USCI's Market Plan Went Awry Early

by LLOYD COVENS
Editor/Publisher

Editor's Note: This is the first of a three-part report on United Satellite Communications Inc., the first 12-gigahertz, video direct-to-home satellite service.

NEW YORK—It's late December, 1984, and as usual, no USCI employees are returning calls from the press. The service has laid off 90 percent of its staff of 200, and rumors are rampant that USCI will discontinue operations in early January. When the final announcement is made; barring some 11th hour deal made to save

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USCI

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the service, nearly 10,000 subscribers in the Baltimore, Washington, D.C. and Philadelphia areas will cease receiving their five channels of movies, sports, news and specialty programming.

But the real story of USCI, previously known as USTV, and the subsequent dilution of more than $70 million in investments seems to point out the pitfalls and dangers of launching a DBS-type satellite service, and spending millions waiting for subscribers to get on board.

After reading a *Washington Post* story on the high value of satellite transponders in early 1981, Richard Blume and Cliff Freedland saw the opportunity to purchase satellite space to sell later at a handsome profit. The pair went to New Jersey real estate magnate Francesco Galesi, who liked the idea and gave them seed money to start acquiring satellite capacity.

After three months of tying up virtually all the 12 gigahertz capacity, Blume and Freedland began pondering the possibility of presenting satellite-carried video programming to the public.

While the Satellite TV Corp., a division of Comsat, already had announced such a DBS plan for 1986, Blume and Freedland saw a way of providing limited northeastern U.S. coverage using the 20 watt tubes aboard a Canadian ANIK satellite.

By launching in November, 1983, USCI was able to beat by more than three years the initial launch planned by STC. But sources within USCI point out that the competitive challenge of SCT, as well as Rupert Murdoch's Skyband and other plans, had little impact on their planning.

After several months of shoe string operations funded by Galesi, a business plan evolved showing that the new venture would require large amounts of capital. First, General Instrument came into the deal, later followed by Prudential Venture Capital. Shareholders came and went, and a largely restructured company was ready to take on the marketplace.

But almost from the beginning, USCI's fortunes ran downhill. The first urban launch, in Indianapolis, was a disaster. The launch into Chicago was even worse. Workers were disoriented, and the people in charge were running the service like a "punched-up STV (subscription TV service)," according to one source.

Next week: A look behind the scenes. □

Early Planning Goofs Crippled USCI's Efforts

by LLOYD COVENS
Editor/Publisher

Editor's Note: This is the second of a three-part report on the rise and fall of United Satellite Communications Inc., the first 12-gigahertz direct-to-home satellite service.

NEW YORK—When the first business plan to launch USCI's DBS service to the northeast U.S. was complete, the one conclusion everyone could arrive at was that it would take massive amounts of capital to succeed. One study said $100 million, another some $250 million. Today, almost $100 million and 7,000 subscribers later, USCI is on the verge of total collapse, caused, according to one source, by "one mistake after another."

Nov. 4, 1983: USCI launched in Indianapolis, a city heavily cabled, well-covered by 4-gighertz dealers and served by an MDS operator. That city was chosen because it was in the center of the footprint of the Anik C original position. "No one remembered that the satellite had been moved," said a USCI exec. The new heart of the footprint was New York City.

The Indianapolis launch saw the system purchase price set at $950, with a monthly program fee of $30 to $35.

By the time USCI was ready to roll out in the Washington-Baltimore region, marketing had restructured the package at $100 for installation of the 4½-foot dish, and the program fee was reset at $20 to $25 per month. The bulk (75 percent says a source) of subscribers to the service came from these two cities, and after April 1984, no further marketing efforts were made as USCI management struggled to find more investors.

Early in 1984, USCI was ready to offer its service to the Chicago market. Armed with a huge TV ad campaign and 40 RCA Service Corp. installers on standby, the company passed an ordinance requiring a long and expensive licensing process for all satellite earth stations. The 100-employee phone bank employed at USCI's New Jersey marketing arm sat idle, waiting for "eager" subscribers to materialize.

But setbacks for the company weren't limited just to the field. Back at headquarters in New York, the high cost of constructing an uplink facility with tape playback was further complicated when the master programming computer failed to interface with the uplink facility. "Program schedules were literally being typed on hard copy," said a former executive, rather than going into an automated system designed to save money and streamline program handling.

Instead of tackling problems with marketing and signing up new subscribers, "most of top management wasted six months deciding which satellite to go on," said one insider.

To impress would-be investors, management took an entire floor in New York's Burlington Building (in the middle of the pricey "network zone") and spent $2 million to decorate it. In addition to president Nathaniel Kwit's annual salary of $275,000, sources reported executive incomes averaging around $100,000. Bonuses also were handed out liberally to top managers, many of whom had worked with Kwit previously at MGM.

By June 1984, "the money had run out, and the place became moribund," said a former executive. "We simply went from one crisis to another, always concerned about raising more capital."

From several sources, the magnitude of USCI's money problems grew as cost of operations rose. Programming costs easily topped $10 million a year. Advertising was pegged at $10 to $12 million, and the uplink/playback site and the satellite time was grabbing a $1.5 million. "A lot was going out, and very little was coming back," according to one insider.

Next week: USCI under the rule of Nathaniel Kwit.

Prudential's Backing Bolstered USCI's Kwit

by LLOYD COVENS
Editor/Publisher

(Editor's Note: This is the last of a three-part report on the first 12-gigahertz DBS service, United Satellite Communications Inc. Since its inception as a private company, little information on the inner workings of the company has been available until now. The series involved more than 100 hours of interviews with former executives and other sources, who spoke on the condition they not be identified.)

NEW YORK—When deciding to hire former MGM exec Nathaniel "Than" Kwit to run USCI in September 1982, the early founders of the company sensed the value of letting a "Hollywood" name take over, opening up the channels to investment capital the DBS service would need to survive.

"At the beginning it looked like one big happy family," said a shareholder. "But after 60 days, it was clear Kwit was planning to run the whole show himself."

After coming aboard, Kwit, with no knowledge of cable or DBS, set out to control the flow of information to and from the USCI board of directors, effectively curtailing the influence of Francesco Galesi, the New Jersey real estate baron who funded the early days of USCI's startup.

Galesi had been instrumental in bringing in a financial and equipment committment from General Instrument (valued at $11 million) and later convincing Prudential Venture Capital Corp. to pay $45 million for half the venture. Prudential executive Bill Fields was impressed with Kwit, and from early on, the inner struggles over how to operate USCI pitted the Kwit/Prudential interests on the board against the G.I./Galesi interests.

With the continuing struggle between factions (covering everything from marketing strategies to satellite space to cutting down the 12-gigahertz satellite costs) the board met almost weekly. General Instrument had a 10-year exclusive contract to supply the systems, and the board constantly tried to get G.I. to drive down the costs. Beyond its first $45 million, Prudential is reported to have poured in additional millions through much of 1984. But to no avail.

Although many of the vice presidents hired under Kwit were highly competent, several of the insiders *Channel Guide* spoke with agreed that they were excited "by Kwit's salesmanship," but after months they said their executive roles were "emasculated" because of little direction from Kwit, and the lack of authority to act "without Kwit's direct approval." No one but Kwit was allowed to speak to the press, for example.

Kwit's big gamble centered around more funding. As the estimated $100 million invested by Prudential, G.I. and Galesi began to dwindle in early 1984, the Soloman Brothers investment firm was employed to seek $50 million in new capital on Wall Street. With news in the prospectus revealing the true magnitude of USCI's capital requirements and forecasting the need for years of cash infusion (projected to be near $200 million) without a profit, potential investors turned a cold shoulder and Soloman withdrew its offering circular.

—Jungle Culture

David McClintick's 1982 best-selling book, *Indecent Exposure: A True Story of Hollywood and Wall Street* revealed the "jungle" culture of Tinseltown. The book uncovered the chain of events that led to the exposure of studio head David Begelman's embezzlement at Columbia Pictures, and painted a broader picture of the way business is run in Hollywood. While Begelman later was partially exonerated he left Columbia to go to work as head of MGM. There, he served as boss (and some insiders allege "model") to a rising vice president named Nathaniel T. Kwit.

Says McClintick of the Hollywood system: "It is the corruption of power and arrogance. It is the corruption that inevitably pervades a large and glamorous institution when that institution is tightly controlled by a handful of people. . . such a radical power imbalance fosters overweening arrogance in some quarters. When not held in check, it can breed all manner of abuses, including the notion—sometimes subtle but always malignant—that anything goes, no one can stop it, and indeed no one cares."

"It was a business that could have worked," says USCI founder Richard Blume. "It's just a shame about all the mistakes."