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TELE-COMMUNICATIONS, INC.

Address:
4643 South Ulster Street
Denver
Colorado
80237
United States

Telephone: (313) 721-5500

Statistics:

Public Company
Incorporated: 1968
Employees: 22,000
Sales: $1.7 billion

Stock Index: NASDAQ

Company History:

Cable television began as an antenna reception service for communities television signals didn't reach. It has developed into a nationwide distributor of information and entertainment. Fueling the growth and quietly capitalizing on the opportunities offered by this rapidly expanding industry is Tele-Communications, Inc., the largest multiple system operator in the country.

TCI was founded in 1965 by Bob Magness, a former Texas rancher, who built his first cable television system in Memphis, Texas in the late 1950s. Raising the money to start his fledgling company through the sale of some cattle, Magness eventually based his operation in Denver to serve rural towns in Montana, Utah, Nevada, and Colorado.

As the company struggled to get on its feet in the early 1970s, it encountered the traumatic times which affected the whole cable industry. TCI, a small company with a largely rural base and an abundance of floating-rate debt, was in a major construction phase when interest rates suddenly soared. When Magness decided to sell stock to raise the money to pay off some of the debt, the stock market collapsed.

Magness hired John Malone, formerly the head of General Instrument Corporation's cable equipment supply division, to help pull TCI through the crisis. A man with a tough, no-nonsense reputation, Malone used his steadfast negotiating skills and shrewd business acumen to put the company back on track, and earned the title "king of cable television."

With Malone as president (and Magness as chairman) TCI began to make powerful statements about the way it wanted to conduct its business and with whom. In a typical move, when the city council of Vail, Colorado clamored for more services but refused to approve higher rates, Malone cut off all programming for one weekend, broadcasting only the names and telephone numbers of the mayor and the city manager. The city quickly surrendered and TCI resumed broadcasting as before.

For the next two years, TCI fought with city cable regulators throughout the country and negotiated with bankers to keep the company afloat. By 1977, the company was showing a positive cash flow, enabling it to obtain a $77 million loan to refinance its debt and turn itself loose on the cable television industry. John Malone's formidable deal-making tactics had created an organization with ambitious goals and plenty of money to achieve them.

In the late 1970s, the development of communications satellites and the willingness of cable customers to pay for supplemental programming, together with changes in the copyright laws, set off a big-city cable construction boom. But while TCI's competitors waged fierce bidding wars for the right to wire America's urban areas, TCI quietly focused on acquisitions in the suburban and rural areas. Within a few years, many other operators found that, amid mounting losses, they could not fulfill the bloated promises they had made to secure these hard-fought urban contracts and sold them willingly to a cash-rich TCI. In 1984, the company bought the money-losing Pittsburgh franchise from Warner-Amex for only $93 million. By instituting a series of cost reductions and system cutbacks, TCI had a positive cash flow in Pittsburgh only four years later. The company then used the same formula in Washington, St. Louis, and Chicago franchises.

The Cable Communications Policy Act of 1984 effectively deregulated the cable television industry and set the stage for an intense period of consolidation and acquisition among marginal cable operators, much to TCI's benefit. Buffalo, Dallas, and Miami were added to the TCI fold. Through its District Cablevision system, TCI provided the first cable television service to the White House.

The next major expansion of the company occurred toward the end of 1986, when TCI acquired a controlling interest in United Artists Communications after a three-year courtship. Principally engaged in the construction, acquisition, ownership, and operation of motion picture theaters but also owner of the eleventh largest cable television system in the U.S., United Artists provided TCI with access to one of the nation's largest theatrical exhibition circuits and to 23 cable systems serving 750,000 basic programming subscribers. Two years later, United Artists and the United Cable Television Corporation, a 49-system organization serving 17 states, became wholly-owned subsidiaries of a new company, United Artists Entertainment Company, a majority of which was owned by TCI.

Since 1985, Malone has spent more than $3 billion acquiring interests in more than 150 cable companies, representing three million subscribers. In 1987, TCI entered into a merger with Heritage Communications, a cable operator based in Des Moines, Iowa, with a similar reputation for independence, managerial aggressiveness, and risk-taking.

Heritage was formed in 1971 by two long-time, hometown friends, James Hoak Jr. and James Cownie. They had virtually no experience in operating a cable television system but were encouraged by the support of Hoak's father, the founder of a local construction materials company. Hoak and Cownie launched a bid for the Des Moines cable television franchise under the name Hawkeye Cablevision. Hawkeye suffered a temporary setback when the Des Moines City Council recommended awarding the contract to a rival applicant. Iowa law required an election to officially award the franchise, however, and Hoak and Cownie blitzed the media with the rallying cry, "Des Moines has its own experts," winning the election by a landslide.

The victory was short-lived. A lack of original programming to attract subscribers, combined with technical problems, including two natural disasters--a tornado destroyed the plant and a lightning storm interrupted service on launch night--severely damaged whatever interest and loyalty the company had developed.

Desperate but not defeated, Hoak and Cownie persevered. They were quick learners, and by the early 1980s, they had renamed their company Heritage and expanded its influence beyond Iowa's borders, concentrating in farm belt and oil patch areas where reception, rather than programming, was the key to winning contracts. As a result, Heritage, like TCI, was relatively unaffected by the problems of other operators who had oversold and overstated their services to obtain urban franchises.

In 1985 the company entered the big-city market when it spent $110 million for Warner-Amex's failing Dallas franchise, a system plagued by unreliable service and low customer demand. Convinced that its operations prowess would turn the franchise around, Heritage invested another $50 million in a back-to-basics approach--replacing equipment and making other technical improvements, increasing customer service training, and improving programming--in an attempt to increase the number of subscribers and restore consumer confidence in the concept of cable television.

Heritage then made two other major deals: the $43 million purchase of 51% of Gill Industries, in San Jose, and the $630 million purchase of Rollins

Communications. The Rollins deal, in particular, expanded Heritage TV holdings from five to 11 stations in areas outside the economically depressed Midwest and prompted diversification into radio and outdoor advertising. Soon TCI was interested in taking over Heritage, which it did in 1987, adding 500,000 subscribers to its stable.

Until now, TCI had been a program distributor able to obtain services at highly-discounted prices due to the sheer size of its system. Since it was virtually impossible for a network to make money without TCI's subscribers, even producers of established cable programs were unwilling to risk losing access to so many viewers and charged Malone's systems only what he was willing to pay since they faced threats of Malone-initiated competition of they balked. But as desirable programming services, just like systems operators, became concentrated in fewer hands through mergers and acquisitions, Malone recognized the dangers a large operator faced at the hands of just three or four program suppliers. Since the proliferation of cable television hook-ups across the country had reduced the need to allocate substantial funds for capital expenditures, Malone turned his company's attention toward exerting its financial clout and the leverage of eight million subscribers on program suppliers.

Malone's goals were straightforward: to strengthen the supply of original cable programming and to compete effectively with the major networks for national advertising dollars. TCI began investing in programmers like the Cable Value Network, Black Entertainment Television, The Discovery Channel, and X*Press Information Services, a service providing news, entertainment, and financial data to home computer users via cable. In most cases, the investments were made with other cable operators to assure the continuing success of the programming effort for the benefit of all cable television customers.

Key to Malone's diversification strategy was TCI's investment, with 28 other cable industry operators, in bailing-out the flamboyant Ted Turner and his Turner Broadcasting System. Turner's assumption of $1.5 billion in debt to secure the MGM library of classic films had placed the survival of TBS in imminent danger. Malone saw TBS, which owned SuperStation WTBS, the Cable News Network, and MGM/UA Entertainment Company, as an attractive launching pad for developing a twenty-four-hour channel offering entertainment, news, and information to challenge the three major television networks. Rather than watch Turner's system fall under the control of a rival organization, Malone engineered a bold rescue plan and put up half of the needed $560 million.

Malone also invested in QVC Network, a home shopping channel, and the American Movie Classics Company, a source of 40 years' worth of Hollywood's most popular films. In 1988 he formed Think Entertainment, a new company dedicated to the actual production and distribution of quality programming exclusively for the cable television market.

Twenty years after its tumultuous start-up, TCI is a major force in U.S. cable television. After its most recent acquisition of Storer Communications, the fourth largest cable television operator, the company leads its closest competitor, Time's American Television and Communications, by almost five million subscribers. The company's wholly-owned and affiliate operations presently include cable television systems in 47 states. TCI also is turning toward other areas of the entertainment business through its recent investment in Blockbuster Video, a chain of video rental stores.

Decentralized in 1986 to facilitate restructuring, if and when it becomes necessary, TCI is currently organized into six divisions, each with its own marketing, accounting, and engineering departments. Ten senior executives run the day-to-day business, sharing the responsibility of supervising a total of only 250 corporate employees.

As TCI and John Malone led the cable television industry into the 1990s, perhaps the most serious threat facing the company was that of reregulation. TCI has reached its number one position through numerous mergers, acquisitions, and partnerships; it is no longer anonymous. Consumer complaints about rate increases and service problems and governmental concerns about the size and undue influence of companies like TCI may prompt the government to impose controls over its activity; a 1988 report from the U.S. Department of Commerce did conclude that the concentration within the cable industry warrants further investigation and possible action.

The company may also face serious challenges from technology, especially direct satellite transmission. However, in anticipation of growth in the television-receive-only marketplace, TCI recently acquired TEMPO Enterprises, a satellite communications company.

The cable industry also faces the potential threat of new rival, delivery systems from utility and telephone companies, which could lease their lines to new operators. And while TCI has based its growth on maintaining a highly leveraged financial position, the size of the company's debt makes it vulnerable to a rise in interest rates or to a recession, which could jeopardize pay cable revenues.

In the meantime, TCI will continue to strengthen and protect the supply of cable programming while also aggressively pursuing growth by adhering to the strategic formula and long-range business orientation that has carried it to the top of the cable television mountain.

Principal Subsidiaries: Alda Communications Corp. of Pa.; All Channel T.V., Inc.; American Microwave & Communications, Inc.; American Movie Classics Co.; Athena Realty, Inc.; Atlantic American Holdings, Inc.; Bob Magness, Inc.; Brookside Antenna Co.; Cabletime, Inc.; Caguas/Humacao Cable Systems; Central CATV, Inc.; Communications Capital Corp.; Communications Services Inc.; Community Realty, Inc.; Complete Channel TV, Inc.; Crest Communications, Inc.; ECP Holdings, Inc.; GWC 106, Inc.; GWC 73, Inc.; Heritage Communications, Inc.; International Telemeter Corp.; JAL CATV Corp.; Kingston CATV, Inc.; LaSalle Telecommunications, Inc.; Liberty Broadcasting. Inc.; Liberty Florida, Inc.; Liberty Investments, Inc.; Liberty Michigan, Inc.; Liberty of Northern Indiana, Inc.; Liberty-CSI, Inc.; Madison Communications, Inc.; Micro-Relay, Inc.; Netlink USA:; Orcable Ltd.; PCNH, Inc.; Plains-Indiana, Inc.; Robert Fulk, Ltd.; Rockland Information Systems, Inc.; Satellite Services, Inc.; SEE TV Co.; Silver Spur Land and Cattle Co.; Southwest Video Corp.; SSI 2, Inc.; Screenplay Video; Tele-Ception of Winchester, Inc.; United Artists Communications, Inc.; Upper Valley Telecable Co., Inc.; Wasatch Community TV, Inc.; Wayne County CATV, Inc.; Western Satellite 2, Inc.; X*PRESS Information Services; Telenois, Inc.; Texcom, Inc.; Trans-Muskingum, Inc.; Ulster County CATV, Inc.; TCIP, Inc.

Source: *International Directory of Company Histories*, Vol. 2. St. James Press, 1990.

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