of no use to a startup.\(^{21}\)

With no lending support in hand after six months of effort, Hostetter walked into Arthur Snyder’s office at New England Merchants Bank, unsure how he was going to put a positive spin on universal rejection, but he never had to reveal his empty hand. “Now, don’t tell me what you’ve got,” Snyder said excitedly. “Here’s what I’m prepared to do.”
Snyder then proposed to Hostetter—by that point an authority on the dearth of lending options available to cable companies—what the latter believes was the first term loan ever made in the cable industry. “Arthur outlined an eight-year term loan, three years interest only, five years of amortization, secured by a pledge of the company’s stock, which was really unusual as opposed to a lien on the equipment, and personal signatures,” which the entrepreneurs would have been reluctant to provide.22

In 1963, Arthur Snyder at New England Merchants Bank offered what might have been the first bank term loan to a cable company.

Hostetter projected they would need to raise $600,000 to build and operate the systems in Tiffin and Fostoria. Snyder was prepared to make them a term loan for half that amount—$300,000—with one key condition: The entrepreneurs had to raise the remaining $300,000 fully subordinate to his loan in the form of equity or subordinated debt. It was a requirement that took months longer than expected to fulfill, and the delay nearly cost Hostetter and Grousbeck their cable future.
SO MUCH TO DO . . . SO LITTLE TIME

With a commitment letter from Snyder and encouraging progress in Tiffin and Fostoria, the founders had a full agenda. Hostetter resigned from his post at Cambridge Capital to commit full time to the venture, and Grousbeck advised Harvard Business School that he would not be returning the following year.

The partners began assembling a description of the venture to be used in raising the needed equity capital. The resulting business plan was 45 pages long with nearly as many pages of supporting exhibits. It made the case for cable television as a good investment.

Though 94 percent of the households in this country have TV sets, less than 50 percent are able to receive more than two ‘viewable’ signals. . . . As CATV [community antenna television] has been able to extend television’s entertainment and education facilities, it has found overwhelming acceptance from a TV-hungry public.23

Having made the case for strong consumer demand, the two laid out key supply considerations, notably the “effective monopoly” characteristics of the business:

CATV has many of the economic characteristics of a utility. . . . Only one or two cases exist where two CATV systems compete for the same subscribers. Even in the absence of an exclusive provision in its franchise a CATV system establishes an effective monopoly position by virtue of its pole characteristics and plant installation.

Pay TV, typically sporting events or movies for which viewers paid an extra fee, had been experimented with in a few markets around the country in the late 1950s, but the outlook was uncertain. Grousbeck and Hostetter foresaw correctly that pay TV—the harbinger of the wave of cable programming that transformed the industry by the 1980s—and CATV could not only coexist, but be mutually beneficial.

Many indicators suggest that the future of Pay TV—if, in fact, it has a future—will be based on microwave and cable transmission and will bear a cooperative rather than competitive relationship with the CATV industry.24

In their investment memorandum, the founders further argued that the systems in Tiffin and Fostoria provided good investment opportunities within this growth industry and that their skill sets were well suited for piloting a successful CATV venture. Hostetter
and Grousbeck included what at the time seemed an ambitious goal of reaching 20,000 subscribers within a decade:

As can be surmised from the conclusions of the foregoing analysis, we feel that the CATV industry has an unusually promising future. We have been exposed in our present employment to a continuum of new and existing businesses in widely diverse industries. Within this sample we have concluded that the CATV industry offers the most promising relationship of risk to return.

As a result, we have established Continental Cablevision Inc. with the objective of developing over the next 10 years a substantial position in the CATV industry (viewed now as on the order of 20,000 subscribers). It is our intention to build new systems rather than to buy operating properties, since there is a surplus of buyers in the present market.

Whether the Company can achieve its objective will in large part depend on our ability to locate promising markets, win franchise awards, create and use capital sources, and rapidly realize a given area’s subscriber potential. It is our feeling that the critical management skills required lie in the areas of marketing and finance.\(^\text{25}\)

... Despite our intention and considerable optimism regarding the use of the Tiffin and Fostoria systems as a foundation for expansion in this industry, we consider it unfeasible to base this financing on possible future systems. We believe that independent of any expansion into new locations, the terms outlined above offer an attractive investment opportunity.\(^\text{26}\)

**COMPANY FORMATION**

Continental Cablevision Inc. (CCI), a Delaware corporation, was formed on May 29, 1963. The company initially designated its legal address as that of its attorneys, Sullivan & Worcester, then at 185 Devonshire Street in Boston. The first meeting of Continental’s board of directors was held at Sullivan & Worcester on June 13 of that year. Grousbeck, Hostetter, and their attorney, Robert B. Luick, were elected directors of the corporation. Grousbeck was elected president and assistant treasurer, while Hostetter was elected treasurer and vice president. Luick served as secretary.
“I Know the Right Lawyer”

When it came to picking a lawyer, Grousbeck had a very strong view. Robert B. Luick, a senior partner at the prestigious firm of Sullivan & Worcester in Boston, had visited Grousbeck’s New Enterprise class at Harvard Business School many times. Luick was a product of rural Minnesota and received his undergraduate and law degrees from the University of Minnesota before earning an MBA from Harvard Business School in 1938. A gentleman in the fullest sense of the word, he wore horn-rimmed glasses and even on the hottest summer days rarely appeared in anything but a three-piece suit.

Bob Luick, Continental’s outside general counsel, was known for his wisdom in advising entrepreneurs across a variety of business ventures.

“RBL,” as they referred to him, was nearly 30 years senior to Grousbeck and Hostetter. Well ahead of his time, Luick cultivated a specialty in advising the many new ventures that sprang up along Boston’s now-famous Route 128. He was wise, deeply principled, and an unflappable father figure who guided both men and Continental as a director and secretary throughout the company’s 33-year history. If RBL supported a particular course of action, it was invariably the right thing to do.27
The roles of president and treasurer were vital to the success of the enterprise. Arthur Snyder had counseled the two founders, “Don’t fall victim to P and T disease.” Translated into everyday language, that meant a company shouldn’t have one officer serve as both president and treasurer. Since Hostetter was already handling the financing of the enterprise, it made sense for Grousbeck to serve as president.28

The directors also approved the issuance of Continental’s first 1,000 shares of common stock. Certificate numbers 1 and 2 for 500 shares each were issued to Grousbeck and Hostetter, respectively.29 Their initial equity investment in Continental Cablevision was $2,000 apiece.

So that the company could have a respectable bank account, Hostetter wrote a personal check for $15,000 to the corporation, which was deposited in a checking account at New England Merchants Bank the day before the first annual meeting. Hostetter received a non-interest-bearing demand note from Continental for the advance.30

**INVESTORS NEEDED—QUICKLY!**

With a letter from Snyder in hand detailing the bank’s loan commitment, the founders began a search to find investors willing to put in the $300,000 required to meet Snyder’s loan condition. Like many entrepreneurs, they turned first to immediate family. True to his reputation as a savvy investor, Amos Hostetter Sr. became the first and largest “outside” investor in the company, putting in $50,000.31 Hostetter’s cousin Jane Danforth also invested in the nascent venture.

Graduate school connections yielded two more investors: Warren McFarlan, a Harvard Business School sectionmate of Hostetter’s who had remained at Harvard to earn his doctorate and begin a long and illustrious teaching career, and Dan Throop Smith, a more senior member of the faculty. Smith had served as Undersecretary of the Treasury under President Eisenhower and in that capacity had created a provision of the tax code intended to foster investment in startup companies. The provision, now referred to as the Subchapter S provision, allowed companies, under certain circumstances, to pass on to shareholders’ personal tax returns losses incurred by the company. Early-year operating losses were to be expected from a cable startup. When Smith learned that Grousbeck and Hostetter were
planning to take advantage of what was then a little-used provision of the tax code, he simply couldn’t resist the investment.

Continued prospecting for early-stage investors led Hostetter and Grousbeck to the Crisler family of Cincinnati, who were active and highly regarded in the media brokerage business. Richard Crisler and his son Richard Crisler Jr., as well as his son-in-law, Alexander Howard, joined the ranks of initial Continental investors.

Luick, Continental’s attorney, was the eighth investor to sign on, though he was a tough sell. “The first time we went to see him and described what we were doing,” Hostetter recalled, “Bob said, ‘That seems like a very ambitious undertaking.’ But by the time it came to writing checks, he was at the head of the line.”

Luick, in turn, brought on board Arthur Choate, a senior partner in the New York investment firm Clark Dodge & Company, whom Luick had represented on earlier venture investments.

**ENTER BOSTON CAPITAL**

By tapping these nine individual investors, Hostetter and Grousbeck were able to raise $150,000. They still had $150,000 to go as spring 1964 gave way to summer. The founders had known from the outset that “friends and family” financing would be less costly than money raised from the venture community. But the circumstances were becoming dire; almost a full year had passed since Tiffin and Fostoria had granted their initial franchises without any visible progress. By midsummer, the founders broadened their search for capital.

Luick introduced them to Murray Howe, a former partner at Sullivan & Worcester. Howe had been recruited by legendary venture investor Joe Powell to serve as executive vice president and general counsel at Boston Capital Corporation (BCC), the largest SBIC in New England and one of the largest in the United States at the time.
Subchapter S

Subchapter S is a section of the Internal Revenue Code that allows a corporation with 10 or fewer individuals as shareholders to elect to have its results prorated among its shareholders and taxed as part of their individual returns. The original Continental financing was set up under those provisions.

Grousbeck and Hostetter assigned the original franchises to a new company, Continental Cablevision of Ohio, Inc. (CCO), which was 100 percent owned by the individual investors. Continental Cablevision Inc. (CCI) retained the right to acquire CCO at any time after two years in exchange for 40 percent of the parent company’s then-outstanding shares.

This setup allowed the individual shareholders to report all of the tax results of the startup and the entrepreneurs to receive a 60 percent “carried interest.” As the numbers turned out, within the first two years the investors would receive an operating loss equal to their full investment. Since the marginal federal income tax rate in 1964 and 1965 was 90 percent, the investors recovered 90 percent of their original investment as “tax savings” in the company’s first two years.

In addition, the tax code of that era allowed for an investment tax credit, a direct reduction of one’s tax bill, of 7 percent of the company’s investment in tangible assets (towers, wires, and electronics), which exceeded $400,000—producing a tax credit of $28,000. Thus, within the first two years, the investor would recover the full amount invested in the venture in tax savings.\(^{34}\)
Murray Howe of Boston Capital Corporation and Sullivan & Worcester was an early champion of Continental Cablevision and would remain involved with the company for the next 33 years.

Howe had extremely high standards and a prodigious appetite for work. Raised in rural Florida during the Great Depression, he earned scholarships to Phillips Exeter and Harvard. Howe served three years as an infantry captain in Italy during World War II before completing his degree in 1947 and attending Harvard Law School under the GI Bill.

Howe and colleague Steve Swenson liked the Continental project from the outset. But Howe was not one to gloss over issues: He made it clear that the proposed terms of the deal would not work for Boston Capital. As a corporation, BCC would not benefit from the Subchapter S provision. Howe and Swenson wanted current income on their investment and a position senior to that of other investors. Howe proposed structuring Boston Capital’s investment as a convertible note with an eight percent coupon, junior to the bank but senior to all the individual investors. Because he wanted Boston Capital’s interest paid on a current basis, he insisted on an investment of $200,000 instead of the $150,000 the partners were seeking. As a result, BCC would expect a 27 percent interest in the project versus the 20 percent that was originally planned.

Several weeks were lost as Grousbeck and Hostetter worked through their disappointment and accepted BCC’s terms. It was tough medicine, particularly to
Hostetter, but completing the financing had taken far too long and the founders had run out of time and options.

Their disappointment was short-lived. Within a few months, BCC and Howe made a contribution to the project that far outweighed the “sweetened terms.”

COMPETITION REARS ITS HEAD

Unbeknownst to Hostetter and Grousbeck, a panel at the National Association of Broadcasters convention in Chicago in April 1964 had focused on the emerging CATV industry. Attendees were urged to take advantage of their unique standing in the communities where they operated radio stations to explore this new opportunity.

MalRite Broadcasting founders Milton Maltz and Bob Wright, who owned WTTF in Tiffin, attended that panel. While Hostetter and Grousbeck were still trying to line up financing in July 1964, WTTF applied for and immediately received a duplicate franchise in Tiffin. With WTTF’s encouragement, Mel Murray and Roger Wise, owners of WFOB in Fostoria, began the same process there but with less immediate success because of opposition from John Gutknecht, Continental’s local lawyer in Fostoria.

A detailed credit check by Arthur Snyder indicated that WTTF had very limited resources. While the existence of a local rival was troubling, it seemed unlikely that that group had the capital to effectively compete.

By late summer of 1964, Hostetter and Grousbeck, with his wife, Sukey, and two young children, had moved to Ohio and were racing forward with construction. They held press events announcing the erection of their tower in Bascom and the opening of their office on Market Street opposite the county courthouse in Tiffin.

But in the last week of August, a second construction team showed up in Tiffin and began stringing cable. Boston Capital was so concerned that it instructed Hostetter and Grousbeck to halt construction in Tiffin and focus efforts on Fostoria, where competition had not yet materialized.

After-hours chatter between the rival construction crews revealed that the WTTF crew was in town at the behest of Fred Lieberman, a former salesman for Jerrold Electronics and
“A German Invasion”

From the beginning, Grousbeck and Hostetter understood the importance to the franchising process of selecting the right local counsel. In each town they prospected, they carefully sought out an individual with an impeccable reputation who brought local credibility to their otherwise thin credentials.

In Fostoria, that attorney was John Gutknecht. At the time, Gutknecht was in his early 60s, chairman of the local bank, and president of the Chamber of Commerce and the golf club. He had played football at the local high school with the chairman of the Fostoria City Council. His younger partner, Fred Echelbarger, was at the time town counsel and accordingly refrained from any cable dealings.

Many of the original settlers of Fostoria were of German descent. When one of the non-Germanic members of the City Council heard that the firm of Gutknecht & Echelbarger was representing Grousbeck and Hostetter, he proclaimed, “Oh my God, it’s a German invasion.”

early cable entrepreneur who had left Jerrold to form electronic supplier TeleSystems Corp. Apparently, the MalRite principals had spent time with Lieberman at the NAB convention that spring. TeleSystems had subsequently agreed to finance WTTF’s efforts, believing that “two kids from Boston” didn’t have the resources for a major fight.

Further research revealed that TeleSystems itself was financed by Texas Capital, a prominent Austin-based SBIC. Its CEO was Grogan Lord, an acquaintance of BCC’s Joe Powell. Was there a way to avoid the assured mutual self-destruction of building competing cable systems? That question was posed to BCC’s Murray Howe and Joe Powell, who immediately contacted Grogan Lord in Austin.
Continental Cablevision built a 520-foot tower between Fostoria and Tiffin to serve subscribers in both towns, pulling in television signals from Columbus, Cleveland, Toledo, Detroit, and even Windsor, Ontario.
“Under no circumstances were we going to be sellers”

Under orders from Lord and Powell, Maltz and Wright flew to Boston to meet with Hostetter and Grousbeck. The seasoned investors were not going to tolerate a war between their affiliates. Sensing that emotions would run high, Howe parked the rivals in separate rooms at the Boston Park Plaza Hotel just down the street from Boston Capital’s Boylston Street offices and began to shuttle between the two parties. “We took the position that this was our first and only business interest,” Hostetter recalled. “They already had a well-established group of radio stations. Under no circumstances were we going to be sellers.”

Howe made little progress over the course of the first day and night. In fact, the situation became even more strained when the WTTF group appeared to make and then withdraw an offer to sell their interests to the Continental team for $50,000. On the afternoon of the second day, with exhaustion setting in, a deal took shape.39

Crisis Averted

The Continental founders swallowed hard and agreed to pay $72,000 to the opposing interests. Of that amount, $50,000 went directly to WTTF and the balance was to go to TeleSystems as payment for the work it had reportedly done to date. Continental was to receive 200 30-second advertising spots on WTTF, the names of the 400 households that WTTF had already signed up for cable, and all of the cable plant that had been erected by TeleSystems.

The portion of the settlement that was to be paid to TeleSystems became a source of a generally good-natured dispute between Hostetter and Lieberman as they became acquainted through the National Cable Television Association (NCTA). Hostetter had inventoried and priced the actual work that had been done on behalf of WTTF and thought it was fully valued at $6,000. Lieberman refused any discount on his $22,000 claim. Neither party was willing to move off their respective position.
The owners of the system that initially sought to compete with Continental Cablevision in Tiffin, Ohio, eventually agreed to sell to Continental, and the two systems were combined.
The debate dragged on for several years and called for a “winner-take-all” solution. Knowing that Lieberman was an avid tennis player—and having played competitive tennis for most of his life—Hostetter offered to play a winner-takes-all tennis match. Lieberman wisely declined the offer. Ultimately, they decided to flip a coin for the total claim, and on a trip Lieberman had made to Boston, the two met at Bob Luick’s office for the coin toss. Hostetter won. Hostetter and Lieberman remained respectful acquaintances for decades thereafter.

Largely because of Gutknecht’s strong representation in Fostoria, the local radio station there was never able to obtain a competitive cable franchise. But to mollify WFOB, Continental entered into a five-year advertising agreement and committed a channel on the Fostoria system for WFOB to program in conjunction with its radio broadcasts.

GETTING DOWN TO BUSINESS

With the challenges of duplicate franchises behind it, Continental raced to install cable in Tiffin and Fostoria and to start generating monthly income. Grousbeck and Hostetter had negotiated a “turnkey” system with Ameco, a Phoenix-based equipment manufacturer owned by Bruce Merrill, one of the early suppliers of cable television equipment. Ameco would supply both the equipment and the crews to hang the coaxial cable, which would pass roughly 10,000 homes in the two towns when the initial construction phase was completed. Another subcontractor to Ameco was responsible for the construction of the tower in Bascom.

Continental’s first professional employee was chief technician H.J. “Jim” Evans. The company founders lured him away from Lycoming TV Cable Company in Williamsport, Pennsylvania, which had been in the CATV business since the early 1950s. Evans’s job was to oversee the installation of the systems in Tiffin and Fostoria. Hiring additional technical staff and using a fleet of four leased trucks, Evans shepherded the installation phase to completion. By late September, Continental had opened offices in both Tiffin and Fostoria and was accepting orders for service.
Janet Stewart was Continental’s first office employee. Here, she works in the company’s no-frills Tiffin office (circa 1968).

Grousbeck hired Janet Stewart, a tall, energetic redhead, to oversee the Tiffin office. In Fostoria, Hostetter hired 18-year-old Janet Striff, a graduate of Fostoria High who had spent the summer at secretarial school in Bowling Green. (Several years later, Striff moved to Boston when the company established its headquarters there.) The Tiffin system was turned on in February 1965, and Joyce and Edward Ageter of Tiffin were the first customers to receive cable service from Continental.

The system in Fostoria was activated in April. In addition to the two Toledo channels, the Ageters and other Continental subscribers could receive television programming from three stations in Cleveland; one in Columbus; one in Detroit; and one from Windsor, Ontario.

The cable reception and service from Continental received high marks from community leaders. “So far as the service is concerned, the company has performed in excellent fashion,” Fred Echelbarger later wrote, at Continental’s request, to an official of another town considering Continental for a cable franchise. The writer was an early subscriber and made numerous requests for service as a test measure.
The Continental Cablevision storefront office on North Market Street in Tiffin, which had been the Sherwin-Williams paint store, provided a convenient location for subscribers to drop off their monthly payments, which most did in person and in cash.

“I also had several of my friends within the community make requests for service and asked that they report it to me. In every instance, the service was prompt and courteous even though some of the requests were rather frivolous.”

“THERE SEEMS TO BE CONSIDERABLE ESPRIT”

With most of its capital allocated to pay for the cable equipment and installation, Continental’s founders were frugal in regard to a variety of expenses, including office accommodations. Hostetter’s desk in the back of the unadorned Fostoria storefront office consisted of a door resting atop two filing cabinets. He unlocked the door every morning, swept the sidewalk out front, and then opened the cash drawer. Three-part bills were mailed each quarter, with each monthly stub due for payment on the first of the month. About three out of four customers came to the office to pay their bills in cash and have their stubs marked “paid.” Monthly utility bill payment was a social event in rural Ohio, where phone, electricity, gas, and now cable companies all had storefront payment locations. Two
shoeboxes, one for unpaid bills, the other for paid, and a cash drawer comprised the first accounting system.46

The staff grew slowly at first. Fred Crabtree joined during this period as the company’s first accountant. By late 1965, a dozen full-time employees were on the payroll. “All are local and between the ages of eighteen and thirty-five,” Hostetter told stockholders in a 1965 progress report. “There seems to be considerable esprit despite the long hours that have been required in this initial year of operation.”47

**Ohio Management Succession**

As the founders began to think beyond Tiffin and Fostoria, it was clear that successor management in Ohio would be critical. Grousbeck and his wife had met another young couple in Ohio, Raymond and Fran Joslin. Ray Joslin shared some of the founders’ background. Born and raised in Providence, Rhode Island, he was a 1959 graduate of Trinity College in Hartford, Connecticut. At the time, he was a successful salesman for Jones & Laughlin Steel Corporation in Ohio but clearly felt stifled by company bureaucracy. He sounded out Grousbeck and Hostetter about working for them, even though it meant giving up a secure career. In the summer of 1967, they shook hands on hiring Joslin at the Green Mill Country Club in Huron, Ohio, Joslin recalled.48 He joined Continental Cablevision of Ohio that September to run the system in Findlay, which Continental had recently acquired from Cox after initially taking a 50 percent stake in the system.

Shortly thereafter, Continental found itself in need of a new chief technician for Ohio. A search firm came up with a promising candidate, Lyle Knesekern, who was working for Newhouse Broadcasting’s cable division in upstate New York at the time.49

Knesekern received a call from Grousbeck, who asked him to fly to Cleveland, where they would meet and fly in a private plane down to Tiffin. All went according to plan, until they were in the small plane and the pilot started to throttle back and descend. Grousbeck, who wasn’t fond of flying in small planes to begin with, realized that they were nowhere near Tiffin and that the pilot was clearly lost. After landing at what turned out to be Bucyrus, Ohio, the pilot got directions and made the rest of the trip to Tiffin without incident.
Ray Joslin was Continental’s first management recruit and ran the Ohio systems for five years before moving to Northern California to launch the company’s operations there.

Lacking technical backgrounds themselves, Grousbeck and Hostetter hired top-notch engineering talent such as Lyle Keeskern, who later became a senior vice president—overseeing all of Continental’s Ohio systems.
Grousbeck, Hostetter, and Joslin convinced Kneeskern that pilot error notwithstanding, this was a cable television operation that had a clear sense of direction and purpose. Kneeskern flew back to New York and resigned from Newhouse even before he had been officially offered his new job in Ohio. Like Continental’s other early hires in Ohio, Illinois, and other regions, Kneeskern would advance to play an important regional leadership position within the company.50

**QUINCY CABLEVISION**

Grousbeck’s wife, Sukey, was from Quincy, Illinois. Her father was a prominent physician in the quiet Mississippi River community of about 15,000 homes and was familiar with many of the community leaders. The town council had recently rejected a proposal for a cable television franchise but might be open to a different proposal if it had enough local support, Grousbeck and Hostetter reasoned. Based in part on their experience in Tiffin and Fostoria, they decided in late 1964 to explore working with a local partner, the Oakley family, owners of the local newspaper and a broadcast television station in Quincy. This newest subsidiary of Continental was christened Quincy Cablevision.

Their proposal for a system in Quincy, as well as one in Keokuk, Iowa (40 miles away on the opposite bank of the Mississippi), included the latest in cable television technology: the use of microwave relay towers to import television signals from the broadcast stations in St. Louis, Missouri, about 140 miles south of Quincy. Using microwave relays required FCC approval, however, which resulted in considerable delay. The proposal was filed in May 1965 and was not approved until late December 1966. Opposition and delaying tactics from competing franchise groups slowed the process as it had in Ohio.53 Working again with Arthur Snyder at New England Merchants Bank, the entrepreneurs refinanced and borrowed against the equity in their initial subsidiary in Ohio to fund their 56 percent interest in Quincy Cablevision,54 of which Continental was the majority owner and New England Merchants again provided the senior debt.

Grousbeck moved his family to Quincy to oversee the construction of the new system and be closer to his wife’s family, while Hostetter remained in Ohio to run operations there. While negotiating with representatives of the local Quincy phone
“No, It Would Be Better If You Did It”

In February 1966, Hostetter was asked to join a meeting of Ohio cable operators—there were then a dozen—at the Holiday Inn in Columbus. The NCTA had started a campaign to line up support in Congress for issues facing the industry, including fees charged by utilities to attach coaxial cable to their poles. Similar efforts were beginning at the state level across the country.⁵¹

Hostetter suggested that Claude Stevanus, who was the largest operator in the state, with several systems in southeast Ohio, should lead the Ohio group. Stevanus, at least 15 years Hostetter’s senior but recognizing Hostetter’s educational background, turned to him and said, “No, it would be better if you did it.”⁵²

That started Hostetter’s role as a spokesman for the company and industry that would continue for the next three decades. Within two years, Hostetter was elected to the NCTA board of directors as one of its youngest members. Like Stevanus in Ohio, cable operators from around the country apparently recognized the value of having an articulate young spokesman helping to make their case in Washington.

Amos Hostetter, left, Irv Grousbeck, back to camera, and Sukey Grousbeck, between them, attend an industry dinner in 1966.
company for access to their utility poles, Grousbeck became impressed with the local Illinois Bell Telephone manager, a man in his early 30s named Charles Younger. Younger was trying to sell Grousbeck on leasing a turnkey cable system from the phone company. He didn’t make the sale, but Grousbeck gave him credit for his initiative. A few weeks later, Grousbeck called Younger, who had already let it be known in the business community that he was looking for a new challenge, and asked if he would be interested in being Continental’s general manager in the new markets. Younger accepted.55

Grousbeck and Hostetter joined forces with the owner of the local newspaper and television station in Quincy, Illinois, in late 1964 to propose operating a cable television system in Quincy and one about 40 miles away in Keokuk, Iowa. They built their Illinois/Iowa staff from scratch. They recruited Richard Ashpole from a cable system in Minnesota as head technician.56 Other installers and technicians were added to build out the system. One self-described phone company
“pole climber,” Jim Wand, started working for Quincy Cablevision as a contract installer in 1967. Within a few years, he came down from the poles and started a steady climb up the Continental management ranks in the Midwest. Sherri Long answered Continental’s ad in the Quincy Herald-Whig for a bookkeeper in December 1967. She and Younger later drove out to Fostoria to meet with Hostetter and bring back the first set of books for Quincy Cablevision. She served as the office “Jill-of-all-trades” in the new facility, working with installers and service technicians where needed to try to keep the system rollout on schedule.

Chuck Younger, left, shown here with Hostetter accepting an NCTA award from Yolanda Barco, joined as the manager of the Quincy system in late 1967 and rose steadily through the Continental management ranks.

“WE STARTED OUT LIKE A HOUSE ON FIRE”

Younger knew quite a bit about wiring communities, but coming from the monopoly phone business, he had never had to bother with marketing, which now came under his purview as general manager. Not a problem, Grousbeck said. As Younger recalled, Grousbeck simply sent him to one of the cable industry’s leading equipment suppliers to be schooled on the fine points of marketing a cable system:

Irv called me into his office and said, “I want you to go out to Jerrold in Philadelphia and find out how to market a cable system. There’s a guy on Jerrold’s staff that’ll tell
you how to do it.” So I take my yellow legal pad and fly to Philadelphia, and this guy walks me through the steps you need to take to do it.60

Younger was a quick study. Construction of the systems in Illinois and Iowa had begun in the first half of 1967, and the systems were activated in March 1968. A five-month construction promotion, using the tactic of waiving the installation fee that Continental had adopted for competitive purposes in Tiffin, netted more than 5,000 customers in Quincy by the time the system was turned on—roughly one-third of the total market. “We started out like a house on fire,” Younger recalled. In another promotion twist that was rare in the industry at the time, Continental ran its own 90-second television commercials, filmed in color, on the local broadcast stations leading up to activating the cable system.61

With Quincy Cablevision, Continental burnished its reputation as a small but growing industry success story and for being a business municipalities could depend upon. FCC Commissioner Robert Bartley, an Illinois native, was quoted in Cable News as being “amazed and impressed” with Quincy Cablevision’s stellar initial growth rate.62 Leaders from both Quincy and Keokuk penned glowing letters, praising the company’s accomplishment. These were precisely the kind of accolades that would prove crucial to Continental as it continued to expand and apply for additional franchises. In February 1968, the mayor of Quincy wrote to Grousbeck:

I wish to congratulate your company for the friendly and business-like manner with which it has entered into the business and community life of our City. Your construction crews have been most cooperative with our citizens and we have received few, if any, complaints. I am happy, also, that the acceptance of your service has been so outstanding. You and your company have established a good reputation in this community and reflect credit upon your profession.63

BICOASTAL
By the late 1960s, several factors were leading Hostetter and Grousbeck to wonder if it was time for them to pull back a bit from day-to-day system operations. Maybe they could even return to Boston.
For one, they realized that the best way to operate a cable system was to have as many decisions as possible made by the people on the ground. And as long as they focused on hiring talented managers like Younger, Joslin, Kneeskern, and Ashpole, they reasoned these local leaders could manage the expansion that was occurring as they franchised communities near their bases in Ohio and southern Illinois.

Second, Hostetter and Grousbeck had recently identified opportunities to bid for franchises on both coasts—in New Hampshire and in California. To manage that kind of expansion, access to a major airport was a necessity. They weren’t helping their company or themselves by keeping their base of operations in rural parts of the Midwest.

Success in Quincy working as partners with the owners of the local newspaper and television station led the entrepreneurs to seek similar opportunities. The Dwight family owned New England Newspapers, which included the Concord Monitor in Concord, New Hampshire. When Hostetter and Grousbeck learned in 1968 that the Dwights might be interested in working as partners on a cable TV franchise, the pair was quick to close the deal. Peter Kendrick, who had been working for Continental in the Midwest, moved to New Hampshire to build out the Concord system. Bill Hinton, a technician who had worked with Ashpole on a cable television system in Minnesota before joining Continental in Keokuk, Iowa, was recommended by Ashpole as chief technician for New Hampshire.

BACK TO BOSTON

By decade’s end, Continental’s founders returned to their original base in Boston. Their business was growing rapidly. By late 1968, five years into the venture, they had exceeded the 20,000-subscriber mark set in their original business plan as their ultimate goal. By late 1969, Continental had more than 37,000 subscribers. Though still quite small, the company was garnering accolades for innovative leadership, customer service, and impact on this new industry. Continental Cablevision had not only enjoyed early success, it was living up to its name.
CHAPTER TWO

From Modest Beginnings
1970–1975

**EVEN BY HOSTETTER’S AND GROUSBECK’S FRUGAL STANDARDS**, 54 Lewis Wharf, the Tow Boat Building, jutting out into Boston Harbor from the end of Lewis Wharf, was decidedly down-market. It appeared at times as if a strong breeze might send the building itself floating out to sea, which is precisely what eventually happened in the 1990s due to a succession of winter storms.

Over the years, the ramshackle two-and-a-half-story wooden structure had housed a handful of small companies and organizations, including award-winning documentary filmmaker Fred Weisman and the Boston Sailing Center. The entrepreneurs made 54 Lewis Wharf their “corporate headquarters” in 1969 when they relocated back to Boston from the Midwest. Their rent was less than $2 per square foot.¹

Herbert “Buzz” Goodall, who joined Grousbeck, Hostetter, and administrative assistant Janet Striff there in 1972 as the fourth headquarters employee, conceded that the offices weren’t much to look at but the location had its advantages. “It was 10 minutes from the airport. I had a spectacular view of everything that went on there and anything that went up and down the harbor.” There was a downside, too, said Goodall, who spent much of his first

« The Tow Boat Building at the end of Lewis Wharf provided Continental Cablevision with low-cost space for its “corporate headquarters” in 1969.
few years with the company working on budget and financial issues. “The bad news is we had virtually no heat—and of course we didn’t have air-conditioning—so there were days when the pipes would freeze and we couldn’t use the toilet.”

Over the next few years, Continental added two more to its corporate office staff. Geraldine Jefferson was hired to serve as bookkeeper and office manager. As corporate accounting needs grew, Rick Hoffstein was hired in 1976 to serve as controller, a position he would hold for more than two decades. That was the extent of the corporate office staff for most of the 1970s.

Low corporate overhead enabled the company to focus on building its systems. Hostetter and Grousbeck had seen firsthand how important it was to have decision-makers in the local markets where they were franchising and building systems. One customer’s problem with channel five in Fostoria, Ohio, had nothing to do with reception in Concord, New Hampshire, or the poles owned by the Quincy, Illinois, phone company. Hostetter and Grousbeck knew they had to hire leaders capable of making their own decisions in the field and minimize the headquarters group.

Moving to Boston “enabled us to develop an organization that was decentralized, and I think that was essential to the company’s success,” Grousbeck said. “We both had in the back of our minds, if not the forefront, that we didn’t want to have a command and control organization, and we didn’t want all major decisions to come to us. We wanted to hire great people and give them latitude, pursuant to agreed guidelines. And that’s how the decentralized structure evolved.”

“We always tried to hire the most talented people,” Hostetter added. “Quite apart from compensation, it seems to me that job satisfaction is largely driven by your ability to make your own decisions, so it meant by developing this culture of local autonomy and distributed decision-making, we were able to recruit higher-quality people. It also meant that Irv and I were able to step back from the day-to-day operations of the systems.”
CRITICAL VENTURE SUPPORT, 1970–72

The new corporate headquarters not only saved the company money, it sent the right message to potential investors and lenders.

Henry McCane, the youngest member of the venture capital firm Greylock Partners, visited the Continental offices in 1970 along with then-managing partner William Elfers. The partnership had a knack for identifying and investing early in rapidly growing companies, including the semiconductor testing equipment maker Teradyne, and later Brookstone, the tool and electronic gadget retailer. (The firm hasn’t lost its touch; years later, Greylock was an early investor in Airbnb, Facebook, LinkedIn, Pandora, and Zipcar, among other highly successful companies.) Greylock kept a tight rein on its costs to free up as much money as possible to invest with its stable of young entrepreneurs. “The modest offices that Continental had at the end of Lewis Wharf were very sympathetic to the Greylock style,” McCane recalled.

Taking the measure of the founders and the outlook for the industry, Greylock led the first round of venture capital investment in Continental Cablevision in November 1970. It headed a group of Boston venture capital firms—including funds run by TA Associates, FMR (Fidelity Investments’ venture arm), and the SBICs of both the New England Merchants Bank and the First National Bank of Boston—in buying $750,000 worth of convertible subordinated debentures. These securities were convertible into stock at any time prior to October 1, 1975, and also conveyed the right under certain circumstances to compel Continental’s leadership to make a public offering of stock.

“We are satisfied with the terms of this financing, and are delighted to welcome Greylock & Co. and its associates to our stockholder family,” Grousbeck and Hostetter told their shareholders in 1971. Greylock was happy as well, and McCane joined Continental’s board of directors, along with Murray Howe of Sullivan & Worcester and Harry Hoglund of FMR.

Greylock was encouraged by Continental’s growing list of franchises and expansion opportunities. Before making a commitment, however, Henry McCane was tasked with getting a firsthand view of Continental’s operations.
McCance visited Jackson, Michigan, a blue-collar Detroit suburb from which many auto workers commuted to their jobs. “What impressed me with that visit—there was either a strike going on or threatened,” McCance said, and he was worried that the labor action would hurt cable revenues. “Peter Kendrick, the manager of Continental’s Michigan operations, told me, ‘Well, Henry, don’t worry about that. What we have found is that a subscriber would turn off his phone service before he would turn off his cable television.’”

“WE NEED NOT TAKE A BACK SEAT TO ANY COMPANY IN THE CABLE TELEVISION INDUSTRY”

In early 1972, Continental tapped the same group of venture capitalists for another $2.1 million to fund its expansion. The 1972 financing included Euclid Partners, Payson & Trask, and private investors Frank Bonsal Jr., of Alexander Brown & Sons, Stephen Swensrud, Charles Cunningham, and David Place on behalf of the Jessie Cox family.

William “Bill” Egan, then the head of New England Enterprise Capital, learned about Continental as an assistant to Arthur Snyder at New England Merchants Bank before switching over to run the bank’s venture capital unit. He had nothing but praise for Hostetter and Grousbeck but had no interest in joining the company’s board at that time, or even later when he joined TA Associates and then formed his own investment firm, Burr Egan Deleage & Co. Egan wanted to be free of any conflict of interest if he chose to invest in other cable companies, which he subsequently did frequently, and with considerable success.

Slightly more than $3 million in equity capital may not have seemed like a firm foundation on which to build a company with plans to expand its systems in California, New England, and the Midwest. But Continental’s co-founders were adamant that the company, which was growing at roughly 30 percent a year by the early 1970s, could expand rapidly enough and continually increase its cash flow to support additional bank loans going forward. There was no need to dilute the holdings of its existing equity investors. Case in point: First National Bank of Boston and Citibank of New York joined New England Merchants Bank as leading lenders to Continental as of 1972. More banks
Good Venture Capital Genes

Continental had early ties to a number of highly successful venture capitalists. Boston Capital’s Joe Powell and Greylock & Co. founder Bill Elfers both had roots with American Research and Development and George Doriot, the father of venture investing.

Initial investor Arthur Choate was also legendary for his early venture acumen. His nephew, Arthur Choate Patterson, was later one of the founders of Accel Partners and an early investor in Facebook. Tom Stephenson, an early partner at Sequoia, represented Fidelity in Greylock’s 1970 financing of Continental. Frank Bonsal Jr. found his way to Continental in 1972 as a member of the second Greylock-led financing, six years before he founded New Enterprise Associates (NEA). Warren Hellman and Paul Ferrie, who played major roles in venture investing for four decades, joined the Continental shareholder group through a privately arranged secondary in the late 1970s.

Longtime Continental directors Kevin Landry, Henry McCance, Jean de Valpine, and Vin Ryan were also instrumental in building major venture firms: TA Associates, Greylock, Memorial Drive Trust (MDT), and Schooner Capital, respectively. Burr Egan Deleage founder Bill Egan was a protégé of Arthur Snyder during Continental’s formative years. He invested in Continental on behalf of the New England Merchants Bank and later his own firm. And Irv Grousbeck, in his later career teaching entrepreneurship at Stanford, took the “search fund” model to a new level. In Continental, there was an interesting confluence of many of the people who shaped venture investing in the second half of the 20th century. All contributed in important ways to the company’s success.17
soon followed. In fact, Continental didn’t sell additional equity for nearly a decade, even as its subscriber base grew nearly tenfold to a half-million customers by 1982.15

New board member McCance appreciated how Hostetter and Grousbeck had grasped early on the economics of leveraging a dependable revenue stream.

Really, that was one of the first lessons that I think Continental management learned maybe better than anybody else, which was that the cash flow from a cable system was extraordinarily predictable and reliable. And they used that to great effect from the earliest days forward by effectively using leverage more than, in my opinion, any other cable operator.16

Shortly after they had brought in additional investors, the company’s outlook brightened even further. The FCC in early 1972 loosened the so-called “distant signal” rules that had restricted importation of certain broadcast stations plus a handful of other restrictions, which had hampered industry expansion into larger markets. As the founders told their stockholders in April of that year:

The FCC rules which became effective on March 31, 1972, appear to afford growth opportunities for those cable television companies with adequate financial and human resources. Continental and its affiliates have recently added several key management and engineering people to their staffs. We continue to feel that the quality of our management group is such that we need take a back seat to no company in the television industry.18

FOCUS ON FRANCHISING

With more funds available from Boston, Continental’s regional leaders were scrambling to win franchises as rapidly as they could. The next challenge was to hire the best talent available to run the systems. For most of the new hires, the hours they put into franchising were in addition to their day jobs of building and managing the systems. The pace was frenetic, but there was no time to waste. The cable industry was in the early years of a more than decade-long land rush, which by the late 1970s became known as the “franchising wars.”
Enter Vin Ryan and Memorial Drive Trust

In 1971, Boston Capital Corporation’s Joe Powell, a key early supporter of Grousbeck and Hostetter, decided to merge his firm into an affiliate, the Cleveland-based medical imaging company Ohio Nuclear. Converting into an operating company would require Boston Capital to divest its venture investments, including Continental Cablevision.

Vin Ryan’s venture capital portfolio in 1972 included sizable positions in Continental and American Television and Communications Corp.

While the move severed a business link to one of Continental’s most influential financial supporters, it also created an opportunity for the entrepreneurs to enter into one of the most significant business relationships of Continental’s next quarter century of growth. Vincent Ryan, a 35-year-old partner with the investment advisory firm Studley Shupert, took advantage of the opening presented by the Boston Capital divestiture to jump into venture capital investing full-time. Continental would be one of the cornerstones of his venture capital career.19

When Studley Shupert was bought out, Ryan had no interest in staying and saw the BCC portfolio and further venture investing as his real calling. “I was already doing some
venture investing at Studley Shupert and viewed the Boston Capital portfolio as an opportunity to scale up that activity,” Ryan said. “I was familiar with the cable industry and felt it had tremendous potential.”

Ryan engaged Gene Doggett, who was then at G.H. Walker & Co., as his investment banker. He and Doggett approached Jean de Valpine and Roy Little at Memorial Drive Trust to finance a leveraged buyout of the BCC portfolio based on the latter’s extensive knowledge and positive view of the cable industry. Ryan also retained Murray Howe, who had recently returned to Sullivan & Worcester, as his counsel and was able to get the Bank of Boston’s support, as well.

A period of challenging negotiations ended with a successful purchase agreement in March 1972. The portfolio had about 20 different holdings, including sizable positions in Continental and American Television and Communications Corp. (ATC). Over the course of the next several years, Ryan liquidated much of the portfolio holdings but retained all of the Continental shares.

His agreement with Memorial Drive Trust provided him with a call on Memorial Drive’s position, which he exercised. “We distributed some shares of Continental as part of the transaction with Memorial Drive Trust,” he said. “And I gave some of my shares to the bank in exchange for rewriting its loan agreements.”

As part of the fee on the original transaction, Ryan gave a 5 percent equity interest to G.H. Walker and Doggett. “I also gave Murray Howe a 5 percent interest for his selfless and effective work on my behalf.”

Ryan joined the Continental Board of Directors in 1980 and would remain an active board member for the next 16 years.20
While franchises were “nonexclusive,” companies knew that once they landed a franchise, they had an effective monopoly that they were unlikely to lose, short of gross mismanagement. The capital-intensive nature of cable construction made overlapping cable systems financially infeasible. Getting the initial franchise was paramount.

The competition became even more intense during the latter part of the decade as cable companies moved into larger cities and suburban markets. The challenge was to convince the local franchise authority—usually a mayor or city council—that the company had the financial wherewithal to make good on the promises made in the competitive process. No cable company won every franchise competition—some hotly contested localities included more than a dozen applicants—but Hostetter later estimated the Continental team’s batting average at well north of .800. “I think we applied for franchises in about 600 communities and won more than 500,” he said.21

“WE BEAT THE BEST OF THEM”

Grousbeck and Hostetter set the standard for personal involvement in the franchising process as the company was starting out. Their regional managers carried on the tradition. In Ohio, Ray Joslin, a born salesman, had picked up franchises for Continental in a number of small communities in the late 1960s, and by the early 1970s was focusing on bigger prizes, including the suburbs of Dayton.

The franchising push was remarkably similar across the company’s regions—the names of the employees and target communities changed, but for years the approach remained the same. Tom Willett, who left a small Ohio TV broadcasting station in 1970, demonstrated a flair for marketing and quickly became a member of the franchising team.22

“I had a Ford station wagon,” Willett said. “And on Tuesday or Wednesday night, we were driving to Dayton, Springfield, Newark—you name it. Be there at 6 o’clock, or whatever, and get back at 1 and be in the office at 8 or 9” the next morning.
Tom Willett joined Continental Cablevision in Ohio in 1970 and was active in marketing to new subscribers by day and in franchising by night.

Willett’s marketing savvy helped the Ohio franchising effort succeed. He developed a multimedia franchising presentation that, while primitive by today’s standards, was an industry standout in its day, featuring two carousel slide projectors and a tape player and speakers. Willett would have Continental managers snap pictures of the communities in which the company hoped to win a franchise, and mix those shots in with photos of company installations and hardware, as well as generic images of small-town life. A pleasant-sounding soundtrack was more or less synchronized with the slideshow. “I just lived in fear of mechanical failure,” Willett said. “If you can’t get a slideshow to work, how are you going to build a cable system?”

In fact, the presentations were a huge success, helping Continental net more than 30 wins in Ohio before suffering its first loss. “We beat the best of them, including Viacom, CableCom General, Cypress Communications,” Joslin said. The company even won the franchise in Fairborn, Ohio, despite the fact that Cypress Communications brought in a former FCC chairman, Chicago attorney Newton Minow—who was famous for having described television as a “vast wasteland” a decade earlier, Joslin noted.
The one that got away was Delaware, Ohio, which Joslin insisted was a case of local influence working against him. Unbeknownst to the Continental team, Viacom President Douglas Dittrick’s mother was a Delaware resident. Joslin and his team thought they had the franchise all but wrapped up after the first of three required readings of the cable ordinance before the city council. But then he heard that Dittrick’s mother had called the mayor to complain that her son’s team wasn’t being given a chance to make its best offer. Sure enough, there was Dittrick making his presentation at the second reading of the cable ordinance. Viacom won the franchise.25

“What is involved in the franchising process leaves me absolutely aghast”

In 1972, Continental won franchises in Springfield, Ohio, as well as in Stockton, California, after protracted efforts. With the Stockton franchise finally in hand after an on-again, off-again multiyear effort, Continental transferred Joslin to California to lead the company’s new region there, which included San Joaquin County surrounding Stockton, and brought in Chuck Younger from Illinois to run the Ohio region. Jim Wand, after supervising the construction of the company’s system in Freeport, Illinois, returned to Quincy to take over leadership of the Illinois-Iowa region, which soon included systems in Missouri.

In June 1972, Hostetter sent a notice of the wins in Stockton and Springfield to the stockholders who had just recently invested in Continental to give them “some of the flavor of what is involved in the ‘franchising’ process.”26 He also included newspaper clips from local papers that had been covering the competition, which in each town had come down to Continental versus California-based Cypress Communications.

Comments from one of the city council members in Springfield appeared to have caught the eye of investor Charles C. Cunningham Jr. of the Sprague Company in Boston. Under the headline “Human Touch in Springfield CATV Voting,” the article noted that:

Commissioner Florence Huebner gave the tie-breaking vote for Continental Cablevision of Ohio, Inc. It was based on an admittedly subjective opinion: She liked the Continental people better than the representatives of Cypress Communications Corp.
“Don’t You Realize That’s Bud’s Company?”

Continental’s expansion to California benefited from Hostetter’s early work as the company’s representative in Washington, not to mention his strong backhand. Hostetter had learned in the late 1960s that Ort Loftus, a Stockton, California, radio station owner, was interested in cable television. Loftus was known to be a force for progressive change in the community located in California’s central valley.

There was just one problem: An FCC rule had effectively instituted a freeze on cable operations in major markets, which appeared to include Stockton. Continental applied for a waiver of the rule under the name of a subsidiary created to operate the Stockton system, Big Valley Cablevision (which took its name from the hit television Western starring Barbara Stanwyck). The application initially failed by a vote of 4 to 3. Then-commissioner Joe Fogarty turned to colleague Jim Quello, a former broadcaster who had voted against Big Valley. An avid tennis player, Quello had been Hostetter’s...
doubles partner at several industry events. “Big Valley Cablevision. Don’t you realize that’s Bud’s company?” Fogarty whispered. Quello, flustered, replied, “Oh, oh, I change my vote.” The Stockton system got the waiver required to begin operations.27

Big Valley Cablevision was approved to carry San Francisco broadcast stations amid strict FCC rules about new franchises in major markets.

‘You could see the difference in the manners of the representatives,’ said Mrs. Huebner. ‘The Continental people were more polite; when we would speak to them, they would stand up. The men from Cypress would just sit there, unless they had a big selling point to make.’

The article added that:

Mrs. Huebner, 69, also had some objections to Cypress’ Springfield representative Joe Sheridan, the manager of the old UHF channel 26 when it went bankrupt.

‘He doesn’t look honest,’ she said.

Other commissioners responded favorably to one of Continental’s key franchising points: Its decision makers were based in the region and were on top of local concerns. ‘You called Ray Joslin with a question, and he knew the Springfield situation...Shuler [Joslin’s counterpart at Cypress], well, he’d have to check the Springfield proposal and let us know,’ another council member said.28
Cunningham replied to Hostetter:

I must say the accounts of what is involved in the franchising process leave me absolutely aghast. I don’t see how anyone in an operation such as yours can retain their sanity with such proceedings, but in any event, I congratulate you on what appears to be a very good start in obtaining the franchises for Stockton and Springfield.29

HIGH ETHICAL STANDARDS

Continental made uncompromising ethical standards a cornerstone of its franchising activities. Managers had keen antennae when it came to sensing offers or suggestions that were out of bounds. Some appeared clearly illegal. Younger led the franchising in an Illinois town where the competition had come down to Continental and one other competitor. The mayor had sent a message to Continental’s local lawyer: Pay $25,000 and the franchise is yours. It wasn’t clear whether the money was destined for the town’s coffers or the mayor’s pocket. Younger told the lawyer no deal and reported to Grousbeck back in Boston.

‘We don’t want to do anything we don’t want our mothers to read in the paper the next day,’ Irv said. Sure enough, the following Tuesday evening, the council awarded the franchise to the other party.30

Hostetter recently recalled that this was one of the exceptions that proved the rule when it came to the behavior of the local officials. “In more than 30 years in this business, and as many as 600 franchising contests, I can count on one hand what I believe were ‘corrupt’ decisions. Local officials almost invariably do the right thing for the right reasons.”31

MARKETING EVOLVES QUICKLY

Joslin and Grousbeck ran ads for Continental Cablevision of Ohio using the free stock images the local newspapers provided to attract advertisers. As other Continental managers followed suit, Continental’s advertising varied from town to town—even within the same state or region.
Mobile Marketing

A marketing innovation in the Ohio region helped potential subscribers get a firsthand look at what cable television had to offer as their communities were being wired for service. Joslin bought a 36-foot-long recreational vehicle and had the interior outfitted with 12 televisions—one for each of the channels the earliest cable systems were offering. The Continental team would drive to a town where they had just been awarded a franchise and hook up the RV to a cable line. Consumers would file in the front, where company staff members were on hand to answer questions, and out the back door, where new customers could sign up.32

Continental Cablevision of Ohio set the standard for innovative marketing in the early 1970s, including the use of this modified recreational vehicle that featured 12 television sets. Seated in the foreground: Connie Hirsimaki and Ray Joslin.

When Willett joined the company in 1970, he started working with advertising and design professionals to enhance Continental’s marketing efforts. Out went seasonal campaign gimmicks. In came a more focused approach. And he also led Continental Cablevision, and virtually the entire cable industry, into the then-nascent field of direct mail marketing.
Go Forth and Multiply

Continental’s Ohio region generated a number of future industry leaders. Ray Joslin, Continental’s first management recruit, went on to run Hearst’s cable communications group. Bob Clasen was future president of Comcast and CEO of Starz/Encore; Jim Robbins eventually ran Cox Cable; and Barry Lemieux was the future president of American Cablesystems.33

“I just didn’t understand why we were buying mass media when all of the systems already had 45 percent to 50 percent share of the market. Why were we using radio and newspaper when half the recipients were already our customers?” Willett wondered. “Why weren’t we spending 100 percent of our money on nonsubscribers? And that led me to try direct mail.”34

Willet received useful feedback from members of the Direct Marketing Association, and his direct-mail pieces for Continental continued to become more effective over time. He contracted with a mom-and-pop print shop in Findlay, Ohio, and by the mid-1970s was producing all the direct-mail pieces for Continental systems nationwide.

PioneeRing local proGrRaMMing

One of the promises of cable television from the mid-1960s onward was that it would enable even small communities to develop programming covering local events and
issues. The FCC regulations promulgated in 1972 that lifted certain restrictions on the expansion of cable systems also carried specific public access requirements. Systems with more than 3,500 subscribers were required to offer at least one public access channel on their systems. Systems in the top 100 television markets had to offer at least three channels for public, educational, and government (PEG) access, and one that could be leased commercially.35

Long before public access requirements became law, Continental had become an accomplished local programmer. In September 1967, the Findlay, Ohio, system launched a cooperative venture with Bowling Green State University and the public and parochial school systems in Findlay, as well as nearby Fostoria and Tiffin. Findlay became the first community in the country to use cable to transmit university-produced programming to local classrooms.36

From its earliest years, Continental Cablevision understood the value of local original programming. Jeff Jones, center, was Continental’s first local programming director.
Continental followed that innovative step with an award-winning local origination effort, CTV-Three. Following 18 months of research and a $90,000 investment in a mobile van and telecasting equipment, Continental’s Findlay system hit the road to provide coverage of local and regional athletic, civic, social, religious, and cultural events. Thanks to CTV-Three, Continental of Ohio became the first cable television system in the country to win a Broadcast Media Award and received the first annual CATV Community Service Award.37

Nearly two decades before Continental-backed Cable in the Classroom would become a nationwide cable educational initiative, Continental systems regularly involved students in local programming.

The cable system was producing live, original programming every day, including a daily interview show from the Fort Findlay Hotel, city council meetings, high school sports with play-by-play commentary (at times provided by Joslin and Willett), and programs focusing on children and relationships. But it was CTV-Three’s sports coverage, particularly of high school basketball, that caught the public’s imagination and attracted subscribers. As Joslin recalled:

The crowning glory of CTV-Three was its live coverage of the Findlay Trojans in the district basketball tournament live from Lima, Ohio, thirty-five miles away, and the state tournament, live from Columbus, one hundred miles away. We rented
microwave equipment and Jim Barger, chief technician, and his crew plotted the microwave path and, at night, climbed five hundred foot cable towers spaced twenty-five miles apart. Using high intensity strobe lights, they aligned the transmit and receive dishes so that Findlay subscribers could watch their team live in the tournament. What commitment those Continental people had!38

John Rakoske put his engineering background to good use as he rose through the leadership ranks at Continental, beginning as manager of its Dover, New Hampshire, system in 1972 and then becoming VP for Continental’s New England operations and eventually executive vice president for half the company’s regions.

Other Continental systems quickly followed Ohio’s lead. Local programming was seen as a valuable community service that also helped attract and retain subscribers. Continental’s efforts in 1974 helped it win eight out of 20 (40 percent) of the national awards for excellence in local program origination at the 1975 NCTA Show. This was especially noteworthy in light of the fact that Continental at the time served only a tiny percentage of the nation’s cable subscribers. Continental systems receiving the awards were in Findlay, Ohio; Lawrence, Massachusetts; Concord, New Hampshire; Jackson, Michigan; and Stockton, California.39
By early 1972, John Rakoske, an engineer by training, was feeling pretty restless in his job as manager of electronics research and printing press controls for Kidder Press Company in Dover, New Hampshire. A friend was working as the local attorney for Continental in Dover and suggested Rakoske sound out Continental about a job. As it happened, the founders had been unhappy with their company’s performance in New Hampshire and were open to considering a change in management. Rakoske wasn’t sure what he was getting into when he “walked the plank” to reach the company offices at the end of Lewis Wharf. But once he had spoken with the founders, he was convinced Continental was the place for him.40

Chief engineer Bill Hinton worked closely with New England regional manager John Rakoske and quickly established the region as a technology leader.

“I went down to the dilapidated Tow Boat Building and—that’s the company I’m going to consider working for?” Rakoske recalled asking himself. “But of course, when I met these two guys I didn’t have any doubts, because they were just giants in my view. I was totally impressed with both of them.”41
One Man’s Porsche Is Another’s Pontiac

Most system managers at Continental used Ford station wagons as company cars. They were useful for hauling presentation materials and cable gear, but were not the most stylish set of wheels on the road. Chuck Younger broke the mold when he drove a sporty Ford Mustang as his company car. And then there was New England’s John Rakoske, a normally buttoned-down manager but an avid car enthusiast. Rakoske was determined to have a Porsche as his company car. The company accountant said Continental would pay the standard amount for a Ford wagon, and the difference would have to come out of Rakoske’s pocket.44

Rakoske was more than a little apprehensive when he learned that Grousbeck would be coming to Dover, New Hampshire, and that he would be in the position of picking up his boss in his new Porsche. Rakoske need not have worried. Grousbeck, who was never given to displays of wealth, jumped into the car. He looked around at the interior, turned to Rakoske, and said, “Nice car. Is this a Pontiac?”45

“We were nowhere near 100,000 subscribers at that time,” Rakoske added. “I joined to be the manager of Dover, New Hampshire, and that system wasn’t yet completely built. I also had the responsibility for Portsmouth, which was in the early stage. . . . And then after that, I was given responsibility for Concord and then Lawrence, Massachusetts, and other things got added on.”42

Rakoske, in short order, assumed responsibility for all of the New England systems. Residents in the region initially lived up to their reputations for Yankee thrift. They wondered why they should pay for something they could get free with a broadcast antenna, even if the image was nearly as snowy as the surrounding hills in winter. And there was lingering suspicion of cable technology itself. Some even queried him about rumors that cable operators could peer into their bedrooms through their TVs.43

The New England systems were being constructed under the technical direction of Bill Hinton, a Dick Ashpole protégé who had relocated from the company’s Keokuk, Iowa,
Continental Cablevision Presents the Hockey Puck

New England is home to many rabid hockey fans, and in the early 1970s few hockey players had as devoted a following as Bobby Orr of the Boston Bruins. But fans in New Hampshire were straining to follow the puck on Boston’s Channel 38, which they were barely able to receive using rooftop antennas. John Rakoske had the idea of touting cable’s clarity by focusing on the hockey puck—literally. Newspaper ads with headlines stating “Continental Cablevision Presents the Hockey Puck” and a clear image of a hockey puck in mid-play delivered the message that if you were a true Bruins fan, you should subscribe to cable.46 These ads and other promotions helped boost Continental’s market penetration in Concord to nearly 90 percent by the mid-1970s—an astounding level for the time.47

Fans’ passion for Boston Bruins hockey helped Continental sign up subscribers in New England who didn’t want to lose the puck due to “snowy” broadcast signal quality.
system to Concord, New Hampshire, in 1968. Advances incorporated into the systems in New England helped keep Continental on the cable industry’s technological cutting edge.

“The cable industry was just starting to expand from a 12-channel operation, which televisions could receive directly, to adding converters in order to carry additional signals,” Hinton said. “And the Concord cable system, I believe, was one of the first ones in the country . . . to operate on more than 12 channels. We used what they called back then the mid-band channels. There were just a couple of them.”

Rakoske and Hinton set an early standard of technical rigor and excellence in the New England region. Their work, in conjunction with other factors spurring growth, helped New England surpass Ohio to become the company’s largest region by the 1980s. The leaders they recruited and attracted from within Continental, including future president Bill Schleyer and regional engineer Kevin Casey, who years later became president of Comcast’s national division, kept that momentum in place well into the 1990s, when the New England region led Continental and the industry into the era of broadband technology.

“CHECK WITH CHUCK”

Rakoske appreciated the relatively free rein he was given as a manager in the field. When he did update Grousbeck in Boston, he would sometimes hear, “Well, that’s not exactly the way we do it in Ohio,” where the founders had of course had their first experience in the field. As much as the final decision would be Rakoske’s, Grousbeck and Hostetter at times counseled him to “check with Chuck” (Younger) in Ohio to get his point of view. “‘Check with Chuck’ was always on my mind, and I didn’t always do it, but I often did. I didn’t always like to hear it, though,” Rakoske admitted. These early referrals later became a more formal internal system of highlighting best practices.

And while Boston played an active role in developing Rakoske’s and other managers’ capital budgets, determining whether a proposed system was going to pass enough homes and have the density to justify a given investment, Rakoske did feel that his engineering background gave him a certain edge:
I was a little bit amused, because I had a Bachelor of Science degree in engineering and a master’s degree in engineering management. They had all these MBAs in Boston, and they were using present value tables to do present value analysis. They’re using tables, you look up, and I was using an HP 22 [calculator]. I don’t think they knew what an HP 22 was. . . .

We would have a threshold discount rate and we would estimate what it would cost to build an extension and maybe a whole community and then make a proposal, and Boston would decide whether we could and should go forward with that, whether it would meet our standards. It was tough. It was a capital-intensive business. And you had to show that it was worth the investment.51

One of Rakoske’s biggest regrets in his 18 years with Continental Cablevision was not hiring Tim Neher to work for him in New England. The young New England Merchants Bank lending officer had hit it off with Hostetter and Grousbeck after meeting with them in early 1974. They suggested that Neher talk with Rakoske about a position in New England. Rakoske thought that Neher’s asking salary was a little steep, and Neher didn’t think that Rakoske had a clearly defined position in mind for him, so he stayed with the bank, at least temporarily.52

**MICHIGAN**

A few months later, the founders called Neher with an offer for a management position in Michigan; would he be interested in moving to the Midwest? Rod McLeod, by that time controller in the Stockton, California system, was in line to become regional manager in Michigan. Neher would be reporting to McLeod and would run the system in Jackson, Michigan, which the company had purchased in 1969. And if that worked out, Continental was building a much bigger system in Lansing, which he would be positioned to oversee.53
Future Continental President Tim Neher joined the company in 1974 from New England Merchants Bank.

Neher’s introduction to the cable television business was close to ending when it had barely started. He landed in Michigan with his wife, Molly, who had their two-month-old and two-year-old in tow. Before they had even started looking for a house, he received a call from Hostetter back in Boston. By mid-1974, the US economy was in full recession; the Arab oil boycott of 1973 had slammed the brakes on economic growth around the world and sent the US stock market plunging 50 percent. Despite Continental’s excellent relationships with its lenders, Hostetter couldn’t put together the loan package necessary to refinance the Jackson system, which had grown significantly in the five years since it was purchased and was expected to provide the equity for construction of the Lansing system. He needed to devise a plan B.

The solution Hostetter came up with was a stopgap measure. It was costly, but it worked. Hostetter suggested that McLeod and Neher, both former bankers, go to Indianapolis to see Jim Ackerman at Economy Finance, a receivables factoring and asset lending company with cable experience. Instead of being able to borrow against cash
flow as Continental did with banks on a typical refinancing, perhaps Neher and McLeod could arrange to borrow against the system’s equipment and other assets.

It was an expensive move, ultimately costing the company nearly 20 percent per annum for the borrowed money. But it avoided what would have been a serious reputational setback if Continental had been unable to proceed with construction in Lansing on a timely basis. Neher had quickly learned that if he was going to succeed in this new and more free-form environment, he would have to be able to think and act outside the box. And from that same transaction, Hostetter learned that his instincts about Neher’s abilities had been absolutely right, and he tracked the young executive’s progress carefully thereafter.54

MAN OF THE YEAR—1972

Statesmanship is not often the art of the young. It is not usually the skill of the entrepreneur. And it is not successfully practiced by very many persons in any field. Therefore, when we accord the term Statesman to CATV’s 1972 Man of the Year, Amos (Bud) Hostetter, we do so with both caution and respect.55

The NCTA attracted bright young staff members—such as Rob Stengel, top row, third from left—to its headquarters in Washington, DC, where the industry sought to eliminate regulatory barriers to the rapidly growing and evolving business.
This accolade toasting Hostetter for his work on behalf of the industry in 1972 underscored the fact that he had become for all practical purposes “the industry’s statesman” by the time he turned 35. He had helped form Ohio’s state cable TV association in his late 20s and was quickly invited to join the board of the NCTA. By 1972, he was elected vice chairman, and he chaired the NCTA board the following year.

Outgoing and at ease in almost any social situation, Hostetter was the natural choice to serve as Continental’s public face. “Irv had no interest in any of the . . . state or national associations, or lobbying, or representation before Congress. So, I picked up those assignments.”

Grousbeck added, “I wasn’t really involved in the financing and investor or government relations to any meaningful degree. That was his area, and he did a superb job of it.”

Grousbeck was much more focused on operations. “The functional divisions, if you will, started out with Amos in charge of all financing, planning and construction of the systems. I was in charge of the franchising and marketing, and operations, in a sense, staffing those people up and supervising the offices.” As the company continued to expand, Hostetter also picked up operational oversight for certain regions.

Even though Hostetter was on a plane to Washington or regional industry meetings nearly every week during this period, there were some perks that came with the post. Bill Daniels, who had first introduced Hostetter to the cable business, was a longtime NCTA board member and considered himself Hostetter’s patron:

I would see Bill three or four times a year. At the national convention . . . they played this incredibly high-stakes poker game up in his suite. There was no chance I was going to sit down and play even one hand. Nonetheless, with stakes far beyond my risk tolerance, I hung out there a lot. It was for me a really good spectator sport.
CONTINENTAL’S GROWING REPUTATION as one of the best-run companies in the industry made it an attractive takeover target. Potential buyers would regularly sound out the founders about their interest in selling. Leading cable industry players, as well as General Cinema, 20th Century Fox, and a number of different media and industrial companies, were all intrigued by Continental’s success story. Grousbeck, who was less likely to be traveling, typically fielded these expressions of interest and shared them with the rest of the company’s directors.

At times, some of the company’s directors—especially those who held the rights to compel the company to make a public offering of common stock—were anxious that the founders follow up on such expressions of interest. Their stock in Continental had clearly appreciated in value, but it was totally illiquid, with shares only rarely changing hands as holders would sell to raise cash for personal reasons. But Hostetter and Grousbeck knew they held all the face cards in this particular game of poker. No investor was going to try to force a management team to take a company public against its will.

As Hostetter later described:

There was no lack of suitors, and my consistent reaction was, why would we do anything now if a year from now this company is going to be 30 percent more valuable? I cared a lot about what we were doing and the jobs we were creating for people and the professional and financial opportunity that our folks had. So anybody was free to approach us about a potential deal and I would be respectful, but I wasn’t really interested. I wanted to see how far we could take this.59
Monty Rifkin, who in 1968 with Bill Daniels co-founded ATC, the forerunner of Time Warner Cable (TWC), was one of the most acquisitive players in the cable television industry. Hostetter and Grousbeck had grown their company principally by winning franchises and building systems from the ground up; Rifkin and Daniels quickly built ATC into one of the largest industry players by buying existing cable systems. Rifkin had hoped to merge ATC with Cox Cable in 1972, but the deal was nixed by federal regulators on antitrust grounds. Shortly thereafter, Rifkin turned his sights on Continental.60

Hostetter was serving as NCTA chairman at an industry meeting at the Del Coronado Hotel in San Diego in 1973 when he felt a sharp pain in his back as he tried to stand up. He slumped down and had to be carried out of the hotel on a stretcher to a hospital, where he was diagnosed with a herniated disk. A close friend, Jim Vernon, was a surgeon at the Newton Wellesley Hospital outside Boston, so Hostetter flew back East and was placed in traction until he could be operated on at Massachusetts General Hospital.

While he was waiting for surgery, Hostetter had a visit from none other than Monty Rifkin. “Irv has been talking with Monty, and Monty comes in and is pleading with me at bedside that we ought to put these companies together,” Hostetter recalled. “As vulnerable as I might have felt at that moment, there was no part of me interested in that deal.”61

The Continental founders saw no reason to cede control of their growth engine to an outsider, even one for whom they had high regard. “Neither Irv nor I could contemplate working for somebody else,” Hostetter said.62 Not only did he avoid selling the company, but thanks to Dr. Vernon’s good advice, Hostetter avoided back surgery and recovered sufficiently to walk out of the Newton Wellesley Hospital a week later.
“THIS IS A GOOD TIME TO BE A PRIVATE COMPANY”

Grousbeck succinctly summed up the founders’ position on ATC and other buyout offers as he wrapped up his May 9, 1974, letter to stockholders reflecting on the events of 1973:

> After several merger discussions with American Television & Communications Corporation of Denver, both parties concurred in terminating negotiations last month. We believe that this is a good time to be a private company. Our objectives continue to be to increase the inherent per-share equity value of Continental’s stock through the ownership and operation of cable television properties. We expect to sustain our pattern of substantial growth: our budgets for 1974 project year-end subscribers totaling 125,000; preliminary estimates show approximately 165,000 subscribers at year-end 1975. We are modestly optimistic that this 30% annual rate of growth can occur without the infusion of new equity funds.”

Continental’s senior leadership forged personal and professional bonds with legislators from across the country, including Democratic US Senator Edward Kennedy.
Continental also enjoyed a good relationship with Massachusetts’ Republican US Senator, Edward Brooke, who strongly supported Hostetter’s appointment to the Corporation for Public Broadcasting board of directors. Brooke’s chief of staff, Hardy Nathan, attended Amherst College a few years before Grousbeck and Hostetter.

Continental was starting to hit its stride as the cable industry entered the latter half of the 1970s. Its growth rate was impressive. Still, Continental needed to maintain its positive momentum and more, as it was about to experience the most intensively competitive era in the history of cable television—and undergo a dramatic change in its own leadership.
CHAPTER THREE

Transforming the Business
THE TREE-LINED STREETS OF LANSING, MICHIGAN, may not have seemed out of the ordinary to the average visitor in the fall of 1975. But to Tim Neher, they represented the leading edge of communications technology. And the cable television system that Continental’s crew was building in Lansing that fall marked a dramatic improvement over existing systems.

Compared to the 12 channels offered by Continental’s nearby Jackson system and most others in the country, Lansing was then a state-of-the-art, two-way, interactive 36-channel system. Neher was convinced that the threefold jump in channel capacity positioned Continental to play a leading role in the coming transformation of the cable industry. And driving that transformation was the advent of cable-only programming.

“Installing the system was hard work, but it was magical because we knew we were right on the leading edge. I know that sounds crazy, but we knew it,” Neher said. “We didn’t know the full extent or the speed at which it was going to occur, but we knew something really big was going to happen and we were in the middle of it.”

« Continental Cablevision developed four-color brochures as part of often elaborate franchise presentations made to city and town authorities such as Oak Park, Illinois, in the late 1970s.
The future of the cable television industry would become inextricably linked to satellite delivery of TV signals as the 1970s progressed.

“CABLE-EXCLUSIVE PRODUCT”

The mid-1970s marked a watershed in the development of the cable television industry — and of Continental itself. Rapid advances in the technology used to transmit television signals via satellite, and leaps in the sophistication and capacity of the systems being built, meant that the industry was entering a new era. After 25 years of functioning primarily as a community antenna service for local and regional broadcast signals, cable television was now able to provide a variety of new programming to consumers. It represented a new source of home entertainment and news, and a major new source of revenue for cable companies.

“It was a huge turning point when those programming services began and were distributed on satellite,” Hostetter said. In the late 1970s, “all the markets we were
franchising were dependent on this. Chicago, St. Louis, Boston, Richmond all had plenty of good broadcast television . . . so success there was predicated on offering cable-exclusive product.”

The availability of cable-only programming took the franchise wars to new levels, sparking surging cable growth nationwide. Suddenly, companies could bring cable into suburbs and central cities. Residents clamored for new movie and sports channels. It didn’t matter how many broadcast channels they received; only cable provided these new sources of home entertainment.

**SATELLITES “COULD BE REALLY GOOD” FOR CABLE**

After decades of being the stuff of science fiction, the widespread use of satellites to transmit commercial television signals was finally becoming a reality by the early 1970s. The cable television industry had long been divided on the subject of satellite transmission of TV signals. The question was whether satellites might also pose a competitive threat to their industry, and if so, when?

An industry group led by Gerald Levin, head of Time Inc.’s Home Box Office pay-television service, decided in 1975 that the cable industry should try to make satellite technology work for them, not against them. It arranged for HBO to be the only service in the United States to carry live via satellite the much-anticipated boxing rematch between heavyweights Muhammad Ali and Joe Frazier. The 14-round fight occurring halfway around the world in Manila, Philippines, was carried live by HBO on the evening of September 30, 1975. With Ali the ultimate victor, it was a bout for the ages.

The sensational fight gave HBO, which only a few years earlier had begun using microwave transmission to deliver movies to select cable systems, overnight credibility with operators. As word of the historic fight carried via satellite and HBO’s movie offerings spread, cable customers began clamoring for the pay-TV service. HBO nearly tripled its subscriber base to 765,000 by the fall of 1976. The modern era of cable telecommunication programming was born. Indeed, the name HBO became almost synonymous with cable.
Satellite’s Role

Trygve Myhren, a highly touted consumer marketing executive, visited Lewis Wharf in late 1974 to ask Hostetter what he thought about the potential impact of satellite. Myhren had met Hostetter and Grousbeck through his sister, who worked at Harvard Business School. Myhren had been offered a senior position at ATC by Monty Rifkin but wanted to get Hostetter’s thoughts on whether satellites might effectively put the cable companies out of business by beaming TV signals directly into people’s homes.

As Myhren recalled, “Hostetter said, ‘Anybody who’s intelligent is going to know that there’s a risk here. But we looked at it hard, and we think that satellite transmission will actually reduce cable’s long-distance transmission costs. Satellite may eventually become a true direct-to-home competitor to cable, but we don’t think so in the near future.’” Partly on the strength of that advice, Myhren hitched his future to the cable television industry and later succeeded Rifkin as CEO of ATC. He subsequently served as COO of the Providence Journal Co. and became a Continental director. And Hostetter’s analysis of the role satellite technology would play was borne out over the next several decades.
HBO spurred tremendous demand for cable television, with its unprecedented live coverage of the “Thrilla in Manila” heavyweight bout between Muhammad Ali and Joe Frazier.

TED TURNER AND CABLE PROGRAMMING PIONEERS

In the early 1970s, Ted Turner owned two broadcast television stations in the southeastern United States. He recognized the business potential of cable television, and by mid-decade, his stations’ signals were reaching nearly a half-million cable subscribers in the region. Once he learned of HBO’s plans to carry the heavyweight fight via satellite, he quickly grasped the medium’s potential to greatly extend the reach of his broadcast signal across the entire country.

As of December 1976, Turner’s Atlanta “superstation,” which was soon renamed WTBS (for Turner Broadcasting System), was broadcasting to cable systems using RCA’s Satcom satellite. The initial offerings, which consisted of reruns of movies and
television programs, and coverage of Atlanta’s Hawks basketball and Braves baseball, were not destined to win any awards. But customers loved it because the station offered programming 24 hours per day, an unprecedented schedule for most broadcasters of the era. Two other so-called superstations, WGN in Chicago and WOR in New York City, scrambled to get their broadcast signals on the RCA satellite as quickly as possible.7

An avid sportsman, Turner captained the Courageous to victory in the 1977 America’s Cup sailing competition. He nonetheless passed up an opportunity to launch a cable sports channel on satellite. He didn’t get a second chance, as Madison Square Garden Sports launched in 1977 in the lucrative New York market. The following year witnessed the birth of a small Connecticut media venture: Entertainment and Sports Programming Network. Today known globally as ESPN, the company became the go-to source for cable sports programming and eventually the most profitable component of Disney/ABC.

Entertainment entrepreneur Ted Turner helped drive the expansion of the cable television industry by having his Atlanta “superstation” broadcast old movies through the night while the competition ran test patterns, in a precursor to CNN, the 24-hour news concept that Turner pioneered.
For the balance of the decade, it seemed as if a new cable network launched nearly every six months. The Showtime movie channel, Christian Broadcasting Network, USA Network, and Arts & Entertainment suggest the broad range of interests the first wave of cable programming was aiming to serve. Nickelodeon, cable’s answer to the award-winning children’s programming carried on PBS, launched in 1979.

Ted Turner floated the idea for a 24-hour cable news network at industry events in 1978 and 1979 before launching CNN in 1980.

Turner made up for missing the sports channel opportunity by creating Cable News Network (CNN). When he floated the idea of a 24-hour all-news cable channel in 1978 and 1979 at cable industry events, he was met with a less than enthusiastic response, if not outright derision. Some even referred to CNN as the “Chicken Noodle Network.” Who was going to watch news 24 hours a day? Turner doubled down on the concept, selling one of his broadcast stations to raise $20 million to bankroll CNN. The all-news network launched on June 1, 1980, and after five years turned a profit. Turner made a big but less successful bet in acquiring MGM Studios. Later in the 1980s, Continental joined a group of leading cable companies to bail Turner out of financial trouble by taking a minority stake.
in his company. The decision was motivated by a recognition that CNN had become the gold standard for authoritative reporting of breaking news around the globe and was highly valued by cable subscribers.

**C-SPAN: “CABLE HAD TO DO IT ALL”**

In the mid-1970s, Brian Lamb, then the Washington bureau chief of *CableVision* magazine, reached out to Hostetter, whom he had first met when Lamb worked in the White House’s Office of Telecommunications Policy, about creating a cable television public affairs network.

Early in his career, Hostetter became involved with Boston’s highly acclaimed public TV station, WGBH. Hostetter was also named to the Corporation for Public Broadcasting board by President Ford in 1974. Knowing the dedication and amount of work that went into producing quality public affairs programming on PBS, Hostetter was skeptical.

Hostetter initially didn’t embrace Lamb’s cable-only view of the project. But he hadn’t anticipated Lamb’s insistence that the cable industry blaze its own path in public affairs. Nor did Hostetter fully appreciate Lamb’s stubborn streak, which would serve Lamb well in creating and sustaining what would become the Cable-Satellite Public Affairs Network (C-SPAN).8

*Continental’s Bob Clasen and Amos Hostetter* chat with Brian Lamb, right, in 1976.
“I felt very strongly that if this was going to work, cable had to do it all,” Lamb said. “Had to pay for it, they had to do it, and they would get credit for it. And if they did a joint venture with public television, we’d never see the credit. That simple.”

In 1977, Lamb again approached Hostetter and heads of other major cable companies about forming C-SPAN. Over the previous year, he had been distributing to them videotaped interviews of leaders of both houses of Congress in an effort to whet their appetite for public service coverage. He had even managed to get time on a satellite transponder during the day, when HBO was not utilizing it, to transmit live coverage of the US House of Representatives’ Committee on Interstate and Foreign Commerce, which oversees communications industry regulation.

Brian Lamb worked in the White House’s Office of Telecommunications Policy and later as CableVision’s Washington bureau chief before rallying the cable industry to create a public affairs network, C-SPAN, which launched in 1979.

By the spring of 1978, Lamb had pulled together a 22-member board comprised of cable system operators, including Continental. By then, Hostetter had become convinced that Lamb was right when it came to C-SPAN being a cable-only enterprise. Each of the board members’ companies committed to providing $25,000 annually, giving Lamb a total operating budget of $450,000. Keeping expenses to a minimum, Lamb was able to launch C-SPAN less than a year later, in March 1979, from a small studio at John Evans’ ARTEC cable system in Arlington, Virginia. It cablecast live
sessions of the US House of Representatives, and the coverage was carried by 350 cable systems serving 3.5 million homes. Coverage of the US Senate on C-SPAN2 was added in 1986.\textsuperscript{10}

\textbf{DOING THE RIGHT THING}

Hostetter eventually served as chairman of the C-SPAN board and became so committed to the network’s public service programming that he made a rare exception to Continental’s decentralized decision-making and mandated that every Continental system carry C-SPAN from the day it launched. There was little pushback.\textsuperscript{11}

Lamb cajoled each of his board members in turn to put C-SPAN on all their systems so the industry could have as great a public impact as possible with the new service. There was grumbling in certain quarters, but the industry clearly recognized the positive impact C-SPAN would have on cable’s image in Washington in particular. And they acknowledged that the network was a way for operators to give back to their communities. C-SPAN now reaches all 85 million US cable and satellite households.\textsuperscript{12}

\textbf{“THIS GUY LOOKS FAMILIAR”}

Hostetter’s industry activity heightened Continental’s profile on Capitol Hill. In 1975, he testified before the House Communications Subcommittee. A new member of the subcommittee was Timothy Wirth, a Democrat representing a suburban Denver congressional district who was one of the Watergate Class of 1974 elected following the resignation of President Richard Nixon. His district included or was near the headquarters of many of the cable companies based in Denver, then the nation’s “cable capital.” Wirth had gotten appointed to the House telecommunications subcommittee and in the absence of the subcommittee chairman, Rep. Torbert Macdonald of Massachusetts, often found himself, as a freshman congressman, chairing subcommittee hearings.

During one such session, Wirth gestured to his 27-year-old legislative assistant, Robert Sachs, and gave him a note for delivery to the man about to testify. Wirth later described
the NCTA witness as this “clean-cut, articulate, Harvard Business School-trained cable industry advocate.” As Hostetter took his seat, Wirth recalled, “I’m sitting there thinking this guy looks familiar.”

Representative Timothy Wirth, a former Army buddy of Hostetter’s, viewed the cable industry as much-needed competition for AT&T. He arrived on Capitol Hill in 1974 as one of many Democrats who were swept into office following the resignation of President Richard Nixon.

Wirth realized—as did Hostetter, as soon as he read the note—that the two had met more than a decade earlier. They had become “very good buddies,” as Wirth recalled, in the early 1960s doing KP duty while serving in the US Army at Fort Devens outside Boston.

POLE ATTACHMENTS

To the more senior members of the subcommittee, the issue at hand—AT&T’s and the electric utilities’ fight with the cable industry to extract as much money as possible from cable operators for the right to attach coaxial cables to the utilities’ poles—might have seemed worth skipping. This commercial struggle over pole
attachment fees had been going on for nearly 25 years. But Wirth sensed in the issue an opportunity to promote innovative entrepreneurs against an entrenched monopoly—just the sort of crusade that would inspire those who went to Congress after the fall of Nixon to try to reform government institutions.

Hostetter and Jay Ricks, a highly respected partner and communications practitioner at Hogan & Hartson, made frequent visits to Wirth’s office on the fifth floor of the Cannon House Office Building, where they educated Wirth and Sachs about pole attachments and the complexities of utility regulation. Looking back on that period, Sachs recalled, “Amos and Jay became my new best friends, with Jay even offering a draft bill for Tim to consider introducing.” Another frequent visitor to the Wirth office was Tom Wheeler, the dashing young executive vice president of the National Cable and Television Association. Due to their collective efforts, Wirth eventually introduced a bill to authorize the FCC to regulate pole rentals in the absence of state regulation.

During the summer of 1977, Sachs left to work for the White House Office of Telecommunications Policy, but David Aylward, his successor on Wirth’s staff, continued to work with Hostetter, Ricks, and Wheeler to get the pole attachment bill enacted.

The multiyear dispute with AT&T and utility companies over pole attachment rates brought Hostetter to Capitol Hill on a regular basis.
By 1978, with the active support of Ricks and Hostetter, NCTA President Bob Schmidt, and Executive Vice President Wheeler, Wirth was able to drive through legislation—the first to bear his name as a co-author—that constrained AT&T’s and the electric utilities’ ability to unilaterally set pole attachment rates. Though seemingly mundane, it was a critical issue that allowed the cable industry’s rate of growth to accelerate.

_NCTA Executive Vice President_ (and future FCC Chairman) Tom Wheeler, center, worked closely with Representative Tim Wirth to pass legislation that limited AT&T’s and utility companies’ ability to unilaterally set rates they charged cable companies to attach cables to their poles. Pictured with Wheeler: Wendell Bailey, Brenda Fox, Char Beals, Jim Mooney, Kathryn Creech, and other senior staff members.

It was also, tellingly, the first time that the cable television industry was cited by name in federal legislation. For many in the industry, the legislation marked the arrival of the cable industry as a true player on the national stage. Wheeler, who to this day proudly displays a commemorative cross-section of a utility pole on his office wall, gave the lion’s share of credit for making it happen to Hostetter. He credited him with the “logical structure” within which the two sides could reach agreement. “It was not prescriptive in terms of a specific rate, but it bounded what the costs could be, what the price would be,” Wheeler said. “And that was all Amos.”
INSURANCE COMPANY SUPPORT

During this period, in addition to taking a lead role in the public policy arena, Continental remained in the industry’s innovation vanguard by securing long-term financing from a group of three major insurance companies led by Boston-based John Hancock Mutual Life Insurance Co. On March 16, 1977, Continental issued to the insurers $30 million of senior notes with a fixed interest rate of 10.5 percent, payable through 1992. The terms were dramatically more favorable than those Continental had been able to secure to fund its Michigan systems only a few years before. They were a harbinger of the rapidly improving prospects for the industry as the US economy improved and new sources of programming would help the industry extend into more prosperous suburban communities.20

“This was a gigantic deal for the industry and for our company,” Tim Neher recalled. Prior to this financing package, “insurance companies had never lent money to cable companies. This was long-term money.” It was also a vote of confidence in Continental’s long-term prospects by a group of lenders that traditionally took a very conservative approach to where they lent their money.21
CINEVUE DEBUT

Continental actively embraced the changes that were sweeping the cable industry. In 1976, Concord, New Hampshire, became the first Continental system to carry HBO via microwave feed using existing microwave towers in New England. Other systems soon followed, and by the end of 1976, five of Continental’s systems were carrying HBO, and 17,000, or slightly more than 10 percent, of the company’s 168,000 basic subscribers were receiving the pay-TV service.22

In Michigan, Tim Neher and Rod MacLeod thought HBO was pretty impressive but far from perfect. First, it was expensive, costing more per month at the time—$8.95—than a typical subscriber’s basic cable package. And not enough of the HBO fee ended up going into Continental’s coffers after the network had taken its cut.

The Michigan managers reasoned that they might be able to launch their own pay movie channel. They would price it significantly below HBO’s going rate and still earn more per subscriber than they could with HBO. They sought the support of Continental’s then-marketing chief, Tom Willett.

“They sprung it on me when we were driving from Lansing to the system in Jackson, Michigan,” Willett said. “‘What do you think of a mini pay-TV service? We’ll sell it for three dollars, new movie every week, reruns, and we’re going to do it with tape, no satellite time. Do you think we can sell it?’”23

Continental art director Carol Thieman provided creative talent for the marketing materials used to promote Continental’s fledgling Cinevue movie offering.
Taking his cue from public television, Continental marketing executive Tom Willett used telethons to drum up subscribers for Cinevue. Pam Wilson, also a member of the marketing group, co-hosted during this 1977 telethon.

Willett’s initial reaction was to question whether the Hollywood studios would give two cable guys from Michigan the time of day, let alone the same movies they were licensing to HBO. But if that end of the deal fell into place, then, sure, he could sell it to Continental subscribers.24 Their plan to deliver actual tapes of movies to their systems meant they could keep costs relatively low by avoiding transmission charges. Neher found a former HBO employee who knew his way around the movie business and found that the studios were willing to do business with Continental.25

A CRAMPED BEGINNING
Continental chose its Xenia, Ohio, system as the launch site for Cinevue.26 Willett planned on doing the launch live on the local system, borrowing the format of a public TV telethon and urging subscribers to call in and sign up for the new pay service.

McLeod’s and Neher’s idea was to price the bundled basic and Cinevue “mini” service at less than $10 a month; the initial price for Cinevue was set at $2.95.27
Family Fare

Cinevue was marketed as providing films suitable for the whole family, as opposed to the more risqué lineup on HBO and later Showtime. Early Cinevue offerings included \textit{Robin and Marian}, starring Sean Connery and Audrey Hepburn, and Alfred Hitchcock’s \textit{Family Plot}. Arrays of videocassette players were installed at each headend, and the tapes were loaded by hand. To better understand how the system worked, Neher himself occasionally ran the tapes in Lansing. Phones rang off the wall when it took him more than a minute to switch tapes.

Continental employees worked the phones on-air during Cinevue telethons, promoting the service’s family-friendly movie selection.

Willett deserved a good share of the credit for making Cinevue a success, but he also recognized that his poor planning almost sabotaged the entire effort. He neglected to visit the headend building in Xenia where he planned to host the Cinevue launch event. The room was crammed with electronics, leaving barely enough room for two barstools. His cameraman had to prop open the door and tape from the parking lot. Making a bad shoot worse was the fact that it had snowed heavily the night before and the temperature had plunged overnight. The cameraman ran inside between takes to try to warm his hands in the small makeshift studio.
Even after making everything work on the production side, Willett realized his scheduling was less than ideal. He had forgotten to check the television listings and was running the Cinevue launch in direct competition with the finale of Roots, the blockbuster miniseries based on the book by Alex Haley.31

Despite such mistakes, Continental’s movie service was a big success. Within a matter of days, Continental added 1,950 Cinevue subscribers in Xenia, equal to 39 percent of its subscriber base there. For the next rollout of the service in the Dayton suburb of Huber Heights, Willett and his co-host Pam Wilson prerecorded their on-air promotional segments. To help with publicity, Continental employees sporting Cinevue T-shirts delivered popcorn in Cinevue containers to Huber Heights subscribers.32

Continental experienced tremendous demand for its pay-television service in virtually every system it operated in 1978 and raised the Cinevue price to $3.95/month, still less than half HBO’s monthly fee. As the company continued to develop its franchises in suburban Dayton during 1978, initial basic cable penetration was running at about 31 percent of the homes in the market. Not bad for a first pass. But an astounding 91 percent of those subscribers “were also taking [Continental’s] $3.95 per month mini-pay option,” the founders informed their stockholders.33

Aggressive pricing helped make Cinevue, advertised here on a billboard in southwestern Ohio, second only to HBO among cable pay-television offerings.
Even though Cinevue was an unqualified success, the writing was on the wall for the innovative “mini” offering: It was spelled HBO. In late 1978, Continental’s Methuen, Massachusetts, system began offering subscribers HBO for $8.95 a month, in addition to Cinevue for $3.95. “The startling result was that about two-thirds of our mini-pay ($3.95) customers upgraded to the maxi-pay Home Box Office service,” Grousbeck and Hostetter told Continental stockholders.34 In early 1979, Continental began offering HBO to nearly all its Cinevue customers and predicted a $1.3 million boost to the company’s annual operating income as subscribers flocked to HBO.35

WILLING TO WALK AWAY

By 1979, HBO was courting Continental and other system operators to make its pay channel the preferred choice on their systems over rival Showtime. Taking a lesson from Continental, HBO also introduced its own “mini” pay channel, called Cinemax. Continental sent a team of its regional leaders to New York to negotiate with HBO and Showtime to get the best deal possible they could get by positioning one of the pay TV channels as its “preferred movie service.” Continental’s plan was to phase out Cinevue, even though it had been an industry-leading pay-TV solution for its time.

Continental’s negotiating team drove a hard bargain with HBO President Nick Nicholas in 1979. But within a year, Continental became HBO’s number-one distributor.
The Continental team of Tim Neher, Chuck Younger, Tom Willett, and Buzz Goodall shuttled between meetings with Showtime and HBO negotiators in midtown Manhattan, trying to wring the best deal out of the rival providers. The HBO team feigned outrage at the offer Continental had elicited from Showtime and stormed out of their conference room in Time Inc.’s headquarters building. “We really wanted to do a deal with HBO, frankly, because we thought their programming was better,” Goodall said. “So the HBO guys leave the room because they are sort of saying what we’ve asked is really unreasonable, so we knew we were getting to their breaking point.”\(^{36}\) The Continental executives weren’t sure it was worth waiting around, especially since it had started snowing heavily outside.

“So somebody said, ‘What do we do next?’” Goodall recalled. “And I said, ‘Tell Younger to put on his galoshes.’ Chuck had come in from Ohio and had overshoes because, you know, he’s from the Midwest. So as they [the HBO team] come back into the room, Younger is putting on his galoshes.”\(^{37}\)

Fearing that they were about to lose Continental’s business, HBO caved and agreed to the company’s terms. “Ten minutes later, we were in HBO President Nick Nicholas’s office having a drink celebrating the deal.”\(^{38}\)

**OPENING THE SUBURBS TO CABLE**

As Continental’s early success in the suburbs of Dayton attested, pay TV and the increasing amount of cable-only programming was opening up America’s rapidly growing and increasingly affluent suburban market to cable television, despite the fact that most suburban homes received at least three or four off-air television channels. By the spring of 1979, Continental shared with its stockholders that it had its suburban game plan in place, and the right team of experienced regional and local managers to lead the charge. The “franchising wars” were on:

The widespread acceptance of optional pay programming services, both in the Company and throughout the CATV industry, has brought an awareness that many localities previously considered unsuitable for cable television have suddenly become viable and attractive. Continental, in addition to continuing its franchise acquisition efforts in smaller and medium-sized cities (the so-called classic
markets), is now focusing as well on suburban areas surrounding some of the country’s major cities.

Fortuitously, several of these areas are close to our existing operations, and thus can be analyzed and pursued by our key field people. Though these individuals seem fully occupied with day-to-day operations, they have accepted a new challenge to pursue suburban franchises in certain selected areas. We feel that the Company can sustain its record of franchising success and subscriber development in this relatively unfamiliar environment.39

VIRGINIA CAMPAIGN

By the mid-1970s, Buzz Goodall had let Grousbeck and Hostetter know that he was interested in getting out into the field and running a region. He got his chance in 1977 when Henrico Country, Virginia, a rapidly expanding suburban community of about 60,000 homes outside the state capital of Richmond, decided to award a cable television franchise. Continental, the 12th-largest cable company at the time, was competing with ATC, Cox, and Viacom, the second, fifth, and sixth largest cable companies, respectively, for the franchise.

Grousbeck and Hostetter both made more than their share of trips to Henrico County to help win what was clearly a high-stakes competition for the first of many suburban markets around the country. As Grousbeck noted, “Henrico County was where the battle was clearly joined.” Grousbeck, who took the lead in franchising Henrico, brought along with him the man who quickly became known as Continental’s secret weapon: Bill Clancy. Grousbeck had met Clancy earlier when Clancy, working for rival United Cable, handily beat the Continental team for the franchise in question. Grousbeck recalled saying to him, “Clancy, if you ever get sick of working where you are, come and talk to us.”40 Clancy, an attorney and former New York State assemblyman with an Irishman’s flair for storytelling, took him up on the offer and was quickly brought on as Continental’s director of corporate development, which meant he was a key player in the company’s bids for franchises across the country.
“From Here Up”

Bill Clancy’s signature franchising speech became famous, or infamous, if one was going up against him. Other Continental executives had honed their unique sales pitches. Grousbeck, for example, would speak so softly that New England town council members would lean toward him intently to catch every word, and Jim Wand would “kick the corn” as he shuffled back and forth and made his “aw-shucks” delivery in one Illinois town after another—but Clancy was the acknowledged master. Rival operators would start off listing the factors that they thought made their company unique, but Clancy took just the opposite tack. As Bob Ryan, who later worked with him on numerous Continental franchising efforts in the St. Louis and Chicago markets, recalled:

He would be pacing to give his speech, and he’d go, ‘You know, all cable companies are alike. We all use the same amplifiers. We all use the same cable, the same converters, and largely we deliver the same programs. You know, when I was born, the doctor said to my father, ‘Congratulations, you have a son. From here down he’s worth ten dollars a day. From here up, the sky is the limit,’ and that’s the same thing with cable companies, and that’s the difference with Continental. It’s from here up.” And he gestured from the neck up.

A former New York assemblyman with a gift for oratory, Continental’s Bill Clancy was an acknowledged master among the cable industry for his ability to both “wow” and “woo” local franchise decision-makers.
Continental enlisted Steve Dodge, its senior banker at First National Bank of Boston, to come to Virginia to reassure the local decision-makers that Continental was a strong operator, a good credit risk, and a company his bank was solidly behind. Dodge became so entranced with the cable business that by late 1978 he was setting up his own cable company, American Cablesystems. He remained on good terms with Continental even as he competed aggressively against it for franchises around Boston and elsewhere in New England. One of his first senior hires was Barry Lemieux, one of Continental’s Ohio district managers, who Dodge tapped as president of American Cablesystems.42

Continental won the Henrico County franchise and staffed the new Virginia region with plenty of leadership talent. Goodall was the general manager, and to lead the engineering effort in Virginia, Dick Ashpole moved to Henrico County from Michigan.43 Bill Schleyer, a promising Harvard Business School graduate who had felt constrained by the large company he had joined right out of business school, moved from the Boston area to Richmond to learn the cable business as Goodall’s assistant general manager.44

As Goodall was setting up offices in Henrico County, the City of Richmond announced that it would solicit cable television franchise bids. In Richmond, 90,000 homes were at stake, and Continental was pitted against five other cable companies. As the field
narrowed, Continental decided to form a joint venture with ATC, with each of them owning 40 percent, and the remaining 20 percent to be purchased by a group of local Richmond investors. With Continental operating the joint venture, they were granted the Richmond franchise in mid-1978. Henrico County and Richmond became the core of Continental's new Virginia region.45

EXPANSION PLANS
The pace of cable television franchising activity accelerated across the country. Tim Neher succeeded Rod MacLeod as head of the Michigan region in 1977, after MacLeod left to form his own cable company, Commonwealth Cable in Western Massachusetts, with financial backing from Continental investor Bill Egan, whom MacLeod had previously worked with at New England Merchants Bank. (A few years later, Continental bought a minority stake in the company and eventually purchased all of Commonwealth.) Neher immediately plunged into franchising in towns around Lansing, as well as several Detroit suburbs. He also pitched in and helped write Continental’s proposal for Richmond, Virginia.

Jeff DeLorme joined Tim Neher’s team in the Detroit area in early 1980.
By the late 1970s, the founders recognized that Continental was going to have to modify its hiring and promotion policies in order to keep growing at its current rate. Just a few years earlier, Continental had been able to fill vacancies by promoting from within—as had been the case with Neher following MacLeod to Michigan and succeeding him—but now the company was growing too rapidly for that model to continue. It had to look outside the company to find leaders who were a good fit with the Continental culture.  

Jeff DeLorme, an accountant by training, had become intrigued by the cable television industry in the late 1970s while working as a banker in the Detroit area. So when he saw a small ad that Neher had placed in the Detroit papers in 1979 looking for management help, he picked up the phone. “He had just won the Roseville franchise. It was the first franchise that Continental won in the Detroit suburbs,” DeLorme said. “Tim was planning on doing more franchising in the Detroit suburbs, and he wanted someone who could take over the operational responsibility.” DeLorme came on board in February 1980 and spearheaded Continental’s efforts over the next few years to flesh out its franchises in the Michigan region. 

**ENTERING THE CHICAGO MARKET**

Even though Neher felt as if he had his hands full in Michigan, Grousbeck and Hostetter asked him to take control of the franchising efforts in the suburbs of Chicago, as well. The company won its first franchise in the area in Morton Grove, Illinois, in 1979, with Neher actively overseeing Michigan operations and working with Bill Clancy on franchising presentations in the Chicago area. Grousbeck hired a general manager from a rival cable company to lead the Chicago expansion in 1979, but he didn’t work out. On the second try, Grousbeck told Neher it was his turn to find a replacement. 

Emmett White was hardly looking to change jobs when he received a call from Neher in 1980. After starting as a cable industry management trainee with ATC in Orlando, he was happily working for United Cable in Denver and rising through United’s ranks, running its suburban Denver operations. White was originally from New England; his wife, Ann, was
a fourth-generation Coloradan, and they both loved skiing. Nonetheless, he didn’t see any harm in meeting Neher at the Denver airport.

Neher had identified White’s potential soft spot for his recruiting pitch. United, run by industry pioneer Gene Schneider, and Monty Rifkin’s ATC were both very top-down organizations. Managers were rewarded well, but they didn’t have a lot of autonomy. Neher pointed out that White would be effectively running his own business in Chicago, with financial and other support as needed from headquarters in Boston.51

Neher wasn’t going to take no for an answer. “I sat down with him in an airport, and I said, ‘You’re not leaving this airport until you take this job.’”52 When White said he liked the idea but that he had to talk it over with Ann, Neher said that was fine: he would fly back to Denver the following week with his wife, Molly, and the four of them would have dinner. Since White would be bringing his wife with him, Neher knew that Molly would be the clincher in closing the deal. White and his wife moved to Chicago in January 1981.53

Emmett White was recruited in 1980 from United Cable to oversee the Chicago area.
Bob Ryan worked with Bill Schleyer and Bill Clancy to drive growth in the St. Louis area and then with Clancy and Emmett White in Chicago.

**ST. LOUIS**

In the fall of 1979, Bob Ryan, a native New Yorker, heard from his father’s longtime friend Bill Clancy that Continental was hiring for franchising positions in Chicago and St. Louis. Ryan had been working as a social worker for a decade and was ready for a change. So he flew to Boston to meet with Grousbeck. The two got along well, and Ryan said his preference would be to work in St. Louis. He assumed that Chicago was more like New York, and he wanted something completely different. Grousbeck said that sounded good, but the final decision would be up to Jim Wand, who was running the region and was in the process of moving his regional office from Quincy, Illinois, to the St. Louis suburb of St. Ann.54

Wand spoke with Ryan for a few hours and hired him on the spot. His only demand was that Ryan shave the beard and moustache that, while common in New York at the time, were a bit too counterculture for the suburbs of St. Louis. Support from other areas within Continental arrived in St. Louis to accelerate the push. Bill Schleyer, after working as Buzz
Goodall’s understudy in Henrico County, Virginia, moved to the St. Louis area to serve as vice president of operations. The Continental team worked well together, targeting several affluent suburbs surrounding St. Louis in what had become one of the most hotly contested markets in the country.

Regional vice president Jim Wand, right, with underground construction supervisor Larry Davis, left, and regional engineer Tom Jokerst, oversaw the company’s expansion into suburban communities outside St. Louis, Missouri, as the company added that state to its Illinois and Iowa region.

As in many small towns and suburbs around the country, the civic leaders in the St. Louis area were used to granting contracts to lay sewer pipe and pave streets among a relatively small and well-known group of contractors. They weren’t prepared for the onslaught of out-of-state cable companies that descended on their communities when it was time to bring cable television to town. “The cable issue is the biggest thing that’s hit here in 14 years,” Creve Coeur Mayor Harold Dielmann said in early 1980. “There’s a lot of pressure from the companies. It’s very intense.”

NEW ENGLAND RECRUITS

John Rakoske did his share of franchising presentations as Continental continued to expand in the New England region, moving into Massachusetts, in particular. But he let it be known in Boston that he could use some support as the pace of franchising began to
pick up. Fortunately, Hostetter had been contacted in early 1979 by Robert Sachs, who said he was looking to move from Washington into the private sector and had been intrigued by the cable TV industry, and Continental in particular. Since Sachs was handling public broadcasting legislation for the Carter administration while Hostetter was serving as a director for the Corporation for Public Broadcasting, the two had kept in regular contact after Sachs had left Wirth’s staff. Did Hostetter have any openings? He didn’t at the time.

“About three months later,” Sachs said, “Amos called to say that Continental was starting to gear up franchising in New England and thought that this might be an area where my skills could be used.”56 After passing muster with Grousbeck and Rakoske, Sachs made a brief trip to Chicago that summer to learn the ins and outs of franchising from the master, Bill Clancy.57 Accompanying Clancy to a town cable committee meeting at a local martial arts studio, Sachs got a quick sense of the truly local nature of cable franchising.

**DC “HARDBALL” IN TRANQUIL NORTHAMPTON**

Northampton, Massachusetts, quickly offered a test of Sachs’ resourcefulness. The company had applied for the Northampton cable franchise, but it had not been tracked very closely. This would be Sachs’ first assignment. Upon arriving in Northampton, he quickly discovered that the meeting he was to attend wasn’t the first of several public hearings on the applications, as was typically the case. It was to be the only hearing, and the city’s cable committee was planning to make its recommendation to the mayor at the end of the session.

The day before the meeting, Sachs, driving from Boston, stopped in Springfield, Massachusetts, to meet Continental’s attorney, Jim Krumsiek, who had been retained by Hostetter to help with franchise applications in the area. Krumsiek had attended Amherst College with Hostetter and Grousbeck. He reviewed with Sachs the list of competitors expected in Springfield. ATC, which had agreed to be purchased by media giant Time Inc. in late 1978, was there. Also on the list was Times Mirror Cable, which owned the Hartford Courant, the Hartford, Connecticut, cable system, and Greater Media Inc., from Passaic,
New Jersey. In passing, Krumsiek mentioned that Greater Media had recently withdrawn a franchise application from nearby East Longmeadow for lack of financing.58

Sachs and New England region engineer Bill Hinton attended the Northampton hearing along with John Frenning, a former town official from Wellesley, Massachusetts, who had been assisting Continental with New England franchising before Sachs was hired. Sachs wove into his presentation that Continental co-founder Grousbeck was in fact a proud native son of Northampton. That appeared to go over well, especially with the members of the city’s Cable Advisory Committee. But the other applicants appeared to be on a “first-name basis” with the cable committee.59

Robert Sachs, who first met Hostetter when Sachs was on Representative Timothy Wirth’s staff in Washington, joined Continental in 1979 to lead franchising efforts in New England.

Listening to Walter Veth, the presenter from Greater Media, and remembering what Krumsiek had told him about East Longmeadow, Sachs was surprised to hear Veth make the unqualified claim that Greater Media had never failed to build a franchise awarded to it. “Non-performance” was a sensitive issue in the industry, following the recession of 1973–1974 and subsequent lean years for the cable industry as a whole.60

Near the end of the hearing, Sachs, less than a month on the job, asked to be recognized. “I told the committee I was concerned about a statement made by the Greater
Media representative,” he recalled. “‘It was my understanding,’ I said, ‘that Greater Media had turned back the franchise in East Longmeadow not that long ago for lack of financing.’” An uncomfortable silence followed. The committee put their heads together and decided to put off the vote for a week or two while they investigated the issue. Hinton, Frenning, and Sachs walked out of the meeting together and headed for the parking lot. They heard Veth, the representative from Greater Media, walking behind them. He looked straight at Sachs and said, “I’m going to get you!”

When the cable committee reconvened a week later, they awarded the franchise to Continental. But after the vote, the Northampton committee chairman chided Sachs for playing “Washington hardball” in the laid-back college town, even though Sachs’ information had been correct.61

California Expansion

Continental’s California region grew slowly following its 1972 launch. Unable to carry the broadcast channels from nearby San Francisco outside its initial franchise area due to FCC regulations, Big Valley Cablevision struggled to achieve its financial targets. The promise of cable-only programming by the late 1970s helped turn the business around, as did the addition of a promising management recruit.

In the spring of 1979, General Manager Ray Joslin hired Barbara Sitkin, who had just moved back to California after receiving an MBA from the University of Maryland. Sitkin told Joslin she was interested in much more than her initial responsibilities as regional controller. She got her wish within a few months when Joslin spent much of that summer traveling, and she was left to run the operation. By that September, Big Valley began offering HBO, and Sitkin created its first marketing department in anticipation of further cable-only programming to come. She also took the lead in settling on favorable terms a years-long legal dispute with a real estate developer concerning the right to run cable through his residential development.62

“I just kind of felt like I was thrown into a deep barrel and had to climb out on my own,” Sitkin said. “And by doing it that way, actually in the long run, I got to know every facet of what was going on there.”63
It was a good thing she was a quick learner. In late 1979, Big Valley applied for the cable franchise in Manteca, about 15 miles south of Stockton. Joslin abruptly left the company at the end of the year, and Hostetter called Sitkin to tell her that she was the new general manager, after less than a year on the job. After agreeing to take over the effort to win the franchise in Manteca, she learned that several formidable California cable operators were also pursuing the franchise there.

Sitkin took the lead in settling on favorable terms a years-long legal dispute with a real estate developer concerning the right to run cable through his residential development.

Worried that she would look relatively insubstantial going it alone against some of the most experienced cable executives in California, Sitkin rallied the troops. She had every truck the company owned washed and parked in the parking lot outside the Manteca municipal building where the cable meetings were held. She printed up scores of Big Valley T-shirts, and her modest number of employees recruited more than 100 friends and family “ringers” to pack the meeting room and show their support. Big Valley won the Manteca franchise in 1980 and was poised for a new growth phase as FCC restrictions affecting the San Francisco and Sacramento market were relaxed.

TALENT COMPETITION

As the pace of franchising heated up across the country, so did the competition for quality talent in the cable industry. Engineers were attracted to Continental based on its commitment to technological innovation, which by 1980 meant systems with 54 channels—more than four times the channels offered by the typical cable system a decade earlier. And regional and system managers wanted to work for Continental thanks to its decentralized operating philosophy. But the very fact that Continental was attracting some of the best and brightest meant that rivals were always looking to pick off Continental’s talent.
Employees of Continental’s Big Valley Cablevision system in Stockton, California, were enlisted by General Manager Barbara Sitkin to help with the nearby Manteca, California, franchise.

Continental had had a stock options program in place since 1969, but it was cumbersome and required the company to issue significant amounts of stock. To provide an even more attractive compensation package that would provide valuable retention incentives, Continental introduced an innovative restricted stock purchase plan in 1979. Continental effectively sold stock to key management employees for one cent a share and loaned them funds to pay taxes on the value of the shares at the time. The loans in turn were forgiven over a number of years if the employee stayed with the company. It was a highly valued compensation plan that over time provided significant rewards for those who participated. In the March 1979 letter to shareholders, Grousbeck described the key players for whom the plan, which included additional employees over time, was designed:

This gives me an opportunity to describe briefly the group of people who fill our top field management, engineering, marketing and corporate development positions. These 14 individuals average 38 years of age and slightly more than eight years of service with Continental. All of the eight who do not have engineering responsibilities hold bachelor’s degrees, and five of those eight have advanced degrees. Though their backgrounds and geographical origins are diverse, two
The Pilot House

As the pace of franchising picked up in the Boston area, Continental’s founders realized they had a problem. Their low-rent headquarters, which had been an asset when it came to impressing bankers and investors with Continental’s frugality, was a liability in the eyes of civic leaders who were considering whether to award Continental the cable franchise for their community. Grousbeck and Hostetter could talk all they wanted about their excellent track record and backing from their banks, but the Tow Boat Building at the end of Lewis Wharf made them look like fly-by-night operators. “If we were to effectively franchise, particularly in the Boston area, a more ‘prestigious’ home office was necessary,” Hostetter told company directors.

In 1980, Continental moved 200 feet from the Tow Boat Building to The Pilot House on Lewis Wharf.

By the summer of 1979, they were surveying the downtown Boston real estate market and researching construction of their own building. Not finding anything to their liking, they decided to lease office space on the third floor of The Pilot House, the historic redbrick structure on Lewis Wharf that had housed harbor pilots beginning in the 1830s. In February 1980, Continental signed a letter of intent to buy the entire building for $3.1 million. While the building underwent numerous renovations and additions over the years, it remained Continental’s headquarters for the life of the company and became the company’s signature “home.” Hostetter eventually bought it from US WEST and continues to work from the third-floor office overlooking Boston Harbor that he first occupied in 1980.
common threads are their organizational ability and interpersonal skills. The Company values them as a principal resource, and considers it vitally important that this group continue to be boldly challenged and amply rewarded.68

MORE TAKEOVER INTEREST
Continental’s mounting success and the cable industry’s improving fortunes as the 1970s progressed continued to generate outside interest. A portion of every quarterly board of directors meeting seemed to include a who’s who of potential suitors or investors sizing up the company:

(SEPTEMBER 1978) “Mr. Grousbeck and Mr. Hostetter commented briefly as to certain discussions had with representatives of General Electric Co., and New York Times Company, as to possible acquisition of this Corporation. It was stated that discussions were very tentative and general in nature, but that further discussions might be had. They reported that discussions with the Harte-Hanks Communications group had been terminated.”69

(FEBRUARY 1979) “Mr. Grousbeck then reported briefly as to further contacts had with companies expressing an interest in acquisition or affiliation with this Corporation. He noted that 20th Century Fox had initiated further contact and had been sent updated financial information, having indicated a possible interest in submitting a cash offer. He also described a contact had with Westinghouse Electric whose Group W Division operated CATV franchises having about 50,000 subscribers.”70

In May 1979, directors were notified that the company had received expressions of interest from a wide range of potential suitors. Media companies including Gannett had come knocking, as had American Express and Pan American World Airways. Some of Continental’s venture capital investors could hardly contain themselves at the thought of finding a buyer for their shares that had appreciated dramatically in value. Were the founders sure they were taking this kind of interest seriously? The carefully worded minutes from the May 1979 board meeting clearly convey some of the tension involved between the investors and the founders:
Mr. McCance stated he understood the policy of the Corporation as to acquisition was to maintain a posture of keeping on the job with its business but considering openly and carefully any offers that were tendered. He raised the question, however, whether a more aggressive posture should be considered. Mr. Hostetter pointed out that being publicly aggressive in this area could be harmful in connection with seeking new franchises.  

MANAGEMENT TRANSITION

By 1980, Continental had changed dramatically from its formative period of the 1960s and early ’70s. With more than 250,000 subscribers, it had entered the ranks of the industry’s top 10 cable companies in terms of subscribers. Regional and local management created a fair amount of distance, figuratively speaking, between the very small headquarters staff in Boston and front-line employees and customers.

Grousbeck was growing restless with the increasingly institutional nature of the company. He missed the entrepreneurial feel and challenges of the company in its early years. “I was a long way from the front lines. I wasn’t seeing customers, I wasn’t seeing people who see customers. . . . And while it still had an entrepreneurial flavor, it was starting to take on more of an operating color. And it wasn’t as much fun for me.”

Having devoted more than 15 years of his life to Continental, and having been well rewarded, at least on paper, as his stake in Continental significantly appreciated in value, he conceded that he was more sympathetic than Hostetter to the views of certain of Continental’s longtime shareholders with respect to liquidity.

I had a different view of whether we had obligations to offer liquidity to longtime shareholders or not, whether they should find their own liquidity avenues. By then we were a 15-year-old private company. Some of the people had invested for 10 years or more, in the business. . . . And they’d made a ton of money on paper, but didn’t we want to think some about providing periodic liquidity opportunities? That was not something that was appealing to Amos, or a way that he thought we should spend our time and resources.
With Hostetter and the board committed to maintaining Continental’s current path of continued investment in the business, Grousbeck decided to renew his entrepreneurial interests by returning to Harvard Business School as an instructor. “It was at that point that I decided it was a good time to leave. Amos could run the company, which he did with high distinction thereafter.”

By 1980, Irv Grousbeck found that his day-to-day role with the company was less fun than it had been in the formative years. He elected to pursue other entrepreneurial interests and returned to Harvard Business School as an instructor.

In 1985, Grousbeck and his wife, Sukey, decided it was time for further change. Grousbeck asked the Harvard Business School dean to reach out to his counterpart at Stanford Graduate School of Business in Palo Alto, California. Stanford had a one-year opening for an entrepreneurial management instructor and decided that Grousbeck sounded like a great fit. The Stanford dean decided to offer Grousbeck a permanent, nontenure-track position in the wake of student evaluations that were “off the charts.” His classes continue to get top billing among Stanford’s budding entrepreneurs, and over the years Grousbeck has invested in scores of highly successful ventures started...
PUTTING A NEW TEAM IN PLACE

Beginning his sixth year in Michigan, Tim Neher loved his job but felt as if he were being asked to juggle a new responsibility almost every month. While Neher thrived on challenges, he worried that he was being stretched beyond the breaking point, and that it was only a matter of time before the folks back in Boston started wondering what he was doing in Michigan. So when he received a call from Hostetter, who said he was coming to Lansing and taking him out to dinner, Neher was uncertain about Hostetter’s reason for visiting.

After a bit of small talk about their shared passion for golf, Neher did his best to beat his boss to the punch and run through all the challenges he was facing in the region. Hostetter listened patiently. Then he told Neher of Grousbeck’s decision to return to teaching. “He then said, ‘I want you to come back to Boston and work with me in building this company. There is more going on in this industry and company than any one person can handle.’” Hostetter invited Neher to come back to Boston as executive VP and CFO but essentially to partner with Hostetter in running the company.

Tapping the 32-year-old Neher to join him in The Pilot House was a bold move. In Hostetter’s view, however, “it was probably the best single decision I ever made at Continental.” It added a smart, energetic, and charismatic leader at the top and positioned the company extremely well for the dramatic growth it would experience in the decade ahead.
Hostetter tapped Tim Neher to return to Boston from Michigan and help him run Continental, initially as chief financial officer but eventually as president and chief operating officer.
THE EARLY 1980s WITNESSED AMERICA’S WORST ECONOMIC downturn since the Great Depression. The Reagan administration struggled to get sky-high interest rates and inflation under control by shrinking the money supply, making it harder for companies to borrow and grow. The effort to right the economy was ultimately successful, but in the process businesses reeled and bankruptcies spread. Then there was Continental.

As the decade progressed, Continental shifted into overdrive. Its number of basic subscribers soared, and its number of pay-TV subscribers grew at an even faster rate. To meet mounting financing needs, Continental considered a public stock offering in 1981 before finding a strategic investor in blue-chip media player Dow Jones & Co. That freed Hostetter and his new second-in-command, Tim Neher, to focus even more intensely on driving growth.

« Continental Cablevision’s autonomous management regions grew rapidly during the early 1980s, keeping most decision-making authority as close as possible to their customers. This map, which appeared in the April 19, 1982, issue of CableVision magazine, offers a snapshot of the company’s activities at that date.»
Amos Hostetter congratulates Ohio Vice President/General Manager Lyle Kneeskern on the region’s 250,000th subscriber in 1980.

Continental continued to compete aggressively for key franchises in its market areas, for the most part clustering new systems in its existing regions to drive economies of scale. As Hostetter told his stockholders in the spring of 1981, “Our new franchise activities have been focused in the suburbs of five major cities in areas where the Company has an historical presence [Boston, Chicago, Cleveland, Detroit, St. Louis]. . . . Barring delays beyond our control, we anticipate that the majority of these projects will be completed over the next 12 months.”

Even before it bid in early 1983 for its last major US cable franchise in St. Paul, Minnesota, Continental shifted toward a more aggressive approach to buying existing systems. Its $106 million purchase of the cable system in Jacksonville, Florida, in 1984 signaled that the company was willing to buy, as well as build, quality cable systems. At the same time, it was experimenting with diversification by investing in the cellular phone business. Keeping its growth engine running at full speed positioned the company to benefit handsomely from the sweeping 1984 federal legislation that significantly deregulated the cable industry and would drive further growth in the latter half of the decade.
“CABLEMANIA”
The fiercely competitive franchising wars of the late 1970s created “cablemania” as the 1980s got under way. Some companies were agreeing to outlandish demands from municipalities—Sacramento famously insisted that the successful bidder for its cable system plant 20,000 trees in the city, and Boston sought a dual-cable, 72-channel system.²

By early 1981, “franchise competition [had] become an order of magnitude more intense” than it had been just a year or two earlier, Hostetter cautioned stockholders.³ The company refrained from bidding altogether in Boston and other cities,

where we felt the returns to the winning applicant would not justify the capital costs and risks of the project. The shrinking pool of unfranchised areas and current “cablemania” may well place limits on the Company’s ability to continue its historical pattern of growth through franchising and new construction. Acquisitions may become a comparatively more attractive growth opportunity in the years ahead.⁴

In 1980, Continental invested $37.5 million in its new cable systems. That was more than the company’s cumulative plant and equipment investment in its first decade in the business. Capital spending for 1981 was estimated at $60 million or more. “We are assured by our lenders that we have sufficient unused credit to fulfill existing and planned commitments,” Hostetter told stockholders that April. “However, considering the current and expected interest rate environment, we are seriously examining possible ways of increasing the company’s equity base.”⁵

“We HAVE MIXED FEELINGS”
That summer, Hostetter and the other directors reluctantly approved a course of action that the founders had been resisting for years. They agreed that Continental should sell stock to the public as a way to reduce its debt and boost equity capital. It was a difficult decision in that it would expose a great deal of previously confidential information about the company, including its compensation structure and ownership interests. It would also heighten the focus on short-term, quarterly performance.
There seemed to be no other way. At that point, the company had more than $100 million in outstanding debt, compared to less than $4 million in investor-provided capital. Continental badly needed an injection of equity.

To raise much-needed capital, Continental Cablevision reluctantly prepared for a public offering of two million shares of common stock in the fall of 1981.
The Art of the Deal

Tim Neher worked closely with Hostetter on a variety of issues in his first year on the job in Boston. Hostetter was confident—perhaps more confident than Neher himself—that Neher could fully step into his new leadership role, so he gave Neher wide latitude in decision-making.

Tim Neher demonstrated ample capacity to operate as the company’s CFO when he negotiated a complex tax-related transaction in 1981.

Neher proved he was more than ready for the challenge. As of mid-October 1981, Continental had two days left to take advantage of a provision of the economic recovery tax package Reagan had passed. The package provided for companies to in effect sell tax carry-forward losses on their accounting ledgers. Continental had posted significant operating losses in the early years of building and running its systems, and by the early 1980s, it had tens of millions of dollars’ worth of red ink on its books. Profitable companies found it advantageous to buy these losses to reduce their own tax bills. The IRS set an October 15 deadline for transactions of this type to be closed.

Neher and a Continental lawyer were meeting with the buyer they thought would be the best fit. They huddled late into the night, working out the final details. Then the negotiator for the other company suddenly insisted that Continental indemnify it if the law changed, and they were forced to unwind the transactions. That would have been the equivalent of buying a very expensive insurance policy against an all-but-nonexistent risk. Why the sudden demand? Neher asked. The negotiator looked him in the eye and said he was asking for it because he figured Neher’s back was against the wall and he had no choice. When Neher refused, the negotiator suggested Neher talk it over with Hostetter and get back to him.

Neher reached Hostetter and told him that he had turned down the deal and why. Hostetter’s response was “Good. Who’s the next buyer on your list?” Neher hustled to set up a series of meetings; a contract was signed with the next company at 5 p.m. on October 15. Continental realized a gain of $6.6 million from the sale.
“After almost eighteen years of labor in a private company, it goes without saying that we have mixed feelings about this whole process,” Hostetter wrote in an August 1981 letter to stockholders. “At this moment, it seems the only logical way to fund our continued growth, and we are therefore proceeding enthusiastically.”

Over the summer of 1981, Continental worked with John Hill Wilson and Michael Brooks of the investment banking firm of Morgan Stanley & Co. and attorney Sandy Whitman of Davis Polk & Wardwell to develop the prospectus for a public offering.

By mid-September, with investors back from summer vacations, Continental’s leadership began the mandatory “road shows” with Morgan Stanley representatives to tell the Continental story. While Hostetter and Neher were regular participants, the regional operating executives were rotated in based on the city the team was visiting.

Within a 10-day period, the team had visited a dozen US investment centers as well as Dublin, London, Paris, and Tokyo to tell their story before large multi-client groups and in smaller one-on-one meetings with prominent investment firms.

In one short meeting, Hostetter and Dow Jones CEO Warren Phillips worked out financing for Continental for the next five years.

As fate would have it, the stock market weakened during this period—cable stocks in particular. Morgan Stanley suggested that Continental lower the expected price
range of $24 to $27 per share to $21 to $24. Continental resisted. In late September, the team returned to Boston for its hometown presentations and to finish the all-important New York presentations that were scheduled for the following Monday.

**Dow Jones: “We’ll take all of that”**

That Thursday afternoon, Hostetter received a call from George Wiegers, a banker at Lehman Brothers. “He asked if I would be willing to meet the following afternoon with Warren Phillips, the CEO of Dow Jones & Co. Not having a clue as to the purpose of the meeting but certainly willing—in fact, eager—to meet someone of Mr. Phillips’ stature, I said, ‘Yes, of course.’”

After a Friday luncheon road show presentation at Le Meridien Hotel in Boston, Hostetter returned to find Phillips waiting in his office. “I had expected an entourage, but he was by himself and seemed totally at ease—befitting someone who had likely had hundreds of one-on-one meetings with CEOs.”

Phillips told Hostetter, “We are interested in getting into the cable business. We’ve done a lot of research and think you are the company we want to be with.”

Hostetter was thunderstruck by this unsolicited approach, but he was unsure of Phillips’ intentions. “So I said, ‘How much of the company would you like to own?’ He promptly responded, ‘How much would you be willing to sell?’ Now my heart was really racing.”

The registration statement Continental had filed indicated the sale of two million shares, or about 16 percent of the company, Hostetter told Phillips. “Well, we’d be willing to take all of that,” Phillips replied. “What would you consider a fair price?”

Continental had not amended the price on the registration statement, but Hostetter was sure Phillips knew that the market for cable stocks was softening and Morgan Stanley was waffling on the price it could deliver. Undaunted, Hostetter plunged ahead. “Well, our current filing range on the IPO is $24 to $27 a share,” he told Phillips. “I think it would be extremely positive for the company to have Dow Jones as a major new investor and would be satisfied with a price of $25.” Phillips nodded in agreement.
Even though Hostetter didn’t want to appear overly eager, another thought occurred to him. “Would you be interested in increasing your position in the company if some secondary stock was available?” Continental had had a long run without any real liquidity options for early investors. For them, one of the attractive elements of an IPO was the possibility of an eventual secondary offering.

Phillips paused. “I wouldn’t want to see a lot of the management selling their shares,” he said, “but we would probably be willing to buy more shares up to, say, a 25 percent position.” Hostetter did some quick mental arithmetic. That threshold would allow Dow Jones to buy one million shares from existing shareholders.

In less than an hour, Hostetter and Phillips had crafted an agreement that gave Dow Jones a significant stake in what it viewed as the premier company in the exploding cable industry, though not one of the 10 largest at that time. For its part, Continental had arranged an infusion of $50 million in new equity and a stockholder liquidity window of $25 million that together would provide the capital and the breathing room for another five years of dramatic growth.

By the following Monday, Hostetter and Phillips had crafted a three-page memorandum of understanding that included a commitment by Continental to add Phillips and Dow Jones COO Ray Shaw to the Continental board, as well as an assurance from Dow Jones that it would not attempt to expand its ownership in Continental for 10 years.

Within three weeks, the deal was approved by both companies’ boards and made public, and the IPO was withdrawn. Nonetheless, Hostetter regretted that the disclosures about the company, its ownership, and its compensation plans were in the public domain. It would be a dramatic and irreversible change for someone who had jealously guarded his privacy.

The primary transaction with Dow Jones closed just before Thanksgiving in 1981. The tender offer for existing shares was timed to allow selling shareholders the option, for tax purposes, of a 1981 or 1982 close. More than three million shares were offered for sale, so the one million shares purchased from existing shareholders were prorated among the sellers.
While nearly all of the early investors offered shares for sale, active management offered very few. Neher, Hostetter, and Hostetter’s father’s estate offered none. As Phillips had hoped, active management was in for a longer run. They would certainly get it.9

Continental, which had attracted interest from a series of major media companies during the 1970s, welcomed the venerable Dow Jones as a minority investor in the fall of 1981.

**ADDING TO THE FINANCE TEAM**

Early in 1982, Hostetter and Neher concluded that to continue to finance Continental’s rapid growth and ensure continued operating excellence, the time had come to bring in a treasurer so Neher could focus all his attention on the operating side of the business. There was no shortage of bankers who knew the company well and might be interested in the job, but Nancy Hawthorne was of particular interest. She had been Continental’s account officer at Citibank and had recently been recruited from Citibank to a high-profile job at Bankers Trust. She was based in New York, where her husband was also deeply rooted.
Hostetter and Neher mistakenly believed relocating Hawthorne was not an option, so instead of pursuing her, they retained a headhunter to find a broad pool of candidates from which to choose. One particular candidate, knowing Hawthorne’s familiarity with Continental, contacted her the night before his interview and asked a series of questions that suggested some skepticism about the company. Hawthorne told him he didn’t get it: Continental was the best company in the cable industry to work for, and he had better drop the playing-hard-to-get attitude. “Look, you’d be so lucky to get that job,” she said in frustration. “If I had the opportunity to work for Continental, I’d do it in a heartbeat.”

Nancy Hawthorne, pictured with Tim Neher, had been Continental’s account officer at Citibank before joining Continental as vice president and treasurer in the spring of 1982.

In his interview the next day, the candidate mentioned to Hostetter that he had checked on the company with its former banker, Hawthorne, and reported what she had said—verbatim. According to Hostetter, the interview was over right then. “I thanked him for his time and immediately dialed New York. Less than a week later, Hawthorne was working at The Pilot House as Continental’s new vice president and treasurer.” Neher was simultaneously named executive vice president and chief operating officer.
Hawthorne fit right in—only this time she was the Citibank customer, not the loan officer. Hawthorne would work closely with Hostetter, Neher, longtime controller Rick Hoffstein, and the staff of 10 in the modest Pilot House corporate office.

Arthur Snyder had lent money to Continental in the early 1960s largely based on Hostetter’s and Grousbeck’s character. Hawthorne had done the same thing at Citibank, but nearly 20 years later she and the rest of the banking community had the company’s sterling operating record to buttress their decisions. Continental’s conservative estimates were “gold” with its banks, Hawthorne said. “Somebody else might give you those numbers and you’re going to discount them.” The joke making the rounds at Citibank was that you probably needed to factor up Continental’s projections to get the most likely numbers. The company had huge credibility with its banks and bigger credit lines than IBM at the time.

It took a discerning eye to see the significant shareholder value Continental and other cable companies were creating beneath the rising mound of operating losses. Publicly traded cable companies suffered accordingly, which is what had caused the public market for cable stock to consistently lag behind private valuations.

“Our value creation was beautiful, but our financials were ugly, which is one of the reasons it made no sense for us to be a public company,” Hawthorne said. “Amos knew that to be an aggressive grower in this business, you had to be willing to have an ugly balance sheet and an ugly income statement. Because all those early-stage investments go into the red . . . the more new properties you are building, the uglier it looks.”

STAFFING UP NEW ENGLAND FRANCHISING

While Continental was sorting out its financing options, the company’s franchising juggernaut continued to expand its reach. When the construction dust had settled by year-end 1981, Continental added $62 million worth of new plant around the country, putting an additional 1,800 miles of cable into service as it built out newly won franchises. The following year’s capital expenditures (CapEx) soared to $100 million—nearly three times the 1980 CapEx budget. Franchising in the Cleveland,
Detroit, and St. Louis suburbs was all but wrapped up by 1982, while the company remained active in a number of Boston and Chicago suburbs.

Continental added staff in New England to support Sachs’ franchising efforts there. Rob Stengel, who had written speeches for Hostetter as a public relations officer for the NCTA in Washington, DC, and knew him through public broadcasting circles, joined Continental in the spring of 1980. Margaret Sofio was the general counsel of the Massachusetts Cable Commission, which worked with cities and towns going through the franchising process. Sachs had initially tried to hire her in early 1980, but Grousbeck had vetoed the deal. He didn’t think it was a good idea to have a young woman driving around New England at night on the company’s behalf. Sachs described that as “the father in Irv speaking.” When Grousbeck had moved on to the Harvard Business School to lecture, and as Continental’s franchising activities intensified, Sachs had another run at Sofio. This time, the company hired her.14

As former general counsel of the Massachusetts Cable TV Commission, Margaret Sofio brought insight and legal expertise to Continental when she joined the New England franchising team in 1981.

Stengel had grown up in southeastern Massachusetts, so he was a natural to lead the franchising effort for that area, which centered on the city of Brockton. “It was far enough
away from Boston that there were some television reception problems in some parts of
the area,” Stengel said. “They called it the jewel of southeastern Massachusetts, because
if you got Brockton you probably were going to get everything else around it.” Indeed, due
to Stengel’s and Sofio’s efforts, Continental subsequently won franchises in Stoughton,
Avon, Holbrook, Easton, West Bridgewater, Whitman, and Hanson. A bit farther south,
Continental added franchises in Raynham, Middleborough, Berkley, and Dighton.15

It was also a growing market. People were leaving Boston for the southeastern part
of Massachusetts. “It was very competitive,” with nearly 20 rivals jockeying for the
Brockton cable franchise, Stengel noted. “It was typical that people would come in with
local investment groups.”16

Rob Stengel, who had met Hostetter in the ‘70s as an NCTA staffer in Washington, joined
Continental in 1980 to help drive the franchising effort in southeastern Massachusetts.

Continental came up with another approach to local involvement that it thought
would appeal to the community’s desire to be treated as the equals of their big-city peers
in Boston and elsewhere.

“We offered to sell 20 percent of the stock in the local system to the citizens
of Brockton if we got the franchise,” Stengel said.17 The shares were a long-term
investment and weren’t as widely sought after as Continental had anticipated, once
residents realized that, despite all the rumors to the contrary, cable TV was not a get-rich-quick scheme.18

Ninety miles west of Boston in the Pioneer Valley, Springfield was the second-largest cable market in Massachusetts (after Boston), with nearly 60,000 homes as of the early 1980s. Jim Krumsieck, the Springfield attorney retained by Continental to monitor activities there, was walking through Springfield City Hall one day and saw a notice on a bulletin board that the city was developing a request for proposals (RFP) to bring cable television to Springfield. Bill Putnam, an influential local television station owner, had successfully kept cable out of the market for years. But city officials were feeling public pressure to allow cable, especially since suburbs and villages to the north and south had already granted franchises.19

Massachusetts Governor and future presidential candidate Michael Dukakis, pictured with Ron Cooper, left, and Russ Stephens, favored making cable TV widely available to the residents of his state during the early 1980s.

With no notice in the local paper to attract attention to the process, Sachs, who was alerted by Krumsieck, ended up the sole cable industry representative at weekly cable advisory committee meetings and was more than happy to help the group define what they expected from a cable system. Based on Sachs’s initial input and Continental’s solid
During the height of the franchising boom, Continental’s regional leadership and their respective franchising teams met periodically to compare notes and talk about best practices in each of the regions. After meeting all day, they would often go out for drinks and dinner. While Continental certainly emphasized a team culture, the regional leaders were also keen to have their performance shine compared to others based on certain metrics, including their ability to control expenses. To that end, their after-hours socializing usually focused on an unspoken question: Who was going to pick up the check?

“There was never any question as to whether Continental would pay for dinner,” Goodall recalled with a chuckle. “But none of us wanted to have it on our expense account.”

It took a few such meetings before the newcomers caught on to the veterans’ tricks. Goodall was expert at excusing himself to use the restroom or make a call just as the dinner was winding down. Inevitably, 10 to 15 minutes passed before anyone realized he wasn’t coming back.

But the acknowledged master was Neher. “Tim had this great gig of carrying around an expired American Express card,” Goodall said. “He’d say, ‘Okay, I’ll get it,’ and then we’d all wait around. It took us at least a couple of times to catch on. The waiter would come back and say, ‘I’m sorry, Mr. Neher, your card is expired.’ So of course somebody else would get stuck with the check.”

reputation for service in New England, Sachs felt Continental was well-positioned with the cable advisory committee appointed to develop the city’s RFP and make recommendations to Mayor Ted Dimauro. He was less confident about the mayor himself, who had the final say and was free to ignore the committee’s choice.

As Continental anticipated, the committee recommended Continental from among the dozen original bidders. However, the mayor said he wanted to reopen the bidding process.
to see if Springfield could get an even better offer. After the city brought on a consultant to rewire its RFP, Continental bid once again. This time, a competitive proposal was submitted by a group that included Bob Schmidt, the former president of NCTA, cable industry veteran Richard Loftus, and the Scripps Howard Company.”

No one quite knew where the mayor might come down between the applicants. But given Continental’s relationships with both Schmidt and Loftus, Sachs was able to craft a deal whereby Schmidt, Loftus, and Scripps withdrew their application and became minority partners in Continental’s bid. The Continental-led partnership won the franchise, and Continental subsequently acquired the minority interests.

**CHICAGO REGION**

Continental’s focus in the Chicago area had been on the city’s suburbs; it received its first area franchise in Morton Grove in 1979. To celebrate the completion of that system the following year and establish its presence in the Chicago area, the company temporarily suspended its cost-conscious ways and threw a major launch party featuring comedian Henny Youngman. Hostetter and Neher flew in for the occasion to join regional vice president Emmett White, franchising head Bill Clancy, and their team. The members of every village board and town council in the area were invited to attend, and dozens did. It proved to be money well spent.

Continental had to deal with cable’s at-times questionable reputation when it began franchising in the Chicago area. A few companies were getting franchises, apparently never planning to build out the systems, and quickly flipping them for a profit. Once again, Continental established itself as a quality player committed to its host communities for the long term.

Clancy and Bob Ryan pointed out that Continental had built all but five of its then more than 60 franchises from the ground up. And that the company’s reputation for quality service was second to none. The $78 million investment from Dow Jones in 1981 further burnished Continental’s blue-chip reputation.
Continental’s technological savvy was brought to bear in Chicagoland, too. Company engineers determined early on that the most effective way to serve the sprawling suburban Chicago market, with more than 200 communities, was to use microwave to send TV signals to its systems. “What were we going to do if we had one system in the northwestern suburbs, one in the southwest, and one far to the north?” White asked. “We determined that what we had to do was receive all the signals at one point and then microwave them around to the individual towns as we won various franchises. So we constructed a receiving center in Northlake, Illinois, from which all signals were distributed by microwave.”

The investment in technology, time, effort, and, of course, money paid off rapidly. By 1984, the company had obtained 12 new franchises and opened eight offices in the Chicago area. In 1985, Continental bought and renovated a 44,000-square-foot building in Elmhurst to be its regional headquarters. It was fitted with a state-of-the-art telephone system and a computerized customer billing and tracking system, and included a production studio.

“A DIFFICULT SITUATION—AREA 5”

As a rule, Continental steered clear of bidding for franchises in major cities. The demands by cities were increasingly unreasonable. And the cost of urban construction, where cable often had to be placed underground in conduit, was several times that of traditional suburban construction. In Boston, for instance, Continental estimated the cost of deploying cable was four times greater than in the adjoining suburban communities where it was winning franchises and attaching cable plant to existing utility poles.
The sky-high cost of burying cable as required by many urban builds led Continental to avoid bidding for most big-city franchises, even the franchise for its hometown of Boston.

Chicago was the exception to Continental’s suburban strategy. Unfortunately, it ended up proving that Continental had been wise to avoid major urban areas, but for reasons other than high installation cost.

The civic group formed to study the best way to bring cable TV to Chicago ended up dividing the city into five geographic areas, with separate franchises granted for each. Continental was interested in a region south of 79th Street, known as Area 5. While hardly the most affluent part of Chicago, much of it was almost suburban in character and could be wired for cable almost exclusively using existing utility poles.

The area also contained a significant minority population. A number of rival cable companies had won franchises in urban areas around the country by offering community leaders a stake in the franchise without any financial investment on their part—a so-called “carried interest.”

The Continental team rejected this approach and thought a much better way to involve the community would be to find community leaders willing to invest in the franchise in proportion to their ownership. That would lead to a much greater commitment on the part of the investors to the community, the Continental group concluded. Clancy found just the group, led by entrepreneur John Johnson, CEO of the Ebony magazine empire. They called themselves Stellar Partners.
Continental and Stellar won the Area 5 franchise in 1983. Their agreement called for Continental to operate the business, with Stellar providing 20 percent of the equity for a 20 percent ownership interest. However, friction between the partners arose almost immediately, as some of the Stellar investors thought they should have more say in business operations. “They wanted to be much more active in operating the business than we were comfortable with, particularly in filling senior-level jobs,” said Jeff DeLorme, who had moved from the Detroit area to Chicago in 1982 to help develop the Area 5 franchise. “We felt like we knew how to do this, and it was going to take executing it extremely well, because it was a tough market.”

Continental made an exception to its focus on suburban markets and bid successfully with a group of local partners in 1983 for the Area 5 franchise on Chicago’s south side. Continental later sold its majority interest.

Some of the Stellar investors apparently had reasoned that Hostetter, given his social conscientiousness and stature in the industry, would be unwilling to walk away from this high-profile deal. They were mistaken. Continental reluctantly decided to exit the venture. Hostetter informed his shareholders.

I note with disappointment that in June of 1984 we decided that we should not proceed with our joint venture in Area 5 of the City of Chicago. It became clear that the ownership and management structure of Stellar Continental Cable, Inc.
(SCCI) precluded the sort of unfettered decision making which has been central to Continental’s historical success. We concluded that the costs of stalemate, discord, and delay on a project of that scale were too great to accept. With our partners’ acquiescence, we arranged a sale of our 80 percent of SCCI to TeleCommunications, Inc. (TCI). In the transaction, which closed last month, we recorded a $2.2 million gain on disposition of our entire interest in the Area 5 project. We are relieved to be out of what had become a difficult situation.31

**STATEN ISLAND**

As Continental was applying for the franchise in Chicago, it was also in the running for the franchise to be awarded for the New York City borough of Staten Island. While part of the largest city in the country, Staten Island was suburban in character and appeared to be relatively economical to build. Continental had actually taken over the application from Vision Cable. A smaller cable company founded by entrepreneurs Sidney Knafel and George Lindemann, Vision became ineligible when it agreed to be purchased by Newhouse, which owned the *Staten Island Advance*. (Cross-ownership rules at the time prohibited newspaper/cable combinations in the same market.)

In a surprising development, Continental and Cox were each awarded a franchise on the island, which is about 14 miles long but just two miles wide. While logic might have suggested awarding a single franchise for the entire island or two that were each seven miles long and two miles wide, the borough president instead made each franchise 14 miles long and about one mile wide. Sachs and others concluded that the authorities were sending Continental and Cox a message: Work together. They did just that and in 1984 formed Staten Island Cable, a 50-50 joint venture to serve all 120,000 homes in the borough.32 Negotiating the deal for Cox was Jim Robbins, who had started his cable career with Continental in the mid-1970s, was recruited away by Viacom in 1979, and then recruited to run Cox Cable in the early 1980s. By 1986, however, Continental had tired of the delays and difficulties of doing business in New York City (just negotiating the franchise took nearly 18 months) and sold its Staten Island interest to Cox, barely recouping its costs.33
St. Paul, Minnesota, was one of the last major cities in the country to award a cable franchise. A few earlier attempts to award the city’s franchise had failed. The Minneapolis franchise, just across the Mississippi River, had ended up in litigation. So when Hostetter and Sachs were approached by Bill Kling, the head of Minnesota Public Radio (MPR), about applying for the St. Paul franchise in early 1983, they were wary. But Hostetter and Sachs had very high regard for Kling, whom they had gotten to know through their mutual involvement in public broadcasting. They were particularly impressed by Kling’s record of entrepreneurship with MPR’s statewide radio network. And the potential prize—110,000 homes in a relatively compact area that could be reached mostly by using utility poles—was particularly attractive.
Since this would be St. Paul’s third franchising attempt, Kling said, there were not likely to be very many bidders. But the city was seeking a public-private partnership. After doing further due diligence, Continental told Kling it would be interested in applying.

The role of MPR would be limited. With Continental building and operating the system, MPR would hold several seats on the executive committee and serve as a resource to Continental’s local management. In return, it would receive $100,000 a year plus three percent of the system’s net operating income.

As Kling had surmised, only two other applicants applied for the franchise. The first was a local group called Norwest Partners, and the other was TelePrompTer, then the largest company in the cable industry. TelePrompTer was perceived by Continental to be the toughest competitor. It was led by Minnesota native Bill Bresnan, one of the industry’s pioneers, who started his telecommunications career climbing utility poles in nearby Rochester, Minnesota. TelePrompTer’s approach during hearings had been to caution city officials that the much smaller Continental might be taken over by a larger rival, and then who would the city be dealing with? Ironically, during the course of the franchising process, TelePrompTer was sold to Group W Cable, a division of Westinghouse. Still, Group W Cable under Bresnan’s leadership remained a formidable opponent.34

Continental won the franchise for St. Paul, Minnesota, one of the last major cities in the country to be wired, after a protracted regulatory and legal process extending into the mid-1980s.
At the end of the day, neither Continental nor Group W Cable could muster a majority of the seven city council votes to win the franchise. So on the third ballot, Norwest, the local investor group that had been ranked last by the city’s outside consultant, emerged as the franchisee. This brought public outcry and an editorial in the *St. Paul Pioneer Press* calling on Mayor George Latimer to veto the council’s action.\(^35\)

After meeting with each of the applicants and Kalba Bowen Associates, the city’s cable consultant, Latimer did in fact veto the council resolution that awarded the franchise to Norwest. Lacking the votes needed to overturn the mayor’s veto and seeing Group W as the antagonist, Norwest’s backers on the council threw their support to Continental, which was awarded the city’s cable franchise.\(^36\)

But still aggrieved by the mayor’s veto, Norwest challenged the award to Continental at the Minnesota Cable Board and in state court. Losing all of its state appeals, Norwest then sued the city in federal court, arguing that the city had denied its rights as a First Amendment speaker to operate a cable system. After a trial lasting several weeks, a US District Court jury ruled in the city’s favor, affirming the award of a single franchise to Continental, and the verdict was sustained on appeal.\(^37\)

**“COUNT ON ME TO BRING CABLE TV TO LAKE WOBEGON!”**

Several years of hearings, meetings, and lawsuits later, Continental prevailed and the St. Paul franchise was finally ready to be built. Hostetter pitched Continental’s Northern California region vice president, Barbara Sitkin, to take the assignment to construct and operate the system. She would report to Continental veteran John Rakoske, who had recently been named a senior vice president. But neither Rakoske nor Sitkin was quite prepared for Minnesota’s hard winters.

“I remember telling Amos that I was there at noon on Main Street and it was eighteen below,” Rakoske said, “and not too long after that, he sent L.L. Bean parkas to Barbara and me—the very warmest kind. It was fun. That’s the kind of thing Amos would do to make you feel appreciated.”\(^38\)
Sitkin appreciated the coat but was still undecided about the new assignment. Through Kling, Hostetter got Sitkin and her husband, Roger, tickets to see Garrison Keillor’s *A Prairie Home Companion*, a show originated by MPR, live in St. Paul. Even though another snowstorm had hit during that visit, she called Hostetter at home immediately after the show and said, “Count on me to bring cable TV to Lake Wobegon!” She accepted the assignment in St. Paul with the understanding that she could retain oversight of the Northern California systems and return to the West Coast once a month.39

**A STRATEGY ADJUSTMENT**

Building the St. Paul system marked the end of the US franchise era for Continental. But before St. Paul was even awarded, Hostetter and Neher were charting the next phase in Continental’s development. “We had built 95 percent of our systems. It has been less attractive to buy than to build for a long time,” Neher told *CableVision* magazine in 1982. “But now there aren’t that many attractive [unfranchised] areas around. If you’re going to grow in the cable business, there’s only one option left and that’s to buy.”40

“We have not been described as having deep pockets in terms of paying up for existing systems,” Neher noted. “We’ve got to rethink that—both what we’re willing to pay and what systems are ultimately worth. And we’re positioned to do that.”41

“We recognize longer term limits to our traditional strategy of growth through franchising and new system construction,” Hostetter added in a May 1982 letter to shareholders.

As the pool of unfranchised homes continues to shrink, such growth is increasingly difficult and expensive. We are therefore beginning to consider alternative sources of growth for the Company. We are reviewing an increasing number of acquisition candidates and are exploring other opportunities in the communications field where our particular skills might be profitably applied.42

As Continental entered the acquisition field, it also began rebuilding many of its older cable systems. The upgrades more than paid for themselves, since they gave subscribers the opportunity to sign up for additional tiers of service and pay channels.
A NEW REGION, A RECORD PRICE

Continental learned in July 1983 that the cable system in Jacksonville, Florida, operated by a local consortium called Area Communications, might be coming on the market. Not only was the system attractive in terms of providing an entrée into the rapidly growing Florida market, but Jacksonville was also the second-largest city in America (after Los Angeles) in terms of geographic area. There were literally hundreds of square miles of largely unbuilt territory within the Jacksonville city limits, and the city, in part because of the local Naval Air Station, was booming.

Tim Neher made numerous trips to size up the region and meet with Jack Demetree, a local businessman who controlled 51.5 percent of the system and was interested in liquidating his investment. Jack Remseyer, Continental’s chief engineer in Michigan who had worked closely with Neher, joined him in Jacksonville to assess the system’s technical capabilities. ATC owned 15.5 percent and managed the system, and was said to be interested in taking control at the right price. Other interested parties included Jones Intercable, United Cable, and TCI. Continental needed to determine whether it could justify a bid that would be high enough to get the majority owner to sell but still enable Continental to turn a long-term profit.

Jeff DeLorme was recruited from a bank in Detroit by Tim Neher. DeLorme participated in Chicago franchising and then moved to Jacksonville to oversee Continental’s major growth in Florida in the early 1980s. He eventually moved to Boston to serve as an executive vice president.
Neher and Hostetter crunched the numbers on the system as many ways and with as many variables as they thought were realistic to make a bid. They concluded that $23.50 a share was as high as they could go. “This was close to 12 times forward cash flow—that was a big number for the cable industry” at the time, Neher recalled.43

Demetree tried to pry another 50 cents per share out of Neher in a last-minute phone negotiation. Neher wouldn’t budge. Continental found out after winning the system that the next highest bid had been from Jones at $23 a share. They had bid enough but not too much. The purchase was finalized in February 1984.44

Within the first year, it became clear that the Jacksonville system was going to be a very valuable addition to Continental. Jeff DeLorme, who had moved from the Detroit area to Chicago in 1982 to help prepare for the Area 5 build, moved to Jacksonville in February 1984 as vice president and general manager of what would become Continental’s eighth region. Peter Head, the Jacksonville general manager for ATC, stayed on and reported to DeLorme.45

“Jacksonville was definitely an under-marketed system,” DeLorme recalled. He wasted no time in bringing Continental’s much more focused marketing push, promoting more and better pay-TV packages, in particular, to Jacksonville.46 In the first 12 months of operating the new system, Continental boosted its subscriber base by 25 percent, from 82,000 to 103,000 of the roughly 200,000 homes the system passed. A repackaging of services and a related rate increase added nearly $2.5 million to the system’s annual operating income by the end of 1984.47
Continental systems offered subscribers an increasing number of channels and “wireless” remote controls, which were considered innovative at the time.

**Dow Jones Shrinks Its Position**

Dow Jones COO Ray Shaw was more than a little surprised when the $100 million-plus Jacksonville purchase was brought to Continental’s board in February 1984. In taking its initial position in 1981, Dow Jones had assumed that Continental’s period of rapid growth,
with related increases in debt and operating losses, was nearing completion. And that as franchising opportunities concluded, positive financial statement metrics would be only a few years away.

Continental’s aggressive acquisition strategy, signaled by the Jacksonville transaction, indicated otherwise. Over the next year and a half, Dow Jones executives conferred repeatedly with their accounting staff and auditors about the implications of Continental’s aggressive growth on their own financial statements. There was an irreconcilable tension between Dow Jones’s desire to show year-to-year increases in profitability and debt reduction, and the admittedly “ugly” results that Continental reported as it focused on value creation.

By the fall of 1985, it was clear Dow Jones needed to reduce its interest in Continental below 20 percent, at which point Dow Jones would not be required to include a portion of Continental’s losses on its own financial statements.

After searching for less disruptive alternatives, Continental agreed to borrow additional funds to retire two million of Dow Jones’s 3.1 million shares, which would shrink the publishing company’s interest to slightly more than 16 percent. The two parties agreed to a transaction at a price of $50 per share—twice the price at which Dow Jones had purchased its shares just four years earlier. The buyback closed in November 1985.48

**CONTINENTAL CELLULAR**

Cellular phone technology reached the US market in the early 1980s. But it was far from clear how widely the then-bulky phones with restricted calling ranges would be adopted. Continental tested the cellular market beginning in 1982 by investing $1 million in preparing applications for FCC cellular licenses. In a complicated process, cellular licenses had been divided into tiers, and Continental applied for licenses in 17 of the 31st to 90th markets ranked by population. “We believe that this mobile telephone technology presents an opportunity for us to further capitalize on our skills in the marketing and delivery of consumer electronic services,” Hostetter told shareholders.49

By early 1985, Continental had committed a total of roughly $15 million for partnerships to develop cellular systems, holding controlling interests in the winning
Limited Labor Pains

From its earliest days, Continental Cablevision focused on hiring and promoting the best employees it could find and compensating them fairly. Management felt that employees could grow and advance more easily in a nonunion environment. In the vast majority of Continental systems, union organizing was not an issue.

Two exceptions to that rule popped up in the early 1980s—in Lawrence, Massachusetts, and Stockton, California. Stockton became a target of organizing efforts by the International Brotherhood of Electrical Workers (IBEW). Barbara Sitkin, who at age 26 was relatively new to her position as a general manager, actively and persuasively made the case in the weeks leading up to the union election, using equal parts information, charm, and humor. The employees rejected the organizing effort by a wide margin. When later questioned during a deposition about the meaning of the “FTU” message in fortune cookies given to employees at a party just before the union vote, Sitkin politely responded, “Fight the union. What else could it mean?”

Things didn’t go as smoothly in Lawrence. The Teamsters won by a vote of 15 to 8, but the company filed an objection with the National Labor Relations Board (NLRB). “We believe that threats of physical harm and other unfair labor practices may have influenced this election,” the company told shareholders in early 1982. As New England regional manager John Rakoske recalled, “They brought in a big tractor trailer and parked it directly in front of our office and ran the engine 24/7. It was a pretty intimidating show of Teamster power.”

When the NLRB sided with Continental and the company won a second vote, the Teamsters retreated, possibly assuming Lawrence was too small to bother with at the time, Rakoske said. Rakoske and Continental’s Pilot House executive team realized that this had been a high-stakes win for the company. Having successfully held off both the IBEW and the Teamsters’ organizing efforts, Continental remained union-free for the balance of its corporate life. Certainly a mixture of factors contributed to the success, including a young workforce, good pay and benefits, and almost unlimited opportunity for training and advancement. But the company’s overall team culture and aggressive opposition to these initial organization efforts were also part of the equation.
partnerships in Greensboro, North Carolina, and Norfolk, Virginia; 20 percent of a Richmond, Virginia, system; and fractional interests in cellular partnerships based in Jacksonville and Orlando, Florida.

Continental hired cellular entrepreneur William Boyce to relocate to Greensboro in early 1985 and manage the construction and operation of that system, as well as the one in Norfolk.\textsuperscript{50}

Tom Willett, who had overseen companywide marketing efforts, decided that cellular offered a fresh marketing challenge and signed on to join Boyce in Greensboro to build Continental’s cellular business. Each Continental cellular franchise operated under the name Cellular One. Willett felt as if he had turned back the clock 15 years to the early days of cable TV marketing.\textsuperscript{51}

Willett hired one of the top direct mail marketers in the country, Draft Direct, which was based in Chicago. Draft generated creative and targeted direct mail pieces that helped produce solid cellular sales gains and provided a strong start for Continental in the nascent cellular field.

\textbf{1984 CABLE ACT}

For years, cable operators had been hamstrung by the fact that they were at the mercy of municipal authorities when it came to setting rates and configuring the services they were offering. While Continental shared that point of view, Hostetter took special pains when it came to dealing with municipal authorities. There were certainly plenty of issues with local regulation, but Continental’s senior management was determined to work out these issues without resorting to public conflict and litigation.

“Continental had very good municipal relations. It was a priority for Amos and obviously for Robert Sachs,” Bob Ryan recalled.

They did not want to be embarrassed. They didn’t want us fighting with our municipalities. We’d have disputes, but we always did it with a certain sense of decorum. We were horse trading, at the end of day. You need this, give me that, and we did it behind closed doors, and we did it friendly. We didn’t get into lawsuits, and we didn’t get into major battles in the press. Nothing good comes from that.\textsuperscript{56}
Cable supporters in Congress were lobbied to write legislation that would set broad outlines for the deregulation of cable and eliminate the frequently contradictory requirements of local regulations in favor of a more comprehensive, national approach. These appeals found support among key representatives, including Representative Tim Wirth. By 1984, that effort paid off.

“PROBABLY DOING GOD’S WORK”

Wirth and other congressmen interested in the role of telecommunications in the country’s development increasingly viewed the cable TV industry as a vital player in that future. The phone company wasn’t exactly an agent of change. After years of resisting change, AT&T was in the process of being carved up by legal decree, and in 1984 would be split into a long-distance carrier and seven regional Bell operating companies. Network television was just as resistant to change.

US Representative Tim Wirth played a lead role in helping to deregulate the cable industry.

Cable, in Wirth’s mind, was David versus AT&T’s Goliath and could play a key role in bringing next-generation telecommunications to America. Optical fibers, in use to carry long-distance telephone transmissions, had already been identified as playing a key role in the evolution of cable systems. They would help provide a dramatically
A Long But Successful Search

When Grousbeck and Hostetter moved to Ohio to build the first Continental systems in 1963, Grousbeck was already married with two small children. “I had the luxury of being able to work 10-hour days and weekends as necessary,” Hostetter said. “For obvious reasons, Irv had to be more balanced in allocating his time.” Hostetter, by his own admission, remained married to the company for 20 years.57

A chance encounter in early 1980 changed that. When Hostetter was waiting for a delayed flight at the small airport on Nantucket Island, where he spent some weekends, he struck up a conversation with Barbara Lynn Walsh, who had spent summers in Nantucket for most of her life and was waiting for a friend to arrive on an inbound flight. That meeting led to a long-distance courtship. Walsh worked first in Washington, DC, and then in New York City—cities to which Hostetter was a frequent visitor.58

The couple married at the First Church of Christ in Sharon, Connecticut, on December 15, 1984, in a service performed by the Rev. Peter Warren Simple, headmaster of the nearby Salisbury School. Longtime friends Helmut Weymar, Jim Vernon, and Tim Neher were groomsmen.59 Warren Phillips, chairman and CEO of Dow Jones & Co. was one of the guests in attendance.
larger broadband “pipe” to carry more and improved signals into the American home and workplace.

“At that point, there was a tremendous sense that this was in the public interest. Providing universal access to cable ultimately was going to be very good in terms of an information society,” Wirth recalled. “The broadcast networks were very angry about this. They didn’t like it. So I figured if you are fighting the networks and you’re fighting AT&T, you’re probably doing God’s work.”60

The bill that Wirth and other cable supporters finally pushed through Congress would become known in the cable industry as the ’84 Cable Act. Working closely with Wirth to secure passage of the ’84 Act was Jim Mooney, former chief of staff to House Majority Whip John Brademas, whom NCTA had hired to lead the industry’s advocacy efforts. A legislative expert, Mooney joined NCTA in early 1984, succeeding Tom Wheeler as its president and CEO. As the ’84 Act was implemented over the next few years, it dramatically reduced municipal regulation of cable rates and facilitated renewals of franchises, among other measures. This landmark legislation ushered in a significant growth phase for the industry as financiers became more comfortable that the industry would be thoughtfully and predictably regulated without local meddling.

However, despite warnings from Hostetter and others that cable operators needed to restrain their instinct to jack up rates, excesses occurred, setting the stage for an inevitable move toward re-regulation of the cable industry by the late 1980s.61
CHAPTER FIVE
The Big Leagues
REVIEWING CONTINENTAL CABLEVISION’S PROSPECTS with shareholders in the spring of 1986, Hostetter sounded as if he wanted to pinch himself to ensure he wasn’t dreaming. “One industry observer has postulated that cable is currently in the grips of a reverse Murphy’s Law—i.e., ‘everything that could go right for cable, is . . . ’ While we are instinctively cautious in such a euphoric environment, it is undeniable that your company’s prospects are currently very bright.”

Indeed, Continental was going from strength to strength. With its franchising and first-generation systems upgrades mostly behind it by 1985, Continental’s capital expenditures declined year over year for the first time in its history. At the same time, it posted healthy gains in revenue and operating income, a trend that would continue for a number of years. And the success of the Jacksonville system acquisition in 1984 demonstrated that the company could pay full price for a system and then rapidly improve financial results through effective marketing and superior programming packages, service, and pricing. More major purchases followed, from California to New...
England. By 1986, Continental had leapfrogged a number of its rivals to become the country’s third-largest system operator, with 1.4 million basic subscribers and more than 1.5 million pay subscribers.2

The wave of cable deregulation driven by the ’84 Act made cable companies, with their expanding operating margins, hot properties once again on Wall Street. The broad stock market rally already under way added to the cable industry’s momentum. That drove up the share value of most companies, public and private, and made it easier for Continental and others to borrow on favorable terms to finance acquisitions. Additional technology upgrades on the horizon by decade’s end focused on the increasing use of high-capacity fiber-optic cables to carry video signals and soon high-speed data.

**STAFFING UP**

Continental’s corporate office staff was extremely lean at the start of the 1980s. The group was made up of fewer than a dozen people who occupied half of a floor in The Pilot House. That had to change as operations expanded dramatically. By 1985, there were eight operating regions to oversee as well as four staff functions: treasury, accounting, marketing, and programming. Hostetter and Neher realized that they needed to introduce another level of management to oversee the company’s burgeoning growth.

They asked the company’s most senior field managers to divide reports for the eight operating regions: John Rakoske, based in Portsmouth, NH, supervised East Coast operations, and Chuck Younger, in Findlay, Ohio, oversaw the Midwest. Both reported to Neher. When Tom Willett moved to Norfolk for Continental Cellular, his deputy, Ted Livingston, was assigned responsibility for the company’s marketing, and Rob Stengel became lead programming officer. Both were based at The Pilot House and also reported to Neher. Hostetter assumed the title of chairman and CEO and retained oversight of accounting and treasury, then led by Rick Hoffstein and Nancy Hawthorne, as well as the regulatory and public affairs functions, led by Robert Sachs.3
A COMMITMENT TO DECENTRALIZED MANAGEMENT

The tiny corporate office staff, with perhaps one person for every hundred in the field, was decidedly contrary to the structure of other cable companies of the era.

With Continental, the regional vice presidents ran their operations as independent fiefdoms, having full profit and loss responsibility for their regions. They did not have the luxury of blaming failures on a flawed corporate initiative. In order for that approach to be effective, they had to be free to reject suggestions from The Pilot House. Needless to say, this was a source of considerable frustration for the corporate staff, particularly the marketing and programming groups. Corporate personnel in The Pilot House functioned as “staff” to each of the regional vice presidents. The staff’s success depended on their ability to develop and maintain support from each of the regions for any specific marketing or programming initiatives.

“In practice, it was rare that a suggestion from corporate was rejected, but that possibility always existed,” Hostetter said. “That particular distribution of authority had a dramatic effect on The Pilot House staff. They worked hard to understand the ideas and preferences of the folks in the systems and to respond in supportive ways. There was nothing that Boston could ‘cram down’ on the people in the field who were in day-to-day contact with customers. I think that structure made us far more responsive to customer needs and preferences, and was a real factor in building the company’s reputation for excellence in customer service.”

A similar structure applied as corporate staff later joined the company in other areas. Dave Fellows would join as senior vice president of engineering, responsible for equipment purchasing and keeping field engineers informed about rapid technological change. Andy Dixon would come on board as senior vice president of human resources, recommending compensation, training, and benefits packages that suited local market conditions. He would also keep regional executives up to date on employment laws. Rob Strickland would be hired in Boston to advise and support growing IT activities in both Boston and the operating regions. But final decisions in all of these areas remained in the hands of the regional general managers.
Ted Livingston

Ted Livingston had been working as Tom Willett’s number two in marketing since joining Continental in 1979, just as the company was moving its marketing operation from Findlay, Ohio, to Boston. When he took over in 1985, Continental was already the industry leader in developing strong marketing programs, compared to the sales-oriented focus of most cable industry players. Livingston accelerated the marketing push over the next decade while maintaining a relatively lean headquarters staff.

The marketing focus won industry recognition in the form of numerous awards from the Cable & Telecommunications Association for Marketing (CTAM). Superior marketing also strengthened Continental’s overall reputation and standing in the industry. Like Rob Stengel on the programming side, however, Livingston still had to pitch each of the operating regions to accept his latest marketing program or market research effort. By the late 1980s to early 1990s, “80 to 90 percent of the company bought into everything we had to offer,” he said.5
**THE McCLATCHY PROPERTIES**

In early 1986, Barbara Sitkin and other Continental executives learned that a group of cable systems in the Central Valley of California owned by McClatchy Newspapers was up for sale. The systems in Fresno and surrounding communities, with 86,000 subscribers and more than 206,000 homes, were in prime growth areas—Fresno at the time was growing at a rate of seven percent a year—but the systems there had never been well operated.

Barbara Sitkin, who continued to oversee Northern California operations while building St. Paul, played the lead role in acquiring the McClatchy Newspapers cable systems.

Sitkin and her hand-picked team, including Terry Mast, the chief engineer in Stockton, and Jeff Scheuerman, her controller for the St. Paul system, evaluated the properties. “We went system by system. We interviewed people, talked to city council members, board supervisors, just basically trying to get some scoop on all of this,” Sitkin said. “I got really excited, because these properties were in shambles but in fabulous markets.”

Based on the tremendous potential for the region, Sitkin and her team estimated they could justify paying significantly more than the $82 million book value of the systems,
Rob Stengel

With franchising winding down in New England, Rob Stengel turned to a new challenge and took over programming responsibilities. Stengel was charged with negotiating contracts with programmers such as CNN and ESPN, but to the consternation of the programming suppliers, Stengel couldn’t guarantee that their respective channels would be carried in all of Continental’s regions. With decentralization guiding programming, it was up to the regional executives to make final decisions. He could only encourage them to take the packages he had negotiated.

Rob Stengel was instrumental in Continental’s negotiation of programming contracts and programming investments.

Continental also wanted to invest in startup programming networks. These were good growth opportunities that needed industry funding to get off the ground, and such investments would give Continental some means of controlling its skyrocketing programming costs. “The MSOs frequently got together, particularly Time Inc.’s ATC, Cox, Comcast, and Continental, sometimes with TCI. We put some money in. We committed distribution to them. That way, these channels started to become more stable and more successful,” Stengel recalled. By the late 1980s, “we invested in E! Entertainment Television; Outdoor Life, which became Versus; and then NBC Sports. And we invested in Speed Vision, which is now Speed Channel on Fox.”
Insightful Investment

Most of Continental’s system purchases aligned with its strategy of geographically clustering its holdings to generate economies of scale. Now and then the company made an exception, as in the case of Insight Communications. Insight’s founders, Sid Knafel and Michael Willner, had earlier gotten to know Hostetter when they were with Vision Cable, Knafel’s previous company, which Knafel later sold to Newhouse. When word circulated that the pair was creating a new cable company in the mid-1980s, Hostetter reached out. “When Amos heard that we were going back into the cable business, he said, ‘Let me [Continental] put up some of the money and own enough of the company so that we can get you some discounts in programming costs,’” Willner recalled. “We said, ‘Gee, that sounds like a pretty good idea.’ It didn’t take a rocket scientist to figure that one out.”

In 1986, Continental made its initial investment in Insight, which started with fewer than 20,000 subscribers, most in Ohio River Valley communities, far from other Continental holdings. Over the following decade, Continental accumulated a 34.4 percent ownership interest, and Insight grew to include 167,000 basic subscribers, mostly in Indiana, Kentucky, and Ohio.

Continental was comfortable with its minority stake in this growing multiple-system operator (MSO). But when US WEST took charge, this investment was quickly liquidated. When Insight later decided to go private in a 2005 transaction led by The Carlyle Group, Hostetter again offered to be part of the buyout group and was asked to join the board, where he would serve until the 2013 sale of the then 760,000-subscriber company to Time Warner Cable. For Hostetter, Knafel, and Willner, it was a very successful long-term relationship.
“assuming we cure the political and operational messes, invest the capital necessary to create decent product and spend time developing the markets,” Sitkin wrote in an internal planning document.17

Continental’s winning April 1986 bid of $128 million set a cable-industry record at the time of nearly $1,500 per subscriber.18 Hostetter was confident Continental could bring its operating expertise to bear and more than justify the lofty purchase price. “We believe the fundamental challenge in these systems is to upgrade customer service and marketing; penetration in the McClatchy systems is dramatically below the levels we are achieving in nearby systems.”20 In its first full year of operating the McClatchy systems, Continental boosted basic subscriber levels by nearly 35 percent.21

**TURNER BAILOUT**

While they were funding programming neophytes, the leading cable MSOs joined together in 1987 to rescue a cable programming pioneer. Ted Turner’s brash business style and shoot-from-the-hip investment decisions helped him play a key role in cable programming with the launch of CNN and other networks. But at times, those instincts also caused him to get in over his head, especially when it came to borrowing money.

Hostetter deeply regretted not becoming one of four founding investors in a new cable channel called Discovery Channel.
President Neher

In early 1986, following several years as executive vice president and chief operating officer, Tim Neher was named president by the Continental board of directors. “This was a much deserved recognition of the role that Tim has performed so ably in recent years,” Hostetter said. “In his twelve years with the company, Tim has demonstrated a rare blend of energy, intelligence and good humor. He is a highly effective manager and a valued friend for all of us who have the pleasure of working with him.”

By 1987, Turner was deeply in debt, and the future of his business was in doubt. Recognizing the importance to the cable industry of keeping Turner’s highly valuable programming assets intact and in friendly hands, leading MSOs, led by TCI and Time Inc.’s ATC, pooled their resources to keep Turner afloat. In return, the investors received a 37 percent interest in the company and effective operating control of the board. Continental contributed to this $560 million effort. As an indication of the respect with which the major investors viewed Continental, Tim Neher was among the five industry representatives elected to the Turner Broadcasting System board of directors.
Hostetter later acknowledged that the biggest mistakes he made in his cable career didn’t involve paying too much for a system or buying the wrong property. They were the deals he didn’t do. Continental had consistently identified its core strength as building or buying cable systems and operating them better than others in the business. When cable-only programming exploded on the scene in the 1980s, Continental looked at many opportunities and invested in several. But by the latter part of the decade, Hostetter was already regretting the one that got away.

John Sie, TCI’s strategy chief, showed up in Hostetter’s office in early 1985 with a cable programming entrepreneur named John Hendricks. Hendricks had convinced Sie and TCI CEO John Malone that a new cable channel he was promoting could be a huge hit. He called it Discovery Channel. TCI, United Cable, and Cox had all agreed to be 25 percent stakeholders. Sie wanted Continental to be the fourth backer.25

Based on his experience on the Corporation for Public Broadcasting board, Hostetter was keenly aware of how difficult and expensive it was to produce quality documentary programming. So Continental took a pass, and Newhouse signed on as the fourth backer of Discovery Channel.26 The new venture posted losses for several years before turning into a highly profitable network.

“I’ve frequently said that our sins in the cable business were not sins of commission. They were sins of omission,” Hostetter said. “It’s the deals we didn’t do that we should have done. Not doing the Discovery deal was a big mistake!”27

Adams-Russell was a public company whose systems served 225,000 subscribers concentrated in New England. With an eye on expansion in New England, Continental began quietly acquiring Adams-Russell shares in the open market.

By early 1987, when Adams-Russell decided to put itself up for sale, Continental already owned nearly 10 percent of the company’s stock. Continental was one of three system operators to submit bids to buy all of the company’s outstanding shares. The...
Saugus Tsunami

Ray Fournier, a Continental field engineer for Eastern Massachusetts, received a call from District Manager Russ Stephens at 4:00 a.m. on Monday, September 21, 1987. The Continental system in Saugus was down: Was there a problem with the tower? Stephens wanted to know. Dan Lacorazza, the headend technician on call in Saugus, received a similar call at about the same time. When Fournier, Lacorazza, and other Continental technical staff converged at the Saugus headend before sunrise, they felt as if they had stumbled onto the set of a disaster movie.

Continental technicians worked around the clock to get the Saugus, Massachusetts, headend back on line after it was leveled by the collapse of a nearby water tower on September 21, 1987.

The headend was washed completely off its concrete slab and the contents destroyed. Somehow the tower and satellite dishes had survived intact. The culprit was the adjacent municipal water storage tank, which at 3:00 a.m. had given way at the 40-foot level, dumping much of its 300,000 gallons of water onto Continental’s facilities in a matter of seconds. The Continental team got right to work, as Fournier recalled: “We got a rented construction trailer on site, started stringing new lines from the tower and satellite dishes, got new processors, modulators, satellite receivers, and scrambling gear within about three days. By Friday evening at 5:30, every channel was back up and operating and we finally got to go home!”

Added Lacorazza, “It was an amazing feat that I feel demonstrated many great qualities in the people who worked for Continental and how the company itself conducted business.”
winning bid of $474 million, or $2,089 per subscriber, from Cablevision Systems Corp. was at “what we considered a premium price,” which Continental wasn’t willing to match, Hostetter told his shareholders. Even though Continental booked a gain of $23 million on the sale of its Adams-Russell shares, Hostetter was clearly disappointed. It was another example of “the one that got away.” But the loss of Adams-Russell made Continental’s leaders all the more interested when the next major New England system operator, American Cablesystems, came on the market.

CELLULAR TRADE
By 1987, Continental’s leadership concluded that the cellular telephone business, while representing a promising technology and business opportunity, was too far afield from Continental’s core cable business. The sky-high prices being paid for cellular licenses also made acquisitions increasingly difficult. Continental swapped its cellular operations in Greensboro, North Carolina, and Newport News, Norfolk, and Richmond, Virginia, for Colony Communications’ 30,000-subscriber cable systems in Eastern Massachusetts and $45 million in cash. Continental disposed of its final cellular properties at year-end by selling its fractional interests in Jacksonville and Orlando, Florida, and its license in Mansfield, Ohio.  

Not that the cellular venture was a failure—far from it. Continental booked a total gain on the divestiture of its cellular interests of about $80 million. And that was before the more than $6 million it brought in from the sale of its Summit Mobile Radio Co. paging business in 1988.

THE BIG ONE: AMERICAN CABLESYSTEMS
During the fall of 1987, Hostetter received a call from Steve Dodge, founder and CEO of American Cablesystems, asking if he would like to meet. Hostetter had been something of a mentor to Dodge since the former lead banker for Continental at the Bank of Boston had decided to start his own cable company in 1978. Dodge franchised and built a group of high-quality systems, many of which were adjacent to
Continental’s systems in New England, Chicago, and Florida. Even when competing directly for franchises, Dodge and Hostetter remained good friends.

Dodge had taken his company public in May 1986 for $14.50 a share to raise equity and allow a number of early venture capital backers to sell their stock and rotate off of his board. During the mid-1980s, he had also purchased the Communicom cable system in Los Angeles for about half of what the bankrupt system operator owed its lead banks. He then bought another Los Angeles system known as Area K, which included South Central Los Angeles. And after the public offering, he had financed additional system purchases by raising capital through several limited partnerships, with American holding a 40 percent controlling interest in each.

Steve Dodge, a former banker for Continental, was the founder of American Cablesystems, which paralleled Continental in many regards. After he sold his cable interests, he compiled an enviable record as a serial entrepreneur, building American Radio Systems (1988 to 1998) and then selling it to CBS Radio and forming American Tower (2001 to 2004), which is still an independent public company. Dodge is currently CEO of Windover Development, a real estate development firm.
Dodge faced a dilemma by the time he sat down for breakfast with Hostetter in 1987. His company’s stock had appreciated rapidly after a rough period following the IPO. But if he were going to take the company to the next level, he would have to invest a great deal of additional time, energy, and money in creating a new organizational structure and making many other changes.

He admitted to himself that he didn’t feel the same excitement about buying his next major cable property. “I was at home alone looking at this deal. It was the Times Mirror cable systems, and I said, ‘You know, I’ve done this too many times. I’m not that interested in it.’ And that was sort of a signal. If you’re not excited about something, you’ve got to move on.” At the same time, he felt a strong entrepreneurial urge to pursue other business opportunities.38

Dodge had given Hostetter a heads-up the year before when he held preliminary discussions with the business conglomerate Dart and Kraft about a possible sale, but the talks didn’t go very far. This time, he was serious about selling—and this time, he wanted Continental to be the buyer.39 American’s half-million basic subscribers would boost Continental to just shy of the 2 million basic-subscriber mark and strengthen its position as the dominant operator in New England.

“He said, ‘If you pay me what I think my company is worth, I’m not going to auction this property. The right home is with Continental,’” Hostetter recalled. “I asked him what the price was, and it was 20 percent more than I thought it ought to be. But I also knew from the Adams-Russell experience that anything could happen in an auction, and that if someone else bought these properties, we would never have a second chance. I mean, it was just too good a fit not to do this deal, and Steve was giving us a chance to preempt all other suitors.”40

“IN VERY GOOD HANDS WITH CONTINENTAL”
Working with Wall Street advisor and confidant Steve Rattner at Morgan Stanley, Hostetter and Neher agreed to pay Dodge’s “ask” of $46.50 a share, or $473 million, for American’s stock.41 The price also reflected the bullish investor sentiment for cable stocks at the time
and the stock market rally, which had lifted prices across the board. Compared to the record-setting $1,500 per subscriber Continental paid to buy the McClatchy systems a year and a half earlier, the American Cablesystems cost per subscriber had soared to about $2,100.\textsuperscript{42} The purchase included the assumption of roughly $250 million in debt.

\textbf{Hostetter and Neher honored the terms} of Continental’s agreement to purchase American Cablesystems, even though the sharp stock market selloff in October 1987, which knocked a third off the stock price, could have enabled them to renegotiate the deal.

“While the decision to merge a company that we have worked so hard to build was a very difficult one,” Dodge said when the deal was announced, “we believe the merger is in the best interests of our shareholders. We are confident that our employees, subscribers and franchise authorities will be in very good hands with Continental, which has an outstanding reputation for quality and reliability.”\textsuperscript{43}
BLACK MONDAY

The ink on the agreement between the two companies was barely dry before Wall Street had a sudden change of heart. And not just about American Cablesystems—about the entire stock market. On October 19, 1987, known since as “Black Monday,” the markets opened sharply lower and never looked back. The Dow Jones Industrial Average plunged a record 22 percent in a single session. American Cablesystems shares were suddenly trading in the low 30s.

Hostetter called Continental’s outside general counsel, Sullivan & Worcester, to see whether there was any legal reason Continental couldn’t buy American’s stock in the open market at this sharply lower price. They said no.

But by noon Tuesday, when Continental entered the market, the American stock had recovered to the low 40s. That morning, Hostetter and Neher had fielded a number of calls from investors and Wall Street analysts asking if they intended to stick to the terms of the deal, to which they had answered unequivocally: Yes. With their intentions public knowledge, American’s stock recovered significantly, eliminating the opportunity for Continental to save by buying shares on the open market. “That was probably our mistake,” Hostetter said, “but we were not going to waffle on the deal.”

There was no question in Hostetter’s and Neher’s minds that they were going to honor the terms of their pending purchase. The Continental executives “came out and spoke to our troops in Beverly, Massachusetts,” Dodge recalled, “and didn’t wiggle a bit. And that was another sort of verification of the judgment that I had made, that I was dealing with a guy that I could trust and whose word was good.” Continental and American Cablesystems closed the sale in February 1988, since it took months for the bulk of the franchise licenses to be transferred to Continental. Dodge, American Cablesystems President Barry Lemieux, and about 20 top officers of the company left when the sale was completed, but most of American’s 1,800 employees stayed in place.
Emulating Continental, Steve Dodge of American Cablesystems hired highly motivated executives to help him run his company, including Ed Holleran, Dave Keefe, and John King, pictured above, all of whom later assumed major operating roles with Continental.

To finance the purchase of American, Continental boosted its bank lines from $935 million to $1.7 billion. About $350 million of the credit line remained available after the American purchase closed. At the same time, Continental took advantage of lower interest rates in the wake of the October 1987 stock market crash to refinance about $1 billion of its $1.9 billion floating interest rate debt at fixed rates.48

**FURTHER LEADERSHIP CHANGE**

The addition of American Cablesystems presented Continental with obvious opportunities to leverage adjacent systems in many of its operating regions and to realize the substantial potential for growth in American’s underdeveloped California properties. It also presented
challenges. The purchase of American capped a five-year period in which Continental quadrupled its number of subscribers and employees. It was past time for the company’s management structure to adjust again to the challenges of its dramatic growth.

In 1988, John Rakoske and Chuck Younger became executive vice presidents, and Hostetter and Neher asked Mike Ritter, previously vice president and general manager in Michigan, to move to Boston as a third EVP to oversee corporate marketing and programming as well as the California operations, including the Los Angeles-area systems acquired from American Cablesystems.49

In 1988, Mike Ritter transferred from Michigan to Boston to become one of three executive vice presidents.

To bring Continental leadership titles in line with those used at American, all Continental regional vice presidents and corporate vice presidents were given the title of senior vice president. Several other promotions followed, testifying to Continental’s management bench strength. Replacing Ritter in Michigan was Rich Weigand, who had been managing suburban Detroit activities for Continental. Frank Anthony, formerly a New England district manager, was given control of the newly created Western New England region. In 1988, Barbara Sitkin decided it was time to devote herself full-time to raising her young children. Replacing her in Northern California was Ron Cooper, who previously had been a New England district manager.
Continental’s decentralized management structure helped make such rapid management changes possible without slowing growth. Cooper and his wife made the decision to move to California in a matter of days. Cooper immediately knew what needed to be done and that he had the authority to do it.

All the decisions, personnel decisions, customer service decisions, technology decisions, rates, franchising decisions, employee relations decisions, all of it was really my purview. I got involved with the industry trade association in California. I was involved politically in California and without any direct involvement from The Pilot House. It wasn’t that they didn’t want to be supportive, but there were no resources. Continental was not set up with a centralized group of operatives or staff people to provide that resource. I mean, it was a very, very skinny corporate office.50

**LOS ANGELES**

David Keefe, who had made significant progress in bringing American Cablesystems’ Los Angeles property out of bankruptcy, remained in charge of that region under Continental.51

The Los Angeles–area system was the wild card in the American Cablesystems transaction. Dodge had acquired it at a bargain price and viewed it as the potential long-term growth engine for his company. “I thought we had the potential internally to become very close to a million-subscriber company at the time that we sold, which was when we were only a 500,000-subscriber company. We had a lot of what I would call developmental real estate, with California being at the top of the list.”52

The Continental executives were excited by the Los Angeles opportunity, as well, but realistic about the challenges of developing what were acknowledged as some of the city’s toughest neighborhoods. It didn’t take long for the new region to demonstrate its growth potential. By the spring of 1990, the build-out of the LA systems had added 200,000 homes passed in the area. The region’s consumers clearly liked what they saw in the new offerings from Continental and its customer service quality. The aggregate number of basic subscribers in the Southern California region had jumped from 158,000 to 270,000 during Continental’s first 18 months of ownership.53
AHEAD OF THE TECHNOLOGY CURVE

John Rakoske, who built New England into one of Continental’s leading regions during his 18 years with the company, retired in 1989 and turned the regional reins over to Bill Schleyer. Under Schleyer’s leadership, New England continued to push the technology envelope within Continental and, in important ways, the cable industry. With the addition of the American systems in New England, there was no question that New England was Continental’s dominant geographic area or that Continental was the dominant cable operator in the region.

Innovative technologies were being deployed in most Continental regions, but by the late 1980s, New England had assumed the role of technology leader for the company. That was partly a result of strong leadership from such rising stars as Kevin Casey and Susan Adams, but also was facilitated by the clustering of Continental and American systems and the high standards to which those systems had been built.

Among Continental’s operating executives, Bill Schleyer was the company’s technology leader and was instrumental in the creation of CableLabs.
“We were ahead of the curve on the introduction of fiber-optic technology for interconnecting our headends, which then allowed us to reduce the numbers of headends,” said Frank Anthony, head of the Western New England region. “We were also further ahead on overall bandwidth and addressability. A lot of that probably was related to the timing of the franchising and system construction. Our geography worked because we were reasonably centralized in terms of our population base. We could combine the properties, and we were doing a pretty good job of aggregating more and more systems.” The region’s role in driving technological change at Continental accelerated dramatically as Continental entered the broadband communications era.

LIQUIDITY CRISIS
Continental’s aggressive growth strategy during this period was predicated in part on the fact that it had such a strong relationship with its key outside investor, Dow Jones. From day one, Dow Jones and Continental had been a good fit in terms of corporate values and business ethics. But over time, stresses were beginning to show in the relationship that ultimately could only be resolved by the two parties going their separate ways.

There was a fundamental conflict between the companies’ operating strategies, particularly in the area of financial reporting. As a private company, Continental was perfectly comfortable reporting significant operating losses and increases in overall debt with the belief that despite these reported results it was creating significant value for its shareholders. Dow Jones, a more traditional public company, had an entirely different focus. It sought to achieve year-over-year earnings improvement and generally eschewed any form of debt.

After the initial share buyback in 1985, Dow Jones’ stake in Continental dropped from 24 percent to roughly 16 percent, at which point Dow Jones adopted a less onerous regimen of cost-basis accounting for its Continental investment. This approach reduced but did not eliminate the impact of Continental’s losses on its financial results. (If Dow
Jones had continued at 24 percent, the impact of Continental’s losses in 1990 alone would have reduced Dow Jones’ pretax income by nearly 25 percent.

Perhaps more importantly, Dow Jones’ own growth strategy changed significantly during this period. It was now focused on the possibility of acquiring Telerate, an electronic quotation system, which was more closely aligned to its core business than the cable industry. Many on Wall Street expected that Dow Jones would fund a Telerate offer with what appeared to be the major value increase it had realized on its interest in Continental. Ray Shaw’s instincts when Continental first became an aggressive systems buyer were correct; Warren Phillips would have to have another conversation with Hostetter.

In the spring of 1988, Phillips visited Boston to broach the subject of liquidity with Hostetter. As an honorable business executive and investor, Phillips made it clear that he was not trying to force a sale of Continental, nor was he seeking a premium price for what was arguably the control block of stock in the company. He simply wanted Hostetter’s support in finding liquidity for his remaining interest in Continental.55

**Mounting Pressure**

Even as Hostetter and his team were contemplating their response to Dow Jones, Schorr Berman, who was Jean de Valpine’s deputy and heir apparent at Memorial Drive Trust, made a similar, if less cooperative, approach to the company. Memorial Drive Trust wanted liquidity for its position, and Berman began to openly pressure Continental to find a buyer. As much as Hostetter resented the squeeze, he understood Berman’s position.

“Memorial Drive Trust was the trust for the benefit of the employees of Arthur D. Little and owned that consulting firm,” Hostetter recalled. “Continental was the most valuable asset in their portfolio. They had held their shares patiently for nearly 20 years. But it was still totally illiquid—with Continental’s management seemingly prepared to maintain its growth plans and private status forever. I could certainly appreciate their frustration.”60

That said, Hostetter wasn’t about to be pushed around. After Berman circulated to Continental’s largest shareholders a recap of a July meeting, characterizing the issue as
CableLabs

As the 1980s progressed, rapid advances in the use of fiber optics and other cable technologies left system operators scrambling to find reliable equipment to meet their needs. Likewise, operators were frustrated by the lack of industrywide standards that would ensure equipment compatibility. With franchising wars mostly behind them, and the ’84 Cable Act having opened the door to greater growth opportunities, cable leaders were increasingly looking for common solutions to common problems.56

CableLabs, the research and development arm of the cable industry, opened in 1988 just outside Boulder, Colorado.

As early as 1984, Dick Leghorn, a small Massachusetts cable operator with a degree from MIT and experience working for the Department of Defense in systems engineering, proposed to NCTA that it support “an R&D entity for the cable industry.”57 The Rand Corporation gave him funding to pursue the idea, and the groundwork for what in 1988 was christened CableLabs, short for Cable Television Laboratories, was put in place.

TCI’s John Malone, who early in his career had worked at Bell Labs and cut his communications industry teeth on systems engineering, was an early backer.
Continental’s John Rakoske and Bill Schleyer, who played leading roles in promoting CableLabs, supported Massachusetts Congressman Ed Markey in arguing that the entity should be located in the Boston area to take advantage of the academic brain trust at MIT and Harvard. However, Malone, working with then-US Senator Tim Wirth, successfully lobbied for CableLabs to be based near Boulder, Colorado, in the home state of TCI and ATC. To support the research consortium, MSOs agreed to pay CableLabs two cents per subscriber, per month.¹⁵

Richard Green was senior vice president of broadcast operations and engineering at PBS, overseeing its installation of a satellite system, until he was recruited by CableLabs in 1988 to serve as its president and CEO.

In August 1988, Richard Green was named president and CEO of CableLabs. With a PhD in physics and experience at ABC, CBS, and PBS, where he participated in the creation of the Advanced Television Systems Committee, Green was well positioned to leverage the industry’s brain trust. One of the group’s first efforts was to oppose a new television standard being advocated by Japan. Instead, CableLabs and others successfully argued for a second standard compatible with existing TV sets and the need to focus on digital transmission, sparking the broadband revolution of the coming decade. Schleyer represented Continental on the CableLabs board from the outset.⁶⁰
pitting management against shareholders, Hostetter called him on the issue in a reply sent to the same group:

Schorr, this is not, as your memo suggests, an issue between management and shareholders. It is an issue between selling shareholders and continuing shareholders. I am not prepared to be bullied into a transaction that penalizes our continuing shareholders for the benefit of those who are voluntarily departing. There is a well-established code of fairness and civility in dealings among Continental shareholders. I intend to see that that standard is maintained.

Perhaps this is simply your way of negotiating the price at which you might sell and the Company might buy MDT’s position. While I am troubled by your tactics, I am prepared to work towards a transaction at a “fair” price. Please understand that whatever deal we might strike I intend to offer to all our other shareholders.61

“THE GAN...
money to buy Dow Jones’ shares. Bill Egan said it was a matter of exploring all options during a period when so-called junk bonds were being used to finance a rash of hostile takeovers. “At that time, Drexel was still very strong, and we got Drexel to give us a ‘highly confident’ letter that we could finance the purchase of the Dow Jones’s position.”

“CONTROL WAS IN THE BALANCE”

Hostetter realized that he would have to act quickly or risk losing control of the company. “It became clear to me that control was in the balance, and that the Dow Jones stock was the pivotal block,” he said. After hearing of the Drexel conversations, he got on the first airplane to New York to meet with Phillips.

He knew that Continental couldn’t buy back the shares without a major restructuring of its loan agreement with its banks, which even if feasible would take months to accomplish. That left only one alternative. “Under its current loan agreements, the company can’t buy your stock,” Hostetter told Phillips, “but I will.”

After a 20-minute back-and-forth on the price, they came to an agreement.

Hostetter agreed to personally buy all 1,110,375 Continental shares held by Dow Jones for $270 a share in cash. The deal was made and sealed with a handshake. Major crisis averted. But how was Hostetter going to pay for the stock?

RESOLVING THE LIQUIDITY CRISIS

As soon as he had reached a handshake deal with Phillips, Hostetter offered the company the right to “step into his shoes” to buy the Dow Jones shares, a move that would require major concessions from its banks. After several meetings on the subject, the company’s board declined the opportunity. At that point, Hostetter began work on two fronts simultaneously—arranging funding for his purchase from Dow Jones, and trying to find a resolution to the liquidity issues raised by the group that eventually became known as the selling shareholders.

Hostetter hastily arranged for a breakfast with Chad Gifford of the Bank of Boston, and Cornelia Newell, the head banker on the Continental account. “Chad, you’re going to
think I’m crazy,” he said. “I have no collateral other than all this unlisted stock, but I want to borrow $300 million, and I can’t tell you how I’m going to repay it.” Gifford didn’t blink. “We’ll take $100 million of that.”

Hostetter’s next stop was with another leading Continental lender, Gerald Hassell, then head of the media practice of the Bank of New York, who matched Gifford’s $100 million. It was essentially a handshake deal as well, though Hassell sent Hostetter a set of golden handcuffs to remind him of the obligations to which he was bound. (The handcuffs hang on Hostetter’s office wall to this day.) The remaining $100 million was raised in the form of a revolving credit from among the seven other major lenders to Continental at the time.

In short order, Hostetter, Hawthorne, and the two lead banks were able to line up a handful of Continental lenders to complete a $300 million loan to the Amos B. Hostetter Jr. 1989 Trust, a special entity created solely for the purpose of buying Dow Jones’ shares and into which Hostetter transferred the Dow Jones shares, all his existing shares, and various other assets. Barbara Hostetter recalled her husband arriving home the night the loan closed in early 1989 and saying, “They didn’t want our wedding rings or your Honda, but otherwise everything we own is on the line.”

Eric Krauss, a young credit officer at the Bank of Boston, was tasked with preparing the paperwork on the loan and presenting it to The Bank of Boston’s credit committee.
Gifford insisted that the paperwork go through the proper channels, even if he had already committed the bank. “Some of the people on the credit committee were a little hesitant to make that size loan against a block of private stock,” Krauss said. After all, Gifford hadn’t mentioned how he expected the bank to get repaid. “It was just, ‘We’re going to provide this loan, and basically the Continental Cablevision management team will figure out a way to repay us over time.’”

Krauss credited the Continental leadership, Hostetter, Neher, and CFO Nancy Hawthorne with having developed the kind of relationships that made a $100 million handshake thinkable. “They built up a lot of goodwill with the various constituents they worked with, and this is a perfect example of where Amos had enough goodwill points that he was able to have two quick conversations and line up a $200 million personal loan.”

Eric Krauss, who helped arrange the Bank of Boston’s $100 million personal loan to Hostetter and the larger loan to acquire Dow Jones stock, eventually joined the Continental finance team.

The second issue, that of dealing with the selling shareholders, proved considerably more difficult and, given that there were numerous personal issues in play, Hostetter designated Tim Neher as the point person on those negotiations. After weeks of intense negotiations, a complex but effective agreement was reached that addressed the needs
of the selling shareholders and provided a window for all other shareholders, including Hostetter, to achieve a degree of liquidity.

The agreement provided that the company would offer three alternative liquidity options to all shareholders. In March 1989, the company offered to:

1. Immediately purchase up to 400,000 shares for $240 per share in cash.

2. Exchange up to one-third of each shareholder’s shares for a new series of preferred stock, with a $270-per-share preference and a 12 percent accruing dividend, a rate that would further escalate if not redeemed within four years.

3. Have shareholders commit all their shares to a “total liquidation plan,” which provided for immediate conversion of one-third of their shares to the new high-dividend preferred stock, in conjunction with a commitment by the company to tender for 300,000 additional shares in 1993 and the balance of the selling shareholders’ stock in 1998. The price of the shares in each transaction was to be set by a formula designed to approximate the price at which the company might go public at that time.

In connection with the settlement agreement, the selling shareholders agreed to commit all their shares to the total liquidation plan (No. 3). Hostetter committed one-third of his shares—essentially all the shares he had recently acquired from Dow Jones—to the preferred stock exchange plan under option No. 2. These agreements were fully disclosed in the company’s offer to its other shareholders.

The shareholder elections were enlightening. Only 120,000 shares were offered for cash (No. 1), far less than the 400,000 shares the company was prepared to purchase. Only a few shares other than Hostetter’s were offered under the preferred stock exchange program, and the only participants in the total liquidation plan were the selling shareholders. The vast majority of the company’s other shareholders, along with management, were prepared to stay the course.

In hindsight, the steps taken to address the liquidity crisis precipitated by Dow Jones, Memorial Drive Trust, and the other selling shareholders had a dramatic effect on the company’s remaining shareholders. The base of outstanding common shares
was reduced by more than half, and of the remaining shares, active management held clear control.

This significant buyback would prove quite beneficial for continuing shareholders despite the obvious short-term hurdles—the company had $550 million in high-rate preferred stock outstanding that would become increasingly expensive over time. The company’s plan was to redeem the preferred stock as quickly as possible by increasing its bank debt and issuing more subordinated debt in the public markets, but that took some time to implement.72

GLOBAL LENDERS

In June 1989, Continental closed on yet another bank lending facility, which boosted its credit line from $1.7 billion to $2.3 billion. The new credit agreement enlarged the lending syndicate to more than 50 banks, including banks from Japan, France, and Germany. The Bank of Boston’s Newell worked closely with the lead banks in the group. Krauss was charged with bringing in the rest of the group.73

At the closing dinner, Hawthorne wryly paraphrased the mantra of the 19th-century British Empire, observing that “the sun never sets on people to whom Continental owes money.” It was an apt observation, but one that took on a different meaning within a few years.

Hawthorne was impressed with Krauss’s work on this deal. She also realized that Continental needed someone in-house to manage this new and much broader range of banking relationships. So she made Krauss an offer to “switch sides” and join Continental while essentially continuing to manage the banking relationships. It was an easy decision, said Krauss, who joined Continental in 1989.74

The timing of this refinancing was fortuitous; the banking industry entered the 1990s under increased regulatory pressure related to highly leveraged transactions, or HLTs. Continental’s bank facilities clearly fell within that category.
The Bank of Boston was instrumental in growing Continental’s lending syndicate.

Realizing that the commercial banking window might be closed to them for a while, Continental’s leadership sought financial support from a range of other sources. They successfully placed several additional series of subordinated debt in the public markets and
arranged additional insurance company financing with longer-term maturities so as not to conflict with the bank’s scheduled maturities. With these and other sources of capital, the company was able to retire the entire $550 million issue of preferred shares by mid-1991, providing a big infusion of liquidity for the selling shareholders and allowing Hostetter to repay the full balance of his personal borrowing roughly 24 months after it was drawn.\textsuperscript{75}

**CHALLENGES AHEAD**

Having at least temporarily put behind it its shareholder liquidity issues, Continental was positioned to move forward again. But other issues, including the implications of the HLT banking crisis, loomed on the horizon at the start of the 1990s. And in response to frequent and aggressive rate increases by a number of other cable operators during the late 1980s, cable’s critics in Congress were slowly but surely amassing the votes necessary to overturn key deregulatory aspects of the 1984 Cable Act.

Re-regulation was on the horizon.

On the technology front, satellite companies who distributed TV signals via easily installed three-foot-wide antennas—became real competitors. And the digital revolution and the demand for ever-greater channel capacity were driving a transformation of the cable industry.
The soaring popularity of television service beamed down to satellite dishes that were one meter in diameter took many by surprise in the late 1980s and proved a potent competitive threat in the decades to come.
CHAPTER SIX

Twenty-fifth Anniversary
EVEN AS IT WAS PREPARING FOR FUTURE CHALLENGES, Continental paused in the spring of 1989 to consider how far it had come since its Tiffin and Fostoria, Ohio, days. The company celebrated its 25th anniversary in style. For many Continental veterans and newcomers alike, it was a night they would never forget.

On the evening of Saturday, April 8, 1989, Continental held 23 parties across the country for more than 12,000 employees and guests. The party venues were linked by a satellite feed from Boston’s WGBH TV studio. They included the Hollywood Palladium, the Pontiac Silverdome in Michigan, Chicago’s Field Museum of Natural History, and the Boston World Trade Center. Thirty-five employees were flown to Boston and honored for their length of service and contributions to the company.

“Not even in our wildest dreams did we foresee building a company that would serve nearly 2.5 million customers in 500 cities and towns across the United States,” Hostetter proudly told his associates gathered across the country that night. “You are the ones who made all this happen. You are the ones who have made the company what it is today.”

Neher, on behalf of Continental employees, presented Hostetter with a quilt comprised of stenciled squares designed by employees from each of Continental’s 25
districts. Neher reprised the corporate theme of giving back to its local communities that had been a cherished principle since the company’s founding. “Being good corporate and individual citizens makes good business sense,” he said. “This means we must continue to return to our communities and our subscribers something of ourselves and our success.”

Hostetter made a special point at the company’s 25th anniversary celebration to recognize the contribution of the company’s first banker, Arthur Snyder of New England Merchants Bank, pictured with his wife, Jeanne. He told those assembled that without Snyder’s early support, Continental would never have become a reality.

Neher and Continental Community Programs Vice President Nancy Larkin presented Hostetter with a quilt containing sections designed by employees from each of Continental’s 25 districts.
Continental’s 25th anniversary celebration gave employees the opportunity to celebrate the company’s history and contributions to its host communities.

The ‘60s-themed satellite transmission from Boston was co-hosted by Dick Clark of American Bandstand fame, Bobby Rivers of VH1, and “Downtown” Julie Brown of MTV. Music videos produced by employees included Western New England’s “Do the New Continental,” borrowing from the soundtrack of the 1988 movie Hairspray. Chicago played with a gangster and gangbusters theme, and Elvis sightings led to a tour of the 16 offices in Illinois, Iowa, and Missouri.4

Tim and Molly Neher celebrate with Amos and Barbara Hostetter.
REGIONAL HIGHLIGHTS AT 25

Continental’s silver anniversary was a time for celebration. The company’s regions had grown dramatically during its first quarter-century. While the latest technology had transformed the systems’ operations, the key to success was hiring the most talented people it could find to run what were essentially local businesses. In turn, those people had the ability to recruit and mentor bright and motivated staff who could stretch their skills as the regions grew. Employees in the regions were closest to their customers, and Continental’s leadership team in Boston continued to rely on the regions to make the decisions that would be right for their customer, and therefore right for Continental.

Multichannel News saluted Continental Cablevision’s performance at the 25-year mark and its sterling reputation as an industry leader.
Janet Stewart had helped open the Tiffin, Ohio, office in 1964, serving as head of customer service and billing, as well as office manager—tracking every order and invoice by hand. Like many early employees, her skills and responsibilities grew with Continental. By 1989, she was Ohio’s Miami Valley district business manager. “It’s always been great,” she said. “What an education!”

Continental’s first subscribers, Joyce and Ed Ageter of Tiffin, Ohio, were invited to Boston to take part in the celebration. It was their first airplane flight.

Lyle Kneskern had joined Continental in Ohio in 1968 as its second chief engineer. Twenty years later, he was senior vice president and Ohio regional manager and had overseen the upgrade of Ohio’s original 12-channel systems to 54-channel capacity. In his spare time, he grew corn and soybeans and raised horses on a farm just outside Tiffin, where he continues to reside.
The Ohio region was just one of several reporting to Executive Vice President Chuck Younger as of the late 1980s, but it remained close to his heart. In late 1987, Younger had helped execute the largest acquisition in the region’s history by buying several systems south and east of Columbus. From Tiffin’s Joyce and Ed Ageter in 1964, Continental’s first customers, Acct. T-0001, the Ohio region had grown to include more than 280,000 subscribers in 150 communities across the state by the time of the 25th anniversary.6

ILLINOIS-IOWA-MISSOURI

Jim Wand’s hands-on education in customer service began when he was climbing poles in Quincy, Illinois, in the late 1960s. And even though his pole-climbing days were long over by 1989, the senior vice president and regional manager was still all about delivering quality service to customers, as were other leaders in the Midwestern region, which encompassed Illinois, Iowa, and Missouri. Programs rewarding outstanding customer service by frontline employees were a mainstay of the region, which had grown to serve more than 135,000 customers and employ more than 300 people.
Other industry leaders recognized the top-level performance of Continental employees. HBO, which relied on cable system operators to keep its customers coming back for more, instituted awards for excellence in customer service across five Midwestern states in the mid-1980s. In the second annual HBO customer service face-off, Continental employees won nearly 30 percent of the awards.7

Among other longtime employees who got their start in the Midwest, Sherri Long, the second employee in Quincy, was by 1989 the region’s controller and assistant secretary; Dick Ashpole had relocated and was heading engineering operations in Virginia; Terry Mast had become regional engineer in Northern California. Key operatives in the region in 1989 were Peggy Bunfill, accounts payable manager in St. Louis; Ivan Parrish, chief technician in Belleville, Illinois; John Heck, director of engineering in Pekin, Illinois; Wayne Bridgeman, installer/technician in Quincy, Illinois; and Roger Lapp and James Jackson, chief technician and installer technician in Freeport, Illinois.8

The smaller Midwestern systems, in particular, benefited from hiring local residents to represent Continental in their communities. Sue Lemanski was hired by Wand in 1971 as a customer service representative in Kewanee, Illinois, and within a few years was promoted to supervisor. She was born and raised in Kewanee, and for years she was the face of Continental to many in the community. “She knew practically everybody in town and interfaced extremely well as a CSR with the customers,” Wand recalled.9 Belleville, Illinois, native Mary Harp played a similar role in her community, and then expanded her field of operations to include more than 20 communities in the St. Louis region based across the Mississippi River.

Helping drive the St. Louis-area expansion, as well, was Paul Berra. Wand hired him away from the City of St. Louis, where he served as the city’s cable regulator. The longtime St. Louis resident was Continental’s director of political and community relations and was intimately involved in community events and securing franchise renewals. Berra went on to work for Charter Communications in the St. Louis area.10
If any recent hires in Continental’s Michigan region in the late 1980s were wondering if there was growth potential within the company, they had only to look at Michigan’s track record of nurturing and promoting talent. By 1989, Tim Neher, who had led the region from 1977 through 1980, was serving as Continental’s president.

Michigan’s executive talent pool in the late 1980s included vice president Ron Hartman, left, Mike Ritter, former head of the region who had recently been promoted to Continental executive vice president, and Ritter’s successor, SVP Rich Weigand.

Following Neher in Jackson, Michigan, was Ron Hartman, who later oversaw Lansing operations. Mike Ritter followed Neher to Boston and had recently been named Continental’s executive vice president. Succeeding Ritter in Michigan was Rich Weigand, who oversaw the continued expansion of the region, which included nearly 175,000 customers as of 1989.

Weigand’s operating experience, leadership style, and demonstrated concern for customers and employees alike made him a perfect fit as regional SVP. The fact that he had played football at Notre Dame gave him extra authority, if ever needed.
Working with Weigand and his predecessors, longtime regional engineer Jack Ramseyer guided Michigan from the original 12-channel systems to 64-channel systems with addressable technology and oversaw substantial new construction. Several employees hired in the Michigan region as installers, technicians, and warehouse employees moved on to technical supervisory positions by the late 1980s, and many continued to advance as the years progressed.

The internal Michigan promotion ladder was also well-worn on the customer service and programming sides of the business. Career growth opportunities were created largely through winning franchises and building new systems serving the Detroit suburbs. Jeremy Stern guided much of the franchising and would later guide government relations for Continental in Southern California.

**CALIFORNIA**

Continental’s westernmost region got off to a relatively slow start in 1972 following the winning of the Stockton franchise. Persistence and the willingness to take risks yielded dividends as the system grew. Stockton was supplemented by the addition of Manteca in 1980. The aggressive bidding that in 1986 won the McClatchy properties in Fresno also brought a handful of other California communities into the fold, including Visalia, Tulare, Marysville, and Yuba City, as well as Reno, Nevada.

Karen Munro first joined Continental in Stockton in the early 1980s as a stand-in for marketing director Ruth Blank while she was on maternity leave. Munro came on board as a full-time marketing employee shortly thereafter and, following Barbara Sitkin’s lead, rose through the ranks as another of Continental’s first generation of women leaders. Munro took over as general manager of the Stockton system in the mid-1980s after Sitkin relocated to St. Paul to direct the build-out of that system while retaining oversight of Continental’s Northern California properties.

While Continental’s regions were justly known for their independence, Munro said that there was certainly a culture of reaching out and sharing best practices among regional department heads, especially in marketing. Every year, a number of managers from each region would gather in Boston for a companywide marketing meeting. They
would share ideas with their regional peers as well as marketing and other personnel from The Pilot House. The highlight of the meetings would be a dinner at which skits were performed, and “Connie” awards were handed out to the marketing group that put on the best act.11

And then there was the Los Angeles region, which was added as part of the American Cablesystems acquisition. The new Continental systems in the LA region passed more than 700,000 homes. Facing challenges posed by a multilingual population and several economically depressed neighborhoods, the region was growing at a rate of 5,000 new customers every month.

But another neighborhood in the LA region added some glitter to Continental’s California offerings. The system in Hollywood had interns—many of whom were students from UCLA and USC—clamoring to work for free on public access programming. “We get so many internship applications over here, we have to turn people away,” said Mike DeGagne, program director.12 Its popularity was simple: Continental cable system’s public access programming was a showcase for producers and directors, with an audience that included some of the biggest movers and shakers in the entertainment industry. And local Hollywood talent frequently made guest appearances on camera for the same reason.13

CHICAGO/ST. PAUL

Starting in Morton Grove in the western suburbs of Chicago in 1979, the Chicago region had grown rapidly in the early to mid-1980s through the efforts of regional VP and later SVP Emmett White, with franchising support from Bill Clancy and Bob Ryan, and system design and construction efforts led by Roy Boylan, a talented engineer hired from Warner Cable. The region, like California and New England, grew dramatically with the addition of the American Cablesystems properties. The newly added American systems in 1988 roughly doubled the number of Chicago-area subscribers and employees to more than 174,000 and 440, respectively. The American acquisition also opened up the affluent North Shore suburban Chicago communities to further development by Continental, with the Wilmette office as a base of operations. White’s talented operating team included Steve Reimer, Bill Connors, and Al Jascemski.
Vice President and District Manager Randall Coleman, shown in front of Union Depot, Continental’s St. Paul headquarters, was the face of the live Cable Talk program.

St. Paul was the last major franchising effort on Continental’s agenda, but it was hardly the least in any sense of the word. While many older systems were still in the midst of technological upgrades during the mid-1980s, Continental used the most advanced interactive cable technology then available to build St. Paul. Vice President and District Manager Randall Coleman answered questions from customers on the system’s live Cable Talk program, an offering unique to the St. Paul system, which by 1989 had about 56,000 subscribers. Others instrumental in Continental’s new build in St. Paul were John Heck, VP of engineering, and controller Jeff Scheuerman, both of whom had been recruited from Continental’s Ohio region. Fran Zeuli, who headed marketing and would later succeed Coleman as VP and district manager, came from Rogers Cablesystems in Minneapolis.
Buzz Goodall transferred from Continental headquarters in Boston to Henrico County, Virginia, as general manager of the newly created Virginia system in 1978. He built the region, which soon included the state capital of Richmond, into a tightly managed operation with its own distinct approach to marketing and a relentless focus on customer service.

A&E President Nick Davatzes, left, appeared at an A&E press event in 1986 with Steve Bouchard, regional marketing director of Continental Cablevision of Richmond, Virginia; David Lee, general manager of Richmond-area systems; and Richmond Mayor Dr. Roy West. Continental and the City of Richmond worked together to produce a cable documentary about Richmond.
Virginia customer service employees were proud of going above and beyond the call of duty to serve Continental customers.

**VIRGINIA**

In operation for a dozen years by the time of the anniversary celebration, the Virginia region included more than 115,000 customers. Just over half of those were in Henrico Country, a rapidly growing suburban area surrounding the state capital of Richmond. That made Henrico County Continental’s third-largest system.

Driving success in Virginia was a top-to-bottom focus on customer service led by SVP Buzz Goodall. His next-in-commands also were steeped in Continental’s can-do regional culture, with vice presidents and system managers such as Rick Turnamian and Paul Spacek averaging eight years of service each with Continental.

Hard-to-anticipate situations brought out the best in many frontline employees. Pattie Booker, a customer service representative in Henrico, fielded a call from an irate customer who insisted on disconnecting all services. Keeping her cool, Booker talked the customer through the process, leading the customer to confess that she wasn’t disconnecting her own service, but that of her daughter and son-in-law, who had been killed in a plane crash. “You never know what the person on the other end of the phone has gone through. But it’s up to you to make their phone call count,” Booker said.
Zoe Randall met a customer in the lobby of one of the Virginia system offices and could tell that she was upset. The recent Vietnamese immigrant spoke very little English and was having trouble deciphering changes to her monthly bill. Randall arranged for a follow-up meeting and had the woman’s bill broken down into clearly identifiable sections. The two sat down and went through the bill item by item, clearing up all misunderstandings.¹⁵

**FLORIDA**

After gaining a foothold in the Sunshine State with its 1984 acquisition of the Jacksonville system, Continental worked rapidly under Senior Vice President Jeff DeLorme to intertwine its systems operations with the communities it served. That included Broward County, added as part of the American Cablesystems acquisition, which brought Continental’s Florida subscriber base to just shy of 300,000 by the 25th anniversary. Continental offered its local programming resources to municipal and community groups in Florida.

Continental also developed a well-earned reputation as a community partner by producing and sponsoring numerous live programs and special events in support of local charities.¹⁶

Ernie Erwin and Tom Tierney were key technical operations leaders who joined Continental as part of the Jacksonville acquisition. Both played important roles overseeing plant extensions into unserved areas and mentoring talented supervisors like Ray Grimsley and John Gendron, to support the system’s rapid growth. Austin Cross brought operating expertise from Continental’s Missouri-Iowa-Illinois region, and Jim Garofalo was recruited to build a strong sales and marketing team, including Bob McQuire and Jeff Lorello. Adding to the region’s talent pool were smart, customer-oriented managers like Carl Martin, Bill Connors, and Scott Calloway.

Following the American Cablesystems acquisition, John Ridall was recruited from Viacom, and Ellen Filipiak from Continental’s Western New England/New York region, to lead day-to-day operations for Jacksonville and Broward County, respectively. Ridall, who would later become a regional SVP, dug into the rebuild and integration
of the newly acquired Clearview properties, including fast-growing St. John’s County, and Filipiak brought her team-building and customer service expertise to the former American properties. Years later, she would head customer service for DIRECTV. Dave Spallinger, from Continental’s Michigan region, was recruited to lead the Broward County engineering team.\textsuperscript{17}

**NEW ENGLAND**

New England’s focus on franchising during the 1980s propelled a nearly tenfold growth in the region, from 52,000 subscribers in 1980 to close to a half-million by decade’s end. Regional Senior Vice President Bill Schleyer was hardly resting on his laurels. He focused on attracting and retaining the best personnel in order to “press our competitive advantage at the local level to protect against inroads by telcos and others.”\textsuperscript{18}

When Continental’s Western New England systems added American Cablesystems’ Westchester and Rockland County operations in New York in 1988, the New England region was reorganized into four districts, and Western New England and the newly acquired American properties were split off into a separate region under Frank Anthony’s leadership. Former New England controller Vinny Gloddy took over the district after New Hampshire veteran Roger Worboys was recruited by Vision Communications for a senior operating role. The North region was headed by former American executive Ed Holleran, and the Central and South regions by Russ Stephens and American’s John King.

At the regional level, Schleyer’s immediate team included Joe Galli as controller, Nancy Jackson as VP of marketing, and Margaret Sofio as VP of legal and government relations. Attorney Susan Eid would join Sofio’s staff as the region’s legal and regulatory needs grew. (Eid would later serve as chief legal advisor to the chairman of the FCC and eventually head DIRECTV’s Washington office.) Longtime engineering VP Bill Hinton was supported by Calvin Cole, who managed converter repair, and Bob Tuttle, who oversaw the design and equipping of the region’s numerous local origination studios. Rising New
England star and future regional SVP Kevin Casey served as district engineer under Stephens. Another key member of the regional leadership team was Bill Williams, who developed the New England Regional Training Center and its various support programs.

The region’s Career Path Program, designed for all customer-contact employees, provided training at key points in the employees’ career development to provide added service, sales, or technical expertise. To prepare the next generation of managers, five to seven employees were chosen each year to take part in the nine-month intensive Management Development Program, designed for those targeted for the supervisor/managerial track.19

**Significant growth during the 1980s** prompted leadership to focus on training programs such as one at the New England region’s “pole farm.”
Continental’s local programming won numerous cable industry ACE awards, and New England was no exception. Local programming often had a significant impact on local politics by highlighting issues and political candidates that otherwise might not get the attention they deserved. Catherine Maloney joined Continental in the early 1980s and was soon contributing to the award-winning daily news program produced by the Brockton, Massachusetts, system.²⁰ While she and many colleagues in Brockton continued their cable careers for years, at least one alum actually made the transition from covering local politics to being the subject of that coverage: Linda Balzotti, former Brockton system staffer, has served as the mayor of Brockton since 2009.²¹

Jonathan Anderson joined Continental Cablevision of Connecticut in March 1984 as a 23-year-old eager to launch his cable career. Construction had just gotten under way on the 10-town system, and there were no customers.

“As Continental built out the Connecticut system,” Anderson recalled, “employees rode a wave of enthusiasm from new and would-be customers. Employees quickly realized they were a part of something that was more than just a job. Especially during the system build-outs, “all-out” was par for the course. In the programming area, the focus was to construct the studio, outfit the mobile production van, and create content to meet the programming deadlines.”²²

WESTERN NEW ENGLAND

Under Frank Anthony’s leadership, the newly formed Western New England region had 500 employees and more than 175,000 subscribers in Western New England and New York State (including inmates at New York’s Sing Sing prison). Binding the systems together was a common commitment to customer service and to the communities where Continental’s employees lived and worked.

Geoff Little, vice president and district manager, had overseen Continental’s system in Northampton, Massachusetts, as it grew from its pre-construction phase in 1980 to become one of the region’s largest employers.²³
Local programming efforts across the new region also caught the cable industry’s eye. Under Brian Lambert’s leadership, the Springfield, Massachusetts, system received four nominations and an award—for its “After the Fact” program—in the national ACE competition for local programming. Local programs from the systems in Enfield, Connecticut, and Ossining, New York, were also nominated.24

Like Continental leaders across the country, Geoff Little was always on the lookout for talent. In 1987, he hired Charles “Chap” Hanley in Springfield and enrolled him in the first class of Continental management trainees. It was a good investment on the company’s part. The following year, Hanley was named sales and marketing manager in Springfield, and in 1990, Hanley would move to the Hudson River Valley to take over as general manager of the Ossining, New York, system.

Continental’s customers received an unprecedented array of programming as the 1980s drew to a close.

GATHERING MOMENTUM
A quarter-century of robust growth gave Continental breadth and depth. Even for Continental veterans accustomed to the company’s rapid development and evolution, the coming decade would redefine what was required of Continental to stay at the top of its game—and the top of the industry.
Looking ahead, Hostetter didn’t minimize the challenges. But he assured employees and shareholders that Continental was as aggressive and opportunistic as ever as it launched into its second quarter-century as a cable system operator. “We move into the 1990s aware of many challenges, yet with a high degree of confidence in our core business and our own ability to succeed. Continental has a long record of creating quality jobs and of building equity for its shareholders and we expect that record to continue.”25
CHAPTER SEVEN

Pushing the Envelope

DOLAN’S NEWS 12: SHOWING THE WAY
REGIONAL SPORTS
THINK PPV, GLOBAL
COURT TO DECIDE
PROGRAM EXCLUSIVITY

Continental Cablevision’s chairman Amos Hostetter
and president Timothy Neher

THREE-TIME
Winner
Continental Takes
Operator of the Year
BY 1990, CONTINENTAL CABLEVISION’S REPUTATION WAS SO GOOD it was bad for business—or at least for the business of *CableVision* magazine. For the third consecutive year, the magazine’s readers had ranked Continental as the best cable operator in the business. An executive from *CableVision* made a visit to The Pilot House after the award was announced and explained that, ahem, some changes were in order. In future years, the magazine itself, which relied on subscription revenue from many cable companies, would pick the Bill Daniels Operator of the Year award winner.\(^1\)

In saluting Continental’s three-in-a-row performance, the magazine focused on Continental’s commitment to customer service: “True to its reputation, Continental’s highest score in the *CableVision*’s Operator of the Year poll came in the area of customer service.” Continental received 356 of the total 875 first-place votes cast by readers. Comcast came in second in the overall vote count, followed by TeleCommunications

« Continental all but defined quality in the cable television business by 1990 as readers of *CableVision* named the company Operator of the Year three years in a row.
Group, Telecable, TCA Group, Newhouse Broadcasting, Century, American Television &
Communications, and Jones Intercable. Adelphia Communications and Cooke Cablevision
tied for 10th.

“I’m sorry the people who won this award couldn’t be here today,” Hostetter said
upon accepting the award on behalf of the company. “The winners—and there are nearly
8,000 of them—couldn’t be here today because they are answering phones at customer
service centers, installing drops, producing local programs, engineering rebuilds,
marketing new customers and participating in community events.”

He added, “The Operator of the Year award means a great deal to my associates
because it recognizes their hard work, long hours and dedication to providing quality
customer service.”

Continental was indeed at the top of its game in the 1990s. From leading the
pushback against industry re-regulation and ushering in the broadband revolution
to expanding overseas, Continental was punching well above its weight class as the
industry’s number-three player.

Continental would join forces with Turner Broadcasting and TCI to launch Cable in
the Classroom; create New England Cable News, a regional cable news channel that was
a joint venture with Hearst Corp.; and collaborate with eight other cable MSOs to form
PrimeStar, a satellite-to-home video service.

As Continental reached full stride as an industry leader, additional changes were
being made within its corporate leadership at The Pilot House.

About the only thing impeding the company’s unbridled growth were dark regulatory
clouds in Washington. Concerns about the savings and loan crisis led federal banking
regulators to classify certain debt as highly leveraged transactions, an unfavorable
designation that limited the ability of companies like Continental to raise new debt. And
mounting consumer complaints about poor customer service coupled with escalating cable
prices were about to engulf the entire cable industry, including Continental, despite the
latter’s reputation for quality customer service and record of moderate rate adjustments.
CABLE IN THE CLASSROOM

In 1989, when Bert Carp, head of Turner Broadcasting’s federal affairs office, was looking for allies in an effort to give back to communities and boost cable’s image, Continental was at the top of his list. “We first approached Continental because we thought they would agree with this, and TCI because they were the biggest.” Carp said.³

Turner’s idea was to provide CNN Newsroom free of charge to junior and senior high schools around the country, with the programming delivered by the local cable provider in each community.⁴ Continental’s Robert Sachs proposed that additional cable programming networks be included to make it a true industry-wide effort; Turner and Carp readily agreed. C-SPAN, Arts & Entertainment, and Discovery were soon brought on board.

Continental was a leader in cable industry educational initiatives in its role as one of the founders of the highly successful Cable in the Classroom initiative.
The arrangement was put together so quickly that details of what would become known as Cable in the Classroom were still being worked out as Turner; Hostetter; J.C. Sparkman, TCI’s chief operating officer; C-SPAN’s Brian Lamb; and a few staffers from each company were in the elevator riding up to the National Press Club where they were to announce the new initiative on the morning of April 26, 1989. Word had reached the group that some National Education Association leaders wouldn’t be supportive if the programming included ads. Education entrepreneur Chris Whittle had earlier raised some educators’ hackles by providing ad-supported TV programming to schools. Turner took the opportunity to be the cable cowboy wearing the white hat. “No advertising,” he promised.

Cable in the Classroom, initially under the leadership of Bobbi Kamil, center, provided a way for educators to use cable programming as a teaching tool. Here, Kamil and Hostetter are shown with C-SPAN’s Brian Lamb, an early Cable in the Classroom supporter.

Hostetter, then a director of the Children's Television Workshop, producer of Sesame Street, couldn’t have agreed more. “Television can be a valuable teaching tool, if properly used,” Hostetter said. “The cable industry is uniquely positioned to work with educators in advancing the use of this tool.” He praised the programmers for committing “not to use their programming as a vehicle for delivering children to advertisers.”
Woburn, Massachusetts, fourth-grade teacher Patricia Eastman wanted to make science come alive for her students. Working with Continental’s Cable in the Classroom ambassadors Mike Leone and Catherine Maloney, Eastman incorporated programming carried on Discovery Channel into her classroom demonstrations. Her teaching was recognized for its innovative approach to science education, and she was one of the educators celebrated at the Continental-sponsored series of events held in Washington in 1995.6

Cable in the Classroom student reporters gained hands-on experience in television newsgathering.

The momentum created by Cable in the Classroom quickly carried beyond the confines of the classroom. Among other initiatives, Continental promoted a multiyear program supporting student reporters covering local elections—and starting with the 1992 Democratic National Convention, national races as well. Continental enlisted C-SPAN and CNN to help improve the young reporters’ reporting and on-air skills. They quickly put that knowledge to use following then-candidate Bill Clinton around for a day and reporting on their experiences for classmates back home.7
Cable in the Classroom honors teachers at a luncheon in Washington, DC.

Continental also rolled out national educator awards, recognizing innovative Cable in the Classroom work that other teachers could adapt to their individual classrooms. Each year, a dozen top educators traveled to Washington, DC, to receive their awards and meet with their respective congressmen. The members of Congress or their aides also attended the awards luncheon hosted by Continental and chaired by Hostetter.

CABLE NEWS NETWORK
The early 1990s witnessed growing public recognition of services provided by the cable industry. The proliferation of cable programming continued to bolster cable’s standing as a credible alternative to the broadcast networks’ over-the-air offerings. And during the Persian Gulf War, satellite technology solidified CNN’s status as the “go-to” global news channel. Advertising on cable programming was starting to grow.

“Another bright spot in our business is cable advertising,” Hostetter noted in the spring of 1991. “In a period when most advertising-supported businesses experienced substantial declines, the Company achieved a year-to-year revenues increase of 46 percent,” he said in reviewing Continental’s performance in 1990. “We are enjoying both an increase in inventory (more spots on more services) and improved ratings.
In particular, CNN gained a new level of public awareness and support during the Persian Gulf War, and for much of that period, recorded higher ratings than any of the broadcast networks.” Still, advertising constituted less than 5 percent of the company’s total revenues."}

**PRIMESTAR**

The cable industry had been caught largely off guard by the introduction of smaller, three-foot-diameter satellite dishes in the late 1980s. A means of transmission that had been the province of rural hobbyists with dishes the size of delivery trucks suddenly had the capability to compete with cable’s sweet spot: suburbia. Major MSOs belatedly put up their own satellite alternative to the direct broadcast satellite competition. The cable industry pooled its resources and technical know-how and in November 1990 launched PrimeStar, a satellite-to-home video service jointly owned by Continental and eight other cable operators, including TCI, the newly merged Time Warner, Cox, Comcast, and GE Americom.

Distributed to customers across the country via GE Americom’s K1 mid-power satellite, PrimeStar programming provided 10 channels of superstations and pay-per-view services. Continental’s initial tests of the service in Concord, New Hampshire; Stockton, California; and Richmond, Virginia; proved successful. Other cable operators had similar results. Within a few years, PrimeStar was the largest satellite television company, and by the end of the decade was reaching 2.3 million subscribers, many in rural areas otherwise not served by cable providers. Nevertheless, PrimeStar was never a perfect fit for its cable operator owners. In 1999, PrimeStar was sold to satellite rival EchoStar (now Dish Network) for $1.36 billion.
PrimeStar marketing brochures depicted the cable-industry-owned satellite service’s ability to beam television programming directly into customers’ homes.

NEW ENGLAND CABLE NEWS

CNN’s success created interest in, and demand for, additional sources of news on cable. One of the most innovative and successful cable news ventures of the 1990s was New England Cable News, a Continental-Hearst Corp. joint venture that within a few years became a leading source of news programming for the New England region.

In the late 1980s, Philip Balboni, the highly respected news director at Boston’s WCVB Channel 5, an ABC affiliate, was looking for a new challenge. One of his ideas was to leverage cable’s growing popularity by launching a 24-hour cable news channel serving New England. He broached the idea with Nancy Jackson, vice president of marketing of Continental’s New England region, as well as with Bill Schleyer, who was heading the region, then headquartered in Durham, New Hampshire.
“Bill was obviously an extremely smart businessman and asked very direct, excellent questions,” Balboni recalled. While Balboni’s pitch had focused on the venture’s potential to grow into a successful business in its own right, “Bill came at it from a totally different perspective, which was: What’s good for the Continental customer? What could Continental do for the customers that would add value to their cable subscription? That was the point of view that he brought to it. And of course, that’s exactly the right point of view,” Balboni said.12

In January 1990, Balboni joined WCVB’s owner, the Hearst Corporation, as assistant to the president in charge of new projects, and New England Cable News was at the top of his to-do list. He took a proposal for a joint venture with Continental Cablevision to Hearst’s CEO and it was given the go-ahead on the spot. Balboni scrambled to line up the on-air and management talent to run the station, which was based in the Boston suburb of Newton, Massachusetts.13 Among those he successfully recruited was legendary Boston broadcast journalist Chet Curtis, who became New England Cable News’ evening news anchor.

*Philip Balboni*, center, approached Continental about a joint venture with the Hearst Corporation (headed by Frank Bennack Jr., left) to launch an around-the-clock news channel. New England Cable News launched in 1992 with 600,000 subscribers.
Lawrence Meli and Charles Kravetz were the first two general managers of New England Cable News. New England Cable News brought a new level of sophistication to local cable news programming in the Northeast that had few if any peers elsewhere in the country.

Balboni negotiated with other cable operators in the region, notably Cablevision with its Boston franchise, to carry the channel. He pushed to get the new joint venture announced in 1990, even though it wouldn’t go live until April 1992, in part to head off a similar venture in the planning stages at Cablevision.

New England Cable News launched with 600,000 subscribers. The new channel’s quality programming turned heads in its first year. In early 1993, the channel, barely a year old, was honored with three Massachusetts AP broadcast awards, including best major market newscast in New England.14

Despite the accolades, subscriber growth was slow. Balboni took over operations of the fledging enterprise in late 1993 and was named president in April 1994. He hit the road and met with regional operators and advertisers to grow the business. He drove the subscriber count to more than three million within a few years, and the channel was able to turn a profit by 1998.15
FURTHER LEADERSHIP CHANGES

After agonizing for months, Tim Neher decided in early 1991 that he needed to step back from the day-to-day management of company operations. He had been working with Hostetter at The Pilot House for more than 10 years. Neher felt time was rushing by and wanted to spend more of it with his family and pursue other interests, including his passion for golf.

Hostetter was certain Neher couldn’t stay away from the action for long and told him to take a few weeks to think about it. Neher came back and said he hadn’t changed his mind. But Hostetter refused to let him go entirely. They reached agreement on a leadership structure in which Neher would serve in a newly created position of vice chairman but would have no direct reports. He retained his Pilot House office and would work closely with Hostetter on a number of projects, including one that married his personal and business interests—the Golf Channel.16

When Hostetter and Neher asked Mike Ritter to move to Boston from Michigan back in 1987 to serve as executive vice president, Ritter initially told them he had other plans. He and his wife, Shirley, had bought a sailboat and were going to realize a lifelong dream of taking several years off to sail around the world. He agreed to cut the trip to several months, and they agreed to keep the position open for him.17

By 1991, the Ritters were again looking forward to a sailing adventure and had just purchased a condominium in Sarasota, Florida, to serve as their base of operations. “I had a five-year plan, and we were nearing the end of five years in that position,” Ritter said.18 But Hostetter and Neher put a hold on his plans once again when they asked him to replace Neher as president and chief operating officer and join them in a three-person “Office of the President.”
“WHY DO YOU GO TO WORK?”

“I was unbelievably flattered. I could not have had more respect for both people and the organization. I accepted the offer,” Ritter said. After spending a total of two nights in the Florida condominium, he and his wife sold it.

Ritter always considered himself a people person and did his best not to become isolated working at The Pilot House. “I enjoyed interacting with the people, supporting them, and sort of instilling a sense of values that really were so consistent from top to bottom in this company,” he said. “I enjoyed the camaraderie and inspiring people to really do their best. And it’s for the right reasons. I used to say to people at the end of the day, ‘You need to ask yourself, why do you go to work? Because you spend half your life doing this . . . and it has to be fulfilling. It has to be for a good reason; your motive has to be right. Otherwise, why do it?’”

LEADERSHIP UNDER FIRE

One of Ritter’s initial responsibilities as executive vice president had been to oversee the integration of the American Cablesystems operations in the Los Angeles area into Continental’s regional structure. He and others committed a great deal of time and effort to improving the level of technical expertise in the Los Angeles–area systems, as well as significantly improving customer service and community relations. These and related investments of time and money, as well as level-headed leadership provided by longtime local manager and former Los Angeles Rams football player Perry Parks, played a critical role in keeping Continental’s Los Angeles business intact when South Central Los Angeles erupted in violence in 1992.
Perry Parks’ deep roots in the Los Angeles area and his industry expertise helped the company effectively navigate the 1992 riots.

It began as a protest of the acquittal of police officers whose use of excessive force while arresting a motorist named Rodney King had been captured on videotape the year before and viewed around the world. But the protest rapidly spread and led to widespread incidents of looting and violence as police lost control of the South Central streets. Few businesses or residents thought they were safe.

Continental’s South Central system office was on Crenshaw Boulevard, at the epicenter of gang violence as police retreated from the streets. Two nearby car dealerships were set aflame. The Continental office was the site of a former car dealership. Ritter spoke to the local leadership at one point as he watched television coverage of pickup trucks backing into and smashing storefronts near the Continental facility.

During the worst of the rioting, Parks assembled his staff and said all installations were done for the day. He and the rest of the staff parked all of the service vehicles in the front of the lot in full view of the streets and started washing them as if it were business as usual at Continental Cablevision. The behavior might have been considered
foolhardy if undertaken by another retailer in the area. But it fit a pattern of behavior that Parks gambled would be recognized and approved by the neighborhood.

The 1992 Los Angeles riots laid waste to blocks of commercial buildings, but Continental Cablevision, known for its community outreach, suffered no damage to its neighborhood offices.

Parks and other company leaders in the area had seen to it that Continental was accepted as part of the community. He hired technical and customer service workers from the local area. And he demonstrated to community leaders, including gang members, that Continental trucks were not being used for police surveillance or electronic snooping. Continental’s people lived and worked in the neighborhood, and were providing a service that, especially in times of crisis, was considered vital for keeping the community informed. In fact, Mayor Tom Bradley used the Continental office as the site for an official statement on the rioting, before leaving under armed escort. When the rioting finally abated, none of Continental’s people or property had been harmed.21
NEW FINANCIAL ISSUES: HLTs
In the wake of Continental’s 1989 stock buyback, the company entered the 1990s much more highly leveraged than it had been in previous years. Adding to the problem was the fact that recently imposed federal regulations, responding to concerns about the savings and loan and banking sectors, classified Continental’s debt as a highly leveraged transaction (HLT), an unfavorable designation within the banking system and one that limited Continental’s access to further credit.22

In 1990, the company refinanced its $2.3 billion bank facilities of the prior year, seeking to increase the facility to $2.6 billion, but had to settle for $2.4 billion as a result of the banks’ ongoing HLT crisis. However, that year it was able to issue some additional subordinated debt in the public market and early the following year raised an additional $115 million senior secured-term loan led by Merrill Lynch’s Prime Rate Fund. In combination, these financings provided the funds needed to redeem the last of Continental’s preferred stock by June 1991.

Prime Rate Fund financing was accomplished at the apparent height of the credit crunch, when no other cable deals were getting done.”

Hostetter did his best to put the stiff financing headwinds in perspective for Continental shareholders. “Fundamental pressures on banks have been building for some time,” he said, “and in the last year, these were exacerbated by a general economic downturn, a real estate recession, and an unprecedented level of regulatory scrutiny. The resulting contraction of credit affected all borrowers, including cable.” He noted that the Prime Rate Fund financing “was accomplished at the apparent height of the credit crunch, when no other cable deals were getting done and is testimony to Continental’s continued strong standing in the financial markets.” But additional equity was badly needed if the company was going to continue its blistering growth and make good on its stockholder liquidity pledges.23
1992 CAPITAL INFUSIONS

Anticipating the further tender offer the company was required to make by the end of 1993, in March 1992 Continental arranged for Corporate Partners LP, a management-friendly investment fund affiliated with Lazard Freres, to lead a $400 million equity investment in the company by buying a new issue of preferred stock convertible into common stock at $350 a share. The other investors participating in the March 1992 offering included the State Board of Administration of Florida, Chemical Equity Associates, Mellon Bank as trustee for First Plaza Group Trust, and Vencap Holdings. Upon conversion, the preferred shares would represent about 19 percent of Continental’s common stock.

“We are excited that we have been able to move forward with this plan in the current financial environment,” Hostetter said when the Corporate Partners investment was announced. “Its successful implementation will substantially deleverage the company and will reduce our reliance on the bank market.”

The Corporate Partners transaction may have been behind them, but Continental’s financial team didn’t exactly take the summer of 1992 off. They arranged an additional $100 million equity investment by Boston Ventures, a new firm formed by former Bank of Boston lending officers, including Bill Thompson and Roy (“Copey”) Coppedge, who had been highly supportive of Continental throughout its history. At roughly the same time, the financial team completed the offering of $250 million in additional subordinated debt whose maturities extended well beyond any of the company’s existing debt.

TENDER OFFER: A MILESTONE

With these additional resources in hand and a general easing in the bank credit markets, Continental’s board elected to advance by a year the tender offer it had committed to make to the selling shareholders by the end of 1993, and to increase the number of shares it was prepared to retire from 300,000 to 750,000. The price per share produced by the agreed-upon formula in the fall of 1992 was $335.10.
Shareholders, including the selling shareholders, tendered a total of 715,761 shares, slightly less than what the company had been prepared to accept.

As the 1990s progressed, Hostetter and his executive team constantly sought new sources of capital to fund Continental’s expansion.

The transaction closed in late October at a total cost of $240 million to the company. It was a milestone in that Continental was able to absorb all the selling interest that then existed in the shareholder group. With that transaction completed, it had no further shareholder liquidity obligations until 1998, so it had the prospect of stable ownership for the next six years. In retrospect, the Continental team had completed a quite remarkable recapitalization at the height of the financial and HLT crises of the early 1990s. But there were other issues.26

**MOUNTING REGULATORY PRESSURE**

At the start of the 1990s, mounting public and congressional criticism of the cable industry was threatening the future of the business that had looked so promising in the deregulated halcyon days following the passage of the ’84 Act. Congressmen across the country were receiving complaints about steep price increases and spotty service, and re-regulation of the industry was debated in both the House and Senate. “Waiting for the cable guy” became a source of frustration for consumers, and a comedic punch line on late-night television, as the cable industry became the poster child for bad customer
service. To make matters worse, two early congressional supporters of responsible deregulation—Senators Daniel Inouye of Hawaii and Al Gore of Tennessee—witnessed some of the country’s most rapid rate increases and service meltdowns right in their home states.27

Earlier supporters of cable industry deregulation on Capitol Hill, such as Massachusetts Congressman Ed Markey, were put in difficult positions by the consumer backlash that drove the re-regulation of cable in the 1992 Act.

Continental knew that its responsible approach to adjusting prices and maintaining high service standards wasn’t the target of such complaints. But it was getting tarred with the same brush as the rest of the industry.

At the same time, broadcasters were pressing for stricter application of regulations to dictate what broadcast channels cable operators “must carry” on their systems, and what they might charge cable operators for carriage (“retransmission consent”). As early as April 1991, Hostetter was cautioning shareholders to expect the worst:

The industry’s principal congressional detractors (Senators Danforth, Gore and Metzenbaum and Representative Markey) can be expected to push hard for legislation that would give cities power to regulate all rates except pay television services, require cable programmers to provide their product to the industry’s competitors, and eliminate many of the due process renewal protections contained in the 1984 Cable Act.29
As regulatory clouds gathered, Continental’s corporate and regional leaders met in Jacksonville, Florida, to discuss the state of the company and the industry.


By October 1992, his fears were realized. President George H. W. Bush had vetoed legislation that would reregulate much of the cable television industry. But Congress delivered its only override of a presidential veto during Bush’s term to make the re-regulatory bill law. Indeed, former cable supporter Senator Al Gore had left the campaign trail, where he was campaigning as Bill Clinton’s running mate, to cast his vote in the Senate to override the presidential veto.

The legislation was formally called the Cable Television Consumer Protection and Competition Act of 1992. Its main provisions rolled back rates that operators could charge subscribers. But implementation of the ’92 Act was delayed in the transition between the Bush and Clinton administrations.
Continental’s emphasis on pushing decision-making as close to the customer as possible reaped accolades for its customer service. It also empowered employees and enabled the company to learn from its customers and adopt policies that were even more customer-friendly. Its “Call First” program initiated in 1990 in New England, for instance, was the result of customer requests.

Phil Ripa, general manager of the Cambridge, Massachusetts, system, heard from his customer service reps at their weekly meetings that customers were tired of feeling trapped in their homes waiting for the “cable guy” to arrive. They wanted to receive a call from technicians when they were on their way to a customer’s house. Ripa’s team proposed what became known as its “Call First” policy. Technicians would call customers when they were roughly 20 minutes from arriving at their homes. That meant customers who worked relatively close by could come home to meet the technician rather than miss a half day of work. It was a seemingly small step, but one that the cable industry as a whole didn’t adopt for years.28

Procedural jockeying delayed Senate confirmation of Reed Hundt, Clinton’s choice to run the FCC, until November 1993. When Hundt finally did arrive, he was in the hot seat. On his desk were letters from roughly one-third of the members of the Senate and House. They were demanding that he immediately lower rates for basic cable service across the industry. It isn’t unusual for an agency chairman to find such a letter or two signed by a handful of congressmen when he arrives on the job, Hundt recalled, but the level of interest in the cable issue was extraordinary.30

The reason was clear: Congress had passed the legislation largely in response to sharply higher cable bills being paid by their constituents. But while Hundt was waiting to be approved, interim FCC Chairman Jim Quello, a Republican appointee, had signed off on measures that enabled cable companies to raise rates still higher, even after the ‘92
Act was passed. “What the letters said was, ‘Wait a minute, we passed this law so that cable rates would go down. Send them down,’” Hundt said.31

As implemented by the Hundt FCC, the ‘92 Act resulted in an effective reduction of about 17 percent in basic cable prices. Initial estimates put the cable industry losses from the re-regulation at close to $1 billion. As noted, it also required operators to carry certain local broadcast stations and compensate broadcasters for the cable carriage of others.

The rollback of cable television rates was front-page news across the country.

**RETRANSMISSION CONSENT**

As important as the rate rollbacks were, the must-carry and retransmission consent provisions of the ‘92 Act were at least as far-reaching. In April 1993, Hostetter laid
out the issues for a group of communications industry attorneys attending a Federal
Communications Bar Association luncheon.
Continental’s position was:

We believe that those television stations that produce significant local
programming offer a valuable service to the public. For this reason, we are prepared
to offer long-term carriage contracts to full power commercial television stations
that do significant local programming and which opt for must-carry. . . . Future cable
carriage of these broadcast stations will then be secure, regardless of whether must
carry is ultimately declared unconstitutional by the U.S. Supreme Court, as I for one
believe it will be.

On the other hand, those broadcasters who opt for retransmission consent will
choose a much more uncertain future.

After having given the matter a great deal of thought, Continental is not prepared
to pay broadcasters for the carriage of local television signals that are otherwise
available to the public free over-the-air. I do not say this to be confrontational but
to give broadcasters as much advance notice as possible of our position.

A “SOCIAL CONTRACT”
Continental led the cable industry in fashioning a holistic response to the regulatory
challenges posed by the ’92 Act. Working with attorneys at Willkie Farr & Gallagher and
Dale Hatfield, a highly respected telecommunications economist, Hostetter and Sachs
determined that the best course of action was to push for a negotiated settlement of all
400 of Continental’s rate-increase cases facing the FCC. As proposed by Continental,
the form of this global settlement would be a Social Contract between the company and
the Commission. The FCC, anxious to avoid the mountain of paperwork that would be
generated by proceeding with a rate case for each of Continental’s systems, indicated
that it was amenable to such a solution.

Hostetter and other senior Continental leaders made it a point to visit each of the
FCC commissioners and underscore Continental’s willingness to work with the agency,
rather than against it, to navigate its way through the regulatory morass. As Sachs later
recalled, “Amos and I went to visit with Reed Hundt and his chief of staff, Blair Levin. At that time, neither was really very familiar with the cable industry,” but they were aware of Continental’s reputation. “We had conducted seminars on the economics of the cable business for the FCC staff. It conveyed a lot to the FCC to have Amos, CFO Nancy Hawthorne, and CTO Dave Fellows participate in those presentations.”

Working with Hatfield and Willkie Farr’s Phil Verveer, Continental fashioned a strategy that would become the industry strategy. “Under the ’92 Act, you could either accept the FCC’s rate formula and reduce your basic rates by 17 percent,” Sachs explained, “or you could make what was called a ‘cost of service’ showing, essentially presenting a telephone-style rate case based on the system’s actual costs and rate of return. We sincerely believed that our rates were reasonable, so, as Phil and Dale had advised, our strategy was to demonstrate this on a company-wide basis, or to get the FCC to recognize that it neither had the personnel nor budget to hear 400 Continental rate cases, at least not in our lifetimes,” Sachs said.

Hundt credited Continental with leading the industry approach to the FCC that became the Social Contract. “Amos was saying to us . . . ‘We know we had a bad run. We know Congress is upset. We know consumers were upset. But don’t do something to us that damages our ability to create a great industry for the country. And I know you have to interpret the law the way you read the law, but you have some interpretive powers.’ The Social Contract was a way of interpreting that power.”

Continental’s Sachs and corporate counsel Margaret Sofio met with the FCC to discuss what some of the public policy objectives were that they might want to achieve, and how best to achieve them. Their counterparts were Levin, the FCC’s chief of staff, and Meredith Jones, the FCC’s cable bureau chief. “Among the things we pointed out,” Sachs said, “was that if we were simply to roll back rates, we wouldn’t be able to invest the hundreds of millions of dollars needed to upgrade our systems” in preparation for the broadband revolution that was already on the horizon.
“THE CONTINENTAL AGREEMENT IS A VERY POSITIVE STEP”

After more than a year of talks between Continental and the FCC, the agency on April 3, 1995, announced that it and the company “have negotiated a Social Contract that will, if finally adopted by the Commission, resolve cable television rate complaints pending against Continental and require Continental to upgrade its systems.” The Contract was negotiated in accordance with the Commission’s authority to consider and to adopt “social contracts” as alternatives to other regulatory approaches applicable to cable television rates.

As part of the agreement, Continental committed to investing $1.35 billion over the next six years to upgrade its domestic cable systems. An amended agreement the following year boosted that figure to $1.7 billion. Continental also agreed to provide cable service and Internet access at no charge to all public and private schools passed by its cable systems. Continental lowered its lowest-priced basic tier by 15 percent. Since most of Continental’s customers subscribed to higher-priced “expanded basic” tiers, which were not subject to FCC rate regulations, the overall impact of this rate reduction was negligible. In addition, it consented to making $9.5 million in subscriber refunds, mostly in the form of coupons for free premium content or pay-per-view movies or related material. Continental regarded this as an opportunity to promote new services.

Continental won overwhelming support for its Social Contract from local franchising authorities and civic and community organizations and political leaders. Of the 225 public comments filed with the FCC in the spring of 1996 related to Continental’s proposed Social Contract, 215 were solidly in favor.

Cable bureau chief Meredith Jones declared that “the Continental agreement is a very positive step that creates innovative solutions to complicated regulatory and business issues.” By settling its rate cases as a group, “Continental retains the flexibility to continue to provide excellent service to the public and to obtain financing for system expansion and to diversify into new businesses.” Continental’s Social Contract became a model for the cable industry as other cable operators, including Time Warner
Cable and Comcast, sought to lessen the financial impact of the 1992 Cable Act and ensuing FCC rules on their systems by adopting similar rate settlements with the FCC.

Its Social Contract alleviated the pressure Continental was experiencing on the domestic front. The FCC’s equivalent of a seal of approval took much of the sting out of congressional criticism, which in any case had most often targeted the cable industry in general rather than Continental in particular. But it would take a few years for the cloud over the industry that was created by the passage of the ’92 Act to lift, particularly in the public equity markets.
CHAPTER EIGHT

Expanding Services at Home and Abroad
WITH THE DOMESTIC OUTLOOK FOR THE CABLE INDUSTRY clouded by the passage of the ‘92 Act, Continental started to look for opportunities in overseas markets that were not so heavily regulated. At the same time, the company was adding technical talent that enabled it to lead the industry in the broadband revolution.

Many industry leaders looked to the United Kingdom, where cable was introduced much later than in the United States and hybrid fiber-optic and coaxial networks were often the norm. However, high construction costs, heavy unionization, and the prevalence of direct broadcast satellite led Continental to pass on the United Kingdom and the rest of Europe and look elsewhere. Continental played a leading role in South America as the first major US cable company to invest there.

Jack Crosby, a cable industry pioneer, was visiting Argentina in the early 1990s, a rare period when the country’s economy wasn’t in turmoil, and thought that it might be a good market for a US cable company. Three or four Argentine companies dominated the cable business there. Where others may have seen only chaos in the wires strewn like vines across the sides of buildings in Buenos Aires, Crosby saw an opportunity for a company to come in, to modernize and expand the systems. He didn’t have the

« In the early 1990s, Buenos Aires emerged as a promising market for international cable expansion."
organization in place to implement such a plan, but he knew of and respected a company that he thought could make it happen.¹

Crosby had gotten to know Continental programming SVP Rob Stengel during the early 1970s, when Stengel was with NCTA and Crosby was an active board member as the founder of Communications Properties, Inc., which he later sold to TCI. Crosby and Stengel, along with Brian Owens, who had worked for Stengel at the NCTA, made a few trips to Argentina, and quickly identified Fintelco, a cable group run by Argentine entrepreneur Sam Liberman, as the most promising potential business partner. Fintelco had nearly 600,000 cable subscribers, with roughly half of those in Buenos Aires.²

Jack Crosby, a longtime cable entrepreneur and the founder of Communications Properties Inc., introduced Continental to a cable opportunity in Argentina.
“We struck up a relationship and gradually got to know them better,” Stengel said. “Jack did a lot of the early work developing relationships with Sam and some of his people. I went down there three or four times to represent Continental. Finally we got to the point where maybe we should have a serious conversation, so we got Amos involved.”

Liberman was a self-made multimillionaire who had started a number of other businesses, including a salmon fishery in Chile and a cut-flower business in Colombia. He also held the Seiko watch distributorship for Latin America. He seemed to know everyone of importance in South American business and political circles. He had a vacation hacienda in Punta del Este, Uruguay, a haven for well-to-do Argentinians, and invited Stengel there for a weekend. Stengel had expected to see more than a few business leaders but confessed he was surprised to meet the “three Charlies”—the presidents of Argentina, Paraguay, and Uruguay, who all were named Charles—all visiting Liberman’s estate on the same weekend!

Though Hostetter was more reserved than Liberman, Liberman recognized a kindred spirit in Hostetter. “Sam and Amos developed a very good relationship. Sam saw in Amos much of what he saw in himself, an entrepreneur who was smart, agile, and sophisticated. They just hit it off really well,” Stengel said.

As negotiations with Liberman’s company progressed, Robert Sachs and Continental’s lead outside counsel, Patrick Miehe of Sullivan & Worcester, got the Bank of Boston, which had a significant presence in Argentina, to introduce them to Marval, O’Farrell & Mairal, the leading corporate law firm in Buenos Aires. Partners Juan Cambiaso’s and Luis M. Gonzales Lanuza’s knowledge of local business and regulation would prove invaluable.

The Continental team had expected to be the majority partner in any deal, financing the bulk of the transaction and playing the lead operating role, but that clearly was a sticking point with Liberman. After much back and forth, Hostetter told Sachs and Miehe...
to tell Liberman that Continental was willing to take a 40 percent stake in Fintelco. It sent a signal to Liberman that Hostetter wanted to get the deal done, and that it wasn’t about egos or control.

Little formal regulation resulted in a free-for-all competition for Argentine cable subscribers, but rapid growth left plenty of opportunity for the joint venture owned by Continental and Argentine partner Fintelco.

Liberman responded positively and proposed a 50-50 joint venture. Continental invested $80 million for its half. “We paid less than $500 a sub at a time when cable systems in the States were selling for $2,000 and up per sub,” Sachs recalled. But one potential impasse remained: how to resolve any potential disputes between the 50-50 partners. Liberman knew Burt Harris, a cable industry veteran, from a time when both had owned cable systems in Puerto Rico. Hostetter knew Harris from their many years of service together on the NCTA board, and liked and respected him a great deal.
Liberman and Hostetter agreed that they would turn to Harris to arbitrate any business disagreements that might arise. Liberman and Hostetter worked very well together, so as it turned out, Harris was never called in to arbitrate anything. Additional capital contributions over the next few years brought Continental’s total investment in Fintelco to $148 million, with another $33.5 million promised to help finance acquisitions.

Jeff DeLorme, who was then running Continental’s Florida region, took on the added task of overseeing the rebuild and expansion of the systems in Argentina. With Buenos Aires a hotly contested market for cable, much of the joint venture’s growth came from systems in the Argentine cities of Cordoba and Rosario. Ellen Filipiak, who was managing Continental’s Pompano Beach, Florida, system at that time, traveled frequently to Argentina to help Fintelco with operations, and in the process developed a close working relationship with Liliana, one of Liberman’s daughters, who was involved in the business.

As the Continental-Fintelco deal was being negotiated, the United States and Argentina were in the process of completing a bilateral trade agreement that had
only recently been approved by the US Senate. Continental was conscious of being a trailblazer in Argentina and careful to avoid any negotiations or transactions that, while accepted in Latin America, might run afoul of US law. Sachs retained former US Secretary of State Lawrence Eagleburger to guide the company.

“Secretary Eagleburger had a strong relationship with our ambassador, who was pleased to serve as a go-between with the Argentine government. We insulated ourselves well, and no one ever even asked anything questionable as a condition of gaining regulatory approval,” Sachs said. The United States and Argentine governments shared an interest in fostering US investment in Argentina. Continental’s was the first in the telecommunications sector following President Clinton’s signing of the new bilateral trade agreement.

In the early 1990s, Singapore’s four million people only had access to six over-the-air broadcast channels.
SINGAPORE

Just as Crosby had thought of Continental when he saw an opportunity in Buenos Aires, another veteran system operator, Bob Weary of Junction City, Kansas, thought of Continental when he gazed up at the many high-rise apartment towers in Singapore. It was 1991, there wasn’t any cable television in Singapore, and the country’s four million citizens only had access to three local over-the-air channels and three more from Malaysia. The recent Gulf War had driven home the importance of CNN, and by extension cable television, to the country’s leaders. Cable was clearly on the nation’s communications agenda.

Weary contacted Continental and convinced Hostetter and Sachs that it would be worth their while to make an exploratory trip to Singapore. He had already retained a British attorney there whom he thought could help them navigate the local business and political network.

The Continental visit did not get off to a promising start. After a day of polite but standoffish conversations that Weary’s local attorney had arranged with regulators and potential local partners, Hostetter did not sense any interest from the Singaporeans in inviting a foreign company to obtain a license to operate a cable system there. The next day he caught a flight back to Boston. But Sachs decided to spend a day or two more familiarizing himself with the market and local players.

Hours after Hostetter left, Sachs received a call at his hotel from Anthony Chia, head of corporate development for Singapore Broadcasting Corporation (SBC), with whom they had met the previous day. Chia was disappointed to have missed Hostetter but wondered if Sachs might be free to meet. Over drinks that evening, Chia suggested that there might be a way for SBC and Continental to work together as part of a consortium to obtain the cable franchise.9 Sachs agreed to take the idea back to Boston and stay in touch.

Chia and others in Singapore had done their homework on Continental, and they liked what they found. “Several companies had expressed interest, and we settled on Continental,” Chia said. “We didn’t want someone who was too big, like number one or
number two in the United States. . . . When they are that big, it is always ‘my way or no way,’ and you know in Asia every country is sovereign and very proud of their local legacies, and so number one and two philosophically would be lots of pain and agony.”

Over the next two years, Sachs made multiple trips to meet with SBC’s Chia and other potential cable partners. Chia and his colleagues visited Continental’s system in Stockton, California. Eventually, Chia asked if Continental might serve as a consultant to help design an RFP for the Singapore government. So as not to preclude Continental’s opportunity to apply for the franchise, Sachs recommended veteran cable consultants Malarkey, Taylor and Associates of Washington, DC, to draw up the RFP, with Continental providing some technical assistance.

Although Chia wanted to work with Continental, it eventually became apparent that SBC was not going to be permitted to be involved in cable due to its ownership of Singapore’s broadcast channels. But others picked up where SBC left off. “I was in Buenos Aires and got a phone call from Lye Hoeng Fai, a Singaporean friend whom I had met at an executive education program at Harvard Business School,” Sachs recalled. “So, Hoeng Fai calls and says he was talking to a good friend of his whose company, Singapore Technologies, was interested in cable television in Singapore, and could I come to Singapore to meet his friend?”

After returning to Boston from Argentina and touching base with Hostetter, Sachs caught the next flight to Singapore. The person to whom Sachs was introduced in Singapore was Ho Ching, the managing director of Singapore Technologies, a respected local company affiliated with the government. Ho Ching also happened to be the daughter-in-law of Lee Kwan Yew, the father of Singapore’s independence and longtime prime minister. A Stanford University-educated electrical engineer, Ho Ching was interested in exploring a cable consortium including Singapore Press Holdings, a government-affiliated company that owned both of Singapore’s major newspapers, and possibly Continental.
Ho Ching, managing director of Singapore Technologies, played a leading role in bringing cable to Singapore and creating a cable television venture that included a 25 percent ownership stake held by Continental Cablevision.

But first she wanted to meet Hostetter. So the very next week, she and a group of advisors, including her general counsel, Lee Theng Kiat, flew to Boston, and on a bitterly cold winter’s night had dinner with Hostetter and Sachs at the Charles Hotel in Cambridge. In contrast to the weather outside, the parties quickly warmed to one another and agreed to do a deal, with details to be worked out back in Singapore. A few weeks later, Sachs and Patrick Miehe from Sullivan & Worcester hammered out the agreement with Singapore Technologies’ Lee Theng Kiat and Angela Hon.

Continental had no illusions about obtaining a controlling stake in a Singapore media company, given strong governmental interests in maintaining local control. Having gained a better understanding of Singapore, the Continental team correctly assessed that their company was likely to end up with a minority stake in the cable venture. In short order, the two other local partners, Singapore Press Holdings and Singapore International Media, each with government ties, signed on. Continental
viewed its 25 percent interest in Singapore Cablevision as a significant enough position and as a potential base for it to develop other cable systems in the Asia-Pacific region.

Representatives of Continental Cablevision and its Singapore partners, including Lee Theng Kiat, Dennis Tay, Quek Chee Hoon, Ho Ching, Emmett White, and Randall Coleman, participate in the joint venture signing ceremony marking the formation of Singapore Cablevision.

Emmett White, who had been providing operational support to the Singapore venture from Chicago, assembled a team to develop and build the Singapore system. Roy Boylan, White’s chief engineer in Chicago, oversaw system design. Rob Stengel, Continental’s corporate programming head, traveled back and forth to Singapore to work on content, being careful to observe Singapore’s strict programming standards, and New England marketing VP Nancy Jackson was recruited to help with marketing. Finally, Randall Coleman, who was then working for White running Continental’s operations in Saint Paul, was brought on as general manager to oversee system construction and operations.14 “With this team comprised of some of the best talent in the company,
Continental oversaw development until the system could be handed off to Singaporean management,” Sachs said.15

AUSTRALIA

When it came to empty “white spaces” on the cable map of the developed world in the early 1990s, few areas loomed larger than Australia. The Australian government had been looking at cable television through much of the 1980s, but no decisions had been reached. By the early 1990s, the country was finally ready to go ahead with cable as part of a larger effort to inject what was hoped would be a healthy dose of competition into the telecommunications sector. And that meant opportunity for outsiders with cable industry expertise—and plenty of capital to invest.

It was a seemingly attractive market. Australia had 5.6 million households with television sets—with most clustered in a half-dozen major cities and surrounding suburbs—but only a handful of national broadcast channels. As a result, 71 percent of the homes with television were using VCRs as their principal source of entertainment. They were considered prime candidates to subscribe to cable or satellite television service.16

Australia radio network executive Martin Hannes had attended the Harvard Business School in the 1970s and graduated in the same class as Continental executives Bill Schleyer, Nancy Jackson, and Nancy Hawthorne. He and Schleyer had also played rugby together. When it looked as if Australia might introduce cable in the early 1980s, Hannes had visited Continental and other US cable companies to introduce the Australia opportunity. When the country finally committed to cable a decade later, he was back knocking at The Pilot House door to discuss a possible cable partnership. After several meetings with Schleyer as well as then-President Mike Ritter and Hostetter, Hannes decided to join Continental in 1993 and become its point person in Australia.17
Australia was a very attractive—and highly competitive—cable television market in the early 1990s.

US cable companies, including Continental, jockeyed for position as they courted local companies as venture partners. The competitive picture was complicated further when the government-owned telephone company, Telstra, decided to compete in the cable arena. Schleyer and Hannes had been meeting with Australian government officials and testifying before government committees in the capital of Canberra on the advantages of cable hybrid-fiber technology and the wisdom of allowing the private sector to build out the system. They felt blindsided when the government-owned Telstra was allowed to jump into the competition.18
Continental partnered with Optus Communications and two broadcast networks in Australia in the fall of 1994 to create Optus Vision, a joint venture led by CEO Geoffrey Cousins, to bring cable, telephone, and high-speed data to the country.

OPTUS VISION

In response, in fall 1994 Continental teamed up with Optus Communications, a recently created private sector alternative to Telstra, and two of the nation’s three leading television networks, Seven and Nine, to form a cable joint venture called Optus Vision. Hannes convinced Optus that Continental was the perfect partner. It would add its expertise in delivering cable the “last mile” to the consumer from the trunk fiber-optic communications lines that were the backbone of the Optus network. Rupert Murdoch’s News Corp. was a minority owner of the Seven Network, and Nine Network was controlled by rival Australian media tycoon Kerry Packer. Continental and Optus Communications each owned 46.5 percent of the venture, Nine owned five percent and Seven, two percent. The agreement provided for the networks to increase their ownership stakes over time. It seemed a powerful
Golf, anyone?

Tim Neher resisted talking with Alabama entrepreneur Joe Gibbs for months. Not because he thought he wouldn’t be interested in what Gibbs had to sell—just the opposite. Gibbs was promoting a new cable channel devoted solely to golf. And Neher, an accomplished golfer, was afraid he wouldn’t be able to be objective. Worse yet, Gibbs had golf legend Arnold Palmer—who all but single-handedly had made professional golf a success on broadcast television—on board as an investor. Neher practically worshipped Palmer.

Tim Neher, pictured with Arnold Palmer and Joe Gibbs, helped orchestrate a deal that would give cable operators the largest equity stake in the Golf Channel.

Neher steeled himself and met with Gibbs in February 1993 near his North Palm Beach, Florida, home. In the meantime, Neher had learned that the two largest cable distributors, Time Warner Cable and TCI, had already turned down the idea. That meant getting distribution from Continental and other top-10 operators was crucial. Neher told Gibbs that he would only pursue the deal on two conditions: that the cable operators, not Gibbs and his initial investors, would have the largest equity stake in the Golf Channel, and that Palmer was solidly behind the project. Neher met with Palmer the
next week and told him he thought the venture’s success was a long shot at best. Palmer assured him that he understood the risks and that he was fully behind the effort.

Back at The Pilot House, Neher briefed Hostetter on his plan: He wanted to get a total of four cable operators to share the cost of the startup, which he estimated at about $60 million. Hostetter told him that if he thought it would work, the company was behind him. Neher brought on board Comcast, Newhouse, and Times Mirror as investors with commitments to carry the new channel on all their systems, and the Golf Channel went live in January 1995.

Neher had negotiated operating control for Continental from the other operators, who had agreed to the terms. Brian Roberts of Comcast insisted on a provision of his own that soon had important implications for the channel’s ownership. He told Neher in 1993 that Comcast would agree to the deal on the condition that it had the right to buy out Continental’s interest if Continental was ever sold, and vice versa. What seemed like a remote possibility in 1993 became a reality shortly after the Golf Channel started to be carried by the four cable companies. Continental was credited with launching what became a very popular sports cable channel, even if it didn’t share in the full upside of the venture. Within a decade of buying Continental’s interest, Comcast succeeded in buying out the remaining Golf Channel investors.

Neher remained active as a Golf Channel board member and later personally purchased a small equity interest in the company, which was eventually acquired by Comcast. He developed a lasting friendship with Palmer, with whom he has since partnered in numerous golf events, and a very close relationship with Brian Roberts.
alliance—Continental, Optus, Murdoch, and Packer—but it ultimately proved unstable: too many media moguls on one team.

Australia would provide Continental with a test bed for the next stage in broadband communications that industry technologists were talking about but nobody had yet tried: the “triple play” of video, data, and voice over a cable broadband connection. “What we were talking about in Australia was using the hybrid fiber-coax network to supply all three services. Technically, we knew we could do it, but no one had done it before,” Hannes said.19

There was no time for a small-market trial to see how the cutting-edge technology would work in the field. They had to act fast. Unlike in the United States, de facto exclusive franchises were not part of the cable landscape in Australia. Overbuilds were encouraged. It was going to be first come, first served—a high-stakes race.

Optus Vision was announced in late September 1994. The joint venture “steals a march on the government-owned telecommunications company Telstra, which is still seeking partners to develop its multimedia broadband services network presently under construction,” Multichannel News reported.20

**SPEED AND COMPETITION**

By early 1995, it was clear that this was not going to be like any cable build Continental had experienced. Shortly after Optus Vision started construction, Rupert Murdoch, a minority partner, jumped ship and signed up to lease distribution capacity from archrival Telstra. After some frantic scrambling, Optus and Continental were able to strike nonexclusive deals with most US cable programmers. American movie studios were split evenly between the two broadband competitors, with Optus getting exclusive access to Disney, MGM, and Warner Brothers. But the terms in all cases favored the studios over the distributors.21

Additionally, Andrew Tow, son of Century Communications founder Leonard Tow, had accumulated a series of multipoint distribution service licenses (MMDS) in a number of Australian cities and launched a competing multichannel video service via MMDS broadcast.22 He had also obtained exclusive Australian distribution rights for Discovery’s various networks—a major blow to Continental since its management had looked to Discovery as a clear means of differentiating its offering from Telstra’s.23
The Optus installers may not have been equipped with running shoes, but they were setting land speed records for stringing cable. “A key factor for us was to do it quickly, and we built cable plant at a speed I don’t think anyone had ever done before,” Hannes said. “At one point, we were building fiber-optic plant at incredible speed, passing tens of thousands of homes per month.”24

Frank Anthony, who had most recently been the senior vice president and general manager of Continental’s New England region, moved to Australia to serve as Optus Vision’s chief operating officer. He had never experienced anything like the pace of cable construction in Australia or, for that matter, the pressure the approach would put on the company’s cash flow.

“Optus was basically in a foot race with Telstra,” Anthony said. “We were wiring the same streets at the same time. Historically, in America we built the first section of plant. Those facilities started generating operating income and cash, which was used for building the next section of plant and the areas after that.”25 But in Australia, the demand for capital soared and far outpaced the cash flow generated by the early installations.26

“We never would have entered the Australian market if we had foreseen the resultant street fight between us and a partnership of the state-owned phone company and the country’s dominant media mogul, Rupert Murdoch,” Hostetter later observed. “But once you’re in a fight like that, it’s hard to find a good exit.”27

THE FIRST CORPORATE ENGINEER

In 1992, Dave Fellows held a senior position with telecommunications equipment giant Scientific Atlanta. A former Olympic rower whose name is on the patent for one of the first systems to put telephone signals on cable television equipment, Fellows was well-known and highly regarded by both Continental’s regional managers and the leadership team at The Pilot House. One day, he received a call from executive vice president Bill Schleyer, who invited him to Boston for dinner.

Fellows was hoping for additional business from one of his largest and most innovative customers. Instead, he received a job offer. “They took me out to dinner
and said ‘We’d like you to join Continental and we’d like you to be the first engineering employee at the corporate headquarters,’” Fellows said. It was an intriguing offer. Both he and his wife, April, were from the Boston area, so they would be returning home and would be closer to their extended family. And it would mean that, for the most part, Fellows could stop living on airplanes. The tradeoff and the challenge of something new and dynamic more than offset the fact that he would be moving to an organization that was a fraction of the size of Scientific Atlanta.

Dave Fellows left Scientific Atlanta to become Continental’s first corporate engineer in 1992 and helped spearhead the company’s deployment of broadband technology.

Fellows officially joined Continental the first week of January 1993. He was a founding member of Continental’s strategy team focusing on optical fiber, digital compression, and the nascent field of high-speed data. The other two members of the high-tech troika were Schleyer and Jeff DeLorme.

**EXECUTIVE PROMOTIONS**

DeLorme, who had been running the Florida region, was promoted to executive vice president and moved to the Boston area to work out of The Pilot House. Buzz Goodall was placed in charge of the Florida region. At the same time, Ron Cooper was promoted to executive vice president and relocated to Boston from California.
Teleport

The concept of carrying telephone calls across cable systems was looming on the cable industry’s horizon by the early 1990s. But some of the industry leaders, including Continental, decided to get a jump on the phone business and learn some valuable lessons by investing directly in an existing telecommunications company. In 1992, Continental obtained a 20 percent stake in Teleport Communications Group for roughly $40 million. The other investors were TCI and Cox, each with 30 percent, and Comcast took the remaining 20 percent.

“Teleport was an alternative telephone service for businesses,” said Schleyer, who played a leading role in the Teleport investment and served as a director, as did Continental CFO Nancy Hawthorne. Teleport was competing against AT&T and building a separate network, using its own lines when possible and reselling the service. As the 1990s economic expansion gathered momentum, corporate demand for data and communications lines from Teleport soared. By the time Teleport was eventually sold to AT&T in 1996, Continental made nearly a tenfold profit on its investment.

DeLorme also assumed the management responsibilities of Chuck Younger. After more than 26 years with Continental, Younger retired in early 1993. Having turned 61 that year, Younger concluded it was time for DeLorme, whom he had helped groom for the job just as his peer John Rakoske had groomed Schleyer, to move up in the organization.

Cooper, an initial booster of Continental’s decentralized management structure, was by this time one of the biggest internal advocates for a more centralized approach. He and others argued that this step was necessary for Continental to be able to fully leverage the technological changes that clearly were about to transform the cable industry into a major player in the broader telecommunications industry.

You start to think about Continental as a portfolio of assets. You start to think about where the future of our business, our company, our industry is, and you begin to say to yourself, “Could we continue to operate in the same decentralized mode that we
had been so successful in for the past 30 years?” And the conclusion I reached was: No, we could not, but that was not a popular conclusion, to say the least.

You know, old habits die hard, and there is still an argument for some degree of decentralization, and the mantra I adopted was: Listen, we aren’t going to be 100 percent decentralized, and we’re not going to be 100 percent centralized. We’ve got to adopt a hybrid model that has some gray in it. It’s going to be challenging at times, but let’s be smart. Let’s be opportunistic. Let’s be responsive to the market. Let’s adopt an operating model here that makes sense for where this business is headed.32

The new team: Continental promoted Ron Cooper, left, Jeff DeLorme, and Bill Schleyer to executive vice president positions.

Continental’s technology team was just beginning to think about the Internet in early 1993. At the same time, Fellows attended a seminar at Harvard University’s Kennedy School at which a beta version of what became the Mosaic Internet browser, and the basis for Netscape Communications, was showcased. What about hooking up Continental’s cable subscribers to the Internet, he thought.

The expertise needed to make this happen was practically at Continental’s doorstep. Kevin Casey, vice president of engineering for the New England region, and his leadership team had been using cable modems to transmit Ethernet signals across its cable systems as early as 1989. Casey, Schleyer, and Fellows quickly realized that the cable modems that Casey’s team had used—made by a company called LANcity—would work if Continental wanted to connect its cable subscribers directly to the Internet.35
“LET ME KNOW AHEAD OF TIME”

The Continental team didn’t waste any time. They created a high-speed-data entity half owned by Continental and half owned by the largest private Internet system at the time, Performance Systems International, Inc., or PSI. Herndon, Virginia-based PSI handled networking issues, and Continental handled the access side of the business. By late August 1993, they were ready to move forward with the new high-speed broadband entity. Reporters from the Wall Street Journal got wind of the cutting-edge venture, decided it was newsworthy, and put it in the August 24, 1993, edition.36

The Journal quoted PSI President William Schrader as noting, “Other companies, such as Time Warner in Orlando, are talking about elaborate multimedia service tests, but our plan is small, simple and easy; this will work.”37

Continental and PSI announced a venture to provide broadband service to customers in New England in August 1993.

Fellows answered his phone that morning and was surprised to hear, “Hi, this is Amos . . . Dave?” Though Hostetter had not been directly involved in any of the work
the high-tech team had been doing, Fellows presumed the CEO was aware of the general direction they were taking.

“First of all, Dave, I don’t want you to change anything that you’re doing. You’re doing a great job,” Hostetter said.

“I said okay, but is there a ‘but’?” Fellows asked. Hostetter said there was. “But the next time you decide to launch a service that’s going to generate 17 column inches of favorable press in the Wall Street Journal, let me know about it ahead of time!” Fellows got the message.38

Fellows staked out Continental’s leadership role in the broadband revolution in the August 30, 1993, issue of Multichannel News: “Right now there are three distinct networks: telephone, video, and this less well-known Internet. With this service, we’re staking cable’s claim to that third network.”39

By March 1994, the service went live in the City of Cambridge and included providing a free connection to the Internet for the Cambridge Public Library. Early adapters were pleased with the speed at which they could visit different Internet sites.

**MODEM MOMENTUM**

Lack of volume availability and interoperability standards were an initial choke point in the rollout of Internet services via cable and became an important focus of Schleyer’s efforts at CableLabs. But the temporary setbacks did little to quell the growing cable industry enthusiasm for broadband connections to the Internet. Schleyer called the common DOCSIS (Data Over Cable Service Interface Specification) standards that made the widespread adoption of modems possibly “the biggest single decision to impact the cash flow of this industry in the last 30 years.”40 Ed Horowitz, chairman of Viacom, compared the dawn of broadband modems and high-speed data transmission to the game-changing impact of satellite delivery of programming on the cable industry two decades earlier.

In 1995, Continental dramatically expanded its broadband communication rollout in New England with what it dubbed Project Agora. The cable company wired Boston College (BC) with a state-of-the-art hybrid-fiber coaxial cable system and placed cable modems in 6,600 dorm rooms, 2,500 classrooms, and 400 offices. The college system
was bigger than many small-town cable systems operating at the time, and it was certainly more sophisticated. With Project Agora, “Continental was the first company to provide two-way high-speed Internet access on a wide scale,” the company announced.41

Another industry first: Continental launched the first commercial Internet over cable in Cambridge, Massachusetts, and provided free Internet service via its cable system to the public library in March 1994.

“IT’S—DARE I SAY?—ADDICTIVE”
As Continental had hoped, the BC students and faculty loved the high-speed transmission capabilities. System speeds were roughly one thousand times faster than dial-up telephone connections. “It’s—dare I say—addictive,” one biology professor told the Wall Street Journal.42

“This has been a reality check,” Will Richmond, Continental’s director of new business development, told Multichannel News that October. Project Agora represented “an opportunity for us to put in place on a fairly large scale a network that tests some of the ideas operators have only been talking about. With 20 fiber nodes serving 400 residents per node, the network is a microcosm of the larger franchise environment.”43
Wellesley resident John Morey, right, joins Continental executives, left to right, Steve Hill, Ron Cooper, Ed Holleran, and Kevin Casey in “plugging in” the new Highway 1 high-speed Internet service during a 1996 press event.

As Ron Cooper had advocated, Continental assembled a task force at The Pilot House to put together the technology and marketing plan for the rollout of high-speed data across its various systems. Stephen Van Beaver and Paul Bosco were the next senior-level engineers brought to The Pilot House in 1995 to work on the plan. “With the successful test at Boston College, there was a recognition that this works,” Van Beaver observed. “Now it was a question of scaling up.” But still taking the best of its tried-and-true decentralized management formula, Continental led the industry into the Internet era with a relatively small group at The Pilot House supporting the regional and system leadership in the field. The rollout, which started in New England, was initially led by Ed Holleran, New England vice president for corporate development.44

HIGHWAY 1
That fall, the cable industry, led by Continental, took Internet access mainstream. In November 1995, a group of cable operators including Continental placed a joint order for 500,000 modems. The goal of the joint effort was to ensure as much as possible that the industry was adopting consistent standards for broadband data transmission.
The following year, Continental took Internet access, which was widely referred to during the ’90s as the information superhighway, beyond its initial phase with the commercial launch of Highway 1 broadband service.

Continental initially worked with Internet experts at the Boston-area company BBNPlanet. “But a phase-out began when Continental determined it needed IP (Internet Protocol) and Internet expertise within the company as a core competency,” said Jonathan Anderson, who reported to Holleran as project manager for the Internet effort in New England. Other Continental team leaders included Brian Blais and Michael Katz. In short order, a larger group of Internet technology experts was recruited by Continental to ensure that the industry-leading launch was a success. Included in the group were Steve Hill, Kip Compton, John Leddy, Bruce Bahlmann, Dave Temlak, Paul Milott, Will Biedron, Susan Adams, and Kevin McElearney.45

In September 1996, Highway 1 was launched in the Boston suburbs of Needham and Wellesley, and shortly thereafter, in Newton. At the same time, Highway 1 launched in the Jacksonville, Florida, area, where optical fiber lines were already extensively deployed. Other Continental systems across the country, led by portions of the suburban Detroit system, rolled out the service as modems became available and the local infrastructure was sufficiently upgraded with hybrid-fiber coax cable.

Continental’s provision of broadband Internet access was also integral to the services offered to host communities as part of its Social Contract agreement with the FCC. Seizing on a top priority of FCC Chairman Reed Hundt, Continental committed to providing free high-speed Internet access to all of the public schools and libraries in its service areas.46
Consumer education was a key part of building demand among cable subscribers for Highway 1 broadband service—“your fast lane to the Internet.”
While the ‘92 Act had prompted Continental and other MSOs to look overseas for potentially more attractive cable investments, pressure on domestic returns also created some opportunities at home. The capital spending demands for systemwide upgrades in the United States to Internet-ready status put considerable pressure on small and mid-sized industry players.

Trygve Myhren had sought Hostetter’s advice in the early 1970s before joining Monty Rifkin at ATC and later succeeded Rifkin as ATC’s chairman and CEO. Over nearly two decades, he and Hostetter worked closely in Washington, where they were both active in representing the cable industry to lawmakers and regulators. They became trusted allies.

In late 1990, Myhren was recruited by Providence Journal Co. to become its president and COO following the untimely death of Michael Metcalf, the Journal Co.’s family scion. The company owned Rhode Island’s dominant newspaper as well as a series of profitable broadcast properties, a major stake in the cellular telephone industry, and 750,000 cable subscribers in Rhode Island, Florida, New York, Minnesota, and California. All these Colony Communications subscribers, except for a handful in the Northwest, were near Continental systems.

**Trygve Myhren**, whose relationship with Hostetter dated back to the 1970s, was named president and COO of the Providence Journal Co. in 1990. In 1995, he merged the Journal Co.’s cable subsidiary, Colony Communications, into Continental and joined its board.
Myhren regularly communicated with Continental’s leadership team as they considered how to best position their companies as cable and telephone companies continued the inexorable march toward convergence. By 1994, Myhren realized there was no future for an independent cable operator of the Journal Co.’s size and suggested to Hostetter that he was open to a transaction. In short order, a deal was struck.

In early 1995, Continental paid $1.4 billion for the Colony systems, including the assumption of $755 million in Journal Co. debt. The balance of the purchase price was paid in newly issued Continental shares valued at $485 per share.47

Continental’s use of its stock in the purchase of the Providence Journal Co. cable systems distributed enough Continental shares to the Journal Co.’s shareholders that Continental technically became a public company.

**BRAVE NEW WORLD**

Nearly $650 million of the Providence Journal transaction was paid for with Continental’s stock, which in terms of Continental’s critical debt to cash flow ratio was the equivalent of raising a similar amount of new equity. But that also put enough shares in the hands of the various families controlling the Providence Journal to technically make Continental a public company. The fact that the sellers agreed to lock up their shares for one year to lessen the tax impact of the transaction temporarily put off Continental’s day of reckoning with regard to becoming a public company. But the clock was ticking.
 Presidential Transition

By early 1995, the wanderlust that had made Mike Ritter want to set sail for parts unknown a few years earlier was back with a vengeance. It was a good time to act on his dream, he thought. Continental clearly was preparing for the next major phase in its development, whatever that might be. Ritter had let Hostetter and Neher know of his intentions and made the break official in March. Within a few months, he and Shirley set off on a multiyear sailing venture that took them around the world and through every major ocean.48

In 1995, Mike Ritter decided to act on his long-held urge to sail around the world.

Bill Schleyer, who already had been playing a leadership role in an increasing number of areas at the company, was promoted to president. At the same time, Jeff DeLorme and Ron Cooper were given larger roles as the company’s two executive vice presidents.

At mid-decade, Continental was taking a giant leap into the brave new world of broadband telecommunications, which was already shaping up as the most promising development of the last 20 years in the cable industry. The question staring Continental’s leaders in the face was straightforward. Could they afford to take on the future without a major infusion of new capital?
Becoming MediaOne

Continental Cablevision looks ahead to the 21st Century
CONTINENTAL’S LEADERSHIP TEAM was intensely focused as they looked ahead to the end of the 20th century, much as the 19th century occupants of The Pilot House had been when they guided ships into Boston Harbor. Continental needed access to long-term capital to continue to expand and improve their business both domestically and internationally. Yet there was precious little to be found. At least not for Continental as it was then configured.

Carrying more than $5 billion in debt in the wake of its 1992 recapitalization, Continental was bumping up against the limits of banks’ and insurers’ willingness to lend. The same held true for the public debt markets, where Continental already reigned as one of the industry’s most prodigious issuers.

Hostetter recalled “almost daily discussions of financial options” with CFO Nancy Hawthorne during this period. Hawthorne’s earlier observation that “the sun never sets on people to whom we owe money” was cited regularly with a touch of levity, but by the mid-1990s, it had taken on a somewhat different meaning.

« Bill Schleyer, left, was named president of Continental Cablevision in 1995 and worked closely with Hostetter on a range of make-or-break issues that would dramatically alter Continental’s future.
But Hostetter didn’t seem worried. He reminded the leadership team that in the past 36 months they had raised more than $1 billion of new equity on attractive terms, between the Corporate Partners and Boston Ventures investments and the Providence Journal Co. transaction. He was not willing to throw valuable stock into a public market that was heavily discounting cable stocks in response to a range of perceived regulatory threats resulting from the 1992 Cable Act. He insisted that they would find the resources to continue their forward progress—as they always had.¹

INTEREST FROM THE BABY BELLS
The phone companies appeared to be an obvious target for expansion capital. For much of 1994, Continental had been meeting with “virtually all of the telephone companies” about possible transactions.² Bell Atlantic, the regional operating company that came close to merging with TCI before walking away over the negative impact of FCC rate rollbacks, was on Continental’s dance card. Ditto BellSouth, which had scuttled a potential merger with Cox Cable and had spoken with Continental earlier about a potential cellular deal.

However, neither was a great fit for Continental due to the overlap of service areas, which at the time would have posed a major problem in obtaining regulatory approvals. Talks with management at Ameritech and Pacific Bell didn’t get beyond general pleasantries, either, recalled Bill Schleyer.³ Meetings with Sprint, GTE, and AT&T likewise failed to produce any sustained interest.⁴

The most promising of the discussions was with US WEST. Its balance sheet and Denver-based management team weren’t considered as strong as some of the other regional phone companies, Schleyer said, but they had already demonstrated an appetite for cable TV and an apparent willingness to take a non-controlling position.⁵ In September 1993, US WEST had invested $2.55 billion for a 25.5 percent stake in a cable partnership created and managed by Time Warner called Time Warner Entertainment. US WEST appeared more willing than its peers to look beyond the immediate impact of
the mandated cable rate cuts and see cable’s hybrid coaxial fiber plant as a key link in the future of telecommunications.

The Time Warner deal, while contentious in many respects, clearly hadn’t sated US WEST’s interest in cable. US WEST had also spent more than $1 billion to purchase cable systems with about a half-million subscribers in the Atlanta area. And the company, unlike Continental and most other domestic cable companies, had successfully invested in the telecommunications boom in the United Kingdom that had been spurred by the deregulatory efforts of the Thatcher government.

Continental and US WEST discussed a transaction in which US WEST would acquire a minority interest in Continental for $2.5 billion, subject to US WEST receiving certain unspecified rights.

Part of the allure of a US WEST-Continental combination was the fact that US WEST’s telephone service areas had virtually no overlap with Continental’s franchise areas. As a result, federal regulatory and legal hurdles would be minimal. Pending legislation already being discussed on Capitol Hill appeared likely to remove most other potential impediments.

Those talks were suspended in the fall of 1994 when the list of minority rights requested by US WEST grew to include approval of budgets, any additional acquisitions, and critically, new borrowing—a list deemed unthinkable by the Continental team.6

However, the two parties were back at the negotiating table again in 1995. For the first time, the discussion turned to a potential merger of Continental into US WEST. Early indications were that the parties were far apart on the value such a deal would place on Continental, as well as other key terms, so in early 1996 the parties once again went their separate ways.7

“ONE BIG BLUR”

Bill Schleyer remembers 1995–96 as “the busiest period in our history. It was one big blur.” There was hardly an aspect of the cable business that Continental wasn’t actively engaged in. “Between trying to raise debt, and trying to look at equity
options, identify the strategic options, new products coming in—and we were starting to get into the telephone business at that point—it was just crazy.” Add the stress of managing international operations, especially the Australian joint venture, and the Continental leadership team was feeling more than a bit besieged. As Schleyer recalled, the Australian joint venture’s rising demands for capital and slumping cash flow couldn’t have come at a worse time.

The returns were good but weren’t as good as we thought. The capital demands to build out the system continued to escalate. We weren’t getting the cash flow we had expected. We now had to dip into corporate . . . our demand for capital probably exceeded our supply, and it came at a bad time, because that’s when regulatory initiatives in Washington put a damper on stocks, so raising equity became even more difficult.

Hawthorne added that expanding into Australia was especially challenging compared to Argentina and Singapore. “It wasn’t that Continental couldn’t get deals done or get systems built, but there were a lot more unknowns along the path with the international ventures.” This, in turn, “led to a lot more uncertainty in our estimates and the timing of capital requirements.”

There was another uncertainty in Continental’s path. Momentum was building in Washington for a major rewrite of telecommunications legislation to open the industry to greater competition. It meant that cable companies were likely to be allowed into the telephone business, and perhaps more significantly, phone companies were to be allowed into the cable business, even in their home phone markets. So just as Continental needed to borrow money or attract investors to finance its various capital commitments and technology upgrades, the prospect of greater competition made financing that much more difficult.

**RECONSIDERING A PUBLIC STOCK OFFERING**

On several occasions in its history—including prior to the 1981 equity investment from Dow Jones—Continental had considered selling stock to the public to boost capital. But in each instance the idea had been one of last resort. Continental’s culture had
always focused on doing the right thing for the long-term benefit of its customers and shareholders. Senior managers were awarded restricted stock packages, which vested over a number of years, so their compensation was closely aligned with the company’s long-term goals. Selling stock to the public meant exposing the company to relentless pressure from Wall Street analysts and investors for short-term financial results.

Continental’s leaders historically had trouble imagining how they could maintain the company’s entrepreneurial culture if the demands of public shareholders were brought into the equation. On the other hand, they had trouble imagining how the company could continue to prosper without a major infusion of capital.

But by the mid-1990s, many of the negatives of public ownership had disappeared. The disclosures required in order to issue public debt, which Continental had done regularly, were as invasive as those required for the public sale of stock. The desire to avoid the market’s obsession with quarterly results was still present, but senior leadership felt they could manage those pressures.

The most compelling argument against public ownership in the mid-1990s was the fact that public equity valuations for cable were low. Continental’s leaders had seen these valuations swing widely, largely in response to perceived regulatory/legislative change.

Between 1970 and 1995, public valuations had swung in a wide band, with a low of five times earnings before interest, taxes, depreciation, and amortization, or EBITDA, and a high of 10 or 11 times EBITDA, with little reference to the strength of the underlying business. During the same period, valuations in private transactions were consistently in the nine to 12 times EBITDA range. These differences between public and private capitalization rates resulted in major differences in equity values, particularly for a highly leveraged company like Continental.

In 1995, values were low in the public markets as investors tried to interpret the likely effects of the FCC’s aggressive new regulation of cable rates and the almost certain entry of the telephone industry into the cable business.

From Continental’s perspective, the public markets had become overly bearish on cable; its Social Contract had more than adequately addressed rate issues, and it saw great promise in the developing high-speed data business. Telephone’s entry would be a
plus, not a minus, for cable values as the new entrants jockeyed for position in the cable industry. But to keep as many options open as possible, Hawthorne worked closely with her team—Eric Krauss, Ben Gomez, and Larry Christofori—to assemble the materials required for a public offering.

Shortly after Labor Day in 1995, Schleyer and Hawthorne visited Morgan Stanley’s New York offices to get a sense of the size and pricing of a potential public offering. They weren’t sure which way to turn when they left Morgan Stanley’s bustling midtown office. Continental’s president and chief financial officer had just met with Jeff Sine, Morgan Stanley’s senior communications banker, and Rich Bilotti, one of Wall Street’s most respected analysts, and suddenly Continental’s world seemed to be spinning out of control.

From Continental’s perspective, the public markets had become overly bearish on cable; its Social Contract had more than adequately addressed rate issues, and it saw great promise in the developing high-speed data business.

Sine told them that the company, which had priced its shares at $485 as part of the Providence Journal Co. deal in late 1994, would be lucky to fetch half that amount per share if Continental went ahead with a public stock offering in the fall of 1995.11

“Both of us thought that it was the worst meeting in our lives,” Schleyer recalled.12

**RIGHT DEAL, RIGHT PRICE**

In December 1995, Continental and US WEST once again sat down to talk. There were several reasons Hostetter asked Neher to be the point person in these negotiations.

First and foremost, he had total confidence in Neher. Second, Neher’s knowledge of the company, its assets, and its liabilities was encyclopedic. “I felt no one on the other side would be his equal in basic smarts and as a dealmaker, and certainly no one knew Continental and my personal priorities better,” Hostetter said.
Singapore Interest

With the company effectively frozen out of the public equity market despite being able to place $600 million in debt securities with investors in December 1995, Continental turned again to strategic investment options. As the company’s longtime advisor, Steven Rattner at Lazard Freres, sounded out domestic investors, Robert Sachs turned up a potential solution to Continental’s capital needs with Continental’s lead partner in Singapore. “We had in-depth discussions with Singapore Technologies and got fairly close, even as to what the valuation would be for a billion-dollar investment in Continental,” Sachs said. “It would have been the largest private investment ever made by a Singapore entity outside of Singapore. We were only a few dollars per share apart.”

The range was also well in excess of the Providence Journal transaction valuation or what Morgan Stanley had identified as a possible price in an IPO.

But behind-the-scenes shifts in Singapore sidetracked the deal before it could be drawn up. “Ho Ching suddenly resigned as managing director of Singapore Technologies,” Sachs said. “As a consequence, a decision of this magnitude could not be made within our time frame, so finally . . . we just had to move on to other alternatives.”

Finally, Hostetter knew he should keep his distance from these talks—to gain the advantage of “having a second bite of the apple.” But the two remained in almost hourly contact throughout the process. “I knew what his hot buttons were,” Neher said. “We identified those before the final negotiations.”

Tim Neher’s counterpart was Pearre Williams, vice president of US WEST’s Media Group, which included its cable interests. In early January 1996, Continental provided US WEST with updated financial and operating information. Neher and Williams spent the next two weeks talking about different options for merging the two companies. They focused on valuing Continental and valuing US WEST’s Media Group stock, which...
tracked its cable business and was the security US WEST would issue in exchange for Continental’s common stock. No definitive decisions were reached in this round of talks, and the two parties ended up taking 10 days off to consider their options.16

In the last week of January 1996, the talks resumed with a renewed sense of urgency. US WEST was much more detailed in its terms, while Continental was eager to make a deal happen, but only on favorable terms. “Amos kept reminding me that he wasn’t interested in a transaction unless we got what he thought was a fair price,” Neher recalled.17

Nancy Hawthorne, Patrick Miehe, Bill Curry, and Eric Krauss played important roles in the 1996 transaction with US WEST.

Both negotiators had supporting teams. Reflecting the different corporate cultures, the Continental team was much leaner than that of the phone company. As Continental Treasurer Eric Krauss recalled:

We would show up at the Peninsula Hotel in Manhattan, and it would be Tim and me and Pat Miehe from Sullivan & Worcester, and on the other side of the table they had fifteen people from US WEST, plus another five or six outside attorneys.18

The goal was to start to negotiate the terms and conditions of a sale. Pat Miehe and I were tasked with the twenty-five open points, get them down to five, then Tim would take the five and get it down to one and then Amos would be brought into the loop. And that one, as you can probably imagine, was price. So we spent about
a week in New York negotiating, hashing out the terms and conditions under which we would sell the company.\textsuperscript{19}

Hostetter had been on the verge of walking away at least once over the issue of price, but then US WEST floated an offer that was simply too good to refuse. It valued Continental’s shares at $750 a share, or more than 50 percent higher than the $485 a share price reflected in the Providence Journal Co. transaction less than a year before, and higher than the range that had been discussed with Singapore Technologies for a minority ownership stake. The price, including the so-called “control premium” US WEST was willing to pay, equaled roughly 12 times the traditional cable metric of EBITDA. That was far in excess of the seven to eight times EBITDA that cable companies were then trading for in the public market.\textsuperscript{20}

\textbf{US WEST Chairman and CEO Richard McCormick} personally joined in the final stages of the negotiations to purchase Continental.
By February 2, the talks had progressed to the degree that Hostetter and US WEST Chairman and CEO Richard D. McCormick, and Charles M. Lillis, president and CEO of US WEST’s Media Group, joined Neher and Williams. “The parties determined that discussions relating to the proposed business combination had advanced to a point where they should proceed to negotiate definitive terms and documentation.” They met again on February 13 to refine the terms, and Neher and Williams continued the talks by phone. The deal was presented to Continental’s board at its regularly scheduled meeting on February 15.

TELECOMMUNICATIONS ACT OF 1996

In the midst of the merger talks, Congress passed a broad rewrite of telecommunications law known as the Telecommunications Act of 1996, which President Clinton signed into law on February 8. The legislation was even more sweeping in its deregulatory and pro-competition reach than had been anticipated. Both Continental and US WEST had been operating under the assumption that their proposed merger would pass muster with the appropriate regulators. Now there appeared to be no question that the deal would make it through the regulatory review process. As it turned out, Continental was required to divest in stages its interest in the specialized carrier Teleport Communications Group and systems that overlapped with US WEST’s operating territory (a few small Providence Journal Co. systems in the Northwest) before the deal was finalized in October.

Hostetter saw the new legislation as clearly defining Continental’s future as a provider of high-speed data and telephone services. And that future was looking more expensive by the day. The minutes of Continental’s February 15 board meeting point out that the ’96 Act:

. . . fundamentally altered the landscape in the telecommunications industry by establishing a pro-competitive, deregulatory policy framework for both video and telecommunications services. As a result of technological advances and the reduction of regulatory barriers, the traditional services provided by cable television operators are expanding beyond video programming to include enhanced video, high-speed data, telephony and other telecommunications services, Hostetter stated. He concluded that, in order to capitalize on the demands for these new
services and to be able to compete with the new players, Continental will need access to substantial capital. Management estimates the Corporation’s capital requirements to be approximately $1 billion over the next 3-5 years.23

Steve Rattner, who by this time had become managing partner at Lazard Freres, and his team, together with investment bankers from Allen & Co., made presentations to the Continental board at the February 15 meeting. Approaching the deal from numerous financial angles, each group concluded that the terms represented a fair price for Continental shareholders.

A few details remained to be worked out. In order not to have a negative tax impact on the former Providence Journal shareholders, the deal had to be fine-tuned so that the former shareholders were to receive 100 percent of their consideration in stock. The company’s charter had to then be modified to enable the different classes of stockholders to receive different forms of payment. The final board approval came on February 27, 1996.24

Passage of the deregulatory Telecommunications Act of 1996 during the midst of merger talks provided added impetus for the US WEST-Continental deal.
“WE’RE BETTING ON THIS MANAGEMENT TEAM”

While Hostetter had been a stickler on price, he was equally focused on the broader people issues. He had worked hard over the years to build his management team and instill the right culture and “go-the-extra-mile” spirit. He didn’t want to see that fall apart once a sale had been completed. He was convinced that the US WEST leadership team appreciated Continental’s strength. US WEST repeatedly said it was paying top dollar precisely because it valued the team Hostetter had assembled.

When they came in, their version was, “Look, we want to merge our Atlanta system with you guys, and you’re going to be the continuing management. We think Continental is the best company in the field, and we want to ride your coattails.”

They said as many times as you can possibly say, “We’re betting on this management team. You’re going to continue to be Boston-based. Nothing is going to change. We’ll essentially be a new board for you; otherwise, you’ll still be running your own show and you’re going to continue building the company.” So it sounded like the ideal kind of arrangement.25

Hostetter and his senior team were assembled in the conference room adjacent to his office one morning in February as the talks were nearing a conclusion. He went around the room. Did anybody think they shouldn’t do this deal? Everyone in the room was in favor, given the conditions agreed to by US WEST. There was a shared sense of pride in what they had accomplished, and that the deal reflected the fact that US WEST was willing to pay top dollar for a top-performing cable company. The cash flow multiple implicit in the transaction would set a high water mark for major cable company sales.26
Continental’s rapid growth during the mid-1990s led to an initial 1995 extension of The Pilot House, which would be followed by a much larger addition to the west of the original brick structure.
A CLEAR BUT UNDOCUMENTED UNDERSTANDING

Continental’s major shareholders were fully supportive of the merger. Company shares had been a highly successful investment for all concerned. Basic cable metrics had achieved uninterrupted compound growth in both good times and bad. Shareholders such as Dow Jones, which had liquidated its shares in 1988, had cashed out significant gains. (Still, they left a lot on the table by not holding onto their Continental shares.)

Those who held their shares were more than amply rewarded. Between the time of the shareholder repurchase agreement of 1988 and the sale of the company in 1996, Continental’s share price had nearly tripled—from $275 to $750 per share. Even Corporate Partners and the other investors in their group, who invested in Continental in 1992 at $350 a share, saw the value of their Continental shares more than double in four years.

Continental’s leaders were envisioning the next phase in the company’s growth. In concrete terms, that phase was already represented by the 100,000-square-foot expansion of the company’s offices that was under construction on Lewis Wharf. The view from The Pilot House had rarely seemed brighter.27

For decades, Hostetter had been comfortable making deals that were sealed with a handshake. Continental’s sale of a stake in the company to Dow Jones, its purchase of American Cablesystems, its investments in Sam Liberman’s cable company in Argentina and with Singapore Technologies—all were handshake deals. The details were left to be worked out later by the lawyers.

As far as Hostetter was concerned, he and the US WEST executives had a clear understanding of their deal. And the two most important points in his mind were the price and the agreement that senior management would continue in their current roles in their then-current locations, separate and apart from US WEST’s corporate hierarchy in Denver. It was unimaginable to the Continental team that US WEST would pay the price it was offering if it had any thought of replacing the management team. Unfortunately, when it came to the final documents, only the price was effectively bound.

However, what the Continental team had documented was an immediate vesting of shares for any individual who was asked to relocate. For most of The Pilot House
senior team, this proved a critical provision because it afforded them the freedom to refuse to relocate.

“US WEST’S CONTINENTAL AMBITIONS”
The media hailed the US WEST-Continental merger as a milestone in the development of the US telecommunications industry. As The New York Times reported on the cover of its February 28, 1996, Business Day section:

If you listened hard enough yesterday you could almost hear the crack of a starting gun.

US WEST’s corporate headquarters were in Denver, but executives had committed to keeping Continental’s headquarters and management team in Boston.

Four weeks after Congress passed a bill intended to unleash a free-for-all among communications companies, US WEST said yesterday that it would acquire Continental Cablevision for $5.3 billion in cash and stock, and the assumption of
$5.6 billion in debt. The deal would be the first big transaction of the deregulated era, and the choice of partners underscores—figuratively and literally—US WEST’s ambition to grow from a regional Bell telephone company into a continental company with a powerful presence in both phone service and cable television.28

Hostetter himself was so convinced of the favorable prospects for the new company that he elected to take the minimum amount of cash and maximum amount of stock to which he was entitled in the transaction.

The US WEST-Continental deal wasn’t the only indicator that day that a new era in telecommunications competition was dawning. The New York Times carried another telecommunications industry story on its front page: “AT&T Will Offer Free Access to the Internet.”29 The race to determine the future of American telecommunications was clearly on.

The Times quoted Hostetter as agreeing to the deal “because he believed that only giant companies would survive in the rapidly consolidating world of telecommunications.”30 Indeed, Continental’s need for capital was so pressing that it negotiated an “out” if the deal collapsed. The deal called for US WEST to invest $282.5 million in Continental in return for a modest equity stake if the outright purchase were to be rejected by regulators or otherwise fall through.31

Neher echoed Hostetter’s comments in an interview with the Boston Globe. “The Telecommunications Reform Act, either by design or happenstance, has created this big-player world. We wanted to have a big-player balance sheet to compete in a short timeframe,” he said. “Once we made the decision we wanted to be a major player, we were committed to spending the capital. We didn’t want to get caught short and find NYNEX was going to spend the capital and be first in the market with services.”32

MEDIAONE

Continental was renamed MediaOne, the name used by US WEST’s Atlanta cable systems. Control of these systems was transferred to the Continental team as part of the transaction. The name change wasn’t as traumatic as might be supposed. At its February 1996 meeting,
in the midst of considering the merger deal, the Continental board of directors had voted to change the company’s name to Continental Communications. The goal was to reflect the company’s intent to be more than a cable television service provider. To many, MediaOne actually seemed like an improvement in name over Continental Communications.33

Under the terms of their understanding, Hostetter, who continued to work out of The Pilot House, would report to Chuck Lillis, head of US WEST’s Media Group in its suburban Denver headquarters. Lillis termed the purchase of Continental as “a defining day for US WEST.”34 He described the Continental leadership team as “the envy of the American cable industry.”35

Continental’s clusters of systems in the major markets of New England, Chicago, Michigan/Ohio, California, Florida, and Virginia were a major attraction for US WEST. Compared to Continental’s well-clustered systems, most of US WEST’s phone markets were spread across the sparsely populated mountain and Western states. Other attractions were Continental’s industry-leading use of hybrid fiber-coax networks, its technically advanced systems, and its early leadership in providing high-speed Internet service.36

US WEST Media Group CEO Chuck Lillis, left, and Hostetter never meshed as an effective leadership team.
US WEST realized that there was a considerable cultural gap between its legacy phone company bureaucracy and the entrepreneurial culture of Continental. To help bridge that and related gaps, the company brought in a consultant. “They knew that 75 percent of mergers don’t work because the people have never understood the other person’s point of view,” Hostetter recalled. “We were going to address that issue right off. So we had all sorts of marriage counseling from the outset.”

On business-oriented issues, the two companies also tried to work more closely together. Even before the deal, Continental had been moving toward a more centralized process in introducing new products, with its broadband Highway 1 service being the prime example. In order to maintain quality control and interoperability, the market-leading broadband service was being set up and launched in virtually identical fashion across Continental’s regions. Plans were under way for phone service eventually to be rolled out in similar fashion. But there were limits.

Reflecting on the merger, Lazard’s Rattner said that initially it appeared to be “one of those best-of-all-worlds kinds of situations.” He noted that “a lot of promises had been made by the US WEST folks that Continental would continue to be able to operate the way it had operated so well for so long.” But the honeymoon was short-lived. “Almost as soon as the merger closed, things really didn’t go as they should have.”

When the merger closed in October 1996, Schleyer had just completed the budgeting cycle for 1997. After consulting with all the regional leaders, Schleyer and Hostetter had determined that Continental would target opening 300,000 new Highway 1 accounts in 1997. The broadband product had just been rolled out in September 1996. Then, Schleyer received a call from Lillis in Denver. US WEST CEO McCormick wanted 400,000 new broadband accounts, Lillis said.

“And I thought, Excuse me?” Schleyer said. “We had just done a bottom-up review with all of the senior vice presidents on what they could deliver. There is a pride in what we do. Everybody is trying to do their best, and all of a sudden I get a call out of the blue. No, he wants 400,000. To me, that’s when the relationship started to go downhill.”
Sales goals untethered from reality weren’t the only problem. Schleyer and others chafed at expensive regional meetings, to which the company was expected to send its cable management, and processes that seemed to add a layer of oversight without any obvious benefits. US WEST dispatched a CFO, Doug Holmes, who worked diligently to understand the cable business. Nancy Hawthorne was asked to move to Denver to become CFO of all of US WEST. Lillis and Holmes were shocked when she didn’t accept the offer. Rather, she elected to stay with Continental in a loosely defined “senior position” and made plans to focus and expand on her growing personal interest in serving as a public company board member.

The cable group continued to maintain its profit margins and other performance measures into 1997. The only problem region was Atlanta, which the Continental management team inherited from US WEST as part of the merger. Tellingly, the deep-seated performance and reliability issues in Atlanta would remain problems for years to come.

**THE MOST VALUABLE ASSET**

Continental had formally been a division of US WEST for less than a year when clear signs emerged that the relationship between Continental’s leadership team in Boston and its US WEST counterparts in Denver was seriously fraying. In particular, Lillis appeared to want more operating control of the cable business and questioned the value Hostetter was bringing to the company. Lillis asked Schleyer to meet him at the Long Wharf Marriott in Boston for breakfast, and not to tell Hostetter. Lillis wanted Schleyer to fire a number of senior leaders so he could replace them with US WEST executives. Schleyer refused, and he wasted little time filling in Hostetter.

Shortly thereafter, Lillis returned to Boston for a meeting with Hostetter. Running the cable business out of Boston wasn’t working, Lillis said, despite what they had agreed to as part of the merger. Management needed to move to Denver to be closer to the rest of the US WEST executive team, and more phone company executives needed to be involved in running MediaOne.
Hostetter felt that he and his team had been totally betrayed. He not only argued against the move on principle, he also made a strong business case for keeping the cable headquarters in Boston. “I said, ‘Chuck, look, you bought this cable company because you identified us as having the best management team in the business. You’re going to lose the company’s most valuable asset—these people for whom you paid a significant premium.’ He said, ‘No, no, no they’ll come. We just have to make the compensation deals right.’”
Hostetter was exasperated with Lillis and the rest of US WEST management for breaching their commitment to keep Continental’s management team in Boston. Exasperation turned to anger when he received a copy of an internal US WEST memo, dated a week before the Lillis meeting. The memo stated that MediaOne headquarters was being relocated to Denver and that Hostetter was resigning. Hostetter fired off a letter to Lillis, offering to give him his corner office in The Pilot House if Lillis would move to Boston. With no response from Lillis, Hostetter called US WEST Chairman and CEO McCormick and asked for an opportunity to address the US WEST board.45

Hostetter was given 20 minutes to speak at the board’s August 6 meeting.

It was immediately clear they were not the least bit interested in my thoughts. They were backing Lillis and McCormick no matter what. I told them in every way I could think of that they were going to lose the very asset for which they had paid a premium price. Chuck and I had a very different view on who would and who wouldn’t move. I could guarantee them that they would lose the great majority of Continental’s senior management. I also pointed out that moving the operations would accelerate the vesting of millions of dollars in stock to the Continental leaders, which under the merger agreement was scheduled to vest over five years to provide incentives to those executives to remain with the merged company.46

His plea fell on deaf ears.
US WEST’s decision to move the headquarters of its cable business from Boston to Denver left Hostetter and nearly all of his senior management team feeling betrayed.
He waited outside the meeting room and was joined a few minutes later by McCormick, who confirmed that US WEST was sticking with its plan to relocate cable headquarters to Denver. “I said, ‘Well, I’m the first one to resign.’” Hostetter also issued his own press release, saying he had resigned as a result of “irreconcilable differences.” Senior vice presidents Robert Sachs and Robert Stengel resigned shortly after learning of Hostetter’s decision but agreed to remain on as consultants for a few months to help with the transition. Treasurer Eric Krauss and CFO Nancy Hawthorne also resigned.

When Hostetter was unable to persuade the US WEST Board of Directors to reconsider its decision to move MediaOne’s headquarters to Denver, he resigned. Nearly all of his senior leadership team followed suit.
Lillis learned that more than compensation was involved in attracting and keeping the Continental team. Of the nearly 120 employees then in Boston, including support staff, fewer than a dozen eventually moved to Denver. The most senior of the transfers was executive vice president Ron Cooper, who subsequently played an important operating role in the new management structure.

“I had been working very closely with the field,” Cooper said. “I wanted to make sure that we had continuity vis à vis the new owners, and I felt like I could have an influence on making this business successful in the next era—the broadband era.”

Schleyer refused to move to Denver but agreed to stay on for a brief period as a consultant to aid in the transition. Dave Fellows didn’t relocate to Denver, either, but consulted on broadband and related technology issues.

“This is a difficult moment in the company’s history,” Hostetter said in a letter to employees. “And in many ways it represents an ending for what was Continental Cablevision.”

Former Continental CFO Nancy Hawthorne voiced a sense of frustration shared by many “ex-Cons” at US WEST’s apparent inability to understand the value that Continental’s senior leadership team could have brought to MediaOne.
It was indeed the end of Continental. But not of the careers of its leaders and thousands of loyal employees of its systems coast to coast who had worked so hard to maintain Continental’s culture of excellence. Many of Continental’s most long-serving executives were still in the prime of their careers. Even Hostetter, who had just turned 60, showed no signs of slowing down.

Still, while many “ex-Cons,” as they soon began calling themselves, were considering what to do next, there was a sense that an important opportunity had been lost. Those who are attracted to an entrepreneurial culture aren’t prone to look back or dwell on “what ifs,” but the magic of Continental at its best made it hard for many to let go. Nancy Hawthorne, reflecting on the transition years later, said “If US WEST had understood how this team worked and continued to work with the team in a productive way, the combination of this team and a strong balance sheet could have been unbelievable.”51
CHAPTER TEN

Beyond Continental
HOSTETTER MIGHT HAVE THOUGHT HIS CABLE INDUSTRY DAYS were behind him when he resigned from MediaOne. But in less than two years, he would be back at the center of the largest takeover in the history of the cable industry. Even after that deal was consummated, he remained active in a smaller cable venture through 2012. In a broader sense, Hostetter’s influence and that of Continental Cablevision and its thousands of employees is evident in nearly every aspect of the industry today.

While Hostetter and most former Pilot House leaders were getting on with their lives in Boston, Chuck Lillis and Jan Peters had their hands full managing the new Denver-based MediaOne. Reflecting at least in part the respect other industry leaders had for the Continental team, the MediaOne management team wasn’t warmly embraced by industry peers. Deals were hard to come by. While Peters had some telephone operations

« Amos Hostetter bought The Pilot House back from MediaOne when it elected to move its headquarters to Denver. Today it is the base for his family’s business and philanthropic activities and still houses a score of former Continental personnel.
experience, Lillis’s background was in strategic planning. Neither seemed to grasp the fundamentals of cable or the elements of leadership that had made Continental successful. It was a period of intense work, incredibly long hours, and near-constant travel for the new US WEST cable leadership team, recalled Rob Stoddard, former head of communications and public relations for MediaOne. He was one of a small group of former Continental employees who had made the move to Denver. It was a fairly easy decision in his case; he had only recently joined Continental as its vice president of communications. Plus, he had spent time in Denver earlier in his career and had friends in the area.

Stoddard said there were no hard feelings between those who made the move to Denver and the majority of Continental headquarters employees, who remained in Boston. Hostetter and Bill Schleyer concurred. For his part, Stoddard, like thousands of other former Continental employees who were employed in the company’s operating regions, wanted to continue to work for the cable industry’s technology trailblazer. “I was emotionally invested in the build-out of broadband and wanted to see it through,” he said.1

One of Ron Cooper’s first tasks as head of regional operations for MediaOne was to create a common report card of operating metrics for the former Continental regions and the Atlanta systems of US WEST in light of the need to support the looming convergence of video, data, and telephony to form a triple-play broadband cable offering.2

On the international front, US WEST made it clear that it didn’t see Continental’s non-US businesses as fitting with its strategic goals. It sold Continental’s cable interests in Argentina and Singapore, realizing substantial gains, and essentially broke even on Continental’s holdings in Australia. (Robert Sachs later joined the board of StarHub Ltd., a successor to Singapore Cablevision, and Martin Hannes remained in his operating role in the Australian venture after the sale by US WEST.) US WEST was equally dismissive of the array of programming interests Continental had accumulated and disposed of all of them at bargain-basement prices.

After aiding in the transition of the headquarters operations to Denver, Schleyer and Dave Fellows formed a venture capital company, Pilot House Ventures, and worked out of The Pilot House. They were joined by “ex-Cons” Eric Krauss and Stephen Van Beaver. Though their investments did well initially, the venture capital
market dried up quickly when the dot-com boom went bust in early 2000, and their business slowed dramatically.

Bill Schleyer remained as a consultant to MediaOne for several months after Hostetter resigned to ensure as smooth a transition in leadership as possible, and then rejoined Hostetter to lead a new venture investing group.

Hoping to gain better market acceptance of its cable business, US WEST spun off its cable and related properties into the standalone company MediaOne Group in June 1998, with Lillis appointed as CEO. The company’s largest individual shareholder was Hostetter, who controlled more than eight percent of MediaOne’s shares, but he had no involvement in the operations or direction of the company. The newly independent company struggled from the onset, and the Lillis-Peters team was unable to successfully move the MediaOne Group forward.
COMCAST MAKES AN OFFER

As 1998 gave way to 1999 and performance continued to languish, MediaOne pivoted from being an interested buyer of cable systems to being a seller. By the spring of 1999, with Internet fever sending the stock market to repeated new highs, MediaOne was for sale.

The father-and-son team of Ralph and Brian Roberts had built Comcast into a substantial cable operator with nearly five million subscribers by the late 1990s. But it wasn’t yet as powerful as AT&T Broadband or Time Warner Cable in terms of size or market clout. Once AT&T had purchased TCI, the pressure was on Comcast and other next-tier operators. They had to grow or risk being targeted for takeover themselves by industry leaders AT&T or Time Warner.

Building upon their controlling interest in Comcast, Brian and Ralph Roberts sought to join the top ranks of cable industry operators by acquiring MediaOne in 1999.

Brian Roberts began talking with Lillis about buying MediaOne in early 1999. His persistence paid off in March. They met at an investment conference in Arizona and drew up initial terms for merging MediaOne into Comcast. The combined entity would total about 11 million subscribers, approaching the size of the two cable industry leaders. The nearly $60 billion deal, to be paid in Comcast stock, included a “breakup” fee of $1.5 billion if MediaOne decided to reject Comcast for another bidder. In retrospect, these terms, agreed to by Lillis and the US WEST-controlled MediaOne board, proved quite expensive to MediaOne owners.
AT&T officials had initially told Comcast that they weren’t interested in bidding for MediaOne. The Robertses, however, learned a few weeks later that AT&T had changed its mind and was going to make a competing offer. And the bid was to be led by Leo Hindery and Amos Hostetter.

“SUPERIOR PROPOSAL”

Hostetter had no idea he was about to find himself once again making headlines when he took a call from Hindery in the spring of 1999. Hindery, then the president of AT&T’s new broadband division and a friend of Hostetter’s for more than 20 years, had an offer Hostetter couldn’t refuse.

“Leo said, ‘We’re thinking of taking a hostile run at MediaOne. What do you think?’” Hostetter might have hesitated a moment, wondering if he really wanted to get back into the fray, but he quickly made up his mind. “I said, ‘Where do I sign up?’”

Barbara and Amos Hostetter—pictured with their children, from left to right: Elizabeth, Caroline, and Tripp, in 1998—settled into comfortable family life while managing their family investment office and philanthropic interests.

Continental and US WEST executives had no way of knowing at the time, but their corporate “pas de deux” was the first act in the unprecedented dot-com stock-market boom of the late 1990s. Within a year or two, there was a growing recognition from
Silicon Valley to Wall Street that the broadband revolution in which Continental had been a central player was integral to the exploding success of all things Internet. That sent prices for cable companies into the stratosphere. Phone companies—even more so than when US WEST first approached Continental—were afraid the broadband future would pass them by if they didn’t jump on the cable bandwagon. And no one was a more eager buyer, or had a bigger checkbook, than the nation’s largest long-distance carrier, AT&T. But as telephone companies continued to learn the hard way, money wasn’t the only key to success.

The spread of broadband technology coincided with the late 1990s dot-com boom, driving the price of cable company stocks sharply higher and fueling the pace of industry consolidation.

Hindery had been shaking up the cable business since John Malone recruited him in 1997 from his post as CEO of cable operator InterMedia Partners to revive TCI, the industry’s largest company. As TCI president, Hindery streamlined TCI and significantly boosted its market value. But Hindery realized that to fully capture the value created...
by the investor mania for all things Internet, he was going to have to find a buyer for the company. And US WEST’s purchase of Continental suggested that the raft of phone companies jockeying to get into cable would be a good place to start making sales calls.

**AT&T recognized** that cable and broadband connections to the home were key to its survival.

Hindery found a willing buyer for TCI in recently named AT&T CEO Michael Armstrong. A veteran of IBM and the Hughes satellite television division of General Motors, Armstrong viewed cable TV as an ideal means of giving the long-distance telephone provider a “last mile” broadband connection to America’s homes. It was also clear that he was willing to pay handsomely to get into the business. A little more than a year after joining Malone at TCI, Hindery, with Malone’s support, was able to sell TCI and its programming sibling, Liberty Media, to AT&T in June 1998 for $48.3 billion.5

Leo Hindery, president of AT&T’s broadband division, sounded out Hostetter in the spring of 1999 about playing a role in a proposed takeover of MediaOne.
Hostetter and Hindery huddled frequently in the days immediately following Comcast’s bid for MediaOne. After receiving Hindery’s call, Hostetter flew to New York to meet with Armstrong and AT&T CFO Dan Somers to discuss how they might work together on a MediaOne bid. “Within 45 minutes, we were fully aligned and ready to go,” he recalled. Hostetter was attracted by the opportunity to have a voice in the direction of the company he had created and led, even though he wasn’t contemplating taking an operating role as part of AT&T’s bid for MediaOne.

AT&T CEO Michael Armstrong, former head of the Hughes satellite division of GM, recognized the value in uniting cable and telephone service to provide “last mile” residential broadband service. With counsel from Hostetter, AT&T agreed to acquire MediaOne in April 1999. The deal closed June 16, 2000.

At the same time, as an owner of eight percent of MediaOne’s shares, he objected to Comcast’s “super-voting” stock, which would give control of a combined Comcast and MediaOne to the Roberts family. “That really stuck in my craw,” he said, emphasizing that
his objection was not personal. In a letter to the MediaOne board, Hostetter noted that in a combined company, the Roberts family would end up owning less than one percent of the combined entities’ stock but controlling more than 80 percent of the voting power.

By the end of April 1999, AT&T put together a combined stock and cash bid of $62 billion for MediaOne. Comcast’s all-stock offer had slumped in value in step with Comcast’s share price decline since March, and at the time of AT&T’s offer it was closer to $55 billion. Not surprisingly, the AT&T bid was termed a “superior proposal” and was reluctantly accepted by MediaOne’s board of directors. Lillis and Peters, who had previously established very generous separation packages for themselves, were both asked to resign as a condition of the deal. A few days later, Hostetter received a gift from a friend in Washington, DC. It contained a needlepoint pillow that simply read, “Don’t get mad; get even.”

AT&T CEO Armstrong credited Hostetter with helping AT&T see the value inherent in the MediaOne systems. “He was able to give us a confirmation of the insights we had about the value we could extract from the investment,” Armstrong told the Boston Globe.

Comcast briefly considered making a higher bid in conjunction with America Online. Instead, it decided to drop out of the bidding. Comcast collected the $1.5 billion breakup fee. But it did not remain on the sidelines for long.

CABLE’S SUMMER OF LOVE
Hostetter, now AT&T’s largest individual shareholder and the newest member of its board of directors, served in the newly created role of nonexecutive chairman of AT&T’s broadband business. He worked with and advised the unit’s CEO, initially Hindery, from his Pilot House office.

As he had in 1997 and 1998, Hindery in 1999 continued to lead an industrywide effort to swap systems and drive greater clustering and efficiencies. The need for scale in negotiating terms with programmers was an important driver in these talks among system operators, as was the desire to create clusters that were large enough to justify using ads on local or regional television to attract new cable subscribers. That had led the cable trade
Evolving Roles

From early 1998, former Continental senior vice presidents Robert Sachs and Rob Stengel continued on at The Pilot House as the co-founders of Continental Consulting Group.

Robert Sachs was approached by AT&T’s Leo Hindery to consider becoming NCTA president and CEO. In July 1999, Sachs accepted the NCTA’s offer.

The two had worked with MediaOne for a few months after the merger to smooth the transition and help secure jobs for those who worked with them. At Continental Consulting, they worked with cable operators and programmers, leveraging their expertise in the United States and abroad. Stengel also helped US WEST divest some of its content holdings.

Stengel had made the case for US WEST keeping Continental’s programming assets—which included investments in Turner Broadcasting, Home Shopping Network, E! Entertainment Television, the Golf Channel, the Food Network, and the Sunshine Network, among others. But US WEST viewed itself as a transmission company and didn’t see content ownership as a strategic focus of the company. The programming stakes were sold at a profit, though only a fraction of their real value.

During one of his whirlwind visits to The Pilot House in April 1999, Hindery took Sachs aside for a chat. A longtime NCTA board member, Hindery was on the search committee to find a successor to NCTA President and CEO Decker Anstrom. He and other NCTA board members held Sachs in high regard for the government relations work he had done for Continental and his cable regulatory expertise. Hindery invited Sachs to come to Washington and interview with the all-CEO board of the NCTA. Citing Boston ties, Sachs initially declined, but as was his way, Hindery persisted, and in July 1999 Sachs met with the NCTA search committee and accepted the association’s offer to become its next president and CEO. He guided the NCTA in Washington for the next five and a half years, establishing a deregulatory framework that spurred the rapid growth of cable broadband services.
press to dub the 1997 swapfest cable’s “summer of love.” The label recurred seasonally for the next two years.

Continental’s historic regional focus meant that MediaOne’s systems were more efficiently clustered than most competitors. Yet the swapping had a dramatic impact even on MediaOne’s operating map. In the most sweeping reconfiguration, the company ended up trading its systems in Ohio, where Continental had established its first cable systems, to gain greater scale in New England. Hostetter admitted that it was a tough call, even if the numbers added up. “It would have been hard to make some of those trades without the preceding change of control and the new management of the company. I could not have done it.”

In 1999, MediaOne swapped the company’s legacy systems in the Dayton, Ohio, area with Time Warner Cable. In return, MediaOne took ownership of TWC’s systems in the Boston area, significantly enhancing MediaOne’s market clout in Eastern Massachusetts. MediaOne also traded its systems in the Cleveland area to Cablevision for its Boston system, cementing MediaOne’s position as the dominant cable operator in Greater Boston and New England.

Much of the consolidation of markets that exists in cable today is the result of Hindery’s prowess as a dealmaker. But by the end of 1999, he tired of the day-to-day operating issues at AT&T Broadband and left to become CEO of a more entrepreneurial telecommunications firm, Global Crossing, Ltd. Somers, who enjoyed a close working relationship with Armstrong, took over as CEO of AT&T’s cable business.

AT&T’s broadband business, and the company as a whole, continued to struggle. The enormous amount of debt the parent company took on to finance its cable and wireless acquisitions might have appeared justified when new media assets were being valued at ever-rising levels during the final stages of the dot-com boom. But the bursting of that bubble beginning in the spring of 2000 pushed AT&T’s promised payoff of these investments years into the future.
COMCAST COMES BACK

By early 2001, AT&T’s share price had plummeted, reflecting the bursting of the dot-com bubble. In order to highlight AT&T Broadband’s value, and possibly attract buyers, the company’s board approved the creation of a so-called tracking stock for the broadband business that then became separately traded. The strategy proved successful, faster than many directors might have imagined.

Even before the tracking stock could be issued, AT&T attracted an unsolicited $40 billion stock swap offer from Comcast for the broadband business. The offer also included the assumption of $13 billion in debt. At the urging of Hostetter and Gene Sykes of Goldman Sachs, AT&T’s lead banker, the AT&T board rejected the offer in July. But the interest from Comcast effectively put AT&T Broadband in play. Hostetter was determined to get out in front of the problem and try to boost the value of the business rather than sit by the phone and wait for the next suitor to call.18

Hostetter asked Schleyer to join him in a private meeting with AT&T CEO Armstrong that fall. The three agreed on the issues facing the company’s broadband business. Armstrong accepted Hostetter’s recommendation that Schleyer was the right person to lead the turnaround or sale of the unit.19

In late October, AT&T announced that Schleyer would replace Somers as head of the broadband business. “Bill Schleyer has the operating skills and strategic vision to take AT&T Broadband to the next level of performance,” Armstrong said. The company also announced that Continental veteran Ron Cooper, who earlier had left MediaOne to serve as president and chief operating officer of Relera Inc., a Denver-based Internet hosting company, would become chief operating officer of AT&T Broadband. Fellows was brought back as chief technology officer, and veteran Continental SVP Kevin Casey, who had continued to run the New England region for MediaOne, joined the senior leadership team.20 The Continental executives had been reassembled to manage the 14.4-million-subscriber company resulting from the combination of TCI and MediaOne.
AT&T restarted talks with Comcast in September about its interest in the broadband business, even before announcing the new management team. The AT&T board also reached out to Cox Communications and AOL Time Warner to solicit additional bids. The cable giants were given a mid-December 2001 deadline to present their best offers.

Just as the Robertses were anxious for Comcast to reel in the broadband giant, the leadership of the other two rivals recognized that this was a once-in-a-lifetime opportunity. For Cox, the huge price tag definitely would have been a stretch. AOL Time Warner was much larger, but its board still was reeling from the impact of its costly and ill-considered merger at the peak of Internet hysteria. The last thing it wanted was another huge and potentially disruptive merger. Rumor had it that the AOL Time Warner bid was the highest in dollar terms but that it was hindered by the demand for a liability cap and a complicated proposed ownership structure.

Perhaps reflecting the size of the AOL Time Warner bid, at the last minute AT&T negotiators contacted their counterparts at Comcast and said the company needed to up the ante. Feeling as if the deal might slip away, Comcast agreed to add another $1 billion to its bid. Right up to the final vote, some AT&T board members argued that the company should give Schleyer and his team more time to turn the broadband business around. In the end, Comcast’s sweetened offer—valued at the time at $52 billion in stock and $20 billion in assumed debt—carried the day. The combined company would be the largest cable provider in the country, with about 22 million subscribers.

Schleyer and Cooper continued to run the AT&T broadband business until the merger with Comcast was completed in October 2002. Casey gained increased responsibility under Comcast, which led to his being put in charge of roughly one-third of the company’s cable systems—a regional complex almost twice the size of Continental when it was acquired by US WEST. Fellows stayed on as the chief technology officer of Comcast through 2009. By spring 2003, Schleyer and Cooper were back in the cable business, having been hired as CEO and COO, respectively, to lead troubled Adelphia Communications out of bankruptcy.
In July 2003, 40 years after walking the county road linking Fostoria and Tiffin, Ohio, Hostetter finally stepped away from active involvement in cable systems operations and resigned from the AT&T board. He did not, however, completely sever his industry ties. Hostetter joined the board of Sid Knafel and Michael Willner’s Insight Communications when that company went private in 2005 and served as a director until the company was purchased by Time Warner Cable in 2012. Hostetter continues to this day to serve on the board of C-SPAN.

Hostetter and all those who helped build Continental created a remarkable legacy. From its innovative approaches to financing its growth to its lean corporate management and decentralized regional and local leadership, from industry-leading customer service, local programming, marketing, and corporate citizenship to its early embrace of broadband technology, Continental led the cable industry transformation from community antenna television to a modern and multifaceted telecommunications medium. But perhaps its greatest legacy was its corporate culture, embodied by thousands of Continental employees who continue to work in the industry today.

Thanks to the early support of legendary lender Arthur Snyder of New England Merchants Bank, Continental secured what is generally recognized as the first bank term loan ever extended to a cable company. It was the beginning of a very successful set of relationships between Continental and an array of lenders.

In the dark days of 1974, Continental was able to maintain its growth by obtaining credit support from Economy Finance, a traditional asset lender. Continental was also responsible for first tapping the historically staid insurance industry as a source of long-term capital for cable companies. Its 1977 issuance of 15-year senior notes to a group of insurers led by John Hancock Mutual Life Insurance Co. demonstrated that the cable industry, which had been seen as dominated by “mom-and-pop” operators a decade
earlier, deserved the backing of major institutional investors. Other cable borrowers shortly followed suit.

Findlay, Ohio, employees, including Connie Hirsimaki, offered consistently friendly and responsive customer service—setting an example to be followed for years to come.

Years later, Continental was able to access the prime rate market that was being pioneered by Merrill Lynch at the height of the 1990 HLT crisis. As the 1990s unfolded, Continental was truly a global financing juggernaut. From an initial $300,000 loan from a single Boston bank 25 years earlier, Continental had amassed a credit facility of $2.7 billion involving more than 50 banks around the world. US, Canadian, European, and Asian banks were all key players in Continental’s master credit agreements.

DECENTRALIZATION AND CUSTOMER SERVICE

Grousbeck and Hostetter learned early in their careers that there was no substitute for empowering senior decision-makers at the local level. Too many important decisions were specific to individual systems and communities to be able to manage them effectively at a distance. They learned that lesson firsthand during the mid-’60s when they personally oversaw systems in Ohio and Illinois.
Continental’s founders put a premium on attracting and retaining some of the best managers and engineers in the industry to make their trademark decentralization a success. Because the locus of decision-making at Continental was in the field, those jobs were more interesting and satisfying, and they attracted the best and the brightest. With decision-making concentrated at the regional level, Continental was able to run its headquarters operations with a leaner staff than any company of significant size in the cable industry.

LOCAL PROGRAMMING AND MARKETING
Local programming was rapidly embraced by systems across Continental. Local and regional news reached an apogee in the company’s New England systems when New England Cable News, the Continental joint venture with Hearst Corporation, went live in April 1992.

Continental also established itself as an innovative marketer. From being one of the first cable operations to use direct mail, to creating the industry’s first mini-pay premium channel, to achieving the highest pay-to-basic penetration ratios among major cable operators, Continental was a perennial Cable & Telecommunications Association for Marketing (CTAM) award-winner.

CORPORATE CITIZENSHIP
From their earliest days in the cable business, Grousbeck and Hostetter grasped the importance of being good corporate citizens.

Hostetter played a leading role over two decades as the cable industry’s spokesman before the FCC and numerous House and Senate committees. He was an obvious cable industry leader for Brian Lamb to approach in 1977 when Lamb proposed the creation of C-SPAN. Continental would become one of C-SPAN’s founding members and strongest supporters.
In the late 1980s, Continental was once again one of the industry’s leading citizens when Turner Broadcasting approached Continental and TCI in 1989 to ask them to join CNN in creating Cable in the Classroom.

Continental also created the first Social Contract with the FCC in 1995, becoming a model for the rest of the industry. As part of the Social Contract, Continental resolved 400 rate cases without price reductions and became the first cable company to provide free broadband Internet connections to public schools.

**TECHNOLOGY LEADER**

Continental was in the vanguard of an industry that reshaped and redefined how we communicate in the 21st century. The broadband world most of us now take for granted was in a very real sense created by Continental Cablevision and a very short list of like-minded innovators.

Continental was the first Internet provider to offer free broadband access to public schools.

In early 1993, Continental assembled a team in New England to take a more coordinated approach to leveraging the latest in cable technology. Their timing couldn’t have been better. They pioneered the cable industry’s connection with a “network of computer networks” called the Internet. Continental and the cable industry were never the same.
Within a few years, Continental—and gradually, the rest of the industry—put in place the broadband infrastructure that is ubiquitous today. Without that infrastructure, the widespread use of services such as Amazon, Facebook, Google, eBay, and Twitter—which have come to define so much of our everyday lives—would not have been possible.

**IMPACT AND LEGACY**

Above all, Continental Cablevision is remembered in the industry for the quality and integrity of its leadership, from its first days as a company to its last, and continuing into the future as its legacy lives on. Decker Anstrom, former president and CEO of the NCTA, recalled how Hostetter stood apart from his peers in the industry as cable faced increased regulation in the late 1980s. “Always very thoughtful, very studied in his approach, and took a very broad industry view about the mid- to long-term health,” Anstrom said. “He was in it for the long term, not the short term. And he along with a handful of others, I think, tried to provide the leadership to say, 'Look, we may have unrestrained ability to raise prices, but we should be smart in terms of gauging what the market will bear.'”

Anstrom and others are quick to emphasize that Hostetter never acted alone. “I think one of the other things that always stood out about the Continental team was the depth and quality of their leadership. Then again, they reflected Amos, I think, in terms of people of strong ethical and substantive ability.”

“First rate, as good as it gets, impressive people, good local relations, cared about things other than just the bottom line — that’s what impressed people about Continental Cablevision,” said C-SPAN founder Brian Lamb. “Continental Cablevision always had, everywhere I have been, the most positive of images that you could imagine. There’s no reason to overstate it, but the respect for that company was very high.”

Kevin Landry, a longtime Continental board member, said the company was a credit to the Boston financial and business communities. “They were so good, and it was such a well-managed company, and it was such a successful partnership. There was so much to admire,” Landry said. “I think the whole community of Boston was proud. I mean, I was proud to be a
shareholder. I think everyone was proud that Continental was here and was such a success, and you know, had such high business ethics.”

Continental’s first CATV tower no longer stands on the Gordon Feindel farm north of Bascom, Ohio, but the company’s pioneering role in broadband technology has had a global impact.

Longtime investor and board member Vin Ryan counted Continental as his best investment in a career built on successful investing, and he credited that success to the company’s unrivaled leadership. “I would say the single greatest thing about Continental, without any question in my mind, was the quality of the organization. I’ve never been in a company before or since that had the quality of people that Continental had, across the board.”

Continental’s impact extended to the communities in which it operated. “We contributed back to the community, which was something Amos was particularly forceful on in terms of, over the years, developing C-SPAN and the children’s programing, and so on,” Ryan said. “He realized the fact that you had basically a
monopoly, and that you had a moral and ethical obligation to contribute to the community, which has never changed.”

Continental investor Bill Egan watched the Continental founders drive their company’s success, and he could tell that they were a cut above the industry’s average operating team. “Without question, Hostetter and Grousbeck were the two smartest guys in the business, bar none. . . . Amos was probably—still is probably the best financial guy I’ve met in my life.”

One of Continental’s longest-serving outside directors, Henry McCance, recalled that Hostetter hosted a directors-only dinner shortly after the sale of the company to US WEST. Hostetter presented each director with an antique telescope. “I think what he was trying to do in addition to saying thank you was to say: You guys stuck with me for a very long time, from the time the industry was pretty unknown and has now grown up and matured to being a pretty important media force. And I want to thank you particularly for having that long-term view.”

A “MAKE A DIFFERENCE” CULTURE
If former Continental personnel agree on any one thing, they overwhelmingly point to their time at Continental as among the most meaningful and rewarding years of their professional lives. Jonathan Anderson, who today is a vice president of Time Warner Cable, sums it up this way:

My career at Continental included the opportunity to help launch programming at a new studio in Enfield, Connecticut, at age 24, become a cable general manager at 26, launch the company’s digital insertion over fiber for cable advertising at 33, and launch the company’s Highway 1 high-speed online services in the Boston market at 36. The opportunities I found at Continental were characteristic of those that others also found who took the risk of joining this young, amazing, rapidly growing company. We knew we were making a big difference in the lives of our customers through the work that we were doing, and the products and services we provided. And that made a huge impact in our lives as well.
Continental’s impact on the cable and broadband industry continues to reverberate in the accomplishments of its people, long after the corporate entity passed into history.

Industry veteran Jonathan Anderson benefited from the rapid growth and learning opportunities he found at Continental early in his career.

FIFTIETH-ANNIVERSARY FETES

As if on cue, the full moon pulled free of a few lingering clouds and shone a spotlight across Boston Harbor onto the waterfront deck of The Pilot House. Music drifted in from a passing tour boat—reminders, as if any were needed, that this was indeed a special night for some of the former senior Continental leaders as they gathered for drinks and dinner. Old friends, some who hadn’t seen one another for years, embraced and shared stories.

Nearly a decade had passed since Hostetter left the AT&T board and an active role in the cable business. But Cheryl Antonelli, Denise Gillespie, Ben Gomez, Marcia Gordon, Tim Neher, April Robinson, Robert Sachs, Steve Van Beaver, and Hostetter are among the “ex-Cons” who still maintain offices at The Pilot House. Not surprisingly, a frequent topic
of discussion there was what they should do to celebrate the company’s legacy before the years started to seriously catch up with their co-workers.

They decided to take advantage of the opportunity offered by the NCTA’s annual Cable Show being held in Boston in 2012 for the first time in more than 30 years. A dinner for the company’s senior leadership was held at The Pilot House on Saturday evening, May 19, 2012, and a reunion party for as many former employees as could make the trip took place the next day at The New England Aquarium. Several hundred “ex-Cons” reuniting on that Sunday afternoon recalled with pride and satisfaction their years as part of the Continental Cablevision team.

Hundreds of “ex-Cons” attended the 2012 reunion on the Boston waterfront.
APPENDIX ONE

Continental Cablevision Directors

1963-1989  H.I. Grousbeck Continental Cablevision
1963-1996  Robert B. Luick Sullivan & Worcester
1972-1996  Henry F. McCance Greylock Management Corp.
1972-1996  J. Murray Howe Asset Purchase & Mgmt Co. and Sullivan & Worcester
1972-1980  Henry W. Hoagland Fidelity Management and Research
1978-1989  Jean E. de Valpine Memorial Drive Trust
1981-1996  Samuel W. Bodman Fidelity Management and Research
1980-1996  Vincent J. Ryan Schooner Capital
1980-1987  C. Kevin Landry TA Associates
1982-1996  Timothy P. Neher Continental Cablevision
1991-1996  Michael J. Ritter Continental Cablevision
1994-1996  Roy F. Coppedge Boston Ventures
1994-1996  Lester Pollack Corporate Partners
1996  William T. Schleyer Continental Cablevision
### APPENDIX TWO

#### Selected Cable Metrics 1965–1995

**Continental Cablevision and Domestic Affiliates**

<table>
<thead>
<tr>
<th>Year</th>
<th>Miles of Plant (In thousands)</th>
<th>Homes Passed by Cable</th>
<th>Number of Subscribers (In millions)</th>
<th>Gross Revenue (In millions)</th>
<th>EBITDA (In millions)</th>
<th>Net Income</th>
<th>Total Debt + Preferred (In millions)</th>
<th>Stockholder Equity (Deficiency)</th>
<th>Total Debt + Preferred/EBITDA Ratio</th>
<th>Operating Margin (EBITDA/Revenues)</th>
<th>Number of Employees</th>
<th>Number of Corporate Office Employees</th>
<th>Industry Rank By Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>0.1</td>
<td>10</td>
<td>4</td>
<td>$0.2</td>
<td>$0.0</td>
<td>($0.1)</td>
<td>$0.5</td>
<td>$0.2</td>
<td>N/A</td>
<td>N/A</td>
<td>16</td>
<td>0</td>
<td>N/A</td>
</tr>
<tr>
<td>1970</td>
<td>1.5</td>
<td>145</td>
<td>51</td>
<td>$2.8</td>
<td>$1.3</td>
<td>($0.3)</td>
<td>$2.1</td>
<td>$9.1</td>
<td>1.6</td>
<td>46.4%</td>
<td>306</td>
<td>5</td>
<td>16</td>
</tr>
<tr>
<td>1975</td>
<td>3.2</td>
<td>300</td>
<td>142</td>
<td>$9.2</td>
<td>$5.3</td>
<td>$0.3</td>
<td>$26.5</td>
<td>$2.0</td>
<td>5.0</td>
<td>57.6%</td>
<td>680</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>1980</td>
<td>7.4</td>
<td>723</td>
<td>337</td>
<td>$46.1</td>
<td>$21.6</td>
<td>($0.6)</td>
<td>$78.4</td>
<td>$9.5</td>
<td>3.6</td>
<td>46.9%</td>
<td>1,612</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>1985</td>
<td>23.2</td>
<td>2,024</td>
<td>1,129</td>
<td>$295.2</td>
<td>$120.2</td>
<td>$8.9</td>
<td>$549.5</td>
<td>$66.0</td>
<td>4.6</td>
<td>40.7%</td>
<td>2,980</td>
<td>25</td>
<td>7</td>
</tr>
<tr>
<td>1990</td>
<td>45.6</td>
<td>4,761</td>
<td>2,710</td>
<td>$938.0</td>
<td>$390.5</td>
<td>($195.5)</td>
<td>$3,285.0</td>
<td>($1,760.0)</td>
<td>8.4</td>
<td>41.6%</td>
<td>7,060</td>
<td>61</td>
<td>3</td>
</tr>
<tr>
<td>1995</td>
<td>71.1</td>
<td>7,191</td>
<td>4,190</td>
<td>$1,442.0</td>
<td>$605.0</td>
<td>($112.0)</td>
<td>$5,285.0</td>
<td>($1,216.0)</td>
<td>8.7</td>
<td>42.0%</td>
<td>11,080</td>
<td>112</td>
<td>3</td>
</tr>
</tbody>
</table>
## APPENDIX THREE

### Investor Returns Realized If Held to Sale to US WEST

<table>
<thead>
<tr>
<th>DATE</th>
<th>INVESTOR</th>
<th>SHARE PRICE</th>
<th>MULTIPLE</th>
<th>COMPOUND ANNUAL GROWTH RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1964</td>
<td>Original nine investors and Boston Capital</td>
<td>$0.13</td>
<td>5,769x</td>
<td>31%</td>
</tr>
<tr>
<td>January 1970</td>
<td>Greylock et al. (first investment)</td>
<td>$1.00</td>
<td>750x</td>
<td>29%</td>
</tr>
<tr>
<td>March 1972</td>
<td>Greylock et al. (second investment)</td>
<td>$1.40</td>
<td>536x</td>
<td>30%</td>
</tr>
<tr>
<td>May 1981</td>
<td>Dow Jones</td>
<td>$25.00</td>
<td>30x</td>
<td>25%</td>
</tr>
<tr>
<td>June 1992</td>
<td>Corporate Partners et al.</td>
<td>$350.00</td>
<td>2.1x</td>
<td>21%</td>
</tr>
<tr>
<td>July 1992</td>
<td>Boston Ventures et al.</td>
<td>$330.00</td>
<td>2.3x</td>
<td>23%</td>
</tr>
<tr>
<td>October 1995</td>
<td>Providence Journal Co.</td>
<td>$485.00</td>
<td>1.5x</td>
<td>55%</td>
</tr>
</tbody>
</table>
NOTES

1. There were three stock splits in Continental Cablevision’s history: May 1969, 12 for 1; May 1981, 25 for 1; and October 1995, 25 for 1. For ease of exposition, the share values used in this table (and wherever used in the text) reflect the shares as numerated from 1981 to 1995, i.e., as they existed prior to the 1995 split.

2. Corporate Partners’ investment was in convertible preferred stock. All other investments were in common stock.

3. Sale to US WEST in November 1996 was at a value of $750 per share ($30/share cash election, adjusted for 25-to-1 split).

4. If a Continental shareholder had retained his equity position from the November 16, 1996, closing with US WEST to the June 16, 2000, acquisition by AT&T, he would have received cumulative consideration of $2,048 per share, or 2.7 times the November 1996 value of $750 per share, representing a 33 percent IRR for that 3.6-year interval.
CHAPTER ONE: A GREATER PURPOSE

CHAPTER TWO: FROM MODEST BEGINNINGS
Opening Photo © Massachusetts Institute of Technology, Courtesy of MIT Libraries, Rotch Visual Collections; Photograph by Nishan Bichajian; 42 Courtesy of Vin Ryan; 43 Pilot House Archive; 45 (top) Barco Library, The Cable Center; 45 (bottom) Pilot House Archive; 47 Pilot House Archive; 48 (all) Barco Library, The Cable Center; 49 Pilot House Archive; 50 Barco Library, The Cable Center; 51 Courtesy of Carol Story; 52 Courtesy of Carol Story; 53 Photo by Focus On Sport/Getty Images; 54 Barco Library, The Cable Center; 56 Barco Library, The Cable Center; 59 (top) Barco Library, The Cable Center; 59 (bottom) Associated Press.

CHAPTER THREE: TRANSFORMING THE BUSINESS
Opening Photo Barco Library, The Cable Center; 62 Pilot House Archive; 63 Barco Library, The Cable Center; 64 Courtesy of Robert Titsch Sr./Cablevision Magazine; 65 Barco Library, The Cable Center; 66 Barco Library, The Cable Center; 67 (top) Barco Library, The Cable Center; 67 (bottom) Barco Library, The Cable Center; 69 Barco Library, The Cable Center; 70 Barco Library, The Cable Center; 71 Barco Library, The Cable Center; 72 Pilot House Archive; 73 (top) Pilot House Archive; 73 (bottom) Pilot House Archive; 74 Pilot House Archive; 75 Pilot House Archive; 76 Barco Library, The Cable Center; 78 Barco Library, The Cable Center; 80 Barco Library, The Cable Center; 81 (left) Barco Library, The Cable Center; 81 (right) Courtesy of Bob Ryan; 82 Pilot House Archive; 84 Pilot House Archive; 86 Barco Library, The Cable Center; 87 Pilot House Archive; 90 Pilot House Archive; 91 Barco Library, The Cable Center.
CHAPTER FOUR: OVERDRIVE

Opening Photo Courtesy of Robert Titsch Sr./Cablevision Magazine; 93 Courtesy of Lyle Kneeskern; 95 Pilot House Archive; 96 Pilot House Archive; 97 Photo by Ted Thai/Time & Life Pictures/Getty Images; 99 (top) From The Boston Globe, October 23, 1981. © 1981 Boston Globe. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited; 99 (middle) The Wall Street Journal by Dow Jones & Company, Inc. (San Francisco). Reproduced with permission of Dow Jones & Company, Inc. (San Francisco) in the format Republish in a book via Copyright Clearance Center; 99 (bottom) From The New York Times, October 23, 1981. © 1981 The New York Times. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited; 100 Pilot House Archive; 102 (top) Barco Library, The Cable Center; 102 (bottom) Barco Library, The Cable Center; 103 Pilot House Archive; 105 Barco Library, The Cable Center; 107 Barco Library, The Cable Center; 109 Barco Library, The Cable Center; 110 Barco Library, The Cable Center; 114 Pilot House Archive; 115 Pilot House Archive; 116 Pilot House Archive; 119 Barco Library, The Cable Center.

CHAPTER FIVE: THE BIG LEAGUES

Opening Photo Library of Congress, Prints & Photographs Division, photograph by Carol M. Highsmith, [LC-HS503-6884]; 123 Barco Library, The Cable Center; 124 (top) Barco Library, The Cable Center; 124 (bottom) Pilot House Archive; 125 Barco Library, The Cable Center; 127 Barco Library, The Cable Center; 128 Courtesy of Dan Lacorazza; 129 Barco Library, The Cable Center; 131 Image by © JP Laffont/Sygma/Corbis; 132 Barco Library, The Cable Center; 133 Barco Library, The Cable Center; 135 Barco Library, The Cable Center; 136 (top) Pilot House Archive; 136 (bottom) Barco Library, The Cable Center; 140 (left) AP Photo/Lawrence Jackson; 140 (right) © Brian Snyder/Corbis; 141 Pilot House Archive; 143 Barco Library, The Cable Center; 145 Barco Library, The Cable Center.

CHAPTER SIX: TWENTY-FIFTH ANNIVERSARY

Opening Photo Pilot House Archive; 148 (all) Pilot House Archive; 149 Courtesy of Multichannel News; 150 Barco Library, The Cable Center; 151 Pilot House Archive; 152 Pilot House Archive; 155 Pilot House Archive; 156 (top) Pilot House Archive; 156 (bottom left) Barco Library, The Cable Center; 156 (bottom right) Pilot House Archive; 159 Pilot House Archive; 161 Pilot House Archive.

CHAPTER SEVEN: PUSHING THE ENVELOPE

Opening Photo Courtesy of Robert Titsch Sr./Cablevision Magazine; 164 Pilot House Archive; 165 (top) Pilot House Archive; 165 (bottom) Pilot House Archive; 166 Pilot House Archive; 167 Pilot House Archive; 169 Pilot House Archive; 170 Barco Library, The Cable Center; 172 Courtesy of Perry Parks; 173 AP Photo/Paul Sakuma; 175 (top) Pilot House Archive; 175 (bottom) Bruce Hammond/Boston Globe; 176 Pilot House Archive; 178 From The New York Times, April 2, 1993. © 1993 The New York Times. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited.
NOTES

CHAPTER 1

1 Amos Hostetter, interview by Scott McMurray, 4 June 2012, The History Factory, Washington, DC, transcript, pp. 7–8.
2 Ibid., p. 5.
4 Ibid., p. 2.
5 Ibid.
6 Ibid., pp. 1–3.
7 Ibid., pp. 5–6.
8 Ibid., pp. 5–6.
10 Ibid., p. 4.
11 Continental Cablevision Inc., initial business plan, p. 25.
12 Grousbeck, interview by McMurray, 19 September 2012, transcript, p. 5.
14 Ibid.
15 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 22.
18 Continental Cablevision, initial business plan, p. 25.
19 Ibid., p. 1.
20 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 10.
21 Ibid.
22 Ibid.
24 Ibid., p. 13.
26 Ibid., p. 40.
27 Interview with Amos Hostetter, 11 February 2014, The Pilot House, Boston.
30 Ibid.
32 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 1.
33 Hostetter, interview by McMurray, 4 October 2012, transcript, p. 6.
34 Interview with Amos Hostetter, 9 February 2014, The Pilot House, Boston.
35 Interview with Amos Hostetter, 10 February 2014, The Pilot House, Boston.
36 Ibid.
37 Interview with Amos Hostetter, 9 February 2014, The Pilot House, Boston.
38 Ibid.
39 Ibid.
40 Ibid.
41 Ibid., p. 3.
42 Amos Hostetter, speech celebrating 1 millionth customer, 1986.
CHAPTER 2

1 Amos Hostetter, interview by Scott McMurray, 4 October 2012.
3 Grousbeck, interview by McMurray, 19 September 2012, transcript, p. 19.
4 Hostetter, interview by McMurray, 30 January 2012, transcript, p. 20.
7 Continental Cablevision, letter to stockholders, 2 June 1971.
8 Ibid.
9 Ibid.
10 Continental Cablevision’s letter to stockholders, 28 April 1972.
11 McCance, interview by McMurray, transcript, p. 3.
13 Ibid.
14 Continental Cablevision, letter to stockholders, 28 April 1972.
16 McCance, interview by McMurray, transcript, p. 3.
17 Interview with Amos Hostetter, 10 February 2014, The Pilot House, Boston.
18 Continental Cablevision, letter to stockholders, 28 April 1972, p. 2.
21 Hostetter, interview by McMurray, 30 January 2012, transcript, p. 11.
22 Tom Willett, interview by Scott McMurray, 8 May 2012, The History Factory, Washington, DC, transcript, pp. 3, 8, 10.
23 Ibid., p. 13.
24 Ray Joslin, unpublished memoirs, p. 20.
CHAPTER 3

1 Neher, interview by McMurray, 8 February 2012, transcript, p. 11.
3 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 19.
4 Trygve Myhren, interview by Scott McMurray, 26 August 2010, transcript, p. 9
5 Ibid.
9 Ibid.
10 Ibid., p. 11.
11 Ibid., p. 6.
12 Ibid.
13 Tim Wirth, interview by Scott McMurray, 5 March 2012, transcript, p. 2.
14 Ibid., p. 1.
17 Wirth, interview by McMurray, 5 March 2012, transcript, p. 2.
21 Neher, interview by McMurray, transcript, p. 20.
22 Continental Cablevision, 23 March 1979 letter to stockholders, attachment.
23 Willett, interview by McMurray, 8 May 2012, transcript, p. 17.
24 Ibid.
25 Neher, interview by McMurray, 8 February 2012, transcript, p. 8.
26 Ibid., p. 17.
27 Transcontinental, 25th anniversary commemorative newsletter, p. 4.
28 Ibid., p. 72.
29 Neher, interview by McMurray, 8 February 2012, transcript, p. 10.
30 Willett, interview by McMurray, 8 May 2012, transcript, p. 18.
31 Ibid.
34 Ibid.
35 Ibid.
36 Goodall, interview by McMurray, 7 February 2012, transcript, p. 17.
37 Ibid.
38 Ibid.
43 Goodall, interview by McMurray, 7 February 2012, transcript, p. 23.
44 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 4.
45 Goodall, interview by McMurray, 7 February 2012, transcript, p. 9.
46 Neher, interview by McMurray, 8 February 2012, transcript, p. 3.
48 Ibid., pp. 1-2.
49 Neher, interview by McMurray, 8 February 2012, transcript, p. 17.
51 Ibid., pp. 4-5.
52 Neher, interview by McMurray, 8 February 2012, transcript, p. 18.
53 Ibid.
CHAPTER 4

4 Ibid., p. 3.
5 Ibid., pp. 2–3.
7 Neher, interview by McMurray, 8 February 2012, transcript, p. 13.
9 Interview with Amos Hostetter, 9 January 2014, The Pilot House, Boston.
11 Ibid.
13 Hawthorne, interview by McMurray, 28 March 2012, transcript, p. 17.
15 Continental Cablevision, attachments to board meeting agenda, 6 September 1984.
16 Stengel, interview by McMurray, 8 February 2012, The History Factory, transcript, p. 12
17 Ibid.
18 Ibid., p. 7.
19 Sachs, interview by McMurray, 21 May 2012, transcript, p. 10.
20 Goodall, interview by McMurray, 7 February 2012, transcript, p. 8.
21 Ibid., p. 6.
22 Sachs, interview by McMurray, 21 May 2012, transcript, p. 10.
CHAPTER 5

1 Continental Cablevision, letter to shareholders, 29 April 1986, p. 5.
3 Interview with Amos Hostetter, 28 January 2014, The Pilot House, Boston.
4 Ibid.
6 Ibid.
7 Stengel, interview by McMurray, 8 February 2012, transcript, p. 11.
8 Ibid., pp. 12–13.
9 Ibid.
10 Ibid., p. 12.
11 Ibid.
18 Ibid., p. 22.
23 Continental Cablevision, letter to stockholders, 29 April 1988, p. 3.
24 Neher, interview by McMurray, 8 February 2012, transcript, p. 19.
25 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 41.
26 Ibid.
27 Ibid.
28 Ray Fournier, note to Scott McMurray, 2 July 2012.
29 Dan Lacorazza, note to Scott McMurray, 22 May 2012.
32 Ibid., pp. 2–3.
33 Ibid., p. 3.
34 Dodge, interview by McMurray, 22 May 2012, transcript, p. 25.
35 “United Artists, United Cable to Merge; Continental to Absorb American Cablesystems: Deals Reflect Continued Shrinking of Industry,” Broadcasting, 19 October 1987, pp. 27+.
36 Dodge, interview with McMurray, 22 May 2012, transcript, pp. 17-18.
37 Ibid., p. 18.
39 Ibid., pp. 20–22.
40 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 42.
41 Dodge, interview by McMurray, 22 May 2012, transcript, p. 22.
42 “United Artists, United Cable to merge,” pp. 27+.
43 Ibid.
45 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 42.
46 Ibid.
47 Dodge, interview by McMurray, 22 May 2012, transcript, p. 23.
49 Neher, interview by McMurray, 8 February 2012, transcript, p. 16.
50 Ron Cooper, interview by Scott McMurray, 26 June 2012, The History Factory, Washington, DC, transcript, p. 15.
51 Continental Cablevision, letter to shareholders, 1 May 1989, p. 4.
52 Dodge, interview by McMurray, 22 May 2012, transcript, p. 19.
CHAPTER 6

2 Ibid., pp. 1-2.
3 Ibid., p. 3.
4 Ibid., p. 2.
5 TransContinental, 25th anniversary commemorative newsletter, p. 1.
6 Ibid., p. 11.
7 Ibid., p. 2.
8 Ibid., p. 3.
9 James Wand memo, 13 February 2012.
10 Ibid.
12 Ibid., p. 8.
13 Ibid.
14 Ibid., p. 3.
15 Ibid.
16 Ibid., p. 9.
17 Ibid.
18 Ibid., p. 10.
19 Ibid.
20 Catherine Maloney, e-mail to Scott McMurray, 7 March 2013.
22 Jonathan Anderson e-mail to Scott McMurray, 23 February 2013.
CHAPTER 7

1 Sachs, interview by McMurray, 30 May 2012, transcript, p. 11.
5 Ibid., p. 13.
6 Maloney e-mail to McMurray.
7 Ibid., pp. 1–3.
8 Sachs, interview by McMurray, pp. 12–14.
10 Ibid.
13 Ibid., p. 15.
14 Remarks of Amos B. Hostetter Jr. Chairman and Chief Executive Officer Continental Cablevision, Inc. to the Federal Communications Bar Association Washington, DC, 29 April 1993, p. 3.
15 Balboni, interview by McMurray, 28 March 2012, transcript, pp. 17–19.
16 Neher, interview by McMurray, 8 February 2012, pp. 38–39.
18 Ibid., p. 12.
19 Ibid.
23 Ibid., p. 2.
25 Ibid.
26 Amos Hostetter, personal correspondence, 14 February 2014.
27 Parsons, Blue Skies, pp. 574–575.
28 Kathy Haley, 8 November 1990, CableVision.
30 Reed Hundt and Blair Levin, interview by Scott McMurray, 6 March 2012, The History Factory, Washington, DC, transcript, p. 4.
31 Ibid.
32 Sachs, interview by McMurray, 30 May 2012, transcript, p. 6.
33 Ibid., pp. 5–6.
34 Hundt and Levin, interview by McMurray, 6 March 2012, transcript, p. 15.
35 Sachs, interview by McMurray, 30 May 2012, transcript, p. 7.
37 Sachs, interview by McMurray, 30 May 2012, transcript, p. 8.

NOTES
CHAPTER 8

1 Sachs, interview by McMurray, 30 May 2012, transcript, p. 16.
3 Stengel, interview by McMurray, 8 February 2012, transcript, pp. 17–18.
4 Ibid., pp. 17–19.
5 Sachs, interview by McMurray, 30 May 2012, transcript, p. 20.
6 Ibid., pp. 18–21.
8 Sachs, interview by McMurray, 30 May 2012, transcript, pp. 22–23.
9 Ibid., pp. 17–19.
12 Ibid., p. 25.
14 Ibid.
15 Sachs, interview by McMurray, 30 May 2012, transcript, pp. 27–28.
18 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 25.
19 Hannes, interview by McMurray, 17 July 2012, transcript, p. 3.
21 Amos Hostetter, correspondence, 5 March 2014.
22 Ibid.
23 Ibid.
24 Hannes, interview by McMurray, 17 July 2012, transcript, p. 4.
26 Ibid.
27 Hostetter, correspondence, 5 March 2014.
30 Ibid., p. 5.
31 Younger, interview by McMurray, 9 February 2012, transcript, p. 19.
32 Ron Cooper, interview by McMurray, 26 June 2012, transcript, pp. 18–19.
34 Ibid., pp. 26–27.
36 Ibid., pp. 10–11.
38 Fellows, interview with McMurray, 25 July 2012, p. 11.
40 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 23.
44 Stephen Van Beaver, interview by Scott McMurray, 5 April 2013, interview notes.
45 Jonathan Anderson, e-mail to Scott McMurray, 14 March 2013.
47 Amos Hostetter, correspondence, 18 February 2014.
CHAPTER 9

1 Amos Hostetter, correspondence. 6 March 2014
2 Ibid., pp. 15-16.
3 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 29.
4 Continental Cablevision, 15 February 1996, board meeting minutes, p. 3.
5 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 30.
6 Continental Cablevision, 17 November 1994, board meeting minutes, p. 15.
7 Continental Cablevision, Shareholder Proxy, 11 October 1996, p. 36.
8 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 31.
10 Hawthorne, interview by Scott McMurray, 28 March 2012, transcript, p. 25.
11 Amos Hostetter, correspondence, 9 March 2014.
12 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 30.
13 Sachs, interview by McMurray, 30 May 2012, transcript, p. 30.
14 Ibid.
15 Neher, interview by McMurray, 8 February 2012, transcript, pp. 42-43.
17 Neher, interview by McMurray, 27 December 2012.
18 Krauss, interview by McMurray, 6 July 2012, transcript, p. 10.
19 Ibid., pp. 9-10.
22 Ibid.
23 Continental Cablevision, 15 February 1996, board meeting minutes, p. 4.
25 Hostetter, interview by McMurray, 4 June 2012, transcript, pp. 48-49.
27 Sachs, interview by McMurray, 30 May 2012, transcript, pp. 32-33.
31 Ibid., p. D1, D6.
33 Sachs, interview by McMurray, 30 May 2012, transcript, p. 33.
37 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 50.
38 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 33.
39 Rattner, interview by McMurray, transcript, p. 9.
40 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 32.
41 Ibid., pp. 32-33.
42 Hawthorne, interview by McMurray, 28 March 2012, transcript, pp. 28-29.
43 Schleyer, interview by McMurray, 30 May 2012, transcript, p. 34.
44 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 50.
46 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 50.
47 Ibid.
48 Cooper, interview by McMurray, 26 June 2012, transcript, pp. 24-25.
CHAPTER 10

1 Rob Stoddard, interview by Scott McMurray, 24 April 2013, The History Factory, Washington, DC, author notes.
2 Ibid.
4 Hostetter, interview by McMurray, 4 June 2012, transcript, p. 51.
7 Ibid. p. 8.
8 Hostetter, Amos B. Jr., Securities and Exchange Commission, Schedule 13D, MediaOne Group, p. 5.
10 Ibid.
13 Stengel, interview by McMurray, 8 February 2012, transcript, p. 37.
15 Ibid., p. 17.
16 Amos Hostetter, interview by Steve Nelson, 1999. The Cable Center, Barco Library, Denver, CO.
17 Hostetter, Sachs, and Schleyer, interview by McMurray, transcript, p. 50.
19 Schleyer, interview by McMurray, transcript, p. 37.
22 Novak, An Incredible Dream, pp. 308–310; Parsons, Blue Skies, p. 675.
24 Anstrom interview, p. 5.
28 Ryan interview, p.8.
30 McCance interview, 14 February 2012, p. 21.
31 E-mail correspondence with author, 14 March 2013.

THE CONTINENTAL CABLEVISION STORY