Gustave M Hauser

I believe QUBE served the industry well. To federal legislators and local authorities it demonstrated, early on, that cable was a business worthy of **respect and encouragement**."

HAUSER COMMUNICATIONS, INC.

On February 10, 1993, U.S. cable executives from coast-to-coast opened their morning newspapers to astonishing front-page news: one of the most high-profile players in the industry had decided to sell the last and the best of his cable systems for a then-record price.

The seller's identity prompted little surprise: Gustave M. Hauser, chief of Hauser Communications, and former head of Warner Cable. Renowned for his tough negotiating skills, Hauser had always displayed a knack for sealing advantageous deals.

What caused Hauser's peers to choke on their first sips of coffee that February morning was the buyer's identity: Southwestern Bell Telephone. For nearly a half-century, the American cable industry had been gnashing its teeth over the seemingly endless series of roadblocks that the giant Bell Telephone enterprise had thrown in its way. The battle fronts had ranged from Congress to the courts to the very poles to which cable was attached.

Now, here was one of their own, selling out to "the enemy."

The sting didn't last long; shortly after the announcement of the sale, everyone's boat was floating quite a bit higher. The stock price of nearly every U.S. cable company hit a 52-week high.

Hauser's deal, wrote Paul Kagan in his industry newsletter,"shook both the cable and telephone industries to their core." It also set off a flurry of cable-telephony acquisition deals: SBC/Cox; Bell Atlantic/TCI; Bell Canada/Jones; Bell South/Prime Cable and US West/Time Warner. NYNEX Telephone invested in Viacom.

"It's time to admit there is a good side to a telco," said Kagan wryly: "If he's going to come into your market, it has long been said, let him make the check out to you."

Gustave Hauser was born on September 3, 1929, in Cleveland, Ohio. His parents, Abraham and Stella Hauser, had earlier decamped from New York City to give Hauser's entrepreneurial father elbow room to start a hat and cap manufacturing and retail business. The family business thrived, but young Gus chafed at his hometown's small worldview. "It was a place," he says, "where anyone who had great expectations or ambitions found ways to leave."

Even enrollment in Cleveland's high school for gifted students did little to take the edge off of Hauser's restlessness. Matters weren't helped when the family business declined during the grim economic days of the Depression and into the 1940s. When the time came to head for college in 1947, Hauser's dream of escaping Cleveland to attend Harvard "wasn't financially thinkable." Instead, he gritted his teeth and "blasted right through" his hometown's Western Reserve University in three years, taking a degree in English literature.

Equipped with a solid academic record and plenty of self-confidence ("I was a good commodity and knew it"), Hauser decided to give Harvard another shot. He applied and was accepted into the Law School's Class of 1953. The sticky question of financing was answered with a scholarship, one of the few awarded at that time. Hauser gleefully packed his bags and left Cleveland, never to look back.

Three happy years in Cambridge, Massachusetts did not translate immediately into a career. Obligatory military service came first. Says Hauser: "At the end of law school, everybody in the class who had not already served was drafted for the Korean war." He adds dryly: "There were no Bill Clintons that I know of."

Faced with a choice between a four-year tour of duty as a Judge Advocate General officer, or a less glamorous but blessedly brief two-year stint as an enlisted man, Hauser and most of his classmates opted for the latter. He wound up as a member of the faculty at the Army's military police school in Georgia. "My assignment was to teach military police officers and other personnel the legal aspects of their job," says Hauser. His students were happy to reciprocate. "Students would come up to me after a class and say, 'Well, that's very interesting b.s., but let me tell you what we really do.'" Hauser had better luck inculcating legal theory into the eager minds of his civilian students during night classes at a nearby University of Georgia campus.

Although Hauser considers his military career "20 months lost in space," his classroom experience served him well. When Harvard Law School invited him to return as an instructor in the fall of 1955, he transitioned smoothly back to life on the Charles River. The teaching gig resulted in two major benefits: early release from the tedium of Army life; and an introduction to 20-year-old incoming law school student Rita E. Abrams. Romance quickly blossomed between the faculty member and the student, and the two were married the following June, as soon as Rita finished her final exams. No one was surprised: "We had what we thought was a clandestine romance," notes Hauser with bemusement. "But everybody knew. They just didn't mention it. In those days, there was no suggestion of harassment, but I plead guilty to distraction."

The Law School regards this first-ever faculty-student marriage as its "love story," and the Hausers commemorated the event in 1994 by donating to the school a new classroom/office building named Hauser Hall.

On the eve of his marriage in 1956, Hauser received an unconventional, and highly tempting, offer: a chance to study law in France. The Ford Foundation and NYU Law School were launching a program to develop competence in foreign legal systems among American lawyers, who could then fill the shoes of the retiring generation of European émigré lawyers. Hauser would be the first student. The couple talked it over.

"Rita said, 'Why not?'," recalls Hauser. "Many in her position would have hesitated to deviate from the Harvard Law School path, but that was never her style." The opportunity dovetailed nicely with Rita Hauser's background and interests. A teenage Phi Beta Kappa and summa cum laude college graduate, she had already obtained her doctorate in political science from the University of Strasbourg, France, and was fully bilingual.

To prepare for their overseas adventure, the couple moved to New York City, where Gus obtained an LL.M. in foreign law at NYU Law School, while Rita continued to work on her J.D. Armed with abundant scholarships, the Hausers then moved to Paris to take up their studies at the University of Paris Law School. Rita completed a basic French LL.B., becoming what may be the only American ever to receive a *license en droit*. Gus received a graduate law degree.

The Hausers returned to the U.S. and spent the next year in a "commuter marriage": Rita stayed in New York City to finish her American law degree at NYU, while Gus headed to Washington, D.C. to join the Pentagon's Office of the General Counsel in the Office of the Secretary of Defense. As soon as she graduated, Rita likewise headed for the Nation's Capital where she joined the Department of Justice under the Attorney General's Honors Program. In their spare time, the Hausers co-authored and published a book: *Doing Business in The European Common Market.*

During his two years at the Pentagon, Gus worked as counsel to The International Security Agency—in essence, the Pentagon's "State Department." He dealt with matters such as the legal status of unarmed, un-uniformed U.S. military advisors to the South Vietnamese government, military base treaties, mutual weapons development programs and the analysis of U.S. rights in space after Russia's astounding launch of the Sputnik satellite in October 1957. No "law of outer space" existed, so Hauser authored the Pentagon's first legal analysis of America's rights and duties.

In spite of the interesting work, Hauser knew instinctively that a permanent berth in the Federal bureaucracy was not his style. The two years in Washington, D.C. made clear to him that "whatever I was going to accomplish or learn there, I had done it. I was not going to be a permanent career government person."

While Gus was increasingly drawn to the private sector, his wife found satisfaction in the political arena. When Richard M. Nixon became the Republican presidential candidate in 1960, Rita Hauser was asked to join the campaign brain trust, where she became a strategist, speech writer and speaker. Eight years later, when Nixon won the White House, he appointed her Ambassador to the United Nations Human Rights Commission.

In the meantime, the Hausers had bid adieu to the Nation's Capital and moved back to New York City. Rita became an international lawyer and one of the first women to be elevated to

My assignment was to teach military police officers and other personnel the legal aspects of their job," says Hauser. "Students would come up to me after a class and say, 'Well, that's very interesting b.s., but let me tell you what we really do.'"

managing partner of a major New York law firm. Gus, at age 30, became legal advisor to the international business arm of General Telephone & Electronics.

Hauser was soon called upon to provide more than legal advice. "First, I became involved in finance, including the financing of major international infrastructure projects," he explains, "such as the local or long-distance telephone system of an entire country. I then progressively moved into the top operating management of the international communications business, which was challenging and innovative. We were always competing head-to-head with the national giants in international telephony—the Germans, the Swedes, the French, the British, the Japanese, etc. It was constant commercial warfare."

While at GTE, Hauser took his interest in international business a step further by joining a group of business and government executives in conceiving the Overseas Private Investment Corporation (OPIC), a U.S. Government corporation designed to encourage foreign investment by providing insurance against the risks of war, expropriation and inconvertibility of currencies. When enabling legislation for OPIC was passed by Congress in 1969, he was appointed a Director by the President and confirmed by the U.S. Senate. He served on OPIC's initial Board of Directors for eight years, along with such financial experts as Paul Volcker. The organization, notes Hauser with pride, has always been profitable.

Although Hauser's job at GTE was fascinating, by 1971 he was burned out from constant travel. During a stopover at the "dismal" Karachi, Pakistan airport, he had an epiphany: "It was 2 a.m. I was surrounded by people wrapped in white sheets, lying around on the floor because there was nothing to sit on. I had jet lag. I thought, 'This has got to stop.' I couldn't see decades more of this kind of travel. I needed to be more available at home, and to live a rational existence."

Hauser's vision of a "rational existence" translated into acceptance of an offer to become executive vice president of publicly-held Western Union International. WUI's main businesses were international telegraph, telex and private-line business communications. His plan was to expand the business and "maximize its opportunities," working closely with WUI's controlling shareholder group. But he soon "realized that what I really wanted to do was *be* the controlling shareholder. I saw the company as a public acquisition vehicle, providing a means to take over a bunch of other companies in telecommunications," he explains. He shifted gears and began exploring options for an amicable buy-out of controlling shares in the company.

Financing was critical. Hauser made the rounds of large investment houses, in the process getting to know Felix Rohatyn of Lazard Freres. Unbeknownst to either Rohatyn or Hauser, their budding relationship would lead Hauser down a completely unexpected path. While assessing possible partners for a WUI buy-out, Rohatyn introduced Hauser to Steve Ross, CEO of Warner Communications. Hauser soon found himself being courted by Ross, who was eager to tap Hauser's management skills and knowledge of communications. Warner had just acquired a couple of small MSOs.

Although Hauser's exposure to the cable business was limited—while at WUI, he had analyzed and turned down an opportunity to buy then-ailing TCI—his familiarity with communications and cable far exceeded that of Warner's management.

"Warner's initial cable acquisitions were based more on enthusiasm and curiosity than knowledge," notes Hauser. "Ross had the intuitive sense that cable could be a terrific way to distribute Warner Bros. content, but he had no relevant experience."

Conversations between Ross and Hauser soon shifted from the original Western Union International idea to a "wooing situation," says Hauser. "What attracted me was cable's potential to deliver new services beyond the retransmission of off-air broadcast signals in rural areas—more video channels, a subscription package of movies, pay-per-view choice and even telephony. Would consumers agree to pay for television and enable the industry to wire the metropolitan and suburban areas of America?

"I had to put aside my aspiration to head my own public telecommunications company in order to accept the challenge of building a major cable company and industry, assisted by the financial muscle of a substantial company," says Hauser. "I wasn't going to join Warner merely to grow a traditional cable business by acquiring mature, 'classic' systems. I wanted to exploit cable's potential to become a modern communications business."

In 1973, Hauser accepted "an offer I could not refuse" and became chairman and CEO of Warner Cable Communications. Triage headed his initial to-do list. Warner's cable systems were "classic"—small, rural and built and run on a seat-of-the-pants basis. Hauser immediately imported professional managers with experience in other, related industries. The benefits were "like a blood transfusion," he says. An overdue boost in rates also helped turn the business from "a cash loser to a cash provider."

Hauser then turned his attention to the task for which he had come to Warner. First up was the initiation of a subscription movie channel. Launched almost simultaneously with HBO, Warner's Star Channel (now called The Movie Channel) got off to a rough start. Tapes had to be mailed to individual systems, the U-Matic play-back machines broke down with disheartening regularity and many rural subscribers found 1970s movies too "dirty." As a stand-alone service, Star Channel—indeed, any pay channel of the era—did not appear able to attract a sufficient number of new customers to allow cable to expand into new metropolitan markets. Subscribers had to be offered something more.

Hauser had his own ideas about what something more could be. Warner had inherited two fully-built, state-of-the-art cable systems in Columbus and Akron, Ohio, equipped with an extravagant 36 channels, instead of the usual five or 12. Only six of the 36 channels were being used. TV viewers received regular broadcast signals without a hitch, "so they didn't need cable to improve reception," explains Hauser. "Each month these two systems were connecting newly marketed subscribers and disconnecting even more who found cable not worth the cost. Together they vividly demonstrated the cable industry's problem."

In spite of being "hopeless losers," says Hauser, the two cutting-edge cable systems in Ohio also represented an unprecedented opportunity. If the 30 vacant channels could be filled with video content, perhaps subscribers would be willing to pay for access to them. And using one

It was 2 a.m. I was surrounded by people wrapped in white sheets, lying around on the floor because there was nothing to sit on. I had jet lag. I thought, 'This has got to stop.' I couldn't see decades more of this kind of travel." **Gus Hauser** or both of the cable systems as a test-bed was certainly more palatable than the alternative of shutting them down.

"I began putting together an experimental series of new cable services and delivery technologies," says Hauser, "to which I gave the abstract name QUBE. The overall plan was to develop a package that would make cable service attractive and economically viable not only in Columbus and Akron, but in unwired metropolitan and suburban communities. The QUBE experiment ultimately foresaw most of the programming and technological developments that marked the progress of the modern cable industry.

"The implications of QUBE for Warner's future were carefully considered," says Hauser. "Success would mean that a proprietary package of new video channels or programs could both attract advertising and be sold to other cable operators. Warner could expand into new video programming and improve the distribution of its existing motion picture business. Success would also mean that Warner could, successfully, build and operate many new, major cable systems. Both the experiment and, particularly, the consequences of success would require considerable capital investment. If the proposed new cable services were not successful in attracting new subscribers, then cable was a mature business that neither I nor Warner wanted to be in."

After weighing the pros and cons, Warner decided to proceed. "The assumption was that success could always be funded," explains Hauser. "This was the advantage of being a part of Warner Communications. At the time, it was the only cable industry player with the determination and the means to pursue such a vision."

Hauser chose the Columbus system for launching QUBE. A favorite testing ground for new products, the small Ohio city was "one of the few communities which had little interest in regulation," says Hauser. "We could try any new services and pricing without regulatory interference. Even the first-ever 'adult' channel was no problem. The mayor and members of the City Council publicly admitted watching it."

His test market selected, Hauser then faced the dual challenge of developing content and technology for QUBE. A creative team was assembled to "imagine new television products at unimaginably low costs." Coming up with a fresh approach was vital: "There was no creative or financial possibility—and no purpose—to develop 30 more channels that looked like more NBC, CBS or ABC," explains Hauser. Fortunately, in addition to movies, existing video programming material was available at low cost, thanks to limited alternative distribution opportunities. "We would present this programming in unique, thematic or 'niche' formats," says Hauser, "each designed to fill a channel and attract a particular interest group. Much like radio broadcasting at the time."

Among the niches that Hauser considered essential was a children's channel. Existing material was inexpensive, because "nobody wanted it." From such modest beginnings, and under what Hauser terms "the legendary guidance of Vivian Horner and then Geraldine Laybourne," one of cable's most popular channels evolved: Nickelodeon. For Hauser's role in launching the channel, Laybourne dubbed him "the father of Nickelodeon."

MTV Music Television was also birthed by the QUBE initiative. The idea for a music channel (with three-minute video clips illustrating recorded music) "was an evolution, rather than anyone's individual invention," notes Hauser. "A talented team at QUBE was recruited, funded and allowed unbridled creative freedom; the MTV embryo actually grew in the womb of Nickelodeon."

Under the guidance of John Lack, QUBE program manager, whom Hauser had hired from CBS radio, the QUBE team set out to broaden the demographic reach of Nickelodeon by introducing music-oriented programming. Initially, video clips were made in the Nickelodeon studio in Columbus and by outside contractors. The clips were eventually bundled into a one-hour Nickelodeon program called "Pop Clips." The show was a runaway success. Warner Communications' recorded music labels were soon induced to produce video clips, at their own cost, to promote their recordings. Star performers demanded to "cut a video." The idea snowballed. Other music labels grudgingly agreed to produce video clips. "The fundamentals of a new business were established," says Hauser. "MTV received free video clips and the music labels received free promotion."

Like Nickelodeon, MTV went on to become a major hit with viewers around the world. Still other QUBE channels foreshadowed many of today's most popular cable networks, Hauser points out: "QUBE offered a precursor of Arts & Entertainment; a documentary channel was a precursor of Discovery Channel; a sports channel was a precursor of ESPN; a live local channel was a precursor of local cable news; an adult channel was a precursor of the Playboy Channel." There were also horror, romance and drive-in movie channels, plus an education channel that allowed Ohio State University to offer distance-learning courses. The word "infomercial" was invented to describe entire shows created by advertisers to feature their products.

One novel programming idea that did not become a part of the Warner program business was an all-day news channel, a missed opportunity that Hauser now regrets. "I talked about a joint venture with Kay Graham, owner of *The Washington Post*, which also owned *Newsweek* magazine. We had reached a conceptual deal, and one day Mrs. Graham came to join Steve Ross and me for lunch in Warner's dining room in New York City. 'This is too big a project for my little company,' she said. Later, she told me on a number of occasions that her decision to take a pass was one of her greatest mistakes." Without the *Post/Newsweek* participation, says Hauser, Steve Ross became cautious, especially after some Warner in-house executives concluded that viewers would never watch cable news instead of Walter Cronkite. The news channel project was "fatally delayed, and Ted Turner stepped into the opening," notes Hauser ruefully.

Beyond supplying more video channels, Hauser wanted to offer subscribers an option to purchase motion pictures or other video events one at a time. "We developed this concept—which came to be called pay-per-view—long before the existence of the VCR and the home video business."

The initial technical challenge for QUBE was to enable subscribers to access up to 36 video channels and to choose and pay for programs. A strong technical team, says Hauser, "addressed the frontiers of cable technology." Relying on traditional suppliers to develop equipment was not an option, and the telephone companies—which had the necessary two-way plant—weren't interested. Instead, a method was needed to allow orders to travel from the home to the cable system head-end, over the cable wire. "Two-way cable, allowing communications to and from

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the home, was the answer," says Hauser. "Plus software to recognize and manipulate data received from subscribers. We had to develop it all ourselves. Remember, we were doing this long before the age of the personal computer and Microsoft."

The QUBE system was re-engineered to activate the first-ever reverse path from home to the head-end. Data received from subscribers was processed by a massive Data General mainframe computer. A remote control subscriber terminal was developed—in essence, the first addressable converter. Every six seconds, the computer would sweep all subscriber terminals asking each one: Are you functioning properly? What channel are you tuned to? Which response button is being pressed? With this two-way equipment in place, subscribers could tune directly to any of 30 usable channels, be identified as watching a pay-per-view channel, and be billed accordingly. The technology also offered subscribers "interactive" functions, such as requesting information, purchasing merchandise (home shopping), responding to questions, expressing opinions, and participating in programs, as well as playing games with other subscribers.

QUBE's ability to report, ten times a minute, on the number and identity of subscribers watching or participating in any program raised interesting questions—and potential red flags. The possible uses and abuses of such cable facilities became nationally-discussed issues involving privacy, electronic voting, audience measurement. As a result, says Hauser, "We established the first privacy policy in the industry."

"Looking back," says Hauser,"the QUBE technology worked well and was the precursor of such current cable industry service opportunities as interactive services, video-on-demand and Internet data transmission."

Thanks to QUBE, the Columbus, Ohio cable system received a new lease on life. A flood of long-term subscribers signed up. Pay-per-view revenue averaged $15 a month per household, creating problems for Warner with customers who bought too much. "We had to establish credit limits," says Hauser.

Warner Communications, he notes, saw that an important goal of the QUBE intiative was being realized. The company was launched into the programming business with The Movie Channel, Nickelodeon, a planned MTV channel and "many more national programming ambitions." In 1979, the programming team was relocated to New York. Not long after the move, John Lack presented Hauser with the resume of a young radio programming whiz named Bob Pittman, who was hired and initially assigned to work on The Movie Channel. Pittman migrated to the new MTV satellite channel, became "its legendary leader," according to Hauser, and eventually became chief operating officer of AOL Time Warner.

By 1980, Columbus's QUBE system had confirmed Hauser's original intuition: Filling cable channels with a package of niche programming channels and premium programming options was a formula for success. Satellite-distributed niche programming channels were started by many other companies, and cable operators soon realized it was worth paying for them.

"I think Gus Hauser's QUBE project was the beginning of a new era in television," said Marlowe Froke, former president of The Cable Center, years after QUBE's debut. "Its people scattered throughout the cable and computer industries to launch the interactive era that is now emerging. Indeed, the roster of QUBE 'alumni' reads like a who's who of industry heavy-hitters: Geraldine Laybourne, Nickolas Davatzes, Vivian Horner, Robert Morton, Michael Marcovsky, and Robert Pittman, among others." For Hauser, the incubation of so much talent is clearly a high point of his career in cable.

Warner now turned its attention to growing by building new cable systems. Cable operators, says Hauser, "felt more confident about investing in metropolitan markets and the great franchising era began." He found it gratifying that QUBE proved to be a valuable asset in the franchising wars. "No one was seeking franchises when the QUBE project was begun in 1975 or launched in 1977," says Hauser, responding to a charge often made against him. "So I clearly did not create the QUBE service as a way to win franchises." But Hauser spared no effort in leveraging the QUBE service's sizzle and Warner's progressive image during the franchising battles—while competitors gnashed their teeth.

During the franchising "gold rush," Warner blew the competition out of the water. At the contests' peak, the company had about 100 franchise applications pending in 30 states. When it was over, Warner had scored 82 wins and 30 losses, gaining more franchises and homes passed than any other contender. Newspaper accounts show that in the first ten months of 1980 alone, Warner won the right to wire one million homes out of the 1,600,000 homes for which franchises were awarded during that period. Hauser was particularly happy to land such valuable and heavily-contested franchises as Dallas, Pittsburgh and the entire Cincinnati area.

"Many recall the franchise wars as the only time the much-admired brotherhood of cable executives was fractured by acrimony and accusations," notes Hauser, "but once the 'wars' were over, the normally close personal relationships were soon reestablished."

Continues Hauser: "It was usually said that the winner of a franchise had made an unrealistic proposal and that the franchise was, therefore uneconomical. The winner always disagreed. Local authorities, vastly misled by consultants, honestly believed that cable could and should provide unrealistic or impractical things. But as we look back, nothing that was ultimately required and provided was a reason to regret having accepted the franchise. Famous demands—such as planting 20,000 trees or building a library—added to the capital cost. But given the values that have been created, such extra costs turned out to have much less importance than they had at the time. No franchise was actually rendered uneconomic.

"Candidly," concludes Hauser, "we all did well, and if we gave away something, so what?"

As Warner Cable began to win franchises, it faced the considerable capital investment required to build them. It was a nice problem to have, but Warner Communications' total market capitalization was only about $850 million, and the additional debt, all on its balance sheet, was deemed more than Warner Communications could handle. Warner moved to keep the required borrowing off its balance sheet by bringing in a 50-percent partner.

American Express Company was chosen. "Amex was particularly interested in possible synergies between QUBE interactive services and its merchandising and credit card operations," says Hauser. The cable business was renamed Warner Amex, and the new Board of Directors included Steve Ross, Jim Robinson (chairman of Amex) and Lou Gerstner, president of Amex (and later of IBM). Later, they were joined by Sandy Weill (now head of Citicorp) whose Shearson brokerage business was acquired by Amex.

The Board, notes Hauser, "agreed that Warner Amex should grow explosively by acquiring and building new franchises." The company arranged for an $800 million credit line, the largest ever established at that time.

Initially, Warner Communications and Amex both reveled in the successes of the franchise effort and the programming business. The relationship became strained, however, after Amex acquired the Shearson brokerage business. A well-publicized conflict developed between Amex and Shearson over their corporate cultures and, on a personal level, between Jim Robinson and Sandy Weill.

"The Shearson camp became publicly critical of Robinson and his business judgments," notes Hauser, "including the comparatively miniscule Amex investment in cable television. Shearson management knew virtually nothing and cared little about the cable television business. But it was convenient to use the inherently capital-intensive and unprofitable, but perfectly normal cable business as a pawn in their internal struggle."

Behind the scenes, Hauser tried to persuade the Shearson people that their public attack on the company's cable venture could only be harmful to everyone's interest, but his efforts at diplomacy were unsuccessful. The value of all the Warner Amex new-builds and of the new programming business continued to be publicly discounted by the increasingly bearish Shearson camp. Cable was deemed "a liability."

"Jim Robinson was being harassed by the Shearson people," says Ed Bleier, president of Warner Brothers Domestic Pay-TV, Cable & Network Features. "They were demanding that Amex stop the 'deficit spending on cable.' They just didn't see it." Thanks to the tension, Warner Amex's planned growth threatened to come to a complete stop.

Things came to a head for Hauser when Warner Amex won major franchises for New York City. Steve Ross and Warner Communications wanted them—badly—but Amex balked. Hauser accepted the franchises anyway, knowing that "the Warner Amex business environment had obviously become intolerable and the partnership was headed for a breakup." He shed no tears over the idea of leaving.

Hauser and Warner Amex negotiated a separation agreement, which included a sizeable payment in recognition of his contributions. In March 1983, he bid Warner Amex farewell.

Looking back at his time at Warner, Hauser sees the QUBE experiment as a major success for the company. "Its development cost," he notes, "much of it in home terminals which were used for many years, was about $20 million—an investment recovered many times over by the value of the programming and cable operating assets which are attributable to it.

"I believe QUBE served the industry well," he continues. "To Federal legislators and local authorities it demonstrated, early on, that cable was a business worthy of respect and encouragement." According to Tom Wheeler, former president of NCTA, QUBE was critical to the defeat of a Federal government initiative in the late 1970s that would have separated the ownership of cable systems from the ownership of programming, at a time when no one but cable system operators showed any interest in creating the programming they so desperately needed. "And to the industry," adds Hauser, "QUBE had demonstrated that a dynamic package of new channels and services—not all of which would succeed, of course—could attract new subscribers."

When Hauser left Warner, he was 53 and "quite comfortable financially." Retirement was certainly a viable option. "But Rita assured me that the best was yet to come," says Hauser. "And she was right."

The best consisted of scratching an old itch: owning his own business. "When I left Warner Amex in March 1983, I was regarded by the financial community as an icon in the business," says Hauser, "which meant that I could name my deal. Major investors, such as the partners of the Salomon Brothers investment bank, flocked to the opportunity to invest with me on my terms. Eventually, I didn't need investors. Commercial banks lined up to lend me money. So, coupled with my own resources, I was in a position to develop whatever financing I needed to buy anything I wanted. And I wound up personally owning an unusually large share of the cable properties I assembled."

Hauser's timing in starting his own cable business was ideal. The wiring of America was underway, and in 1984, cable rates were deregulated. But many relatively new players were looking to get out, particularly large public companies who had entered the business with more enthusiasm than expertise.

"For someone like me, it was a feast of opportunities," says Hauser. "I saw the prospects for new metropolitan systems and understood what their value would be. Rather than acquire existing subscribers in classic systems which often needed costly rebuilds, I set out to develop my own subscribers, in choice locations, at a much lower cost. Acquisitions had to be in major metropolitan areas with attractive demographics and in clusters, permitting economies of scale. The systems had to be new, only partially-marketed or even unbuilt."

In late 1982, even before leaving Warner, Hauser—who was then vice chairman of NCTA—found both his first system and a president and chief operating officer for his new Hauser Communications. Longtime friend and fellow NCTA director John D. Evans was looking for a buyer for the cable system he had helped to found in Arlington, Virginia. Evans proved to be an excellent match, says Hauser, "an extremely intelligent, impeccably correct businessman and a warm, caring friend. We regard each other as family."

With his company launched and his first acquisition sewn up, Hauser decided to expand the foothold that the Arlington system gave him in the Nation's Capital. His most high-profile acquisition was the large Montgomery County, Maryland system. The Chicago Tribune Company had earlier obtained the franchise and built only a small part of it—using the wrong high-tech equipment. Subscribers and county officials alike were fuming over years of delays and technical glitches. The Tribune was desperate to get out.

Hauser was happy to step in. Home to many of the nation's power brokers, Montgomery County was not the place for the cable industry to stumble. "For the sake of the industry's reputation," says Hauser, "service had to be impeccable." Hauser worked out a complex, and ulti-

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mately successful, plan to "trash and replace" the Tribune's equipment, without interrupting service to such a critical subscriber base.

In addition to Washington, D.C., Hauser targeted the affluent suburbs of the Minneapolis/St. Paul region. Yet another large company—Westinghouse—had decided to beat a hasty retreat from cable, giving buyers like Hauser an opportunity to pick up systems at distressed prices. Hauser corralled systems serving more than 40 contiguous franchise areas in the affluent Minneapolis/St. Paul suburbs, adjacent to systems he had acquired earlier from Storer Broadcasting.

"When we reached about a half-million subscribers," he says, "Rita convinced me that I had done enough and that it was time to start selling. Her instincts are uncanny and invariably correct. I could have initially been more aggressive or stayed on for another decade, accumulated even more subscribers and made even more money. But Rita said, 'That's enough,' something few wives would be expected to say. My costs were low, my ownership position high, the market valuations compelling. And I wanted to do other things with my life."

Hauser began to sell his cable systems sequentially, at then-record retail prices. The sale of his Minnesota properties was lucrative, but caused no stir. The deal Hauser crafted for his Washington, D.C. cluster, however, caused jaws to drop among cable industry brethren.

The landmark February 1993 sale of Hauser's Washington, D.C. properties to a telephone company was initiated when Salomon Brothers suggested that he meet with their client, Southwestern Bell (SBC). Hauser was perfectly amenable to the idea. Having been a high-level telephone company executive himself at GTE, he bore no ill will toward the telephone industry, unlike many of his cable colleagues. Hauser was also a familiar figure to Salomon Brothers. The firm's partners had, personally, invested in one of Hauser's early deals, and their returns were a legend. "Salomon invited me, first, to explore with them the concept of a sale to a major telephone company and, then, to explore the concept directly with SBC," recalls Hauser.

The sale of his cable systems left Hauser a very well-to-do man. In March 1993, *Forbes* magazine noted that "the cable television industry is losing an owner, but the *Forbes* 400 is gaining a new member." Hauser claims to be unsentimental about his decision to sell, advising young entrepreneurs not to become too attached to their companies. In truth, it was "wrenching to decide to walk away" from his cable properties, Hauser told *Cable World* magazine at the time of the SBC sale. Nonetheless, Hauser says, he has never regretted following Rita's advice or his own instincts.

As challenging and rewarding as his business career has been, Hauser exhibits particular pleasure and enthusiasm when the topic shifts to his current preoccupation: philanthropy. Unlike many wealthy individuals who want to set up permanent foundations, he and his wife Rita believe passionately that funds earmarked for philanthropy should be disposed of during the donor's lifetime or soon thereafter, rather than preserved in trusts that are expected to continue forever.

Says Hauser: "I try to bring to the attention of philanthropists who automatically create perpetuities, that it is far better to apply maximum resources to the solution of current social problems than to preserve resources in trusts that will be managed by strangers when the donor is long forgotten and which will be applied to purposes the donor could not possibly have imagined."

The Hausers are setting a personal example. "We will, of course, take care of our children, but we expect to give the bulk of our resources to charity in our lifetime or soon thereafter."

The lifelong partnership of Gus and Rita Hauser began in 1955 when the two met at Harvard Law School. Their whirlwind romance led to the first faculty-student marriage in the school's history.

As Chairman and CEO of Warner-Amex Cable, Hauser pulled out all the stops during the "franchise wars" of the late 1970s and early 1980s. When the dust settled, Warner had landed 82 major franchises, more than any other MSO in the country.

Hauser will best be remembered in cable circles for developing QUBE, a pioneering cable service that spawned such industry icons as MTV and Nickelodeon.

When Gus Hauser decided to launch his own cable company in 1982, he had the good fortune to recruit John D. Evans (right) as president and chief operating officer of Hauser Communications, Inc.

The Hausers now devote the lion's share of their time and resources to philanthropy. They have been particularly recognized for creating and supporting university initiatives to internationalize legal education and to study philanthropy and nonprofit organizations.