CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

On February 1, 1994, the senior management team at Continental Cablevision met to evaluate the terms of the proposed final agreement to establish a joint venture in Argentina. The venture partner was Fintelco, a leading television-cable operator in Buenos Aires owned by Samuel Liberman. The team at Continental consisted of CEO Amos Hostetter; senior vice president for Corporate and Legal Affairs, Robert Sachs; CFO Nancy Hawthorne; and senior vice president for Programming, Robert Stengel. After six months of start-and-stop negotiations, communication difficulties, and numerous trips between Argentina and the United States, the two cable companies fashioned terms for a joint-venture structure that gave Continental a 50% equity stake in Fintelco for $80 million. The team believed that Continental would be the first U.S. cable company to initiate talks with one of the four main Argentine cable companies. Despite Continental's apparent jump on the competition, the senior management team wanted to reassess the returns and potential risks associated with conducting business in Argentina. The team wanted to move quickly to consummate the arrangement and needed to conclude the assessment within a few days. Was this an appropriate arrangement for Continental in terms of price, terms, risks, and returns? Was the joint venture structure the best option for Continental? How attractive was the Argentinean market, and did the market fit with Continental's strategy? And finally, was Samuel Liberman the right partner for Continental?

Continental Cablevision

Continental Cablevision, Inc., was founded in 1963 by two young Harvard Business School graduates, Amos B. Hostetter, Jr., and H. Irving Grousbeck, who viewed the lack of cable service in small cities of the Midwest as a business opportunity. Installing a 520-foot antenna in a cornfield in Tiffin, Ohio, the two entrepreneurs began Continental Cablevision, which served an area of less than five square miles. Ten television channels were offered over coaxial cable to subscribers (see **Exhibit 1** for definitions of cable terms). By 1994, Continental had grown to become the third largest cable multiple-system operator (MSO) in the United States with revenues of $1.2 billion (see **Exhibits 2** and **3** for Continental's income statement and balance sheet). Though Continental's balance sheet showed negative equity, creditors remained confident of the firm's ability to service its

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debt, in light of its very strong cash flow. High depreciation expense shielded the firm's income from taxes. As of December 1993, the company's S&P bond rating was "BB." Remaining a privately held company, Continental served over 3 million subscribers in 16 states.[1]

During the 1980s, Grousbeck retired to pursue a teaching career. Under Hostetter's leadership, Continental grew to employ more than 7,000 people in 1994. Hostetter's decentralized management philosophy delegated broad operating authority to the regional vice presidents, who managed each of the company's five management regions. Approximately 90 employees worked at the corporate offices in a renovated pilot house on the edge of Boston Harbor.

Continental's success was based on a growth strategy that clustered cable systems in certain areas of the country in order to more effectively distribute operating costs over a large number of subscribers. Until the mid 1980s, Continental's core business concentrated on the construction and operation of new cable-television systems in the United States. By 1987, however, the U.S. cable market began to show signs of maturation, when growth in the number of homes passed dropped to 5% from a high of approximately 20% in 1980. Growth in basic cable subscriptions had also dropped from 20% in 1981 to 7% in 1987.

In 1987, government deregulation of the cable industry led to industry consolidation and a flurry of strategic partnerships as cable operators tried to position themselves competitively for the coming decade. The 1984 Cable Act (effective in 1987) allowed operators to raise basic rates and to reinvest a portion of the subsequent revenue into licensing fees paid to basic networks for original programming and program acquisition. As a result, cable operators began a fierce drive toward "content" investments in programming and created a powerful generation of basic networks. Annual network gross advertising-revenue growth rates doubled from 14.2% in 1986 to 28.5% in 1989. During the early 1990s, those networks grew to include the Discovery Channel, Turner Broadcasting, QVC Network, the Cartoon Channel, Comedy Central, and E! Entertainment. In 1994, U.S. cable programming, measured in terms of net advertising sales and affiliate fees, was estimated to have become a $5-billion business; projections called for a doubling of basic cable network revenues to $11 billion by 2004, a compound annual growth rate of 9.1%.[2]

Like its competitors, Continental looked for new ways to diversify its traditional revenue and asset base. Entering the programming market, Continental bought interests in Turner Broadcasting, QVC, and E! Entertainment. In collaboration with the Hearst Corporation, Continental also created its own programming—New England Cable News, an award-winning 24-hour regional news network viewed by more than 2 million New England residents.

The company also began to position itself for expansion into nontraditional cable markets. Upgrading its cable systems with an advanced fiber-optic coaxial-cable architecture, Continental positioned itself to enter the more nontraditional cable services, including interactive services as well as residential and commercial voice, video, and data communications.

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[1] Continental serviced Massachusetts, New Hampshire, Maine, Connecticut, New York, Virginia, Georgia, Florida, Ohio, Michigan, Illinois, Minnesota, Iowa, Missouri, Nevada, and California.

[2] *The Economics of Basic Cable Networks 1994*, Paul Kagan Associates, Inc.

Continental also began to form partnerships with industry competitors. By 1994, Continental had acquired a 10% interest in PrimeStar, a cable-industry-backed effort to provide the nation's first direct-broadcast satellite service, and a 20% interest in Teleport Communications, an alternate-access telecommunications company. In March 1994, Continental and Performance Systems International began testing cable Internet access at certain sites in Cambridge, Massachusetts. This link offered its subscribers Internet connections that were 50 to 300 times faster than the traditional telephone-line access.

International expansion

Over the years, Continental had been approached by a number of international companies who sought capital investments. However, capital constraints and domestic priorities, including the need to upgrade and rebuild existing systems as well as build new systems, precluded international expansion. Two main motives later prompted Continental to seek overseas growth. First, the U.S. Congress passed the 1992 Cable Act, which limited the cable industry's ability to raise cable rates in the United States. Second, the domestic cable industry had matured, with the average cable-television household penetration at approximately 62% in 1994.[3] As Robert Sachs explained:

> The economics of building new systems was more attractive than acquiring existing systems, whose costs at market prices could reach $2,000/subscriber. Overseas we could build and purchase systems for one-third to one-half the cost of buying them in the United States. We were looking for investment opportunities in countries that were politically and economically stable. We were also looking for virgin markets that were comparable to what we had encountered in the United States during the 1970s and 1980s and for cable companies that had already achieved some operating success.[4]

Sachs also pointed out that Continental was not interested in either outright acquisition of cable companies overseas or de novo strategies:

> Knowledge of the local market is extremely important in this industry. This includes knowing customs and culture, programming tastes, and the political and regulatory environment. For this reason, it is essential to have the right local partner or partners. We believed that simply hiring someone was insufficient to align the local operations with the local market.

In 1993, Continental began to explore cable joint-venture opportunities in Singapore and Australia. Continental did not have a formal division for international development, and managers who were involved in initiating the joint ventures also undertook the development responsibilities. As a result, development responsibilities were split between President Bill Schleyer (Australia),

[3] Company estimate.

[4] All quotes from company personnel were obtained through company interviews by the case writers in March 1996.

Senior Vice President Robert Sachs (Argentina and Singapore), and Senior Vice President Robert Stengel (Argentina). Hostetter, a hands-on executive, worked closely with all three, allowing the company to make quick decisions on a number of issues surrounding international investment opportunities.

In the summer of 1993, Stengel received a call from an associate of Texas businessman Jack Crosby concerning an investment opportunity with Fintelco, an Argentine multiple-system operator (MSO). Sachs explained:

> Jack was a cable TV pioneer and an old friend of Amos Hostetter's. They had known each other for more than 25 years. Jack had a five-year relationship with Sam Liberman, an Argentine entrepreneur who was looking for a U.S. partner for his cable company, Fintelco. Jack knew this was a good investment opportunity but didn't have the ability to make this size of an investment himself. Jack said that Samuel was a successful businessman who had built a good cable business, but recognized the need for a strong MSO partner in order to take the business to the next level.

Not knowing very much about Argentina's economic or political situation, Sachs commissioned Dr. Riordan Roett, professor and director of the Latin American Studies program at the Johns Hopkins Nitze School of Advanced International Studies, to prepare an analysis of Argentina's political and economic situation. Sachs and CFO Nancy Hawthorne obtained information from the Bank of Boston, which had worked in Argentina for years and was familiar with the risks associated with doing business in Argentina. Stengel and Crosby made a series of visits to Argentina to get to know Liberman and his key employees, as well as the market itself.

Argentina's Politics and Economy

Argentina, after Brazil, was the second-largest country in South America with a population of approximately 33 million in 1991 and more than 11 million people in the greater Buenos Aires area. The country's largest demographic group was of European heritage (Spanish, Italian, and German), and Spanish was the country's official language. Ninety-three percent of the Argentine population was literate. The country had a large, cosmopolitan middle class.

In 1983, after seven years of military rule, Argentina returned to civilian government under a tripartite system of government (president, chamber of deputies, senate). The military's 1982 defeat by Great Britain in the Malvinas War and a deteriorating economy led to popular unrest and the election of Raul Alfonsín of the middle-class-oriented Radical Party. From 1983 to 1989, Alfonsín succeeded in restoring civilian government. Alfonsín's inability to institute economic reform, however, led to the 1989 election of Carlos Menem of the Peronist Party, the oldest Argentine party, formed by Juan D. Peron in the 1940s.

During the next four years, Menem launched an unprecedented economic and financial reform program, defending political stability as the "bedrock of Argentina's new economic order."[5] Working with Argentina's third-largest political party, the conservative Union of the Democratic Center, and other smaller provincial parties, Menem put together a coalition in the Chamber of Deputies to support his experimental economic program.

In an attempt to restructure the Argentine economy in the midst of a two-year recession, Menem embarked on one of the most extensive privatization programs of state-owned companies in the world. His privatization program included industries such as telecommunications, airlines, petroleum, railway, roads, electricity, gas, steel mills, ports, maritime transport, reinsurance, and defense. Many public-sector operations were reformed to reduce the public-sector deficit from 17.2% of the GDP in 1989 to 2.5% in 1990. Menem also liberalized foreign trade and investment, removing all but one (automobile) of the country's quantitative restrictions, and simplified and reduced tariffs. Finally, Menem phased out many price controls and made significant changes to the country's tax system and financial sector. By December 1990, monthly inflation dropped to 4.7% from 95.5% in March 1990.

Those improvements proved to be temporary. Despite the Central Bank's intervention, a steady depreciation of the overvalued currency, the austral (ARA), from ARA5,500/US$1 to ARA9,500/US$1 by the end of January 1991 led to the resignation of virtually every member of Menem's cabinet. During the first week of February, consumer prices rose 21.3% amidst turmoil in the domestic financial markets.

In mid 1991, Argentina's economy made a profound transformation under the direction of Economy Minister Domingo Cavallo, who focused his efforts on stabilizing the economy and deregulating the private sector. On April 1, 1991, Cavallo announced a comprehensive adjustment program including a Convertibility Plan, which promised the full convertibility of the austral at ARA10,000/US$1 to stabilize the exchange rate. In January 1992, the austral was replaced by the peso (ARA10,000/ARS1) as the national currency of Argentina, setting the exchange rate at ARS1/US$1.

Following the restructuring plan, Argentina's economy boomed, as shown in **Table 1,** with GDP growth at 8.9% in 1991 and 8.6% in 1992.

[5] Riordan, Roett, "Argentina—Political and Economic Overview," Johns Hopkins University SAIS Latin American Studies Program, Washington, D.C.

Table 1. GDP growth in Argentina, 1989–1994.						
GDP growth	**1989**	**1990**	**1991**	**1992**	**1993**	**1994e**
Argentina	−6.3%	0.2%	8.9%	8.6%	6.0%	4.0%

Source: *World Tables 1995*, World Bank, Economic Intelligence Unit

In 1993, following an impressive rise in the Argentinean stock market, the Merval Index plunged (see **Exhibit 4**). The Merval Index is a capitalization-weighted index whose 22 equities are selected according to participation (number of transactions and trading volume). Following the crash, which severely damaged investor confidence, the market underwent significant changes including increased IPO activity (especially of formerly government-owned enterprises), qualitative changes in trading volume, increased foreign investment, increased professionalism, and sector-based price differentiation. In the early 1990s, the Merval Index was much more volatile than the U.S. equity markets, though it was also not well correlated with U.S. equity returns. The beta of Argentine equities with respect to U.S. equities was 1.96.

By 1994, Argentina's economy had rebounded. Argentina had the highest GDP/capita ($8,258) and the third largest GDP ($280 billion) in Latin America. Inflation rates were expected to reach a record low of 7% in 1994, one of the lowest in Latin America. Domestic lending interest rates had decreased from 1,000% in 1989 to 10.11% in January 1994; interest rates for fixed-term deposits averaged 8.3% by January 1994 (see **Exhibits 5** and **6**). **Exhibit 7** displays the yield for an 8¼ Argentine Government Brady bond, an 8¾ U.S. Treasury bond, and the difference in yield between the two bonds.[6] By the first half of 1994, there was no public-sector deficit and the bond-risk premium had dropped to 3.1%, as compared with approximately 4% in 1993 (see **Exhibit 7**).

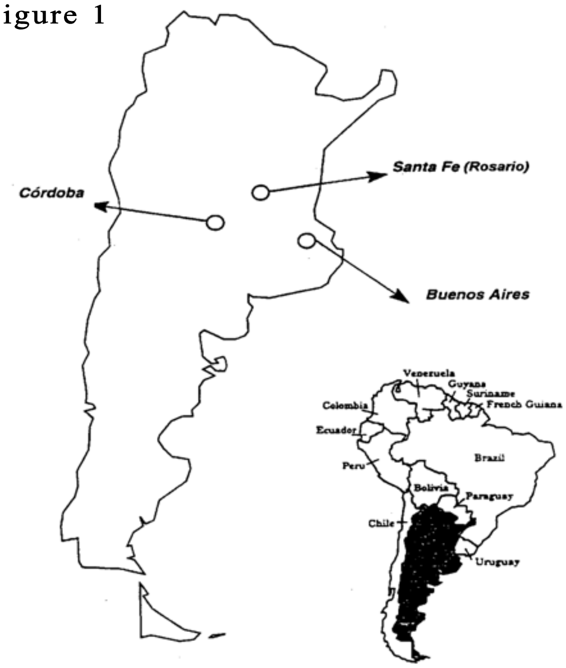
In addition, economists began to question the sustainability of the government's use of a pegged exchange rate to fight inflation. **Exhibit 8** presents historical and forecasted rates of inflation for Argentina and the United States up to 1998. Beyond 1998, some observers expected Argentina's inflation rate to converge to inflation in the dollar, about 2.5%. Many economists believed that the peso was overvalued; sharp increases in imports without an offsetting rise in exports had undermined the trade and current-account balances and had increased the country's dependence on capital inflows from 1993 to 1994 (see **Exhibit 9**). The Economic Intelligence Unit reported, in December 1993, that "the weakness of the external accounts makes Argentina particularly

[6] Brady bonds are a developing-country government's obligations that are issued after lengthy negotiations between the sovereign, major commercial-bank lenders, and international agencies that are used to help restructure defaulted commercial-bank loans. Typically, its principal is collateralized by zero-coupon U.S. Treasuries and two or three semi-annual coupon payments backed by at least AA-rated securities. The remaining coupons reflect the sovereign's country and credit risk. The blended yield of the Brady bond is a weighted average of the U.S. government's rates and the pure sovereign rate, or stripped yield. The principal on the bonds, denominated in U.S. dollars, is guaranteed by the U.S. government; while interest payments are not guaranteed, principal at maturity would be guaranteed in the case of default. Because interest is paid in dollars, there is virtually no currency risk in Brady bonds.

vulnerable to external shocks, such as a rise in world interest rates or a strong revaluation of the dollar."[7]

Argentine presidential elections were scheduled for 1995. In late 1993, Menem championed a constitutional amendment allowing the president to run for a second term of office. To gain support for the amendment, Menem negotiated an agreement with Raul Alfonsín, opposition leader of the Radical Party and former president, whereby Alfonsín pledged the Radical Party's support of Menem's reelection in 1995 in return for greater opposition participation in government. In early 1994, Menem and his economic reforms remained popular with the Argentinean population.

Figure 1



Argentina

Argentina's cable market

By 1994, the Argentine cable market had become the most developed in Latin America, with approximately 4 million subscribers and a 50% cable-penetration rate (**Exhibit 10**). Unlike many other Latin American countries, Argentina was the front-runner in government deregulation of the cable industry, resulting in a competitive but strong cable and programming market, especially in the areas in and around Buenos Aires, which had 32% of the country's population. The number of homes passed by wireline cable had an estimated 65% growth rate by the year 2004, with an estimated 67% increase in total subscribers. Subscribers' rates mirrored those found in the U.S. cable market, at approximately $28/month (**Exhibit 11**).

During the early 1990s, Argentina's cable industry began to consolidate around four of the largest MSOs, which served an estimated 46% of the total cable market:

[7] "Financing Foreign Operations," *Economic Intelligence Unit*, Business International Corp., 1 December 1993.

- Multicanal: 689,000 subscribers
- Cablevision: 523,900 subscribers
- Fintelco: 390,000 subscribers
- Fincable: 364,000 subscribers[8]

Approximately 1,000 small operators (typically with less than 50,000 subscribers each) served the remaining 54% of the country's cable subscribers.

While most of Cablevision and Fincable's subscribers were located in and around Buenos Aires, only 50% of Multicanal's subscribers were located in that area. Although the four MSOs had overbuilt the most lucrative areas of Buenos Aires, in the less-dense areas of the city competition diminished. Benjamin Gomez, Continental's assistant treasurer, described his impression of Buenos Aires:

> The cable market in Buenos Aires was extremely competitive. Customers had at least one and, in some cases, two or three other operators to chose from in a given area. In addition to the major MSOs, there were several smaller entrepreneurial companies seeking subscribers as well. Competition outside of Buenos Aires, however, was much less.

In Córdoba, Argentina's second-largest city, Fintelco held approximately 81% of the market share because of the acquisition of CCTV Video Vision in 1989 and Telecable Color in 1993. The remaining market share was controlled by Multicanal. In the other major cities in the Córdoba Province, Fintelco's market share was even higher because of the acquisition of local cable operators. **Table 2** shows estimated market share of the four MSOs:

[8] Company estimates as of 1993.

Table 2. MSOs' estimated market shares.		
Operator	**Buenos Aires Market Share**	**Argentina Market Share**
Fintelco	23%	20%
Multicanal	28%	35%
Cablevision	32%	27%
Fincable	17%	18%

Source: Company estimates.

Generally, cable systems were valued on a per-subscriber basis in Argentina. Estimated average prices per subscriber increased from $300-$400 in 1993 to $500-$1,200 in 1994.[9]

As part of the government's deregulation plan, a Reciprocal Protection and Encouraging of Investments Treaty was scheduled to be signed in October 1994 by the United States and Argentina. Similar to U.S. foreign-ownership rules, this treaty would allow U.S. investors to own up to 100% of Argentine cable systems and 25% of broadcast-television stations. Foreign investors would be subject to the same national and local laws as domestic cable operators, including approval applications to Argentina's regulatory body, the Comité Federal de Radiodifusion (COMFER). Application approval could take up to one year. COMFER granted cable operating licenses (15-year licenses with the possibility of a 10-year extension based on performance) and regulated cable programming content. COMFER also levied an 8% tariff in Buenos Aires and a 6% tariff in the rest of the country. Local municipalities levied additional annual fees based on how many meters of plant were installed.

Telephone and satellite markets

In addition to the cable market, Argentina's underdeveloped telecommunications market had untapped future growth potential. As described by one analyst:

> Global investment in cable, as in Latin American media and telecommunications, is changing the traditional communications paradigm. Cable is now an integral aspect of a region-wide broadband revolution aimed at delivering multiple services via coaxial and fiber-optic networks.[10]

Two local telephone companies, Telecom Argentina (north) and Telefónica de Argentina, S.A. (south), provided telephone services to Argentina's population under a 1989 contract that

[9] Company estimate.
[10] *The 1995 Latin American Cable/Pay TV*, Kagan World Media, Inc., 1.

banned the two companies from providing video programming to customers until they relinquished their telephone monopoly in 1997. At that time, the government could extend the contract an additional three years. Analysts expected the government to open telephone service to additional competition and to allow telephone companies to enter the cable television market at that time. As in the U.S. market, Continental saw telephony as a major growth market in Argentina. Gomez noted, "When we looked at the Argentine market, one important issue for Continental was the future of telephony. We saw this market as a potential future driver of value for the cable industry in Argentina."

In 1994, the wireless-cable market was not fully developed in Argentina. The Argentine government awarded MMDS, or wireless-cable licenses, for channels throughout the country, allowing cable operators to own MMDS licenses in markets where they operated cable systems. Fintelco owned licenses in many of its cable operating areas. In addition, two international direct-to-home satellite services (Panamsat's Galavision and Hughes' Galaxy) were to be offered as early as 1996, and domestic satellite licenses would be awarded by the government in 1997.

Fintelco

Fintelco was formed in 1980 by Samuel Liberman, an Argentine entrepreneur with diversified business interests. Pioneering one of the first cable companies in Buenos Aires, Liberman built and operated new cable systems using a growth strategy similar to that used by Hostetter at Continental, which emphasized creating large system clusters in order to maximize operating, technical, and marketing efficiencies. Liberman allowed the company to grow slowly, knowing that Buenos Aires would drive the cable market for the rest of the country. In the late 1980s, Fintelco bought VideoVision, the largest cable-television system operator in Córdoba. By 1990, Fintelco's largest subsidiary, VCC, had grown to become one of the three largest MSOs in Buenos Aires. As one of the three largest cable operators in Argentina, Fintelco provided services for approximately 390,000 subscribers in 1993 and had experienced nonacquisition-related growth rates of 116% from 1992 to 1993 (**Exhibit 12**).

Owing to his experience as an international entrepreneur, Liberman had a hands-on approach to running his businesses. Gomez observed:

> Samuel Liberman has a coterie of people around him, which includes long time trusted business associates, his son, and one of his daughters. He likes to hear everyone's opinion and then makes decisions based on the best information available and his own instincts.

Until 1990, Fintelco's growth was primarily due to network expansion. However, the deregulation of cable-industry segments by the Argentine government spurred acquisition activity and consolidation between the four largest MSOs. Liberman began to look to the acquisition of smaller MSOs outside of the Buenos Aires vicinity as an opportunity to leapfrog local competition and the arrival of foreign competition in order to become the dominant MSO in several of the smaller key markets. Liberman sought potential acquisition targets that had strong cash flow, were located in close proximity to existing systems for economies of scale, and were not overvalued.

In 1994, Liberman began to look for acquisition opportunities in Argentina's third-largest city, Rosario, which was served by four different cable operators. He envisioned acquiring three of the four cable operators to give Fintelco control of approximately 85% of the Rosario market. One obstacle to continued growth was the lack of a well-developed local capital market. As a result, Fintelco had a difficult time obtaining long-term financing on reasonable terms. Gomez said, "Argentina's capital markets did not understand the cable market. Media lending, which is largely cash-flow based, was relatively new to Argentine banks."

Included in Liberman's strategic vision was growth in programming capabilities. In 1985, Liberman formed a programming subsidiary, Enequis S.A., which operated 14 program services, 4 of which showed locally produced programming. Liberman also felt that channel capacity would be a future driver of success in Buenos Aires and sought funding for advanced plant capacity in several key competitive markets.

In 1993, Fintelco's revenues reached approximately $137 million. Fintelco's balance sheet as of February 1, 1994, can be found in **Exhibit 13**. A forecast of Fintelco's free cash flows is given in **Exhibit 14**. Information on comparable U.S. companies can be found in **Exhibit 15**.

The Joint Venture

The joint-venture structure developed over a six-month period, during which Hostetter and Liberman got to know each other and each other's companies. Robert Sachs described the development of the relationship:

> The relationship clicked from the beginning. Like Amos, Samuel Liberman was a self-made man and shared many of the same personality characteristics. They were both private people. They both cherished their independence. From Sam's standpoint, he felt comfortable with Amos on more than just a business level. He was personally comfortable with him.
>
> Sam shared the same vision for the company, as did Amos who believed the value of cable operations would increase steadily over time. Like Continental, Fintelco had grown using a clustering strategy and believed the only way to generate operating efficiencies would be to concentrate subscribers geographically to spread operating, distribution, and advertising costs. Other companies had a more "scattershot" mentality. Fintelco was more focused and had a clear strategic vision of what type of expansion it was interested in.

Throughout the negotiation period, both sides felt that if the deal would go through, it would be based on mutual trust and respect between Amos Hostetter and Samuel Liberman, not just between corporate entities.

Draft joint-venture structure

In February 1994, after six months of negotiations, a joint-venture structure had been drafted by both Continental and Fintelco.

- **50/50 partnership**: The 50/50 partnership structure addressed concerns of both companies. Sachs commented:

  > Continental was not interested in becoming a company system operator in Argentina. We were looking to form a partnership whereby the local entity would continue to run the company. To make this work, we needed local market expertise.

  Not wanting to give up control of the company, Liberman's concerns centered on the current and future management structure of the company.

  Sachs continued,

  > Sam went back and forth on what percentage of the company he wanted to sell. Amos felt that Sam would not be comfortable selling 75% of the business and cede control of the company's direction. So, after much discussion about Sam's long-term interests, Amos offered to buy 25%. Appreciating that Amos was not trying to wrest control from him, Sam said that he would be comfortable having Continental as a 50% partner. The two men ended up agreeing upon a 50–50 deal. This negotiation process brought the two companies closer and reinforced the personal trust upon which this joint venture was built.

This was the first time that Continental had entered into a 50/50 international deal. The existing management would remain in place, with Liberman as Fintelco's chair. A management committee would consist of Hostetter, Liberman, Jeffrey DeLorme (Continental executive vice president), and Guillermo Liberman (Samuel's son and Fintelco's manager of Administration and Internal Audit).

- **$80-million price tag**: Continental agreed to invest $80 million to acquire 50% of Liberman's ownership interest in Fintelco. Both companies agreed to provide additional capital to fund acquisitions as well as to deploy advanced technology as part of Fintelco's upgrading and rebuilding process. Over time, an additional $70 million would be invested by each partner.[11] Gomez said:

[11] This additional investment is already reflected in the free cash flows estimated in **Exhibit 14**.

> One central financing issue that we needed to work into the deal was an assurance that the inflow of capital, from both Continental and Liberman, would stop at some ceiling amount. We didn't want to have to keep pumping capital into this venture years down the road, detracting from other company projects in both the short and long term.

Sachs commented, "We saw this deal as a win-win for both Continental and Fintelco. They needed capital, and we were interested in gaining a foothold in the Argentine market." Following Continental's equity investment, Continental and Fintelco planned to secure a line of credit from a consortium of U.S. and Argentine banks to help finance the company's expansion activities as well as to rebuild and upgrade capital expenditure programs. The joint venture would continue to bear the short- and long-term debt of Fintelco that predated the joint venture. One element of risk that could not be addressed, however, was the significant currency risk that would result from the fact that Fintelco's revenues would be denominated in pesos while a significant portion of its liabilities, including interest expense and a portion of programming costs, would be denominated in U.S. dollars.

- **Technical assistance**: To further emphasize Continental's commitment to the joint venture, Continental offered to provide Fintelco with technical assistance in the operating, programming, and financial areas of the business. Fintelco would only be charged for the costs associated with this assistance. Gomez commented, "The technical-assistance structure would allow us to develop a flexible relationship, which we believed would be important for the success of the joint venture."
- **Right of acquisition/divestiture**: Finally, the deal contained an exit agreement whereby after four years, the partners, if they so chose, could either sell to one another or cause the outright sale of the company to a third party. Also, in the case that Hostetter would cease to run Continental, Liberman would have the option of buying back Continental's shares or selling his own shares to Continental.

Joint-Venture Decision

Nancy Hawthorne, Robert Sachs, Robert Stengel, and Amos Hostetter considered the business opportunities of their own forecasts of operation and whether the joint-venture terms could be improved to enhance the success of the new venture. They were especially eager to reply to Samuel Liberman promptly and to launch the venture before other U.S. cable companies entered the market. Hostetter had built Continental not only by decisive and aggressive entry into new markets, but also by careful business dealings that would ensure the success of Continental's investments. Would the entry into Argentina be consistent with Continental's expansion approach?

Exhibit 1

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Definitions

Broadband refers to any system capable of delivering wideband channels and services and is often used as a synonym for cable television. Bandwidth refers to the frequency spectrum used to transmit pictures, sounds, or both. For example, the average television station uses bandwidth of six million cycles per second (6 megahertz).

Coaxial cable is a line of transmission for carrying television signals. Its principal conductor is either a pure copper or copper-coated wire, surrounded by insulation, and then encased in aluminum. Coaxial cable—20,000 times larger than telephone twisted-pair wires—can carry more than 100,000 times as much information as conventional telephone lines.

Fiber optics, thin and pliable tubes of glass or plastic, are used to carry wide bands of frequencies. Telephone and data-communications companies have also installed fiber-optic lines, which could offer data-transfer speeds fast enough to handle video signals.

MMDS (Multi-Channel/Multi-Point Distribution System) or **wireless cable**, is a service using a very high frequency (2 gigahertz) to transmit multiple television signals via microwave.

Multiple-System Operator (MSO) describes a company that owns and operates more than one cable-television system. Tele-Communications and Time Warner were the first- and second-largest U.S. cable MSOs; other competitors included Comcast, Viacom, Cox, Jones Intercable, and Newhouse/Advance.

Source: Company Web site.

Exhibit 2

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Continental Cablevision's Consolidated Operations, 1992–1993
(in US$ thousands)

	1992	1993
Revenues	1,113,475	1,177,163
Costs and expenses		
Operating	365,513	382,195
Selling, general and administrative	259,632	267,376
Depreciation and amortization	272,851	279,009
Restricted stock purchase program	9,683	11,004
Total	**907,679**	**939,584**
Operating income	205,796	237,579
Other (income) expense:		
Interest	296,031	282,252
Equity in net loss of affiliates	9,402	12,827
Gain on sale of marketable equity securities	0	-4,322
Gain on sale of investments	-10,253	-17,067
Partnership litigation	10,280	-2325
Minority interest in net income (loss) of subsidiaries	136	184
Dividend income	-330	-650
Other	1,836	375
Total	**307,102**	**271,274**
Loss from operations before income taxes, Extraordinary item and cumulative effect of change in accounting for income taxes	-101,306	-33,695
Income tax expense (benefit)	1,654	-7,921
Loss before extraordinary item and cumulative effect of change in accounting for income taxes	-102,960	-25,774
Extraordinary item, net of income taxes	0	0
Loss before cumulative effect of change in accounting for income taxes	-102,960	-25,774
Cumulative effect of change in accounting for income taxes	0	-184,996
Net loss	-102,960	-210,770
Preferred stock preferences	-16,861	-34,115
Loss applicable to common stockholders	-119,821	-244,885
Loss per common share:		
Loss before extraordinary item and cumulative effect of change in accounting for income taxes	(1)	(0.53)
Extraordinary item	0	0.00
Loss before cumulative effect of change in accounting for income taxes	(1.00)	(0.53)
Cumulative effect of change in accounting for income taxes	0	(1.62)
Net loss	(1.00)	(2.15)

Source: Company data.

Exhibit 3

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Continental Cablevision's Consolidated Balance Sheet 1992–1993
(in US$ thousands)

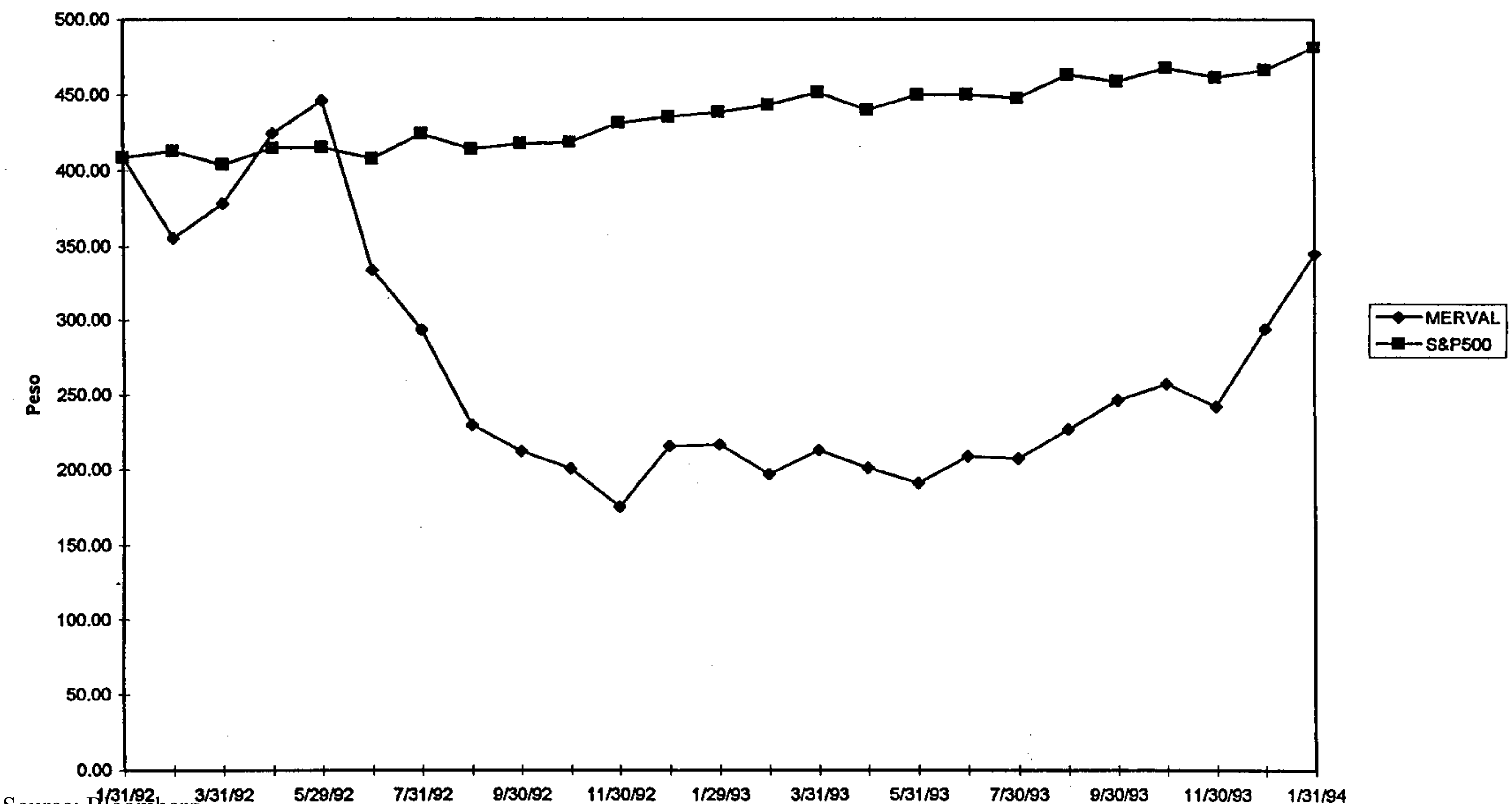
	1992	1993
Assets		
Cash and cash equivalents	27,352	122,640
Accounts receivable-net	36,085	44,530
Prepaid expenses and other	5,172	4,800
Supplies	26,598	31,638
Marketable equity securities	35,517	58,676
Investments	35,275	136,186
Property, plant and equipment-net	1,213,848	1,211,507
Intangible assets-net	623,349	387,719
Other assets-net	0	94,157
Total	**2,003,196**	**2,091,853**
Liabilities and Stockholders' Equity		
Accounts payable	40,851	43,342
Accrued interest	39,803	72,424
Accrued and other liabilities	168,149	145,191
Debt	3,011,669	3,177,178
Deferred income taxes	626	105,041
Minority interest in subsidiaries	4,613	2,217
Redeemable common stock ($.01 par value; 16,767,050 shares outstanding)	223,716	213,548
Stockholders' equity		
Prefered stock, $.01 par value; 1992: 1,557,142 shares authorized; none outstanding. 1993: 198,857,142 shares authorized; none outstanding	0	0
Series A convertible preferred stock, $.01 par value; 1992: 1,142,858 shares authorized and outstanding 1993: 1,142,858 shares authorized and outstanding; liquidation preference $450,976,000	11	11
Class A common stock, $.01 par value; 1992: 7,500,000 shares authorized; 137,373 shares outstanding 1993: 425,000,000 shares authorized; 6,201,500 shares outstanding	1	62
Class B common stock, $.01 par value; 1992: 7,500,000 shares authorized; 3,665,820 shares outstanding 200,000,000 shares authorized; 91, 310,500 shares outstanding	37	913
Additional paid-in capital	558,679	577,076
Unearned compensation	-34,919	-23,577
Net unrealized holding gain on marketable equity securities	0	0
Deficit	-2,010,040	-2,221,573
Stockholders' equity	-1,486,231	-1,667,088
Total	**2,003,196**	**2,091,853**

Source: Company data

Exhibit 4

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Argentine and U.S. Stock Markets
(August 30, 1991, to January 31, 1994)



Source: Bloomberg.

Note: The Argentine Merval Index is the market value of a stock portfolio, selected according to participation in the Buenos Aires Stock Exchange, number of transactions, and trading volume. The index has a base value of $0.01 and is revised every 3 months.

Exhibit 5

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Current Capital-Market Rates and Yields
(February 1, 1994)

U.S. Treasury Securities (Jan. 1994 avg) (%)	
3 months	2.98
6 months	3.15
1 year	3.54
2 years	4.14
3 years	4.48
5 years	5.09
10 years	5.75
20 years	6.39
30 years	6.29

Source: *S&P Bond Guide.*

Corporate Bond Yields (Jan. 1994 average)		
Rating Category	Public Utilities (%)	Industrial (%)
AAA	n.a.	6.80
AA	7.36	7.26
A	8.35	7.84
BBB	8.31	8.28
BB	n.a.	9.01
B	n.a.	10.38

Source: *S&P Bond Guide.*

Other Interest Rates					
Commercial Paper (%)		LIBOR (%)		Prime Rates (%)	
30 days	3.1	1 month	3 1/8	U.S.	6
60 days	3.13	3 months	3 1/4	Canada	5.5
90 days	3.15	6 months	3 3/8	Germany	5.9
		1 year	3 11/16	Japan	3
				Switzerland	7.5
				Great Britain	5.5

Sources: *Wall Street Journal,* 1 February 1994; *Federal Reserve Bulletin,* 1994.

Exhibit 6

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Argentina's Interest Rates
(January 1994)

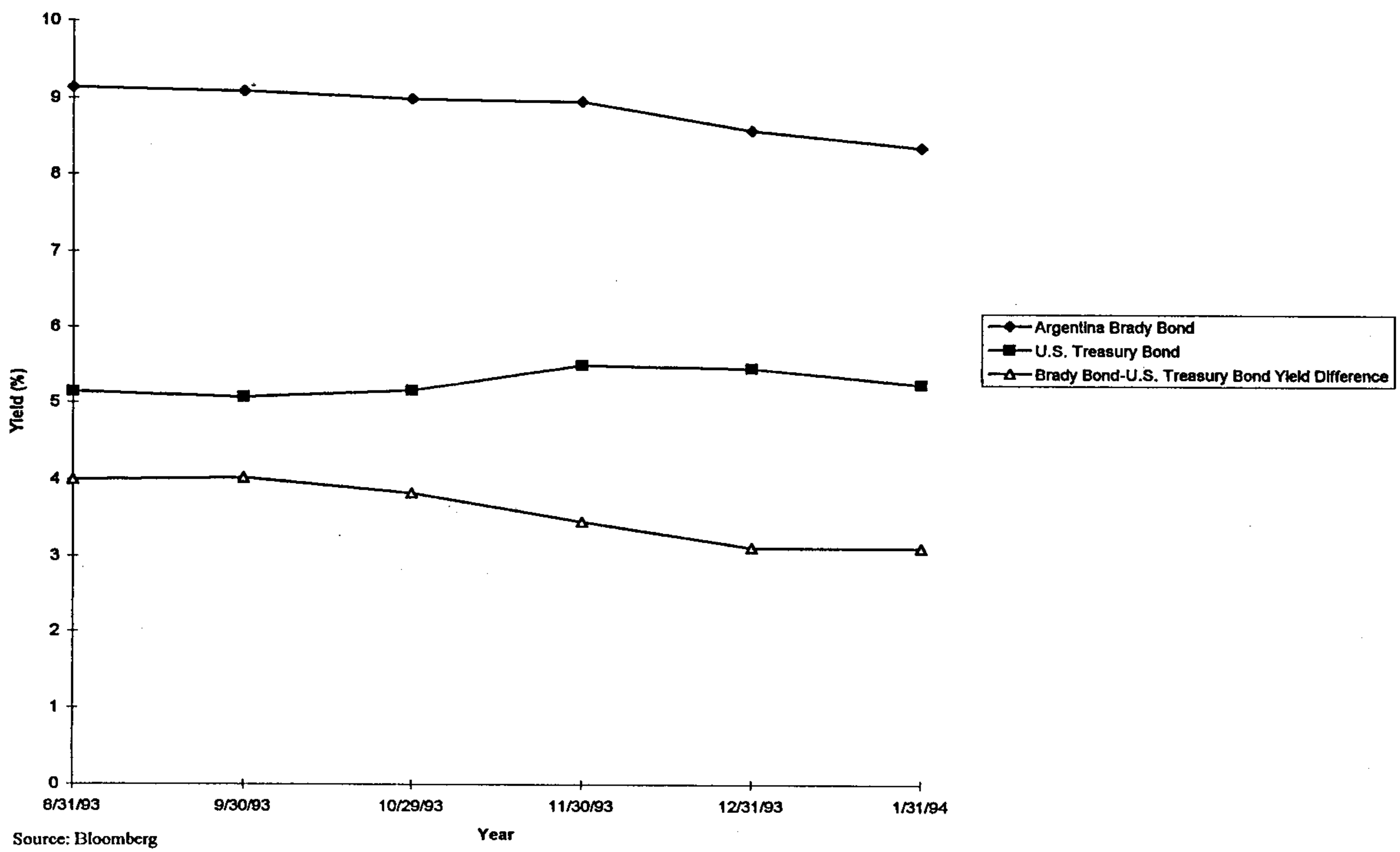
	Pesos	**US$**
Deposits		
30 day	8.47%	5.75%
90 day	8.99%	7.10%
Average	8.29%	6.43%
Loans		
30 day	10.11%	8.0%
90 day	—	8.88%

Source: *DataStream.*

Exhibit 7

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Annualized Yield on Argentine Government Brady Bond 8¼ Maturity 8/02/00,
U.S. Treasury Bond 8¾ Maturity 8/15/00, and Yield Difference



Source: Bloomberg

Exhibit 8

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Inflation and Foreign-Exchange Market Data

Year	**U.S. Inflation** (%)	**Argentine Inflation** (%)	**Foreign Exchange Rate Peso/$**	
1989 actual	4.8	3,079.8	0.001577	
1990 actual	5.4	2,314.7	0.135024	
1991 actual	4.2	171.7	0.513900	
1992 actual	3.0	24.9	0.999000	
1993 actual	3.0	11	Official exchange rate	Parity-implied exchange rate[1]
			0.999000	1.077
1994 forecast	2.5	7	0.999000	1.124
1995 forecast	2.5	8	0.999000	1.184
1996 forecast	2.5	12	0.999000	1.294
1997 forecast	2.5	10	0.999000	1.389
1998 forecast	2.5	6	0.999000	1.436

Exhibit 9

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Argentina's Balance of Payments
(in millions of dollars)

	1993	1992	1991	1990
Current account				
Exports	13,117	12,235	11,978	12,354
Imports	(16,783)	(14,872)	(8,275)	(4,079)
Trade balance	(3,666)	(2,637)	3,703	8,275
Nonfinancial services	(1,146)	(1,128)	(908)	(321)
Interest and dividends	(2,922)	(3,661)	(4,260)	(4,400)
Transfers	446	749	793	998
Current account	(7,288)	(6,677)	(672)	4,552
Capital account				
Public sector	3,624	5,757	972	(271)
Private sector	13,908	9,559	(6,363)	(3,821)
Direct investments	587	518	465	305
Privatizations	5,718	3,661	1,974	1,531
Commercial/financial	4,968	3,195	1,913	451
Loans	(11)	(20)	(27)	(30)
Others	2,646	2,205	(10,678)	(6,078)
Capital account	17,532	3,802	(5,391)	(4,092)
Errors and omissions	55	(57)	(125)	219
Net international reserves	10,099	(2,932)	(6,188)	679

Source: Banco Central de la Republica Argentina (BCRA).

Exhibit 10

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Latin American Cable-Television Market
(in thousands)

Country	Population	Homes	TV Homes	Subscribers	Penetration (%)
Argentina	33,800	8,700	8,000	4,000	50
Mexico	94,000	18,430	12,500	1,575	12.6
Brazil	146,200	35,650	32,000	250	.8
Venezuela	21,170	3,995	3,700	160	4.3
Chile	13,670	3,040	1,750	100	5.7
Paraguay	5,080	980	400	100	25
Panama	2,582	527	370	75	20.3
Colombia	35,210	6,520	4,310	62	1.4
Peru	23,265	4,475	2,000	31	1.6
Ecuador	11,252	2,205	1,200	25	2.1
Uruguay	3,145	952	500	20	4
Bolivia	7,505	1,700	936	16	1.7

Source: *International Cable*, 1994.

Exhibit 11

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

South American and Mexican Overview of Cable Markets

	1994	1999	2004
Basic Homes Passed by Wireline Cable (millions)			
Argentina	5.40	7.00	8.90
Mexico	3.50	6.90	14.00
Brazil	0.75	3.68	8.04
Chile	0.50	1.44	3.28
Paraguay	0.06	0.25	0.40
Uruguay	0.06	0.43	0.71
Colombia	0.06	0.86	3.30
Venezuela	0.06	0.46	1.70
Peru	0.04	0.36	0.97
Ecuador	0.04	0.11	0.24
Bolivia	0.01	0.13	0.44
Total	**10.48**	**21.62**	**41.98**
Total Multichannel Subscribers (millions)[1]			
Argentina	4.490	6.170	7.530
Mexico	2.150	6.390	9.850
Brazil	0.430	3.110	6.910
Chile	0.260	0.980	1.850
Venezuela	0.130	0.640	1.250
Colombia	0.081	0.637	2.002
Paraguay	0.053	0.097	0.130
Ecuador	0.029	0.076	0.120
Peru	0.029	0.197	0.400
Uruguay	0.029	0.249	0.370
Bolivia	0.009	0.093	0.155
Total	**7.690**	**18.639**	**30.567**
TV Households (millions)			
Brazil	33.10	38.80	42.60
Mexico	12.70	15.30	17.50
Argentina	8.60	10.10	11.10
Colombia	7.00	7.90	8.90
Chile	3.40	3.70	4.10
Venezuela	3.20	3.90	4.70
Peru	2.17	2.77	3.62
Uruguay	0.65	0.80	0.94
Ecuador	0.54	0.65	0.77
Bolivia	0.50	0.60	0.72
Paraguay	0.31	0.42	0.54
Total	**72.17**	**84.94**	**95.49**

Exhibit 11 (continued)

Total Annual Multichannel Revenue ($ mil.)[1]			
Argentina	1437.0	2305.0	3139.0
Mexico	374.0	1315.0	2353.0
Brazil	120.8	967.1	2284.4
Chile	50.0	207.0	437.0
Venezuela	34.0	171.0	362.0
Colombia	13.2	171.9	593.4
Paraguay	10.9	24.9	38.3
Peru	10.0	86.0	184.0
Ecuador	5.1	17.0	30.3
Uruguay	3.9	51.1	88.9
Bolivia	0.8	19.1	37.2
Total	**2059.7**	**5335.1**	**9547.5**

Annual Monthly Fee for Basic Wireline Subscribers (US $)			
Peru	40	41	40
Brazil	32	30	29
Argentina	28	32	35
Colombia	23	26	27
Paraguay	20	22	25
Venezuela	20	21	22
Chile	18	19	21
Ecuador	17	20	22
Uruguay	17	19	21
Mexico	16	17	19
Bolivia	10	24	25
Avg. basic fee	**22**	**25**	**26**

[1]Includes wireline and wireless cable.

Source: *The 1995 Latin American Cable/Pay TV Databook*, Kagan World Media, Inc.

Exhibit 12

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Fintelco Growth Trends

	1992	1993
Homes passed (internal)	588,647	692,523
Homes passed (acquisitions)	0	73,320
Total	**588,647**	**765,843**
Growth per annum		
Without acquisitions	N/A	17.6%
Total	**N/A**	**30.1%**
Subscribers (internal)	164,559	355,456
Subscribers (acquisitions)	0	26,096
Total	**164,559**	**381,552**
Growth per annum		
Without acquisitions	40.5%	116%
Total	**40.5%**	**131.9%**
Penetration		
Without acquisitions	28%	51.3%
Total	**28%**	**49.8%**

Source: Company data.

Exhibit 13

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Fintelco's Consolidated Balance Sheet
(in pesos)

Assets		1-Feb-94
Current assets:		
	Cash	27,129,668
	Investments	4,017
	Accounts receivable	20,608,602
	Other receivables	9,689,295
	Inventories	19,792,676
Total current assets		**77,224,258**
Long-term assets:		
	Other receivables	2,340,133
	Inventories	12,197,656
	Investments	6,499,054
	Fixed assets	103,651,305
	Intangible assets	209,144,150
Total long-term assets		**333,832,296**
Total assets		**411,056,554**
Liabilities		
Current liabilities		
	Accounts payable	101,998,411
	Loans	121,089,355
	Payroll and related taxes	7,019,015
	Taxes	11,849,551
	Other liabilities	7,547,852
	Other allowances	1,866,830
Total current liabilities		**251,371,013**
Long-term liabilities		
	Accounts payable	448,544
	Loans	12,174,262
	Taxes	4,493,561
	Payroll and related taxes	3,120
	Other allowances	10,003,401
	Other liabilities	4,607,337
Total long-term liabilities		**31,730,225**
Total liabilities		**283,101,238**
Minority interest		**1,552,057**
Net worth		**126,403,259**
Total		**411,056,554**

Source: Company data.

Exhibit 14

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Forecast of Fintelco Cash Flow
(in thousands of pesos)

	Actual	Forecast Assumptions								
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Subscriber assumptions										
Annual growth, total homes passed				1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Fintelco penetration of market, homes passed			32.04%	32.56%	33.54%	34.71%	36.56%	38.80%	41.20%	44.20%
Fintelco penetration of market, subscribers/homes	49.82%	49.94%	48.98%	49.09%	49.01%	48.80%	47.86%	46.75%	45.67%	44.49%
Tax rate	29.95%	62.05%	30.30%	17.95%	18.08%	18.76%	19.90%	26.04%	25.08%	27.61%
Operating expense/revenues	8.00%	9.22%	9.74%	9.11%	8.80%	8.42%	8.14%	7.89%	7.65%	7.47%
Local origination expense/revenues	3.56%	3.69%	3.66%	3.12%	2.93%	2.77%	2.70%	2.65%	2.62%	2.59%
Programming expense/revenues	30.87%	38.72%	30.48%	28.67%	28.00%	27.34%	27.00%	26.75%	26.63%	26.61%
G&A/revenues	14.55%	18.53%	26.15%	22.41%	20.83%	19.55%	18.75%	18.38%	18.08%	17.88%
Marketing/revenues	18.32%	16.62%	8.99%	8.64%	8.38%	8.15%	8.07%	7.99%	7.93%	7.89%
Net working capital/revenues	0.00%	0.00%	4.93%	0.54%	0.44%	0.31%	0.29%	0.36%	0.31%	0.34%
Basic revenue/subscriber/month (in pesos)	36.00	23.84	29.48	31.44	32.43	33.40	34.19	34.78	35.35	35.88
Advertising/subscriber/month	1.45	0.96	1.59	2.08	2.27	2.47	2.68	2.84	2.95	2.99
Other/subscriber/month	4.24	2.26	3.08	2.72	2.51	2.39	2.06	1.93	1.81	1.68
Total revenue/subscriber/month	41.69	27.06	34.15	36.24	37.21	38.26	38.93	39.55	40.11	40.55
Total homes passed by cable operators in Argentina			5,200,000	5,278,000	5,357,170	5,437,528	5,519,090	5,601,877	5,685,905	5,771,194
Homes passed (by Fintelco)	765,843	1,585,796	1,666,080	1,718,517	1,796,795	1,887,366	2,017,779	2,173,528	2,342,593	2,550,868
Fintelco growth		107.07%	5.06%	3.15%	4.55%	5.04%	6.91%	7.72%	7.78%	8.89%
Ending basic subscribers	381,553	791,947	816,046	843,620	880,609	921,035	965,709	1,016,124	1,069,862	1,134,881
Growth		107.56%	3.04%	3.38%	4.38%	4.59%	4.85%	5.22%	5.29%	6.08%
Average basic subscribers	273,056	586,750	803,996	829,833	862,115	900,822	943,372	990,917	1,042,993	1,102,372
Growth		114.88%	37.03%	3.21%	3.89%	4.49%	4.72%	5.04%	5.26%	5.69%
Revenue assumptions (thousands of pesos)										
Revenues										
Basic	117,960	167,857	284,422	313,079	335,500	361,049	387,047	413,569	442,438	474,637
Advertising	4,751	6,759	15,340	20,713	23,484	26,700	30,339	33,770	36,922	39,553
Other	13,893	15,913	29,716	27,086	25,967	25,836	23,320	22,950	22,654	22,224
Total revenues	136,604	190,529	329,478	360,878	384,951	413,585	440,706	470,289	502,014	536,414
Growth		39.48%	72.93%	9.53%	6.67%	7.44%	6.56%	6.71%	6.75%	6.85%

Exhibit 14 (continued)

Forecast of Free Cash Flows

	Actual	Forecast								
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenues (peso 000)	*136,604*	190,529	329,478	360,878	384,951	413,585	440,706	470,289	502,014	536,414
Expenses										
Operating	*10,923*	17,567	32,091	32,876	33,876	34,824	35,873	37,106	38,404	40,070
Local origination	*4,858*	7,031	12,059	11,259	11,279	11,456	11,899	12,463	13,153	13,893
Programming	*42,163*	73,773	100,425	103,464	107,786	113,074	118,991	125,802	133,686	142,740
G&A	*19,878*	35,305	86,158	80,873	80,185	80,856	82,632	86,439	90,764	95,911
Marketing	*25,022*	31,666	29,620	31,180	32,259	33,707	35,565	37,576	39,810	42,323
Total expenses	*102,844*	165,341	260,353	259,652	265,385	273,918	284,960	299,386	315,817	334,937
Operating income	*33,760*	25,188	69,124	101,226	119,566	139,668	155,745	170,903	186,197	201,477
Less depreciation	*5,101*	9,004	17,317	20,259	24,642	28,193	30,770	33,305	35,270	37,359
Less amortization	-	-	16,195	17,280	17,243	17,243	17,243	17,243	17,243	17,243
Less financial and other expenses	*4,498*	2,296	-	-	-	-	-	-	-	-
EBIT	*24,161*	13,888	35,612	63,687	77,681	94,232	107,732	120,355	133,684	146,875
Less taxes	*7,236*	8,617	10,791	11,432	14,045	17,678	21,439	31,340	33,528	40,552
EBIAT	*16,925*	5,270	24,822	52,255	63,636	76,554	86,294	89,015	100,156	106,323
Plus amortization	-	-	16,195	17,280	17,243	17,243	17,243	17,243	17,243	17,243
Plus depreciation	*5,101*	9,004	17,317	20,259	24,642	28,193	30,770	33,305	35,270	37,359
Less capital expenditures	*13,320*	22,762	84,500	71,500	58,500	45,500	32,500	32,500	26,000	26,000
Less additions to net working capital	-	-	16,243	1,949	1,694	1,282	1,278	1,693	1,556	1,824
Free cash flow	***8,706***	**(8,488)**	**(42,409)**	**16,346**	**45,327**	**75,208**	**100,529**	**105,370**	**125,113**	**133,101**

Source: Company data.

Exhibit 15

CONTINENTAL CABLEVISION, INC./FINTELCO JOINT VENTURE

Information on Comparable U.S. Companies

	1993 Annual Revenues ($ mil.)	**Sub-scribers** (mil.)	**Book Value of Debt** ($ mil.)	**Book Value of Equity** ($ mil.)	**Market Value of Equity** ($ mil.)	**Market Value/ Book Value of Equity**	**Price/ Earnings**	**Forecast Avg. Annual Price/ Earnings 1996–98**	**S&P Bond Rating**	**Beta**	**Volatility**
Viacom A wholly owned subsidiary of Viacom International with four units: cable-television systems (29% of 1992 operating profits); broadcasting (NBC and CBS) and radio (8%); cable-television channels (Showtime, Movie Channel, Nickelodeon) (49%); and television programs (“*The Cosby Show,*” “*A Different World*”) (14%) .	2,035	1.2	2,532	936.2	5,798.4	6.19	36.6	24	BB+	1.2	0.342
Cable and Wireless A global communications company owning interests in local telephone companies. Operates digital and fiber-optic submarine cables. Major subsidiaries include: Hong Kong Telecom (58% owned) and Mercury Communications (80%).	6,800	–	1,750	5,023.2	16,016	3.19	31.4	24	–	0.95	0.316
Tele-Communications, Inc. The largest operator of cable-television systems in the United States. Also operates Encore. Divested in movie theaters in 1992 and publishes *Cabletime* television guide.	4,140	10.2	10,256	1680.9	10,775	6.41	46.3	16	BBB−	1.65	0.133
CBS, Inc. Operates a radio and television network	3,750	–	492	1061	4,092	3.86	15.5	18	A	0.95	0.273

	1993 Annual Revenues ($ mil.)	Sub-scribers (mil.)	Book Value of Debt ($ mil.)	Book Value of Equity ($ mil.)	Market Value of Equity ($ mil.)	Market Value/ Book Value of Equity	Price/ Earnings	Forecast Avg. Annual Price/ Earnings 1996–98	S&P Bond Rating	Beta	Volatility
including 7 affiliate stations in New York City, Los Angeles, Chicago, Miami, Philadelphia, Minneapolis-St. Paul, and Green Bay and 21 radio stations. Sold its music and publishing operations in 1987.											
AT&T Formed from court-ordered breakup of the Bell Telephone System, receiving 23% of the former company's assets. Operates interstate and international toll networks and portions of intrastate networks. Owns Western Electric and Bell Laboratories.	67,030	–	16,376	15,096	78,880	5.23	18.1	18	AA	0.95	0.147
A. H. Belo Corporation Publishes *Dallas Morning News* and 7 community newspapers in the Dallas-Ft. Worth area. Owns assets of the Times Herald Printing Co. and television stations in Dallas, Houston, Sacramento, Norfolk, and Tulsa. Owns a 40% interest in Falcon Video Communications.	555	–	282.2	315	920	2.92	19.3	22	BBB	0.80	0.294

Sources: *Value Line*, Bloomberg, and *S&P Bond Ratings.*