

Radio Business Report™

OBSERVATIONS

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DOJ looking into radio business practices

There is a new sheriff in town and his name is the DOJ. *RBR* has learned that the Department of Justice is "reaching out" and talking with individuals and companies that have concerns about radio companies and sources say in particular the business practices of Clear Channel (CCU). These conversations are on going. Those talking with the DOJ's Antitrust Division include artists, promoters and radio companies. We hear folks are mailing in materials to Jim Wade Department of Justice Antitrust Division at 1401 H Street NW in Washington DC 20530.

RBR Observation: Who would have thought a Republican administration would be looking into such matters. Must be very serious to warrant such a dialogue. As we now know the Senate will be looking into the allegations of potential antitrust issues with the just announced legislation by Senator Feingold "Competition in Radio and Concert Industries Act" (see related story below).

It's a battle of the titans: Senator Feingold legislation unveiled

In one corner we have Senator Feingold (D-WI), AFTRA, NABOB, Consumer Union, Record Labels, Artists, along with some station owners, radio groups, concert promoters and concert venues vs. Clear Channel, NAB and other radio groups not yet publicly identified. The stakes could not be higher.

From the bills title some assumed that the legislation was going to be focused strictly on Clear Channel. After all who owns a radio group and a concert venue business – just one – CCU. "This is not just about one company," stated Feingold.

The **Competition In Radio And Concert Industries Act** will be looking into all aspects of radio consolidation. As he reminded *RBR* and the other press at his 6/27 news conference he was one of only 5 Senators that opposed the 1996 Telcom Act. What's his beef? Radio consolidation has gotten out of control and he is introducing legislation "trying to prevent further harm".

The bill does not try to unwind the Telcom Act but put in measures to put radio consolidation under tighter controls. (see Outline of the Competition in Radio and Concert Industries Act on page 4). The harshest penalties are for anti-competitive behavior. Feingold wants to "prohibit any entity that owns radio stations, concert promotion services, venues from acting in an anti-competitive manner." His bill wants "the Federal Communications Commission (FCC) to revoke the license of any radio station that uses its cross-ownership of promotion services or venues to discriminate



Sen. Russell Feingold (D-WI)

against musicians, concert promoters, or other radio stations." Other key elements in the legislation included enhanced scrutiny of further consolidation, close the loophole on payola and require on air identification if music is paid to be played, have LMAed stations count under ownership cap rules if they get a significant amount of advertising or playlists from a partner and require the FCC oversight of Arbitron measurements to prevent potential manipulation.

Press releases were flying soon after the legislation was announced. NAB President and CEO **Eddie Fritts** stated, "The 1996 Telecommunications Act has strengthened the ability of radio to better serve listeners, and we strongly dispute claims that radio has grown more homogenous in recent years" **Mark Mays** President and Chief Operating Officer of Clear Channel lead off his release with the fact that "Five major players who control 84 percent of all album sales, for example, now dominate the record business. And

in the movie industry, the 10 largest studios account for almost 100 percent of the revenues." Are you wondering how long Senator Feingold has been working this issue? Well we have some idea. We "sent a letter to the Attorney General in March and we have not had a response". Senator – see related story this page for your answer.

What's next? First will be attempts to get co-sponsors and bi-participian support. Broadcasters should expect hearings at a minimum and a committee vote before the year ends. Is this going to just go away – don't think so. "I'm committed to working for many, many years," said Feingold. We probably should take him at his word – after all the campaign finance reform bill took many years too. See Senator Feingold's legislation detailed on p.4



Alfred Liggins

Rumors of bad press send Radio One shares plunging

In a stock market jittery from Enron, Worldcom and **Martha Stewart**, word that a *Wall Street Journal* reporter was asking questions send Radio One's (O:ROIA) plunging nearly 14% in one day, 6/25, to \$15.17. And it dropped another half buck the next day, as Radio One CEO **Alfred Liggins** conducted a conference call with analysts and reporters to try to set the record straight.

Liggins said the WSJ reporter had called analysts and large Radio One shareholders—then finally Liggins himself—to ask about related-party transactions at the company. Liggins insisted that all of the deals were above board and full disclosed. "I don't have a problem talking about anything we've ever done," he said.

In his conference call, Liggins went over the transactions which he said were the primary focus: multi-million-dollar loans the company made to three top executives to buy Radio One stock; and dealings involving WAMJ-FM Mapleton, GA, which is in the Atlanta market.

Liggins said the loans were a proper way to compensate himself and two other top executives, although the company has now switched to stock options. In Atlanta, he said a separate company was created because one major shareholder didn't want to increase Radio One's leverage. That was back before the company's IPO. WAMJ was built from a CP and, while it's currently LMA'd to Radio One, the separate company that Liggins created can't yet exercise its option to buy out the other owners.

RBR Observation: The irony is that those loans were originally welcomed by investors because they ensured that the Radio One executives had a big personal stake in driving the company's stock price. But times have changed and investors are very nervous. Even the slightest hint of scandal can send a stock price tumbling. Radio One's deals were all carefully documented in the company's SEC filings, so it's not the transactions themselves but the fear of negative press that's making investors flee.

Is it just a coincidence that Radio One was, until very recently, audited by Arthur Andersen? In the wake of Enron, could it be that the WSJ has staffers pouring over the financial reports of every company that was an Andersen client?

For detailed coverage of Liggins' explanations, see **RBR's 6/26 email bulletin**.

Kantor gearing up for Independent Network launch

After deciding to put the project on hold late last year (*RBR* 11/12/01, p.3), Ex-AMFM Radio Networks President **David Kantor** is now moving full-speed ahead with plans to launch "The Independent Network."

"We're working on it, things should firm up in the next 60-90 days for a January 2003 launch, Kantor tells *RBR*. "It will be targeted to station groups who are not currently in the network radio arena. We're getting some serious interest from the groups we've talked to."

The network will fill a void in the marketplace for mid-sized, second-tier groups that don't have the advantage of owning or being associated with their own networks under a greater owner, such as ABC Radio, Clear Channel and Infinity. Emmis, Radio One, Saga, Entercom, etc. are the prime targets.

RBR Stats

4% rise brings radio back to flat

With four full months of radio revenues reported by the Radio Advertising Bureau, the industry is back to flat for the year-to-date. A 4% rise in April finished the job started in March and wiped out the 5% drop reported in February.

"Radio is in a slow, steady but strong recovery phase," said RAB President & CEO **Gary Fries** as he reported the April revenue figures.

RAB Radio Revenue Figures

Category	April	YTD
Local	+2%	flat
National	+6%	+2%
Total	+4%	flat

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Old wounds are deep wounds

The lawsuit filed by Spanish Broadcasting System (O:SBSA) against Clear Channel Communications (N:CCU) and Hispanic Broadcasting Corp. (N:HSP) had been about six years in the making before it was filed last month (*RBR* 6/17, p. 1).

According to the complaint filed in a Miami federal court, Clear Channel was rebuffed in trying to include SBS in its merger of Hefel and Tichenor Media that created Hispanic Broadcasting Corp. (HBC)—and has been working to undermine SBS ever since.

Along with what SBS alleges were attempts to restrict its access to Wall Street capital, the number two Spanish radio group claims that Clear Channel has twice interfered with station acquisitions.

SBS claims that it had a deal in 1996 to buy KSCA-FM Los Angeles for \$100M from **Gene Autry's** Golden West Broadcasters, but that Clear Channel CEO **Lowry Mays** "wrongfully misappropriated that business opportunity from SBS in the middle of its negotiations with Golden West." Clear Channel cut a deal to buy the station for \$120M and then assigned its option to HBC. It took SBS four years to find another full-signal LA FM to buy—KFSG, now KXOL—from the International Church of the FourSquare Gospel.



Lowry Mays

Even then, SBS charges, HBC bid the price up to \$250M.

SBS also claims that after it had a deal in 1997 to buy WXDJ-FM and WRMA-FM in Miami, Mays tried to divert the sale to HBC and bid up the price. "On information and belief, the purpose of Mays' activity was either to drive up the price paid by SBS or to have HBC misappropriate from SBS the opportunity to acquire the stations," the suit says. "The only way SBS was able to secure the transaction was to offer a multi-million dollar contract to the seller of the two stations to serve as Chief Operating Officer of SBS."

Clear Channel and HBC have not yet filed their response to the lawsuit.

Knight Ridder open to radio purchases?

At the Mid Year Review in New York—an annual series of presentations to Wall Street analysts by newspaper companies—Knight Ridder (N:KRI) CEO **Tony Ridder** said he wouldn't be a buyer of TV stations even if the federal ban on cross ownership in the same market were lifted. But he repeated comments he made last December that Knight Ridder would be interested in experimenting in buying radio stations to pair all-news radio with the company's newspapers.

RBR Observation: Ridder keeps talking about this idea, but has he really looked at the economics? Running a standalone all-news station doesn't sound like a viable business plan to us, even if you do share some staff and facilities with a newspaper. The newspaper reporters can work up the stories, but someone still has to gather audio and package the whole thing for broadcast. Oh yes, and someone has to sell the spots. Better to think bigger—a cluster of radio stations could add as much in terms of revenue and audience reach to a newspaper as a TV station. Otherwise, stick to buying ink.

CUE Paging shuts down

If your station is owed money by CUE Paging Corp., you've likely received a notice (or will soon) that the company has run out of money and a company called Development Specialists Inc. (DSI) is compiling creditors' claims.

"The company is closed," **Geoffrey Berman** of DSI told *RBR* 6/25 after we were unable to reach anyone by phone or email at CUE headquarters.

The notice to creditors states that Bank of America has a lien of \$125K against the company and that one creditor had served a writ of attachment on CUE's bank account in an attempt to get payment. Under California law, creditors now have until 12/9 to file claims for whatever proceeds result from CUE's liquidation.

Former CEO **Gordon Keiser** and CUE's board of directors apparently worked over the past few months to find a buyer or merger partner, but came up short. CUE's paging system utilized the subcarriers of hundreds of FM stations, so many radio stations are likely to be among those creditors now lining up for whatever cash there may be.

According to CUE's website, the company "provides wireless messaging throughout North America over the FM subcarrier facilities of more than 600 radio stations. The network provides a seamless footprint covering more than two million square miles and serves over 170,000 subscribers. Distributors of CUE paging include Metrocall, Ameritech, MobileMedia, Arch Communications, Teletouch, and SkyTel." The company also has two subsidiaries, AirSign Corp., which distributes news, information and custom messaging to electronic signs and video monitors, and CUE Digital Radio, which planned to use FM subcarriers to transmit data for a wireless Internet service.

RBR Observation: Although CUE is, or was, the nation's largest paging company, that business sector has been hard hit by the declining price of cellular phone service. Paging is quickly becoming a horse-and-buggy technology in this age of Blackberry devices, PDAs and multi-function cell phones—with one of those functions being paging.

Washington Beat

Adelstein nomination may advance

Remember FCC Commissioner-in-waiting **Jonathan Adelstein**? His long-delayed nomination may be moving forward again. Senate leaders are said to be close to a deal which will see the body move on some of President Bush's nominees to federal judgeships—which have been blocked by Democrats—in return for Republicans allowing action on some agency nominees favored by Democrats, including Adelstein's nomination to the FCC. Adelstein, who would fill the open Democrat seat on the FCC, is a top aid to Senate Majority Leader **Tom Daschle** (D-SD).

But wait! Sen. **John McCain** has jumped into the fray. He's threatening to hold up all other agency nominations until the Senate confirms a nominee he wants to see on the Federal Election Commission. It's politics as usual, so who knows when the standoff will end.

EEO: The ugly truth

That's how **Ann Arnold**, Executive Director of the Texas State Broadcasters Association described the side of EEO seldom if ever heard at the top levels of the FCC. At the Commission's en banc hearing on whether to bring back Equal Employment Opportunity rules for broadcasting and cable licensees, Arnold said she had come to tell the Commissioners "the ugly truth about how the EEO rules that you promulgate are misused to abuse, threaten and blackmail radio and television stations."

It was the state associations which sued and succeeded in having the FCC's EEO rules thrown out twice in the past three years. Obviously referring to the NAB, but not naming it, Arnold said that state organizations have taken the lead on the issue because the better-known organization and many licensees are afraid to speak out publicly for fear of being branded as racist. Arnold told the commissioners that licensees are afraid to complain to the FCC about shakedowns by civil rights groups, but she described how such groups approach broadcasters—demanding thousands of dollars to prepare 'minority recruitment plans' for stations, in return for which the groups then drop their objections to license renewals.

"Why don't you just not pay?" FCC Chairman **Michael Powell** asked Arnold of the shakedown attempts. But she responded that although the FCC has repeatedly said that it does not base its EEO enforcement solely on complaints from civil rights groups, the reality is that such complaints—even when false or overblown—cost broadcasters time and money to deal with and may hold up station sales.

RBR Observation: Our biggest complaint about the FCC's past attempts at EEO rules—aside from the shakedown—is that they didn't work! They required lots of paperwork, but didn't do anything to boost hiring of minorities and women.

The director of a local chapter of the NAACP or some other group is not a professional recruiter. They don't have any idea where to find qualified applicants for skilled radio and TV positions. At best they may provide a few candidates for entry-level jobs. At worst, they'll waste your time by sending unqualified applicants or every opening.

Any broadcaster looking to fill a management or drive-time talent position already knows every person in their market who is qualified for that job. They'll either hire from that limited pool or look statewide, regionally or nationally—prospecting for applicants through their state association, industry contacts and trade publications (such as this one).

Chairman Powell may not comprehend, or want to believe, how widespread the abuses were under the FCC old EEO rules. Some self-styled civil rights activists got virtually all of their funding by shaking down radio and TV stations. They had no grassroots support and no one got any benefit from their activities—except that they were able to pay themselves nice salaries through the non-profit entities they created to accept checks from broadcasters.

Yes, broadcasting needs to do more to include all sorts of people in the business—and particularly to eliminate the glass ceiling that so far has kept the industry's top echelon pretty much a good old boys (and white boys at that) club, as some of the witnesses noted last week. (See page XX for more coverage). But bringing back ideas that failed before won't do the job.

Yahoo! facing legal issues by breaking radio contracts?

Now that Yahoo! is shutting down its radio station streaming unit Yahoo! Radio (RBR daily email 6/26) we have to wonder how it can just pull the plug on basically everything they got from buying **Mark Cuban's** Broadcast.com with contracts in the mix. Certainly, all of the company's contractual obligations with radio stations and networks can't end in the week or so they are talking about.

Maybe they're not doing it as quickly as they anticipated. Says Radio America President Mike Paradiso: "I called my guy at Yahoo, Andy Collins. He assured me that they will be honoring our contract and will continue streaming us. He said he had no plan to just uproot any streaming and, 'Don't worry, you're not going to come in one day and find the streaming gone.' He said, however, they are cutting back and any contracts they have, they have until the contracts are expired. They're just not going to renew any and they're going to be looking for outs in any of their existing contracts."

Some stations aren't worried about their plug being pulled. Says **Bruce Walden**, GM, KLBJ-FM Austin: "We were notified, and I understand what they're going to do. There are certainly opportunities now for us to seek other partners or do it ourselves. We're not going to pursue anything on a legal basis."

Robert Roback, GM, Music, Yahoo! provides the final spin: "We are in the process of phasing out the retransmission of terrestrial radio stations through Yahoo! Radio and focusing exclusively on LAUNCHcast, our Internet-only radio property. This transition is consistent with our strategic and financial goals to focus the organization on initiatives that are expected to drive long-term profitable growth."

RBR observation: Bottom line, we can't blame Yahoo!, considering the recent streaming royalty decision that came down (RBR.com 6/20). It looks like contracts will be honored for those stations that insist, however what stations will insist, considering the fees they will be subject too. The move by Yahoo! says a lot about the state of the streaming industry today. They paid \$5.7B for a company whose bread and butter was radio station streaming, and now there will be next to nothing left of the original concept.

We also find it interesting—the timing of this announcement with Mark Cuban's revelations (RBR daily email 6/25) that Yahoo! agreed to an artificially high royalty rate with the RIAA to stifle competition with smaller webcasters.

Cumulus gets ready to buy

Cumulus Media (O:CMLS) is getting its ammunition ready for another station-buying spree. The company has filed a shelf registration with the SEC for 10M new shares of stock. Cumulus said it intends to use those shares as currency for mergers and to acquire additional assets.

LM enters West Virginia capital

Lynn Martin is expanding his LM Communications group into West Virginia with a \$1.5M deal to buy three of **Jack Mortenson's** four Charleston stations. LM is getting WMON-AM, WSCW-

AM and WJYP-FM, but Mortenson is keeping WZKM-FM.

RBR Observation: Mortenson Broadcasting had put the four-station superduopoly together two years ago for a total of \$1.6M. So he'll now be left with an FM that cost him only \$100K.

A WALE of a deal in Providence

Jerry Evans' Moon Song Communications is paying \$1.2M for WALE-AM in the Providence, RI market. The Talk station, on 990 kHz, is a 50kw flamethrower by day, but has only 500 watts at night. The seller is **Francis Battaglia's** North American Broadcasting Co. **Broker:** **Terry Greenwood & Greg Guy**, Patrick Communications

Creating new combo in Charleston

Two standalones are being joined into a new combo in Charleston, SC. **Judith Aidoo's** Caswell Communications Inc. already had a deal to buy WZJY-AM for \$450K. Now she's buying an FM mate for the station—WPAL-FM. The purchase price is \$850K. So, in all, assembling the AM-FM combo will cost \$1.3M.

RBR News Briefs

Ed Christian Saga CEO for seven more years

Saga CEO Ed Christian has signed a seven year contract with Saga, which keeps his title of President/CEO and Chairman there until 3/31/09. Beginning 1/1/03, his base salary jumps from \$450K to \$500K annually.

Radio Group execs set for NAB Super Session

Five well-known radio execs will share insights on the radio business during a Super Session at The NAB Radio Show on Friday, September 13, in Seattle. Taking part are: Ed Christian, president/CEO, Saga Communications; Mark Mays, president/COO, Clear Channel Communications; David Field, president/CEO, Entercom Communications Corp.; Mary Catherine Sneed, COO, Radio One Inc.; and Bill Stakelin, president/COO, Regent Communications, Inc. Sam Donaldson, host of ABC Radio's "Live in America," will moderate the session.

Arbitron announces PPM Fly-In

Arbitron is holding a "PPM fly-in" for radio programming consultants 7/11 at its Columbia, MD HQ. The event will include a demo and explanation of PPM equipment, a discussion of the panel process, sales and marketing efforts.

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Feingold legislation detailed

Sen. Russell Feingold (D-WI) has unveiled his "Competition In Radio And Concert Industries Act" legislation 6/27, a bill set to tackle ownership consolidation in radio and vertical integration of the radio and concert promotion. "I have worked hard to curb the influence of special interests," Feingold said. "Radio is one of the most important mediums we have for exchanging ideas and expressing our creativity. I am committed to fairness and competition and to ensuring that cross-ownership of promotion services or venues is not used to hurt musicians, concert promoters, or other radio stations." His legislative points are detailed below.

Outline of the Competition in Radio and Concert Industries Act

Section 1: Title: The Competition in Radio and Concert Industries Act

Section 2: Findings and Purpose

To promote the values embraced by the First Amendment to the Constitution through diverse radio programming based on local input. This bill also helps facilitate better service to local communities by increasing competition in radio programming, content, radio advertising, concert venues, and concert promotion.

Section 3: Prohibit the use of radio to reduce public access to diverse radio and concert programming

This section prohibits any entity that owns radio stations, concert promotion services, venues from acting in an anti-competitive manner. This section directs the Federal Communications Commission (FCC) to revoke the license of any radio station that uses its cross-ownership of promotion services or venues to discriminate against musicians, concert promoters, or other radio stations.

Section 4: Enhanced scrutiny of further consolidation in radio

This section requires the FCC to scrutinize the effect of national and local concentration on independent radio stations, concert promoters and consumers. This section also prevents any upward revision of the limitation on multiple ownership of radio stations in local markets.

Section 5: Review of use of privately-controlled audience measurement systems for determination of local markets of radio stations

This section requires the FCC to ensure that any measurement of local radio markets is independent of and not subject to manipulation.

Section 6: Modification of attributable interest in radio stations and limitations on local marketing agreements

This section closes a loophole in the local marketing agreement regulations to ensure that any station that receives a significant amount of its play lists or advertising from another station is considered under the local ownership cap.

Section 7: Modification of regulations on announcement of payment for radio broadcast

This section closes a loophole in the FCC regulations covering "Payola" - pay for play - to ensure that radio station broadcasts are not improperly influenced by the payment, whether directly or indirectly, to the licensee of any radio station unless an appropriate sponsorship identification announcement is made.

Section 8: Limitation on suspension or waiver of rules

The FCC may suspend these rules only when it determines that there is a compelling justification.

Section 9: Annual reports

The FCC is required to issue an annual report on compliance with these rules and industry practices. It is required to consult independent sources and to solicit public comments.



Bill Meyers

Analyst discounts CCU firestorm

With Clear channel Communications (N:CCU) under attack from Capitol Hill, at the FCC and in various courts, Lehman Brothers analyst **Bill Meyers** has put dollar values to each of those risks and re-issued a "strong buy" recommendation for the stock. Noting that CCU's stock has fallen 22% in recent weeks, Meyers says "the market has overreacted and taken a 'sell first, ask questions later' approach toward CCU shares.

Meyers dealt with the risks one by one.

First, what if the FCC finds that CCU is improperly warehousing radio stations through LMAs and JSAs with Mercury Broadcasting, Concord Media and Chase Radio Partners? Meyers don't think that will happen, since CCU has disclosed all of the arrangements to the FCC. He said the LMAs and JSAs totaled \$68M in revenues, or 2% of CCU's total radio revenues. If all of those stations were to be ruled attributable, Meyers figures CCU would have to divest only \$17-18M in revenues and about \$6M of cash flow.

Secondly, if Congress makes it illegal for radio stations to receive payments from independent record promoters—something CCU CEO **Lowry Mays** has said would be just fine with him (*RBR* 6/10, p. 1)—Meyers figures CCU would lose only \$10M in revenues.

Third, Meyers says it's unlikely that Sen. **Russ Feingold** (D-WI) will succeed in his effort to re-regulate radio ownership. But if he did, there's little likelihood the new law would force CCU to divest its current 1,200 stations, so it would benefit from an entrenched advantage over other group owners.

Fourth, Meyers says the strong TV upfront season should reassure any investors who'd been concerned that radio ad rebound was slowing.

Fifth and finally, Meyers thinks there's no reason to expect CCU to have its long-term debt rating dropped, as happened last week to Cox Radio (N:CXR). He notes that CCU's leverage should be four times by the end of this year—right in line with its Baa2 rating, which is the lowest investment grade credit rating.

All in all, Meyers figures none of the potential threats could make a noticeable dent in CCU's revenues or cash flow, so he sees the recent sell-off as a buying opportunity.

Liu adds Boston by cashing out Add

Arthur Liu's Multicultural Radio group is expanding into Boston with a \$1.775M deal to buy WLYN-AM, which is licensed to Lynn, MA. The seller is **Peter Arpin's** The Add Radio Group.

Peschau buys Iowa trio

David Peschau, owner of KRLV-AM Las Vegas, NV, is jumping to the Midwest with a \$2.2M deal to buy three stations out of receivership. That trio is KJJC-FM Osceola, IA, KIIC-FM Lamoni, IA and KRLX-FM Madrid, IA, which are currently controlled by **Thomas H. Burke**, as the court-appointed receiver for Lifestyle Communications Corp. Broker: Satterfield & Perry

Up quarter for Wegener

Broadcast equipment maker Wegener Corp. (O:WGNR) reports that revenues were up 17% to \$6.3M for its fiscal Q3, which ended 5/31. Net earnings were a positive \$379K (three cents per share), compared to a loss off \$436K (four cents) a year earlier. Wegener reported that it has received orders from TV stations for its newest product, the DTV700 digital television processor.

The case for EEO

While broadcasters were complaining to the FCC of abuses under past EEO rules (see page 2), other witnesses were telling the Commission that hiring discrimination is still a problem—and that the FCC needs to try again to do something about it.

Joan Gerberding, President of American Women in Radio and Television, lamented that it was even necessary in this day and age for hiring equality to even be an issue. "Even the newest media conglomerates seem to be reflecting 'old boy' attitudes in their executive suites. Women are rarely represented among the top executives or on their boards of directors," Gerberding said. And she quoted statistics from a recent Annenberg study of media and telecommunications companies which found that only 3% of the jobs with "clout titles" were held by women.



Joan Gerberding

Said **Cathy Hughes**, Founder and Chairperson of Radio One: "I'm a living example Of EEO. My career has been the exception to the rule. Not because I'm exceptional, but because the FCC pried open the window of opportunity that afforded me an equal chance to prove my worth and value to the broadcasting community."

FCC Chair **Michael Powell** said he was surprised by the "relatively low representation numbers of minorities and women and how persistently stagnant they seem to be."

Added Commissioner **Michael Copps**: "The old lines are as clearly and starkly drawn as they used to be."

Both commissioners said are the limits to what the FCC can do to regulate hiring in the broadcast industry, but also called on industry leaders to commit to more hiring of minorities and women.

CMR boosts ad spending forecast

Forecasters are going back to their calculators and, invariably, they're coming up with higher projections for 2002 ad spending. The latest is CMR, which has dramatically raised its forecast for radio and TV ad spending this year.

While CMR is still expecting total ad spending to be off a slight 0.4% for the first half of 2002, it is now predicting that the full year will come in at plus 2.5%—a considerable jump from the 1.5% growth it had projected in January (reported by *RBR.com* and 1/22 and in *RBR's* 1/28 issue, p. 1).

"All in all, we can expect three factors to boost the market this year, the impact of the upfront on the broadcast season, the upcoming elections in November and the continued growth of Spanish language television," said CMR President **David Peeler**, as he announced the new forecast 6/25 at AdWatch: Outlook 2002 in New York—jointly sponsored by CMR/TNS Media, *Advertising Age* and UBS Warburg. "Nonetheless, despite the improvement over 2001, full year 2002 will be down 6.7% when compared to the high-water mark of 2000," he added.

CMR is now expecting radio ad revenues to rise 6.7% this year. That new figure includes local, so it's not directly comparable to the 1.6% growth that CMR had previously forecast only for national (spot and network) radio.

CMR 2002 growth estimates

Medium	Forecast date	
	Jan.	June
National radio	+1.6%	—
Total radio	—	+6.7%
Spot TV	+2.5%	+8.9%
Network TV	+2.0%	+4.5%
Syndication TV	+1.1%	-3.2%
Cable TV	+1.1%	-0.3%
Newspapers	+3.1%	+5.7%

Source: CMR/TNS Media

To reach its increased figures for 2002, CMR has also revised upward its quarter-by-quarter ad spending forecast for this year. The company obviously found out some time ago that its old forecast was too low, since its own tracking of ad spending found that Q1 came in with a positive number, rather than the forecast decline. Here's how that new outlook compares to what we reported in January.

2002 vs. 2001 forecast by quarter

Quarter	Forecast date	
	Jan.	June
Q1*	-5.4%	+0.4%
Q2	-3.3%	-1.1%
Q3	+3.8%	+5.1%
Q4	+10.9%	+7.1%
Full yr.	+1.5%	+2.5%

*Jan. figure for Q1 is forecast, June is actual
Source: CMR/TNS Media

RBR Observation: Look for Universal-McCann's **Bob Coen** to join the parade of forecasters upping their numbers next week when the dean of ad forecasters issues his update of the forecast we reported as part of our forecasting roundup in this year's kick-off issue (*RBR* 1/14, p. 8-9). At that time, Coen was predicting a total ad spending gain of 2.2% for 2002, with local radio up 2.5% and national (network and spot) down 1%. To date, though, national has been stronger than local this year.

You've got to give **Jack Myers** credit for taking his lumps with real class. He had already reversed course in May and changed his prediction of a 5.7% down year for advertising to an up year of 2.2% (reported in *RBR* 5/20, p. 1). Then last week (6/21) Myers paid homage to Coen in his daily *Jack Myers Report*. "Among major forecasters, Universal-McCann's Robert Coen was the only one to suggest that, for the first time, advertising would parallel the resurgence of the general economy rather than lagging the economy by six months as it has in the past," Myers wrote.

That's a class act.

Liquor advertising and radio: not just an alternative to television

According to the recent RAB liquor ad survey of member stations (RBR.com 6/5), most radio stations want to increase distilled spirits advertising, and in fact, 60% surveyed have been accepting liquor ads for more than a year. The RAB estimates liquor ads pull in around \$100M in revenue annually for radio. That figure is bound to increase.



Jack Hobbs

Liquor and Hispanic radio

We recently (RBR 6/24, p.3) ran a story about Jim Beam launching a multimillion dollar Hispanic ad campaign that used print, radio and outdoor. **Carl Larsen**, Jim Beam's Director/Global Brand Development, told us the biggest reason to use radio vs. TV was how well Hispanic radio reaches the target demo of adult Males 21-26/29: "Those guys, we find are very, very into music, very into the lifestyle that their radio station represents. I think that having our brand in that venue, particularly among these more active consumers that might not be watching primetime as much, I think it's a really good fit."

Jack Hobbs, HBC Radio Network's SVP/Director of New Business Development, GM/Network Sales, tells RBR he's gotten a lot of looks from the liquor distributors, as well as from the telecommunications

and the athletic shows and "everything else that skews young."

Why does liquor like Hispanic radio so much? "I think what we have to offer in terms of a national delivery system, or a spot market delivery system in the case of Jim Beam, is true. They're trying to go after younger, bi-lingual and/or lifestyle-driven adults," Hobbs says. "So that's what we reach. Our whole goal as a broadcast group is to deliver cradle-to-grave in terms of music. Obviously, the middle of that spectrum is what the liquor manufacturers are looking for."

The HBC Radio Network includes 55 O&O stations and 14 affiliated stations through its two partners, Mega Communications and Lotus Communications on the West Coast. So far, Smirnoff, Seagram's Seven, Jack Daniels, Jose Cuervo, Johnny Walker and Crown Royal have placed buys over the net. "We reach 85% of the total US Hispanic market. We have about four-five liquor manufacturers that are interested in pursuing Hispanic through some upcoming programs like The Latin Grammys. We're working closely with the UDV's, you know, the Johnny Walker brands. They want to be part of a lifestyle program. We have been in contact with UDV for a multi-brand activity. And they're coming after us as well with a multi-brand activity."



Jim Maksymiu

General market radio

What about general market radio? "We are all over radio," says Distilled Spirits Council (DISCUS) President **Peter Cressy**. "More than 2,800 stations have aired our ads including all of the major radio broadcast groups."

Brown-Forman's VP/Corporate Communications and PR **Phil Lynch** says they buy radio for very specific reasons, rather than just an alternative to network television, which is sometimes the misconception. "We're actually trying to be more strategic than that. There are some brands that work better with radio, particularly if we're involved in a promotion of an event that the station

is involved with. So, we're really trying to be strategic. We're not using radio as, 'OK, we can't get on television, we'll do radio'."

Radio's creative campaigns have performed well for Brown-Forman, especially the medium's ability to drive listeners to events. A recent example, according to Lynch, could be found at the Kentucky Derby with Cox Radio: "Finlandia Vodka, here in Louisville, got involved during Kentucky Derby festival. We were running a contest, 'The Best Bloody Mary in Louisville.' We teamed up with Cox and used its CHR, AC, Oldies and Classic Rock formats to target Males and Females aged 25-39. We had produced, and ran, some Finlandia ads during the month of April and early May that promoted Finlandia, but also promoted the contest. It was good for the station, because it also got them involved in Derby Festival activities, and it was good for the brand."

Lynch says Finlandia campaigns have been used in numerous markets with Cox, Clear Channel and a few independents. And for Brown-Forman brands in general, "We're definitely targeting legal drinking age and above. But whether it's 21-29, 21-34 or 25-34, it just depends on the brand—Southern Comfort is 21-29, Jack Daniels is 21-34, Country Cocktails is probably 25-34. But 21-35 is generally the range for radio," he explains.

Jim Beam has chosen to use radio instead of television to get its messages out there. Past success brings future dollars as well. "Radio is a key medium in which to communicate our messages to our consumers. We have doubled our radio investment this year. Radio allows us a very targeted medium to reach our consumers in a meaningful way," explains **Jim Maksymiu**, Jim Beam's Group Product Director.

He adds, "We do not target one specific format or program. Instead we look to partner with stations that allow us to most effectively reach our consumers."

Responsible ads

While not mandated by law, responsible drinking messages interspersed in any and all distilled spirits ads are smart for both the station, the advertiser and the consumer. "Responsibility has always been the cornerstone of our advertising and marketing practices," explains Cressy. "Over the last six decades, the distillers have abided by a voluntary Code of Good Practice. Today, the Code has over 30 provisions regarding the placement and content of distilled spirits advertisements." Those interested in reviewing our Code can go to www.distilledspirits.org.

How important is it to intersperse responsible drinking messages in the ads? "It's essential," stresses Lynch. "In all of our ads we have a responsible drinking message. It's the right thing to do and it's our corporate policy."

"Corporate responsibility has always been a focus at Jim Beam Brands Co.," adds Maksymiu. "For many years, the company has publicly advocated responsible drinking through the 'Drink Smart' campaign and other responsibility messages. We include a responsibility message in all marketing and corporate communication programs and efforts for our spirits brands."

And on the network side, responsibility goes beyond responsible drinking messages alone, says Hobbs. "First and foremost, obviously, HBC looks at every brand and looks at the responsibility campaigns as well, with the disclaimers and all of that. We take the responsibility very seriously in terms of reaching our audience because yes, we do have a younger skewing audience overall. But that being said, obviously we try and mix social responsibility with profitability. We have time guidelines as well, as in what time we accept the ads. We accept after 5PM and after Noon on weekends."

Radio vs. TV and the broadcast TV nets

Cressy says spirits ads have aired on more than 500 broadcast television stations in over 200 markets, and for cable on Fox Sports, E!, BET, Comedy Central, USA Network, Sci-Fi, Bloomberg, TNN, Style and others. Still, the refusal of network television to run the ads means national money is trickling down to radio. "Liquor is a big issue right now," confirms Hobbs. "We've been approached by the big guys because the TV money is just sitting there. We're going to make ourselves available to it. I think they would be stone crazy not to look at radio as a viable alternative. We are a viable distribution outlet, and a lot more efficient than network television. Also, couple that with grass-roots marketing. There's enough reasoning there that if you tie in your grass-roots marketing with events on site at restaurants and bars, that's what it's all about. They call it on-premise promotion."

For television, Lynch is spending on local spot to get around the networks: "Frankly, we're buying about as much as we can buy, because we think television is a great venue—and radio too."

The famed NBC turnaround decision not to accept liquor ads is ironic, because viewers are still seeing them via the local affiliate spot sales. It just makes it harder for the brands to deliver a consistent national campaign. "It doesn't make any sense," argues Lynch. "We've been running distilled spirits ads on radio and TV, including on many NBC and Fox affiliates for about five years now—that being the industry and Brown-Forman about two and a half years. We've been running these ads on ER and West Wing on NBC affiliates and Fox's broadcast of the World Series and NFL Football. And there's been virtually no pushback and no complaints for consumers, so it doesn't make any sense—a consumer sitting in their home watching The West Wing or NFL Football on Fox sees these ads and they have no idea what local availability means vs. network. They're not voicing any complaints, so it doesn't make any sense that we can't run the ads on network. It defies explanation other than political pressure."



Peter Cressy

And even that may not be the case. "We were puzzled by NBC's decision, adds Cressy. "There was no political 'whirlwind' in Congress. In fact, key members of Congress have stated that the distillers have a right to advertise and that they did not put pressure on NBC in any way. The NBC announcement was unfortunate, but it has had little impact on our efforts to advertise on television. Since NBC's announcement, there has been a surge of calls from broadcasters who want to air spirits ads. These stations watched as their competitors aired spirits ads without any controversy and they realized that they were missing out on a great source of revenue."

He thinks that eventually the networks will come on board. "Their affiliates have been airing them over the last five years with broad public acceptance. We have urged the networks to judge alcohol ads based on whether they are responsible, not based on whether they are for beer, wine or spirits. After all, alcohol is alcohol. It's just as illegal for an underage individual to drink beer as it is for them to drink spirits."

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RADAR 73 numbers released

Arbitron has released its RADAR 73 radio network audience report covering the 12-month period of April 25, 2001-March 27, 2002. RADAR 73, measuring 31 nets, is the first book to begin the transition to diary-based measurement, with 12,500 diaries included in the respondent database.

For network radio, it was a neutral-to-down book for most. Almost two-thirds of the nets lost audience. "From an audience perspective, RADAR 73 was a neutral report for network radio in general, although some networks did better individually than other networks," ABC Radio Networks Director of Research Dr. **Tom Evans** tells *RBR*. "For Persons 12+, four networks had double-digit increases (all ABC networks), and there were no double-digit decreases amongst the networks. Although almost two-thirds of the networks reported in RADAR 73 experienced 12+ audience decreases, overall network gross impressions were flat due to ABC gains off-setting losses by other networks." For P12+ audiences (see chart), Westwood One's CNN Max again topped the list, but was down slightly from RADAR 72 in P12+ and its target 25-54. Four ABC Radio nets saw double-digit increases, in large part due to Urban Advantage, up 47%. In RADAR 72, ABC only received one-third credit for the new Radio One affiliates. They're getting full credit in 73. ABC's Advantage was up 17%, and its Young Adult was up 23%. Premiere's Morning Drive AM, Focus, Diamond and Morning Drive FM pulled the respective 2nd-5th spots. While Premiere held many of its RADAR 72 rankings, 10 out of 11 of its nets lost audiences and gross impressions were down -2.6%.

"If you look at GRPs for the industry, P12+, there was a loss of 0.6 GRPs. For 25-54 overall, it was a loss of 20 GRPs; and for 18-49, there was an increase of 20 GRPs," Premiere Radio Networks VP/Director of Research **Len Klatt** tells *RBR*. "So that's a bit of a wash. We're kind of thinking it was a stable book for the industry. With regard to Premiere, for P12+, we lost about 14 GRPs. That's not a lot. We lost only 10 GRPs 25-54. Yes, our networks were down, but the amount they were down was very small."

Klatt says the books numbers were encouragingly stable, given 73 was the first partial transition to diaries: "We're viewing this book overall for Premiere and overall for the industry as fairly consistent. We're actually happy about that, considering this is the RADAR under Arbitron's umbrella that the diaries are being folded in. So far, with this first book of the phase-in, I think the folding in of the diaries with regard to the respondent database was a non-event."

AURN's Pinnacle and Renaissance nets were both down for P12+, one up and one down for Adults 25-54. Both were up, however, for Adults 18-49. Speaking of Adults 18-49, ABC's Advantage had an 18.4% increase and its Young Adult Network 23.2%. Its Genesis was up 0.5%. Premiere's Focus was up 3.1% and Morning Drive FM 2.7%, and Westwood One's Edge was up 6.1%. Adults 18-49 decreases included Premiere's Axis (-6.7%), Emerald (-1.6%) and Ruby (-4.4%), and Westwood One's NeXt (-6.3%) and Source Max (-5.8%).

For 25-54, ABC's Galaxy posted an audience increase of 3.2%; its News/Talk Production was up 4%; Platinum up 9.3%; and Prime up 2.9%. American Urban's Renaissance was up 0.1%, Premiere's Morning Drive AM up 5.7%; and Westwood One's WONE was up 3.8%. 25-54 decreases include ABC's FM (-0.2%); American Urban's Pinnacle (-4.0%); Premiere's Action (2.1%), Diamond (-2.6%), Pearl (-2.5%), and Sapphire (-0.7%); and Westwood's Blaise (-4.9%), CBS (-6.7%), CNN Max (-2.3%), Navigator (-9.6%), and NBC (-6.9%).

ABC Radio Networks announced it will be adding two nets and changing some titles for RADAR 74. The new ABC Morning News Network includes clearances on many of the nation's top News and News/Talk radio stations, and the ABC Daytime Direction Network will give advertisers the opportunity to target specific programs during middays. ABC is also enhancing the ABC Young Adult Radio Network by adding additional affiliates and audiences.

ABC RADAR 74 net name changes include:

- FM will become ABC Hot FM Radio Network.
- Galaxy will become ABC Music Radio Network.
- Genesis will become ABC FM Connection Radio Network.
- News/Talk Production will become ABC News/Talk Radio Network.
- Platinum will become ABC Information & Entertainment Network.
- Prime will become ABC Prime Reach Radio Network.

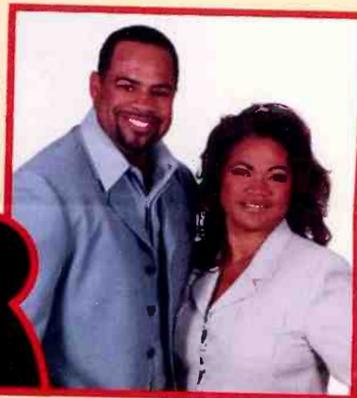
Burger King launches "BK Got Music Summer 2002"

Burger King launched (6/20) a summer-long musical extravaganza celebrating Black music—past, present and future. "BK Got Music Summer 2002" partners Burger King with Essence Entertainment, Clear Channel and Simon & Schuster. The promotion runs through September. Featured components include: the BK "What's Your Hi Fi Q" trivia contest, in a partnership with the annual Essence Music Festival and the "BK Got Music Summer Soul Tour 2002." Newspaper and radio ads will support the promotion. "What's Your Hi Fi Q" is driven nationally by radio with DJ's testing their listeners' "Hi-Fi Q." Using questions from a trivia book, 24 Grand prize winners and a guest from participating markets will win an all-expense paid trip to New Orleans for the Essence Music Festival.

"BK Got Music Summer 2002" continues in July with the Essence Music Festival. BK and Essence Entertainment and the 24 prize winners of "What's Your Hi Fi Q" will spend a week touring New Orleans. Featured performers at the 2002 Essence Music Festival include Alicia Keyes, Al Green, Mary J. Blige, Babyface, Luther Vandross, The Isley Brothers as well as comedians Steve Harvey and Cedric the Entertainer.

Closing out the promotion in August, BK, in partnership with Clear Channel will launch to "BK Got Music Summer Soul Tour 2002." Artists appearing at numerous outdoor venues across the nation include Luther Vandross, Gerald Levert, Angie Stone, other celebrities and much more. A national radio promotion tied to the Tour will offer special prizes to winning fans.

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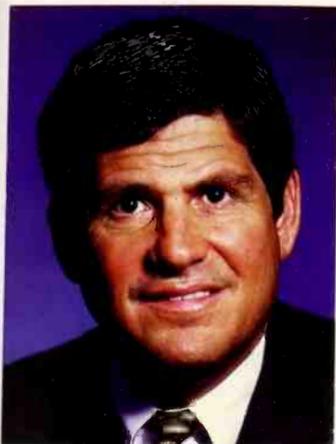
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Smulyan sees growth ahead, but investors want it now

Leading off the next round of quarterly earnings reports, Emmis Communications (O:EMMS) topped Wall Street expectations. But after hearing CEO **Jeff Smulyan's** conservative forecast for the coming months, investors sold off shares. Emmis dropped 14.53% to \$19.23 on 6/25.



Jeff Smulyan

Net revenues for Emmis' fiscal Q1 ended 5/1 were off 1.1% to \$136.8M, but broadcast cash flow (BCF) rose 4.5% to \$50.5M and after-tax cash flow jumped 33.9% to \$22.9M or 44 cents per share. Analysts survey by First Call/Thompson Financial had been expecting 35 cents.

On the plus side, Smulyan bragged that KPWR-FM "Power 106" is back to #1 18-34 and 12+ in the latest LA Arbitron book. "We haven't had that happen in seven years—we're quite pleased with that," he said.

Smulyan also said that WRKS-FM "Kiss" in New York "looks to be bouncing back into the top five 25-54—a tremendous turnaround for Kiss-FM in New York." And with the company's strongest ratings results ever in Phoenix, the CEO said Emmis is now working to turn those ratings gains into dollars.

"In radio, our challenge is New York," Smulyan admitted. "If you look at our radio group, we outpaced the rest of the industry in our other markets—I think our markets were up a little over 3%, we were up 5%—but we did not outpace the market in New York. We were down a bit and yet we believe that the ratings gains at Kiss and the performance of Hot 97 [WQKT-FM] in light of a direct competitor [from Clear Channel] is pretty encouraging news going forward."

Smulyan said Emmis' TV group is also exceeding market growth. He repeated past assurances that Emmis will separate its TV group from radio in this fiscal year. However, CFO Walter Burger also added a caveat that if that separation is done as a tax-free transaction, which is one option being pursued, IRS rules wouldn't allow the split to take place until July or August of 2003.

Although total radio revenues were down 5.2% for Q1, much of that was due to overseas operations. Emmis said domestic radio revenues were down 1% on a same-station basis. For the current quarter, the companies projecting that domestic radio will be down 1.4% and foreign 38.4%, for a total decline of 3.7%.

Television revenues gained 5.9% in Q1, but Emmis is projecting a decline of 0.1% in Q2.

RBR Observation: You don't want to over-promise, but with the ad marketplace improving, investors expected more from Emmis. In his own conference call on other problems (see page 1), Radio One CEO **Alfred Liggins** insisted that his biggest Urban station is not in the same boat. "What Emmis is experiencing in New York from Clear Channel we are not experiencing in LA," he insisted.

Emmis' guidance for fiscal Q2 (June-August 2002)

Segment	Revenues	Cash flow
Domestic radio	-1.4%	-0.4%
Foreign radio	-38.4%	-64.5%
Total radio	-3.7%	-2.5%
Television	-0.1%	-4.6%
Publishing	+0.6%	-2.3%
Company total	-1.8%	-2.3%

Source: Emmis Communications 6/25

Mangers see advertising improving

Joining Smulyan on his quarterly conference call, Emmis' New York market manager **Judy Ellis** and her LA counterpart **Val Maki** both said they were seeing positive trends in ad spending. "I know there's been a question about automotive," noted Ellis. "We're seeing tremendous increases in automotive, especially in the non-traditional-revenue side. Companies like Chrysler for the first time budgeting money for special events. We're seeing the Lincoln-Mercury dealers budget money for special events—taking it out of newspapers, by the way. We're seeing the after-market for auto doing really well. We're up here about 18%."

"In LA the market is quite healthy, showing some acceleration," agreed Maki. "What we're seeing is request for avails in general further out -- say 60 to 90 days out -- is up. Advertisers are planning and booking further ahead. Either it's a sign of confidence in the economy or they're in anticipation of what should be a pretty, you know, a hotter market, given the TV upfront and the political season that's upon us. Categorically, eight of the top 10 radio revenue categories in LA are up year-to-date through April over last year."

Devine shuffles Denver partners

Chris Devine is already part owner of KXUU Estes Park, CO, but he and his partners in High Peak Broadcasting LLC are selling the Denver market station to a new company, Superior Broadcasting, which is also partly owned by Devine.

High Peak—owned by **Bruce Buzil**, Devine and Alta Communications—bought what had been a Class A station five years ago for \$12M and upgraded it to Class C3 to put a signal into Denver on 102.1 MHz. Now it's being sold for \$30M to Superior, owned by Devine and C. Robert Allen, the principal of the New York investment banking firm Allen & Co.

Devine tells *RBR* he and Allen plan to build yet another signal upgrade. "It will cover about all of Denver when we're done," he said. Broker: **Peter Handy**, Star Media Group

RBR observation: Devine's second upgrade won't move KXUU's tower very far—just two miles to the south-southwest. But at that location, the station will be able to build up to 512 feet (height above average terrain), compared to the current 71 feet. So, although it will have to drop power to 10kw (from 25kw), that higher vantage point should provide line-of-sight coverage to pretty much all of the Denver metro. The new signal will city-grade all up a tiny portion of Boulder and put a 60 dBu signal over most of Denver's northwest suburbs (not to mention a good chunk of the Ft. Collins-Greeley market).

Small Town walks from one deal, closes another

Small Town Radio Inc. (O:STWD) was supposed to close on its biggest station purchase a few days ago. But would-be seller **Gil Kelley Jr.** of Merchants Broadcasting Systems tells *RBR* that when it came time to close the \$1.53M deal for WSEM-AM & WGMK-FM Donaldsonville, GA and WBBK-AM & FM Blakely, GA, there was no money. What about the escrow? "Well, they promised escrow, but when we pulled it to see if it was worth anything, it was worthless," Kelley said. That escrow was a pledge of 500K restricted shares of stock and Kelley said his attorney is still trying to figure out whether it has any value. "They hem-hawed around and strung us out for an extremely long time," Kelley said, but now he's looking for another buyer. "We're back on the open market," he said.

Small Town President **Don Boyd** disputed the claim that his company doesn't have cash, noting that it closed its first deal the first of this month—a \$175K all cash purchase of WDGR-AM Dahlonega, GA. "We officially own it," he said proudly. "We've got a round of stations behind it and more on the forefront in terms of acquisitions." In addition to programming its lone O&O, Boyd noted that Small Town is programming three other stations under LMAs—two in Eufaula, AL and one in Cookeville, TN.

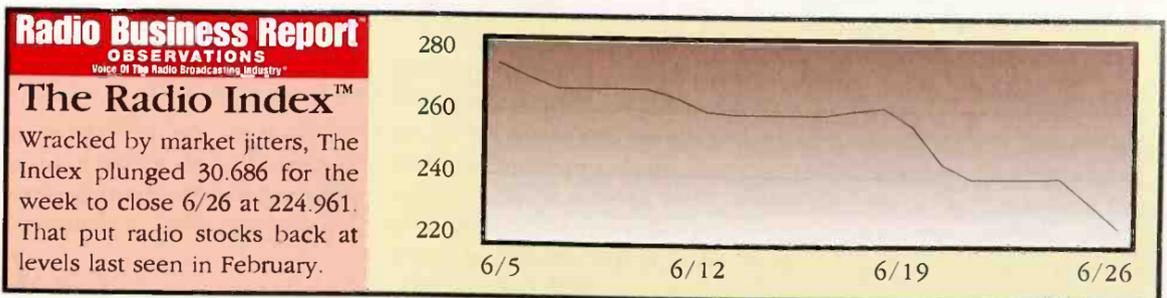
Boyd referred *RBR* to CEO **Daniel Hollis** and his acquisition team to explain why the company abandoned the Merchants deal, although he indicated that it was the result of the company's due diligence process. "There's material adverse change to operating condition of the stations since we took it under contract," Hollis said of the Merchants deal, adding that he'd been in negotiations to try to agree on a lower price. He also insisted that the stock certificate held in escrow was indeed valuable and that the company's stock has been performing well.

Boyd laughed when told that Kelley said Small Town simply didn't have any money. "They can claim that, but we had money to close on the other one and we'll have money to close on our future stations," he said. Although Small Town recently withdrew a financial plan it had filed with the SEC to have station acquisitions funded by selling stock to a Bermuda corporation, which then planned to resell the stock on the open market, Boyd said the company has been raising cash by selling stock to some individual investors. He said the company also has access to credit, but prefers to use equity at this point.

Texas FM brings \$2.5M

Tommy Vasocu's Encore Broadcasting is turning its Odessa-Midland, TX duopoly into a superduopoly. It's buying standalone KMCM-FM from ICA Media for \$2.5M.

RBR Observation: Vasocu will still trail far behind market leaders Cumulus (O:CMLS) and Clear Channel (N:CCU), both in terms of cluster size and billings, but he will now have a second 100kw signal in his arsenal.



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Benedek spin is an inside job

All 11 spin-offs from Benedek Broadcasting's acquisition by Gray Communications Systems (N:GCS) are going to a single buyer—a New York investment group headed by attorney **William Wachtel**. While Wachtel is not known in the TV industry, he is known to Benedek. He and most of the investors in the new company, Chelsey Broadcasting, were investors in Benedek, so they're reinvesting their money—about \$30M—by purchasing the Benedek stations that Gray doesn't want.

Wachtel told *TVBR* that Chelsey hasn't yet hired an operator, but he's in no rush since the new group owner has a one-year management consulting services agreement with Benedek/Gray—and that one-year clock won't start ticking until closing, which is expected in late September or sometime in October.

"So, we wondered, will Chelsey be out buying more stations?"

"We think the sector has been a healthy sector and we're going to look at all strategic opportunities," Wachtel said. "Based on the financial figures that Gray announced for all of Benedek and then for the 13 markets it is keeping, we calculate that the eight spin-off markets had 2001 revenues of \$30.6M and broadcast cash flow of \$3.5M. That makes the sale multiple about 8.6 times cash flow. That's lower than other deals we've seen recently, but then these are the least attractive Benedek properties. Gray officials had said that all except Casper, WY had positive cash flow, but with only \$3.5M for eight markets there hasn't been a lot of BCF anywhere.

If a smaller company can focus on these properties better than Benedek or Gray could, there could be plenty of upside for Chelsey. These are small markets, but they still should be able to do better than a cash flow margin of around 11%.

The new Chelsey Broadcasting

- #98 WYTV-TV Youngstown, OH—Channel 33, ABC
 - #116 WHOI-TV Peoria-Bloomington, IL—Channel 19, ABC
 - #135 KDHL-TV Duluth, MN-Superior, WI—Channel 3, CBS
 - #139 KMIJ-TV (and two LPTVs) Columbia-Jefferson City, MO—Channel 17, ABC
 - #141 KAUZ-TV Wichita Falls, TX-Lawton, OK—Channel 6, CBS
 - #163 KHQA-TV Quincy-IL-Hannibal, MO-Keokuk, IA—Channel 7, CBS
 - #197 KGWN-TV & KSTP-TV Cheyenne, WY-Scottsbluff, NE—Channels 5 & 10, CBS
 - #200 KGWC-TV, KGWI-TV & KGWR-TV Casper-Riverton, WY—Channels 14, 5 & 13, CBS
- (by Nielsen market)

FCC sets August 27th as auction day for 740 licenses

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Wallace raises TV outlook

Analyst **Tim Wallace** of Banc of America Securities has raised his forecast for TV revenues following the strong network upturn. "Given the stronger-than-expected growth in TV ad revenues in the first quarter and the robust, upfront ad demand for the networks, we have raised our TV industry growth forecast for 2002 from 3.3% to 5%," Wallace said in his monthly analysis of broadcasting stocks. "We maintain our radio industry revenue growth forecast of 2.6%, although we believe this could prove conservative. TV has significantly easier comps in the second half of the year and benefits more from political ad spending."

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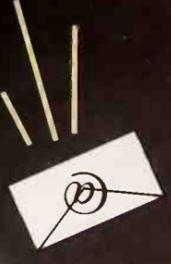
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OBSERVATIONS

June 24, 2002

Voice Of The Radio Broadcasting Industry®

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May Day, May Day

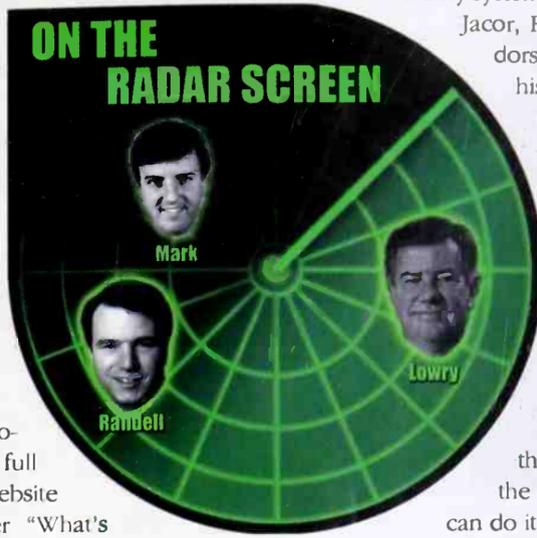
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Sacramento soap opera continues

It seemed simple enough. After years of courtroom battles in which he attempted to derail a deal to sell KWOD-FM Sacramento to Entercom (N:ETM), Ed Stolz had complied with a court order and signed the FCC form to transfer the license.



But when the application surfaced at the FCC, Stolz told *RBR* it wasn't legit. Yes, it was his signature, but Stolz insisted that Entercom wasn't supposed to file the Form 314. (See *RBR*'s Daily Email 6/18.)

"Detailed attachments make it clear that this page is void for any other purpose whatsoever. Nevertheless, someone has apparently removed the document from the clerk's locked offices, stripped the attachments from it, and then submitted it to the FCC, as if it were a legitimate signature page. Needless to say, the FCC and the appellate courts have already been alerted to this Watergate-like scheme," Stolz told *RBR*.

"I disagree," said Entercom Exec. VP and General Counsel Jack Donlevie. "He was ordered by the court to deliver that and he delivered it and we filed it." Rather than the burglary scenario described by Stolz, Donlevie told *RBR* that Entercom received the signed form from the Clerk of Court.

RBR Observation: Stolz appears to be running out of options. If he tries to withdraw the application or do anything else to block FCC approval, he's likely to face a contempt of court citation.

In his battling to retain KWOD, Stolz had claimed that the \$25M sale was conditioned on him finding other stations to buy on a tax-deferred basis, which he didn't do. But the 1996 letter of intent, which is now on file at the FCC, contains no such condition. Next time, Ed, get it in writing.

Many non-lawyers assume that a letter of intent is not legally binding, or at least easy to get out of, but that's not the case. In *Radio Deals*, noted attorneys Erwin Krasnow and Eric Werner note that, "Too often, parties enter into letters of intent without a great deal of thought." It's published by *RBR Books*, so we're tooting our own horn, but it's a valuable legal roadmap for laymen. You can also hear Krasnow on *RBR Radio*.

Back in Sacramento, Stolz insists that he'll continue to run KWOD as his appeal runs its course. "During these years, business will proceed as usual," he said.



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Benedek spin is an inside job

All 11 spin-offs from Benedek Broadcasting's acquisition by Gray Communications Systems (N:GCS) are going to a single buyer—a New York investment group headed by attorney **William Wachtel**. While Wachtel is not known in the TV industry, he is known to Benedek. He and most of the investors in the new company, Chelsey Broadcasting, were investors in Benedek, so they're reinvesting their money—about \$30M—by purchasing the Benedek stations that Gray doesn't want.

Wachtel told *TVBR* that Chelsey hasn't yet hired an operator, but he's in no rush since the new group owner has a one-year management consulting services agreement with Benedek/Gray—and that one-year clock won't start ticking until closing, which is expected in late September or sometime in October.

So, we wondered, will Chelsey be out buying more stations?

"We think the sector has been a healthy sector and we're going to look at all strategic opportunities," Wachtel said.

TVBR Observation: Based on the financial figures that Gray announced for all of Benedek and then for the 13 markets it is keeping, we calculate that the eight spin-off markets had 2001 revenues of \$30.6M and deals we've seen recently, but then these are the least attractive Benedek properties. Gray officials had said that all except Casper, WY had positive cash flow, but with only \$3.5M for eight markets there hasn't been a lot of BCF anywhere.

If a smaller company can focus on these properties better than Benedek or Gray could, there could be plenty of upside for Chelsey. These are small markets, but they still should be able to do better than a cash flow margin of around 11%.

The new Chelsey Broadcasting

- #98 WYTV-TV Youngstown, OH—Channel 33, ABC
 - #116 WHOI-TV Peoria-Bloomington, IL—Channel 19, ABC
 - #135 KDHL-TV Duluth, MN-Superior, WI—Channel 3, CBS
 - #139 KMIZ-TV (and two LPTVs) Columbia-Jefferson City, MO—Channel 17, ABC
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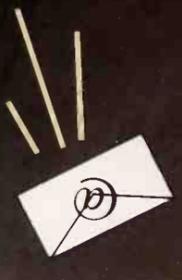
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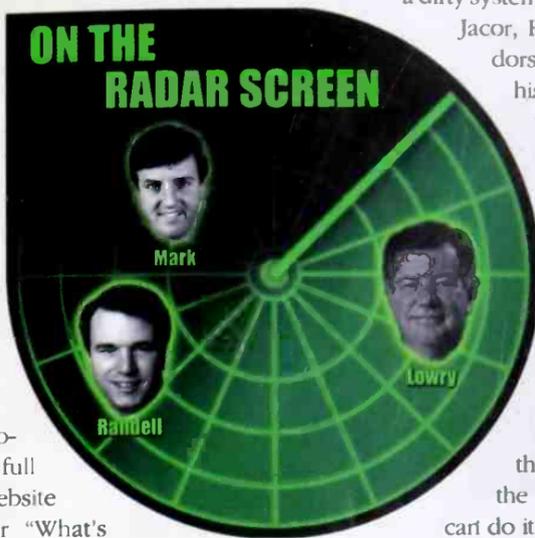
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Sacramento soap opera continues

It seemed simple enough. After years of courtroom battles in which he attempted to derail a deal to sell KWOD-FM Sacramento to Entercom (N:ETM), Ed Stolz had complied with a court order and signed the FCC form to transfer the license.



But when the application surfaced at the FCC, Stolz told *RBR* it wasn't legit. Yes, it was his signature, but Stolz insisted that Entercom wasn't supposed to file the Form 314. (See *RBR's* Daily Email 6/18.)

"Detailed attachments make it clear that this page is void for any other purpose whatsoever. Nevertheless, someone has apparently removed the document from the clerk's locked offices, stripped the attachments from it, and then submitted it to the FCC, as if it were a legitimate signature page. Needless to say, the FCC and the appellate courts have already been alerted to this Watergate-like scheme," Stolz told *RBR*.

"I disagree," said Entercom Exec. VP and General Counsel Jack Donlevie. "He was ordered by the court to deliver that and he delivered it and we filed it." Rather than the burglary scenario described by Stolz, Donlevie told *RBR* that Entercom received the signed form from the Clerk of Court.

RBR Observation: Stolz appears to be running out of options. If he tries to withdraw the application or do anything else to block FCC approval, he's likely to face a contempt of court citation.

In his battling to retain KWOD, Stolz had claimed that the \$25M sale was conditioned on him finding other stations to buy on a tax-deferred basis, which he didn't do. But the 1996 letter of intent, which is now on file at the FCC, contains no such condition. Next time, Ed, get it in writing.

Many non-lawyers assume that a letter of intent is not legally binding, or at least easy to get out of, but that's not the case. In *Radio Deals*, noted attorneys Erwin Krasnow and Eric Werner note that, "Too often, parties enter into letters of intent without a great deal of thought." It's published by *RBR Books*, so we're tooting our own horn, but it's a valuable legal roadmap for laymen. You can also hear Krasnow on *RBR Radio*.

Back in Sacramento, Stolz insists that he'll continue to run KWOD as his appeal runs its course. "During these years, business will proceed as usual," he said.



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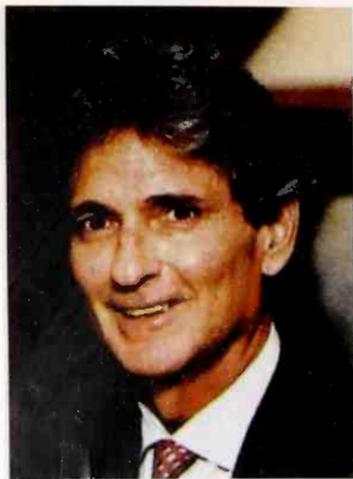
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RADIO NEWS®

PPM: Why radio is concerned

Broadcasters who gathered in New York last week to air their concerns about Arbitron's (N:ARB) Portable People Meter (see page 1) aren't necessarily opposed to replacing the traditional radio diaries with the new technology. But they have concerns about how PPM works, whether Arbitron is moving too fast and how much it's going to cost them to make the switch.



Clarke Brown

Here's what *RBR* heard from two of the group heads who attended that ad hoc meeting.

"The big concern is that it's a viable and better mousetrap than what we currently have and is it in radio's best interest—or is it in Arbitron's best interest," said **Clarke Brown**, President, Radio Division, Jefferson-Pilot Communications (N:JP). "Now, if it's good for Arbitron and good for radio, that's fine—but if it's just good for Arbitron and not for radio, that's not going to fly."

Brown said the Philadelphia test has so far raised more new questions than it has answered. "We need some more tests and we need some concurrent testing [with diaries] to validate the whole concept," he said.

Based on the initial test, Brown has concerns about how PPM is measuring morning listening—which came in lower than with diaries. "If you park that thing, like most people do habitually—you go home, you put your wallet up, you put your keys up, you put your beeper up, you put your cell phone up, and it all goes in one place," Brown said. But he wonders, is listening then being missed when people awake the next morning? The PPM might remain charging in its docking station while its carrier is getting showered and dressed—all the while listening to the radio.

"Also, it will pick up signals if I'm going home and go into a store and pick up some milk and there's a radio station playing. That station will get credit for my

listening, but I'm not listening—I'm just passing through," he said.

"There are a lot of questions along these lines, not to mention sample size and the real likelihood that you would get somebody to commit for \$11 a month to having this thing for a full year. With the system we have now, if you catch a bad month, you've got a whole other month with another group that could even it out."

The biggest issue of all, Brown says, is "what's it going to cost?" As noted on page 1, Arbitron says it can't yet answer that question. "I'm betting anything it ain't going to be cheaper!" Brown noted.

"I think that any good research needs parallel tests," **Peter Smyth**, President and CEO of Greater Media told *RBR*. As one of the participants in the Philadelphia PPM tests with Greater Media's four Philly stations, Smyth said he'd like to see a side-by-side comparison of PPM vs. diaries for the market—something Arbitron told *RBR* is coming with the next data release next week (see *RBR*'s 6/20 Daily Email).

"I have some questions about how quickly we're moving along on this adventure," Smyth said. "I'd like to see tests in some other markets, so we can have some other frame of reference. If we're doing Philadelphia, why can't we look at Chicago, Detroit or Los Angeles?"

So, we wondered, did the PPM results for Greater Media's stations set off any alarm bells?

"My stations did very well in the test, but the questions are really in the long term. How is morning drive listenership going to be recorded? That is a big concern to me. That panel [of PPM carriers] is going to have the same people on it for quite some time. What's going to happen there?" Smyth wondered.

And just how much better is it to have a device which picks up encoded signals automatically from radio, TV and cable stations? "Is that really what people listen to, or just what they're exposed to because in elevators or supermarkets, wherever they may be," he noted.

"I am not an obstructionist when it comes to technology," the CEO said. He's not committed forever to the diary, but he'd like to have more answers before embracing the PPM.

"I don't know the cost. I wish I could tell you—the economics of this, I have no idea," Smyth replied when asked if Greater Media would be willing to pay for the PPM service in Philadelphia next year. "I can't answer that. I haven't seen any real numbers—I'd like to. Just a minor detail," he laughed.

"I think Arbitron should kind of hold off. They should talk to their biggest customer, which is us," Smyth said.

Washington Beat

FCC sets EEO hearing

As *RBR* went to press, the FCC's Media Bureau announced panelists for its en banc hearing today (6/24) on its effort to create new broadcast and cable equal employment opportunity rules. Broadcasters on the panel include Nassau's **Joan Gerberding**, President of American Women in Radio and Television, **Cathy Hughes**, Founder and Chairperson of Radio One (O:ROIA), **Ann Arnold**, Executive Director of the Texas State Broadcasters' Association, **Belva Davis**, Special Projects Reporter at KQED-TV San Francisco, **Michael Jack**, President and GM of NBC in Washington, DC, **Marilyn Kushak**, Vice President of Midwest Family Broadcasters, and **Charles Warfield**, President and CEO of ICBC (Inner City) Broadcast Holdings.

NAB, files AM IBOC comments

The NAB filed comments 6/18 in the FCC's proceeding on AM digital radio supporting the NRSC report and recommendation that the Commission adopt iBiquity Digital's IBOC system for AM daytime operation and further investigate the IBOC system for nighttime use. The NAB encouraged the FCC to go forward with crafting rules and implementing daytime-only AM IBOC for now.

"Deployment of IBOC is particularly important for the AM band, which has suffered tremendously from a difficult RF environment, a high level of interference from various sources, limited receiver performance quality and lack of effective stereo operations," the NAB said. "Moving ahead to expeditiously introduce IBOC digital service in the AM band, albeit for the interim as a daytime service, will, as the NRSC notes, offer a chance to revitalize AM broadcasting."

And as to 1st adjacent interference concerns voiced by manufacturers such as C. Crane Co, which markets long-range AM radios, the NAB said: "Overall conclusions about 1st adjacent compatibility of the AM IBOC system, based on the specific situations and conditions tested, indicate that the interference caused by the introduction of the IBOC signal is expected to occur mainly outside the protected contour—an area subject to existing analog interference and far fewer listeners. The impact of this interference will be more apparent on wideband receivers than on typical narrowband automobile receivers."

Fox News wagging the dog of its own radio net/tail?

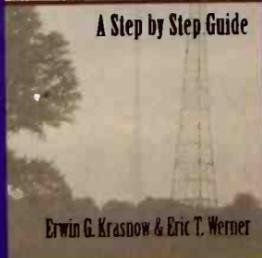
While the news has been circulating that Fox News is looking at plans to get into the network radio business—possibly alone and without partner Westwood One—**Jack Abernathy**, Fox News EVP, tells *RBR* it's much ado about nothing.

Posted on *RBR.com* 6/17 that whole thing could have been a negotiating ploy. Said one source: "That's them (Fox) totally, totally throwing something out there negotiating in advance—they're not doing anything. Fox is looking to negotiate in advance, which is not unusual."

RBRobservation: Bottom line, they don't own stations. They have content, but where are they going to get stations? The tail wagging the dog theory:

1. Former Fox News Director of Radio and News Development **Dennis Murray** may or may not have been trying to come up with and advocate his own strategy in the press and maybe his job.
2. Fox claims it was totally at odds with where the net is at this point. Abernathy on the record says 'going it alone just doesn't make sense right now.'
3. Sure it doesn't. But to us, that may be the plan someday for Fox News. They may want to buy some major market stations, first.
4. We think ABC, Premiere and others are all talking with Fox News, in light of the Westwood contract ending in less than a year. It does all boil down to money and what kind of deal, clearances each net can offer. ABC Radio Networks' deal with Sean Hannity is only with him. Westwood's deal with O'Reilly is through Fox News.
5. Bare minimum, Fox News CEO **Roger Ailes** has been a great developer of talent. He developed both Hannity and Bill O'Reilly. He will likely want to develop more and create a bigger presence in network radio. Whichever radio net can offer him the means more effectively will likely get his business. **As they say We Report – You Decide.**

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Rallying the CCU troops

Stung by Spanish Broadcasting System's (SBSA) antitrust lawsuit (detailed in last week's *RBR* and in *RBR*'s 6/12 Daily Email) on top of congressional criticism and repeated bad press about its radio/concert operations—Clear Channel's (N:CCU) top management is trying to reassure its employees and rally the troops to fend off the attacks. But an email sent out by Clear Channel President/COO **Mark Mays** also calls for circling the wagons—telling employees not to talk to the press and refer inquiries to headquarters.

To see the entire email, surf over to rbr.com, go to "What's New" and click on CCU memo.

Survey gives thumbs-down to consolidation

The Future of Music Coalition has completed its previously announced survey of public opinion—and found that people don't like radio consolidation.

While several of the seven questions were slanted to elicit an anti-consolidation response, the phone survey of 500 Americans 14 and older clearly showed dissatisfaction with the music they're hearing on radio stations. 52% said they'd like to hear more new music and less repetition, with 36% listing that as the number one way they'd change radio.

One question was particularly slanted: "Do you think local DJs should be given more air time to play songs they think their audience would like, or should they be required to play mostly the songs of artists and recording companies who have paid to get their songs played?" 78% said DJs should be given more latitude, while only 6% said they should play more songs boosted by record companies. 13% said both ways were OK and 6% were unsure.

RBR editor's note: *Who were those 6% who said they wanted to hear only the records being pushed by the labels? Did the surveyors manage to call 30 record company executives?*

But respondents came down strongly in favor of expanding anti-payola legislation. 63% said that if it's proven that radio stations are being paid to play the songs of certain companies and artists, Congress should pass laws to assure all artists access to the airwaves.

Asked specifically about consolidation, only 10% said they favored having more local radio stations owned by large corporations. 42% backed policies which would preserve existing locally-owned stations and 38% favored policies which would increase local ownership.

The survey also found support for more local LPFM stations, although it failed to address any of the financial or technical issues associated with LPFM.

The survey was conducted 5/13-20 by the Behavior Research Center. It was paid for by the Media Access Project with a grant from the Rockefeller Foundation.

RBR Observation: Dubious questions aside, radio clearly has a public relations problem. It's

easy to get people to come down against any big corporation interfering in their lives—although they still line up to spend their dollars and McDonald's and Wal-Mart—but there's plenty of evidence that average listeners do think radio is too repetitious and cluttered. It's a fine balancing act to keep listeners happy and still make a profit. Everyone would like to have a station play only their favorite songs and absolutely no commercials. But in the effort to cut costs and sell more spots to shine on Wall Street, some of the big consolidators have stretched thin their connections to Main Street.

Tipp O'Neil was right: all politics is local. All radio is local. If you've forgotten that, you're going to lose listeners and revenues in the long-haul.

XM protest sees injuries

A minor accident caused minor injuries for four pedestrians 6/14 during the 200-person strong protest at DC's XM Satellite Radio by **Al Sharpton's** National Association Of Black Organizations (NABO) and the National Action Network (NAN). A car hit a man, woman, and two girls when they were crossing the street in front of XM's HQ. All were treated at local hospitals and released. NAN and NABO are protesting XM's refusal to add what they call positive black-oriented programming from the religious Detroit-based Word Network.

Chicagoan sues CCU over high ticket costs

Seems everybody is getting in the let's-sue-Clear Channel-boat: Chicago resident **Melinda Heerwagen** has filed suit against Clear Channel for gouging ticket buyers. She wants class action status on behalf of the concert ticket buying public. "As a result of Clear Channel's illegal conduct," her suit says, "plaintiff and the class paid and continue to pay artificially high prices for concert tickets."

NAB Radio show to host independent record promoters session

The NAB Radio Show will include an independent record promoters session that will explore the relationship between stations and independent promoters, the advantages and pitfalls of these relationships, and what areas lead to scrutiny by government officials. "Independent Promotion: What's Going On?" will be a Super Session on 9/12 in the afternoon. Panelists are still being determined, NAB's **Dennis Wharton** tells *RBR*.

Emmis names Ernst & Young new auditor

The move is by default, as Arthur Andersen's Indianapolis office was recently acquired by Ernst & Young. Emnis Chairman/CEO **Jeff Smulyan** says Emnis received excellent service during its eight-year relationship with Andersen: "They have been fair and trustworthy in all our dealings."

Carping over - Streaming rates set

The Librarian of Congress **James Billington** has released the final royalty rates, terms and reporting requirements for for webcasting music performances over the Internet. The new rates: The Librarian has abandoned the CARP's two-tiered rate structure of 0.14 per performance for Internet-only transmissions and 0.07 for each retransmission of a performance in a commercial radio broadcast; and has decided that the rate of 0.07 will apply to both types of transmission. Some of the rates for noncommercial broadcasters have also been decreased—the live signal remains at 0.05 and the ephemeral or archived audio drops from 0.05 to 0.02. Any side channel fees drop from 0.14 to 0.07.

The fee webcasters and broadcasters must pay for the making of ephemeral recordings has been reduced from 9% of the performance fees to 8.8%.

The Librarian also established 9/1/02 as the effective date of the rates. From the release: "That does not mean that no royalties are due for webcasters' activities prior to September 1. Webcasters and others using the statutory licenses will have to pay royalties for all of their activities under the licenses since October 28, 1998. However, the September 1 effective date determines when the royalty payments will have to be made. Full payment of royalties for all pre-September 1 licensed activities must be made by October 20, 2002 (because the law provides that payments of arrears shall be made by the 20th day of the month following the month in which the royalty rate is set). Payment for the month of September shall be due on or before November 14, 2002, and payments for subsequent months will be due the 45th day after the end of each month for which royalties are owed."

The royalty rate all but obliterates any possibility of radio stations being able to stream their programming free to the public via the Internet. The decision drew harsh criticism from NAB President and CEO **Eddie Fritts**.

"The Librarian's decision places a prohibitive financial burden on radio station streaming, and will likely result in the termination of this fledgling service to listeners. It also perpetuates the hoax that the Copyright Arbitration Royalty Panel process reflects marketplace reality," Fritts said in a statement.

A little history: After the U.S. Copyright Office rejected the CARP webcast performance royalty recommendations for webcasters 5/21, the Librarian of Congress had 30 days to make a final ruling. On 2/20/02, the Copyright Arbitration Royalty Panel (CARP) delivered its report recommending rates and terms and to make ephemeral recordings of sound recordings for use of sound recordings.

On 5/21, however, Billington, based upon the recommendation of the Register of Copyrights, rejected the three-member panel's recommendation that the fee be set at 0.07 cents per each listen or a webcasted song from an over-the-air signal. The fee will double for Internet-only transmissions—0.14 cent per listen per song. Non-commercial broadcasters would have to pay .02 cents per listen per song on live feeds. The law provided that the Librarian issue his final determination within 30 days of his decision to reject the Panel's proposed rates and terms.

RBR observation: Well, it's better than CARP suggested for webcasters, but the same for broadcasters simulcasting their signals on the net. Bottom line, we're likely to see subscription models abound for web listening. Otherwise, the more people listen to a stream, the more the webcaster will have to pay. Advertising, as we have seen, isn't typically enough to support even a free webcast model. The labels will dominate the space, licensing each other's music and effectively canceling out each other's fees as well. We doubt this is going to help offset the record industry's losses as of late. It certainly won't get us running to the record stores any more quickly.

Adbiz News

Jim Beam launching Hispanic ad effort

Jim Beam announced it is launching a multimillion dollar Hispanic ad campaign, beginning 6/20. Part of the campaign, the "Jim Beam Flash Program," will use cameramen in bars taking people's pictures. The photos can then be retrieved on the bilingual jimbeam.com website.

The Print, radio and outdoor ads (no, there is no TV on the buy) show men and women at a bar watching a soccer game, with drinks made with Jim Beam on the counter. Another shows a similar scene with people in a club.

Carl Larsen, Director/Global Brand Development, Jim Beam, tells *RBR*, "The radio and the print, in each of the ads there will be four friends. What we tried to do is capture the different roles of the guys and how they interact with each other. Particularly, when you're talking about young adult guys of legal drinking age, they each establish their own roles within the group—the leader, the wise guy and the ladies man. The way we tried to put these together is that Jim Beam is the glue that bonds the group. 'Your real friends deserve a real bourbon,' the voice of authority talking about real bourbon and the seven generations of family history in Jim Beam."

How does the copy run over radio? Responsibly, of course. Adds Larsen: "It's the four guys in a situation where they might be watching a soccer game and they're reacting in different ways to the play-by-play; or the four guys sharing, 'How was your day' stories. Just kind of playing on how the four guys interact, interspersed with the heritage of the product and responsible usage of the product, which we thought was important. In our research, we found that Hispanic consumers appreciated us telling them how the product is consumed."

Why did Jim Beam decide on radio, vs. TV? "Our target consumer is young adult males 21-26/29. Those guys, we find are very, very into music, very into the lifestyle that their radio station represents. I think that having our brand in that venue, particularly among these more active consumers that might not be watching prime time as much, I think it's a really good fit."

Because the Hispanic market is fragmented into different ethnic subsets and linguistics across the US, the advertising will be tailored to each group.



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Conservative Talk: more mainstream than ever?

Why is conservative Talk still so hot now that **Bill Clinton** is out of the White House? Now that the best fodder—eight years of a scandal-packed Democratic administration—is gone, the Bush White House has already seen two more added to the national radio scene: **Sean Hannity** and **Bill O'Reilly**. While we all thought the Clinton-Rush Limbaugh dynamic was the only reason the genre grew so much, the ceiling has yet to be reached and television has obviously gotten into the game as well (yes, Fox News-Channel hosts call themselves "Fair and Balanced." We'll get into that later).

Syndicated conservative Talk radio used to be largely a small and medium market phenomenon. While it still is, everything used to be live and local in large market Talk radio. Now most of those large market stations are carrying conservative syndicated product as well. Rush changed everything.

"A lot of the top market guys made fun of Rush as this conservative guy.... 'After morning drive, how's he going to make it?' But Rush proved that great programming creates what I call viral programming, or the referral process," says Talk Radio Network CEO **Mark Masters**, who syndicates the popular and very right-leaning **Michael Savage** to 330 stations.

But why is conservative hotter than ever today? "There are a lot of liberals out there, but they don't listen or watch because they think they've won," said one network exec. "And so they're not interested in hearing about it. Whereas centrists and right wingers have much more of a 'fire in the belly' and are much more interested in making change."

"The powerful media culture as we know it, the news organizations, primarily resides in broadcast television and newspapers," Masters explains. "There are very little conservative views represented there. So in a sense, there's no outlet for the majority of Middle America, which have conservative values, to have an intercourse with or an interaction. There's nobody representing their views. Radio fills that niche of meeting the emotional needs of people that need to be validated."

"People seem to like, even if they don't agree with what's being said, they like hearing the conservatives, the conservative attitudes, as long as there's some sort of balance that comes with it," says ABC Radio Networks SVP Sales **Jennifer Purtau**, who sells "The **Sean Hannity Show**," among others.



Rhonda Munk

Conservative Talk is always going to be popular as long as there are issues Americans are interested in hearing about. "Today there's discussion about terrorism, government initiatives, senatorial races, the Middle East, etc.," explains from **Rhonda Munk**, EVP/Director of Sales, Premiere Radio Networks. "As long as Americans are interested in these issues, they are going to listen to conservative Talk radio. Bottom line, whatever Rush in particular is talking about, it's going to be of interest to not only his fans, but also to other concerned Americans, despite their political preference."

The 24-hour news cycle and the need for information while being mobile also contributes. With terrorism and the major events we're seeing daily, the news cycle is shorter than ever. "Talk-formatted radio not only provides you with fast information, but analysis of what it means to you. So that pulls people more to Talk radio than it would before 9/11," states Masters. "But once they get there and start hearing the analysis that brings clarity to an area that might have been vague, it crystallizes thinking into something that makes you go, 'Yes. I always knew that to be true, but I never knew how I knew it, and now I know.' That creates a deep validation, and that creates a, 'Boy I love this show. I'm going to return tomorrow and I want my friends to experience the same level of having my thoughts crystallized and validation that I have experienced.' And referral-based listenership means ratings spikes."



Mark Masters

Selling conservative talk

While ABCRN may not have issues selling Hannity, as Purtau details below, the more conservative, the harder it can get to sell a show nationally. Ultra right-wing, getting-into-the-conspiratorial conservative hosts like **Alex Jones** or **Rick Wiles** appeal to a very narrow audience and advertiser base. Radio America's **Ollie North** and Westwood's Liddy are considered pretty far to the right, but not that far. Nevertheless, they can still be harder to sell on a local, as well as national basis. Some advertisers just won't buy purely because of political differences.

How do you turn around a local advertiser who doesn't agree with a conservative Talker's opinions? "You have to learn as a listener, as an operator or advertiser is anything that comes out of their mouths is not relevant to you as an individual or your personal preferences on what you like or don't like," says Clear Channel Washington AM GM **Jim Weiskopf**, who airs conservative talkers Liddy, Savage and **Michael Graham** (local host, see p.6) on WTNT-AM. "Bottom line is that Liddy, for example, has a proven audience in this marketplace. If you're going to take a stance that you're not going to buy a program that is going to be beneficial to you to market your product on because you don't like it, then you're not making a good solid business decision. If people are listening to Liddy because they like Liddy or people are listening to Limbaugh because they like Limbaugh, then it's not really relevant what I think or what an advertising agency thinks. People listen differently in Talk radio. You're selling intrusive listening, foreground listening. People listen to the host because they like their opinions. There's much higher response rates and much more attentive listening."

And with all the trouble Premiere's Dr. **Laura Schlessinger** had with advertiser boycotts over her past disagreements with the gay community, she's back on her feet and advertisers are still on board. Are advertisers loyal, or what's the story? Says Munk: "The listeners are very loyal and trust that the products advertised in her show have value."

What's the pitch to national advertisers? Do you sell on ratings alone, past success on product testimonials (see p.6)? Or are they just marketed as compelling hosts on foreground radio with active, loyal audiences?

"All of that and more. First of all, when you're looking at a program like Hannity, the first thing you're looking at is the environment of the show," Purtau explains. "Because you're talking about listeners who are listening to the radio—they're actively involved in the process of listening to what's happening on that radio program every single day, which is just a phenomenal environment for advertisers. The interesting thing is I don't get push back on Sean from advertisers. I think he has done a very unique thing in branding himself as a guy who has a conservative bent, but keeps an open mind. And so we haven't had that experience where advertisers say he's too over the top."

Conservative?...Me?!

Certainly, the latest trend finds hosts pulling back from the conservative label. While 90% of their views and opinions tend to skew right, the newest crop insist they're centrists, populists or, "my views are my views, don't try to label them." Even though O'Reilly may side with **Rosie O'Donnell** on same-sex parenting, one could say the majority of his opinions lean right. Why don't they want to be labeled? Better access to advertisers, shying away from the Dr. **Laura** effect?

"I think there is something to that," agrees Purtau. "The guys over at Premiere for years have dealt with, of course, Rush's conservative label and he has been put on many a list of advertisers that say, 'too conservative. Not going to work for us. Our CEO doesn't believe in his politics, therefore....' And so they're probably taking a cue from that. Between Sean and Bill, there's no doubt in my mind who is more willing to dip their toe on the other side of the pool. Bill's going to go there first. Sean is fashioning his politics and the way he presents himself on both of his shows in I think, a more balanced way."

Adds Westwood One SVP Sales **Peter Kosann**: "Regarding conservative Talk shows, we would not pigeon-hole O'Reilly in that category. His whole modus operandi is No Spin, which really means he's a commentator on the news as opposed to having a particular bent on a particular issue. He decides as he goes along what his perspective will be. **G. Gordon Liddy** is conservative. **Imus** is more like compelling NPR than conservative. He's really apolitical, contemporary News-Talk. It's not conservative Talk radio, it's talk radio that's compelling. Some show hosts out there might take a conservative view in the news, but if you look at some of our leading talent—Imus, O'Reilly, **Charles Osgood**, **Laura Ingraham**—you're talking about compelling talk."



Traug Keller

"Sean Hannity is kind of in that Compassionate Conservative area that really doesn't get labeled as much. He's not anywhere near being in the Savage category. Hannity sells himself, he has opposing viewpoints on his show all the time," says ABC Radio Networks President **Traug Keller**. "We don't have issues selling Sean because he's not in that divisive category. Sean is a radio guy through and through. He'll pick up the phone, he'll call a PD, he'll pick up the phone, he'll call an advertiser. He understands how the medium works and I think that's why he's been so successful coming out of the box."



Peter Kosann

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Endorsements and live reads

Conservative Talkers like Rush really honed their craft with advertisers on the power of endorsements and live reads. The referral-based element of Talk radio, which is a very warm medium, can provide astonishing results for advertisers. Look what Rush did for Snapple, taking it from a \$60M regional beverage company to a multi-billion dollar national beverage company. When listeners love a show, they also tend to love the advertiser that supports the show. Breathe Right and Clean Shower are other success stories with Rush.

In selling Savage, Masters says he has over 6M listeners on 330 stations from KVI Seattle to WABC New York that trust the integrity of this host and whose trust can be loaned to that advertiser. "These 6M weekly listeners like this man, and if he reads an ad for you or if he endorses a product, it's not an ad anymore, it's a referral-based lead," says Masters. "And a referral-based lead is such a more powerful and productive and profitable customer, vs. when that customer hears an ad from a cold medium like TV or print, the impact is much, much more incredible. It's the difference between you seeing a Ford ad for an Excursion or a friend you trust saying, 'you've got to go and drive one of these. I love them.'"

Masters says Savage is having very good success with Jacobs Electronics and Swiss America (coin trading and marketing): "Craig Smith, the CEO of Swiss America, the advertiser, called in on the air and told Michael he would always stay with him, the response was so good."

"An on-air endorsement by a personality with a loyal following like that of Rush and Dr. Laura always delivers results for advertisers," stresses Munk. "A lot of the voiced sponsors in those programs actually don't advertise anywhere else since they benefit greatly from the measured success of direct response sales that our talk personalities



Michael Savage

deliver. Also, it's appointment radio. The time people spend listening to AM radio in general and talk programming is much higher than any other format. Even those advertisers who don't partake in the voiced sponsorship benefit from the implied endorsement. Because of the impressive results, more than half of those advertisers continue to return year after year and increase their investment."

With endorsements, generally a long-term relationship between the client and the talent is built where they become one and the same, hopefully, over a period of time. A live read can also be very compelling, despite it not being an explicit endorsement. Kosann provides some current examples: "Bose and Hotwire are two universal advertisers throughout network radio

that are using talent endorsement and/or implied endorsements to move product. Opie & Anthony to Imus to O'Reilly to Rush to Jim Rome. The beauty of a live read is that it is a higher level of integration of commercial copy into the flow of the show."

"The ability for Sean to do live read copy, and the fact that we have limited availability for that for advertisers is also an exceptional selling point because Sean brings his unique brand of sell to the airwaves, which then lends itself to those testimonials. There's a direct correlation between live read radio and great results. We have advertisers who are waiting for openings to happen with live read on Sean's show. Live read advertisers include Pro Flowers, Brite Smile and Lobster Gram."

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One host's opinion

Michael Graham, author, comedian, political consultant and guest and/or host on ABC's Politically Incorrect, CNBC, NBC Nightly News, C-SPAN, Talkback on MSNBC and Hardball with Chris Matthews, is WTNT-AM Washington's live and local conservative Talker in afternoon drive.

Says Graham: I don't buy the "Conservative Talk is hot" theory. I buy the "stop telling me what I want to hear and start telling me what I NEED to hear" idea. Ten years ago, Rush was hot for, among many reasons, being the alternative voice to the left-of-center media chorus. Conservatives like me flocked to him as an oasis, a place where our attitudes and values were the norm. He didn't give "equal time" because, as he often said, he WAS equal time.

Today, I get a sense that after a decade of our team vs. your team Talk (GOP good, Dems bad), listeners want to be told what I call on my show "the natural truth" (it's a line from an **Elvis Costello** song called "The Eisenhower Blues.") More conservatives are putting a premium on being right over being right-wing. If our team is wrong, we're ready to hear it and do something about it. 10+ years ago, we didn't want to hear it at all.

So why then isn't a left-of-center host telling "the natural truth" and racking up ratings? Because the premise of liberalism is "what the world could be," if only we raised taxes, hugged children (but not in an inappropriate way), sang kum-baya, etc.

Conservatism is premised on how things are—pretty rotten—and on a belief that there's not much mankind can do to make it better, certainly not through government.

I get a real sense that in DC there is a hunger to get past the faint-hearted liberalism in the local media, that people are ready for someone to stand up and say: "This is the world we live in. It may not be the world you want, but it's what we got. Let's deal with it and have fun at the same time."

By Jack Messmer

Entravision gets top grade from Meyers

Entravision (N:EVC) is top of the class for the second straight time in "The Original Ratings Report Card" from Lehman Brothers analyst **Bill Meyers**. The number three Spanish radio group scored highest in Meyers' analysis of Arbitron results from the Winter book in large part because of ratings growth by its reformatted station, but showed growth as well on its core properties. Meyers gave Entravision his only "A."

Spanish Broadcasting System (O:SBSA) scored an A-minus, though, with KLAX-FM Los Angeles powering its ratings growth.

But while ratings growth sets the stage for revenue growth, Meyers notes that even the best ratings are of limited value in the midst of an ad recession.

"Just as a rising tide lifts all ships, the opposite also hold, making it difficult to convert ratings outperformance into revenue growth," he said. Even so, Meyers attributed Radio One's (O:ROIA) 5% same-station growth in 2001 to having exceptionally strong ratings growth. "However, those companies with only modestly strong ratings were unable to overcome broader industry softness."

Here's how the class has been doing.

Bill Meyers' Ratings Report Card

Company	FA 00	WI 01	SP 01	SU 01	FA 01	WI 02
Beasley	—	C	C	B-	B	B-
Citadel	B	B-	B-	B-	B-	B-
Clear Channel	B-	B-	B-	B-	B-	B-
Cox Radio	B+	B+	B+	B+	B+	B+
Emmis	A-	A-	A-	A-	B	B
Entercom	B	B-	B-	B	B	B-
Entravision	—	—	—	—	A	A
Hispanic	C	C	C	C	C	C
Infinity	B+	B+	B	B	B	B-
Radio One	B+	A-	A-	A-	B+	B
Saga	—	B	B-	B-	B	B
SBS	C	C	B-	B+	A-	A-

Source: Lehman Brothers

Communications—has filed with the FCC to take possession of a station it has been LMAing since 3/1. It will pay \$3M for KOKE-FM (formerly KHHL), which is licensed to Pflugerville, TX. The seller is **William Jamar**.

RBR Observation: This station already puts a good signal over Austin with its Class C1 signal on 98.9 MHz. But it's not a city-grade signal. But with a CP to change its city of license to Leander, TX and downgrade to Class C2, KOKE is going to city-grade every inch of the Texas capital—and its suburbs in all directions.

Simmons divests an Albuquerque AM

Simmons Media Group is divesting one of its seven Albuquerque, NM stations—selling KIVA-AM to a new local owner for \$500K. Argon Broadcasting Company LLC, owned by John and Dorothy Argon, will also reimburse Simmons up to \$5K for the transmitter being obtained to complete the station's upgrade from 5kw to 10kw.

After the sale, Simmons Media Group will still have one AM and five FMs in its Albuquerque superduopoly.

Radio One moving jazz downtown

Radio One (O:ROIA) has filed a request with the FCC to move its Indianapolis market Smooth Jazz station, WYJZ-FM, into town from the far suburbs. The Class A on 100.9 MHz is currently licensed to Lebanon, IN, on the northwest side of the Arbitron metro. Radio One wants to change that city of license to Speedway, IN, just west of downtown Indianapolis. Although Speedway is in Marion County, which has a unified city-county government with Indianapolis, the home of the Indianapolis Motor Speedway still has its own local government as well. Radio One's proposal says the move will eliminate short-spacings with WWKI-FM Kokomo, IN and WMGI-FM Terre Haute, IN.

The FCC has set a deadline of 8/5 for comments on several issues: Whether Speedway does qualify as an independent community; Whether non-commercial WIRE-FM provides adequate service to Lebanon as the only remaining local station if WYJZ leaves; And whether the public interest would be served by the relocation, which would mean a loss of service to 35K people.

RBR observation: Sure looks like this is what former WYJZ owner **Bill Shirk** had up his sleeve when he fronted the money to launch WIRE. It's virtually impossible to get the FCC to approve a city of license change that leaves a community with no local station. But if you build a second station...

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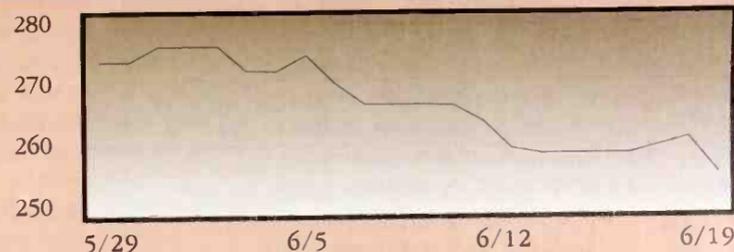
Univision (N:UVN) got the big headlines (*RBR* 6/17, p. 1) with its \$3.5B deal to acquire Hispanic Broadcasting (N:HSP), but it's not only the giant Spanish groups who are growing. Hispanic media is hot and that's good news for all Spanish radio groups.

Amigo Radio Ltd.—the group which used to be known as Rodriguez

Radio Business Report OBSERVATIONS Voice Of The Radio Broadcasting Industry™

The Radio Index™

Malaise continues to take radio stocks lower. The Radio Index™ closed 6/19 at 255.647, down 3.848 from a week earlier.



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Spectrum auction called off

Last issue we said that Congress would have to act with uncharacteristic speed to block the spectrum auction that the FCC had scheduled for last week (*TVBR* 6/17). Well, with the clock ticking down, both the House and Senate passed legislation to put an indefinite hold on most of the auctioning of Channels 52-69. As the bill headed to the White House 6/18, the FCC decided to delay its Wednesday (6/19) auction of Channels 52-59 for 24 hours to give President Bush time to decide whether to sign the bill. That proved unnecessary, as the President added his signature last Tuesday. (See *TVBR*'s Email bulletin, 6/19.)

Under the law passed last week, only three UHF Channels will be auctioned yet this year—the so-called C and D blocks, which are to be put up for bids between 8/19 and 9/19. The C block—Channels 54 and 59 paired for two-way wireless communications—are to be auctioned off in each of 734 local markets. The D block—Channel 55—is to be auctioned as six regional licenses.

That limited auction provision was used to appease rural senators, particularly Sen. Ted Stevens (R-AK), who wanted an immediate auction for the rollout of new wireless services in rural areas. The rest of the Channels 52-59 auction, and that of Channels 60-69—which the FCC had recently re-scheduled for January—is now on hold indefinitely. The law requires the FCC to do a study of its spectrum management policies and report back to Congress.

The Congressional action was a disappointment to Paxson Communications (A:PAX) CEO Bud Paxson, who has led the TV industry coalition pressing for the Channel 60-69 auction to take place. He was traveling as the delay bill became law, but spokeswoman Nancy Udell provided his response. "The delay of the auction is not unexpected, but it directs the FCC to study the issues of spectrum auctions and digital transmission and report back to the Congress. We're hopeful and we trust that in its report the FCC will continue to acknowledge the benefits of voluntary band clearing," she said.

Paxson, Univision (N:UVN) and other groups with stations in Channels 60-69 stand to receive substantial payments for vacating the spectrum ahead of time if the auction takes place before the band is due to be cleared by the DTV conversion.

TVBR Observation: Payoffs are still possible. Our check of the FCC's database finds 14 full-power TV stations on Channel 54, 13 on Channel 55 and seven on Channel 59. Many of those stations—not to mention DTV allocations, translators and LPTVs—will have to be removed for the successful bidders for the C and D blocks to be able to make use of their spectrum—particularly when it comes to the regional D block licenses.

The only way to do that is to pay the broadcasters to move out early. Otherwise, the winning bidders will have to wait years for completion of the DTV conversion.

As you've probably guessed, several of those stations on Channels 54, 55 and 59 are, indeed, owned by Paxson. So Bud may yet pick up a few checks. We've always believed that spectrum auctions were bad public policy, even if they do occasionally carry a windfall for broadcasters as well as the US Treasury. Finally, a few people on Capitol Hill are starting to question the practice. A few days before voting to halt the pending auctions, Sen. Sam Brownback (R-KS) had this to say: "Deposits of auction revenues in the treasury should be seen as an added bonus, not the primary goal of spectrum auctions. However, with the passage of the Balanced Budget Act of 1997, we clearly lost sight of these principles. Our resulting reliance upon spectrum auctions for revenue generation, and not solely for spectrum assignment, cannot continue." Amen, Senator.



Sam Brownback

More US households than ever are receiving cable programming from alternative delivery systems (ADS), rather than a cable company, according to Television Bureau of Advertising (TVB) analysis of Nielsen data from May.

"Advertisers who buy cable locally need to know that local wired cable systems' ability to deliver commercials continues to erode," said Susan Cucinello, Sr. VP of Research at TVB. "ADS subscribers view local commercials on broadcast TV stations, but they do not receive local commercials in national cable programming." Since Nielsen's reports don't separate cable viewing from satellite and other ADS providers, Cucinello says advertisers have to make that recalculation manually.

TVB's analysis found that satellite delivery grew to 13.8% in May 2002 from 11% a year earlier. For the same time period, wired cable penetration contracted to 70.6% from 70.8%. ADS penetration is highest in smaller rural markets, with Meridian, Mississippi tipping the scales at 36.5% of TV households. But as the chart at left shows, the satellite providers have also made strong inroads in some of the nation's largest markets.

Cable losing ground to satellites

Terrestrial TV broadcasters won at the US Supreme Court 6/17 as the justices refused to hear a case brought by EchoStar Comm. (O:DISH) and the Satellite Broadcasting and Comm. Assoc. against the FCC's must-carry rule. EchoStar had claimed that requiring it to carry all local TV signals on its satellite service if it carried any of the signals in a market violated the company's free speech rights under the First Amendment.

By refusing to hear the case, the high court let stand the decision of a federal appeals court in Richmond, VA which ruled that the must-carry rule for satellite TV carriers was "a reasonable, content-neutral restriction on satellite carriers' speech."

CBS to air Victoria's Secret show

A similar lingerie fashion show by ABC last November drew howls of protest from Capitol Hill, but also strong ratings—so now it's CBS which has signed a deal to broadcast a prime-time fashion show by Victoria's Secret. According to *TV Guide*, Viacom's (N:VIA) CBS quickly latched onto the project when Disney's (N:DIS) ABC decided to pass on a repeat performance. After receiving numerous complaints about the November show, the FCC ruled that it did not violate the Commission's indecency standard.

RBR Observation: No confirmation yet if we should see Mel and Sumner in matching pink tutus.

Supreme Court backs broadcasters

After failing earlier this month (See *TVBR* 6/11 Daily Email) to get the FCC to hold-off on an order granting must-carry status to local stations owned by Paxson Com-munications (A:PAX), Hughes' (N:GMM) last week (6/18) began carrying the sig-nals as part of its local channel package in 26 markets. That's in addition to the PAX network feed, which is carried in DirecTV's national package.

"Our local advertisers are now able to reach the high-end DirecTV customer. This will also allow DirecTV viewers ac-cess to PAX's strong local programming," said Paxson President/CEO Jeff Sagsansky. Although the FCC order granted the PAX O&Os must-carry status in 37 mar-kets, delivery of 11 signals was delayed by technical issues. The 26 markets where DirecTV began redistribution last week include some of the nation's largest—New York, LA, Chicago, Philadelphia, San Fran-cisco, Boston and Dallas.

DirectTV carrying local PAX signals

Why do we think that faulty study will be flashed around time and time again as the so-called "reformers" on Capitol Hill try to build support for their plan to steal 1% of all TV and radio revenues to help pay for their campaign ads?

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Market	% of TV HH
Nashville	23.1%
Albuquerque-Santa Fe	22.0%
Greenville-Spartanburg	21.9%
Dallas-Ft. Worth	21.6%
Salt Lake City	21.0%
Raleigh-Durham	20.8%
Memphis	19.5%
Indianapolis	19.4%
Houston	19.3%
Birmingham, AL	18.4%

Source: TVB

Highest ADS penetration in top 50 markets

Granite offering candidates free air time

Granite Communications (O:GBTV) is offering free air time to political candidates in all of its markets with major contests this year. The offer by Granite's stations is being made to candidates for Governor and the US Senate in New York, California, Illinois, Minnesota and Indiana. Candidates will be offered two minutes of free time per week for the six weeks leading up to this November's general election.

"This announcement coincides with our long-standing commitment to public ser-vice and the free airtime that we provide to candidates is a valuable part of the political process. Our stations' news broadcasts are among the highest rated in their markets and the granting of this access to political candidates is a valuable service to our viewers," said Granite CEO Don Cornwell.

TVBR Observation: Don't expect Sena-tors McCain and Feingold to notice. They're out to pick your pockets, so don't try to confuse them with the facts.

The NAB fired off a letter last week taking the actual number was 10.

Why do we think that faulty study will be flashed around time and time again as the so-called "reformers" on Capitol Hill try to build support for their plan to steal 1% of all TV and radio revenues to help pay for their campaign ads?

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