Radio Business Report™
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Shocker: Suleman jumps to Citadel from Infinity

Farid Suleman

In a surprise move, **Farid Suleman**—**Mel Karmazin**'s long-time right-hand man—has left Viacom (N:VIA) to run Citadel Communications.

Forstmann Little & Co. announced Wednesday (2/20) that Suleman had joined the firm as a Special Limited Partner. He has also been named CEO of Citadel Communications and will join the Citadel Board of Directors. According to the announcement, **Larry Wilson** "will continue to serve as Chairman of Citadel and focus on acquisition opportunities."

Until last week, Suleman was President and CEO of Infinity Broadcasting Corporation, the subsidiary of Viacom which operates Infinity Radio and Infinity Outdoor. He was also CFO of Westwood One (N:WON), which is partly owned by Viacom.

"Farid Suleman is a first-rate executive. His exceptional experience and breadth of knowledge will further strengthen the firm as we manage our current investments and seek new opportunities," said **Ted Forstmann**, Senior Partner of Forstmann Little. "Farid's strong operating, financial and media industry experience, coupled with his proven ability to drive growth, make him the ideal leader to expand and take Citadel to the next level as a premier media company. We look forward to the many contributions he will bring to Forstmann Little in the years to come."

"I am extremely pleased to partner with Forstmann Little, a firm with an outstanding reputation for integrity and an exceptional track record of success," said Suleman in the press release. "This is a wonderful entrepreneurial opportunity for me and I look forward to working with this talented group and to contributing to the firm's success in the years ahead."

At Viacom, his mentor wished Suleman well.

"I want to thank Farid for his 16 years of service and leadership at Infinity, where he was a driving force in the division's growth and expansion. We wish him well as he moves on to this entrepreneurial opportunity," said Karmazin in Viacom's own announcement.

Suleman had been CFO of Infinity when it was strictly a radio company, before it merged with Westinghouse/CBS and then Infinity.

Viacom said that Karmazin will take over Suelman's duties at Infinity until a successor is named. **Dan Mason**, President of Infinity Radio, and **Wally Kelly**, President and CEO of Viacom Outdoor, will continue to oversee the day-to-day operations of their respective businesses.

Citadel Communications, which Forstmann Little took private last year in a $2B buyout, owns more than 200 stations in 42 markets.

***RBR* observation**: Coming on top of the recent stress between Viacom's top two executives, you have to wonder whether Suleman saw the handwriting on the wall for Karmazin.—JM

RBR Profiler

Saga's Warren Lada on keeping GMs focused on the job at hand

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Pederson out at NRB

Controversy over political philosophy has left the National Religious Broadcasters without a president. As NRB began its annual convention 2/16 in Nashville, the board of directors voted 7-1 to accept the resignation of **Wayne Pederson**, who had been unanimously elected president and COO less than five months earlier after the death of **E. Brandt Gustavson**.

Pederson came under fire for comments which appeared 1/5 in the *Minneapolis Star-Tribune*, in which he seemed to question whether NRB as an organization should steer clear of politics. He was quoted as saying that when people think of NRB, "they think of the political right, and I think that's unfair. We missed our main calling with that. But what's probably more disturbing to me is that evangelicals are identified politically more than theologically. We get associated with the far Christian right and marginalized. To me the important thing is to keep the focus on what's important to us spiritually."

That brought public criticism of Pederson from **Donald Wildmon**, President of the American Family Association—a large radio group owner and an NRB member (RBR.com 2/4)—and ignited a behind-the-scenes movement inside NRB to oust the new president. Both Wildmon and Focus on the Family President **James Dobson** were said to be furious about Pederson's remarks, which they thought demeaned their ministries.

As he announced Pederson's resignation, newly-installed NRB Chairman/CEO **Glenn Plummer** insisted that all was well with the organization. "First, let me say than any anxiety about a change in direction of NRB is unfounded. Regardless of what you have heard or read in recent weeks, our mission remains the same."

"Norma and I will be fine, and we are excited about what God has for us next," Pederson was quoted as telling the board in a news release from NRB. "My concern is for NRB—and that is up to you, to continue in unity. We are disappointed and sad to leave, but we would be sadder still if a rift had resulted from this situation. We want you to unite around the common cause that brings us together."

The NRB board said it will consider options for naming an Interim President/COO and announce its decision at a later date.

***RBR* observation**: Who need lions when the Christians are busy devouring each other?—JM

More NRB coverage on page 2.

Radio Business Report
Voice Of The Radio Broadcasting Industry®

NEXT WEEK

The RBR Profiler takes aim at Triad Broadcasting Company, LLC

David Benjamin on why he got back into radio after selling his first company—and where Triad is heading.

Part 1 of a 4-part in-depth look at this growing mid- and small-market radio group.

Television Business Report
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Part 3 of Brokers conversation about the upcoming TV deals

Duopoly reaches 80%; superduopoly over 60%

Radio ownership consolidation continued to march on in 2001, although the brakes were definitely in use for much of the year, when station trading came to a near complete standstill at times. Nonetheless, the number of stations in Arbitron-rated markets which were in a superduopoly cluster topped 60% in September, and at the very end of December, the total of all stations in any kind of consolidated grouping, including duopolies and LMAs, reached 80% for the first time.

The level of superduopoly consolidation at the end of 2000 was 58.5%; total consolidation back then was at 78.6%. The gains in consolidation were by far the smallest since the superduopoly era began with enactment of the Telecommunications Act of 1996. Below is a consolidation breakdown by market size with deals announced as of 12/31/01.—DS

Mkts	Stns	Super	Consol
1-50	1570	58.3%	81.5%
51-100	1155	64.0%	81.3%
101-150	865	57.2%	77.5%
151-200	888	62.2%	79.2%
201-250	695	64.7%	78.6%
251-smlr	434	57.6%	79.5%
TOTAL	5607	60.7%	80.0%

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RADIO NEWS®

CARP calls for cash from streamers

CARP, the copyright arbitration panel given the task of determining for the US Copyright Office a royalty fee structure for webcasting, has released its recommended rates 2/20. The three-member panel recommends the fee be set at 0.07 cent 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.

For example, if 1,000 people listen to a song broadcast by a radio station online, the broadcaster would have to pay for the song and for each of those listeners, or 70 cents. If those people listen to two songs, the fee would be $1.40. The panel recommended fees lower than the record industry wanted and higher than the webcasters had proposed. Many webcasters had hoped that the fee would have been based upon a percentage of the webcast revenue. The U.S. Copyright Office will review the decision and set final rates in late May.

The panel rejected both of the original requests for 0.013 cent per song per listener the webcasters offered to pay and the higher 0.4 cent the recording industry proposed. On top of the 0.07 or 0.14 cent per song, companies playing music online would have to pay an additional 9% of those royalties to the record companies and artists for any temporary recordings made for webcast. The RIAA asked for a 10% charge.

Noncoms who webcast their signal will pay .02 cent per song and either .05 cent or .14 cent per performance, depending on whether its live programming or not. There's also an annual fee of $500 for each licensee.

Public comment is due by March 11. If the rates are final, they'll be retroactive to October of 1998.

***RBR* observation**: The proposal would charge per listen, per song. If it goes through as proposed, the few radio stations left streaming would be saying something like, "Please, listen to our radio station, not our webcast...please!" Bottom line, consumers are probably going to be charged to listen online across the board. And to think the industry was worried about AFTRA fees. We can only hope the Copyright Office will realize that the fees are too high, especially for stations that have potentially a large number of online listeners. For example, Clear Channel's KIIS-FM LA attracts roughly 100K listeners daily. Do the math.—CM

Bush and Ashcroft thank NRB for prayers

President **George W. Bush** praised members of the National Religious Broadcasters in a taped message 2/19 at the NRB convention in Nashville. "This noble calling is an important mission, and so I thank each of you for your commitment to taking the Good News through so many radios, television sets and the World Wide Web," Bush said. "Your work touches hearts and it changes minds."

NRB members engage in a ribbon cutting ceremony

Bush began his remarks by telling NRB, "Laura and I are so grateful for your prayers"—a comment echoed a few minutes later by Attorney General **John Ashcroft**, who addressed the gathering in person.

"I want to thank you for leading our culture to prayer. And I want to thank you for the prayers that you have prayed and those that you lead have prayed for the United States of America," Ashcroft said.

The attorney general focused on the war on terrorism in his remarks. Before arriving at the NRB convention he had spoken briefly at the US Attorney's office in Nashville, where a Middle Tennessee anti-terrorism task force of federal, state and local officials is based.

Both President Bush and Attorney General Ashcroft praised the NRB's late President **E. Brandt Gustavson** in their remarks, but neither mentioned the tumult which led to the ouster of his successor, **Wayne Pederson**, just three days earlier (see page 1).

As the NRB's 59th annual convention wrapped up, the organization announced that attendance had reached nearly 6,000—more than any previous NRB convention.—JM

NAB files IBOC comments

In comments filed in the FCC's proceeding on IBOC, the NAB says that IBOC technology is the radio industry's preferred route to a digital future and urged the Commission to authorize iBiquity Digital's IBOC technology for the service as soon as possible. The Commission has requested public comment on the National Radio Systems Committee's "Evaluation of the iBiquity Digital Corporation IBOC System, Part I—FM IBOC."

Said the NAB in its filing: "...[NAB] urges expeditious action by the Commission to speed the authorization and introduction of terrestrial digital radio, for the benefit of America's listening public and its free over-the-air radio broadcasters who seek to serve listeners and compete in an increasingly digital world...As the Commission said in the NPRM, resolution of the policy issues raised there 'will shape fundamentally the nature of our radio broadcast service for years to come, and we intend to be in a position to act expeditiously when the time is ripe.' NAB believes that the time is now ripe."

The NAB adds that one of the FCC's policy goals has been to support a vibrant and vital terrestrial radio service for the public and to create digital opportunities for existing broadcasters, and iBiquity's technology "has now proven out for the FM band and clearly is the path to achieve these policy goals."—CM

Radio One PDs: OK to play?

Inside Black Radio reported that Radio One PDs have been effectively neutered and/or spayed: "*Inside Black Radio* sources hear that Radio One has made it official, "PD's are not allowed to add any new music without checking with corporate first. A memo was sent to all label executives."

Apparently, there was no such letter. The responses: "That is absolutely not true," Radio One DC GM **Michelle Williams** tells *RBR*. "I don't know where that came from. We are bringing our research in-house since Strategic went under. And so we're kind of changing some of our systems, but that's not true."

"We tried to help Strategic stay afloat last year and it didn't work and so we've been moving towards moving our research in-house," adds Radio One COO **Mary Catherine Sneed**. "So we're going to change the system around a little bit. We're had some conference calls since we've been involving the PDs in it. So I don't know what that's about. I mean that would be crazy—yeah, we're now going to let our CFO add all the records to the station!"—CM

Apex homes in on Charleston SC

WHLZ-FM, a Class C operating on 92.5 mHz out of Manning SC, is looking for a new home. With the FCC's help, it has found it in the town of Moncks Corner, some 35 miles to the southeast.

The two towns are separated by a pair of large lakes, Marion and Moultrie. Manning, to the north, is nearer the Florence market; Moncks Corner, to the south, is nearer Charleston. The station actually draws ratings in both markets. Despite the distance between the two towns, this change will not require a transmitter relocation. It currently just about splits the distance between the two towns, sitting 23.4 miles north of Moncks Corner.

***RBR* observation**: So why make the move? For starters, the Cumulus (O:CMLS) outlet has been sold to **Houston** and **Voncille Pearce**'s Apex Broadcasting (*RBR* 10/29/01, p.6). The Pearces are also buying WAVF-FM and WJZX-FM. WAVF is very much a part of Charleston, and WJZX can be—like WHLZ it is between markets, but to the south between Charleston and Savannah, GA.

So the move may be psychological as much as anything. We speculated when we reported on the deals that Apex may move to focus the operation on the central location—Charleston—and this change of city of license indicates that this is indeed the plan. Moncks Corner is close enough to Charleston to have some meaning for folks there—Manning is not.—DS

Auctions: When noncoms wander into commercial waters

When new channels are open for application, the FCC's former rule required all applicants, including noncommercial-educational (NCE) entities, to enter into an auction. However, the US Court of Appeals for the D.C. Circuit shot the rule down the following year, saying that the FCC could not use auctions when NCE entities are among the interest parties.

The FCC is considering the following remedies, any and all of which may be adopted. The options are verbatim from the FCC's Second Further Notice of Proposed Rulemaking on the topic:

1) Hold NCE entities ineligible for licenses for non-reserved channels. NCEs would be limited to FM and TV channels specifically set aside for them either in the reserved band or through the allocations process.

2) Permit NCE entities opportunities to acquire licenses for non-reserved channels when no commercial entities apply for them, and

3) Provide NCE entities opportunities to reserve additional FM and TV channels.

Comments and/or further suggestions which would be consistent with the Court ruling are being accepted.—DS

CCU looking for a Memphis/ Mississippi migration

Clear Channel (N:CCU) engineers have come up with a nifty little proposal to spiff up its Memphis cluster. In particular, it proposes to upgrade WOTO-FM, its Class A Oldies outlet coming out of Olive Branch, MS on 95.7 mHz.

The proposal calls for WOTO to move its city of license to Horn Lake, MS, which provides that community with its first local service, and which also happens to be closer to the Memphis area. Horn Lake is about ten miles due west of Olive Branch, and directly south of Memphis—and the transmitter site would be built even closer, about 8.5 miles north of Horn Lake, which is pretty much within the Memphis urban area.

According to the proposal, the Olive Branch site reaches 55% of the Memphis urbanized area, while the Horn Lake site would cover 68%.

This move would also eliminate short spacing which now exists between WOTO and WCNA-FM, which broadcasts on 95.9 mHz out of Potts Camp, MS.

To preserve local service in Olive Branch, Clear Channel would change the city of license of Class C1 KJMS-FM (101.1 mHz) to there from Memphis, which has numerous licensed stations, preserving Olive Branch's status as a one-FM town. To do this would require only paperwork—the transmitter and tower can stay where they are.

Comments are being accepted until 4/8/02 by the FCC, with replies accepted until 4/23/02.—DS

Torricelli unhappy about demise of his amendment

Senator **Robert G. Torricelli** (D-NJ) had to watch the House of Representatives strip out the part of the Shays-Meehan Campaign Reform Bill that closely mirrored his self-named amendment to the similar McCain-Feingold bill in the Senate. There is also a strong likelihood that the Senate will agree to leave it out of the final version to be presented for President **George W. Bush**'s signature.

Toricelli is not pleased.

Decrying the roll of broadcast lobbyists in defeating the measure, he said, "This is the ultimate hypocrisy. The very news departments and executives that come to this Congress and complain about the state of politics in America, the lack of public confidence and the declining levels of integrity in the public discourse because of campaign fundraisers are now a principal obstacle to reform."

Torricelli continued, "Reducing campaign fundraising without reducing the cost of campaigns is not reform. It reduces the amount of communication between candidates and voters. This is the silencing of political debate in America."

RBR observation: It is almost a foregone conclusion that Congress will make another attempt to pick broadcasters' pockets—but the 3-1 margin by which the House voted down the Torricelli amendment gives cause for optimism that they will fail again.—DS

Disney: Worst is over

Disney (N:DIS) CFO **Tom Staggs** sought to reassure investors at the company's annual shareholders meeting (2/19). "Our near-term view of the marketplace in general is still somewhat uncertain," he noted. "However, we expect that the worst is behind us, and we are beginning to see signs that the economy is coming back.

Staggs noted that Disney began cost-cutting efforts 18-months ago and met its goal of reducing overhead by $500M in 2001. He also reported that the company's effort to eliminate 4,000 jobs is "virtually complete and was accomplished primarily through a voluntary separation program." That staff reduction, he said, will save an additional $350M a year over time.—JM

Small Town gets new Chairman

Small Town Radio Inc. (O:MOLY) announced that **Daniel Hollis** has joined its Board of Directors and been named Chairman. He will also serve as interim CEO and head the committee looking for a permanent CEO. Hollis is a veteran of several technology and healthcare companies, as well as investment banking, but has no previous experience in media.

***RBR* observation**: Small Town didn't announce a couple of other personnel matters that we found in their latest SEC filing. **Michael Cobb** resigned effective last Friday (2/22) after only a couple of months as CFO. And his predecessor, **Robert Vail**, instituted an arbitration proceeding against the company last month, claiming that he's still owed additional compensation from his time at Small Town Radio. Meanwhile, the company is still awaiting SEC approval of the financing deal that it announced last September with Grenville Financial to fund its pending radio station acquisitions.—JM

RBR NEWS BRIEFS

RAB request for NTR info

The RAB is looking for data to use in its third annual study of non-traditional revenue (NTR). To get even more data, it's opening the survey to all stations, not just member stations as in the past. Stations are encouraged to go to the RAB's website (rab.com) and fill out a brief survey. Deadline is 3/8, with results to be published 3/25. "This survey is very important to our industry," said RAB President/CEO **Gary Fries**. "In the past, information regarding NTR was available only form specific radio groups. Thanks to this survey, we are able to see the big picture of NTR for the entire radio industry."—DS

Newsweeklies got 9/11 boost

Time, *Newsweek* and *US News & World Report* all saw newsstand sales soar in the aftermath of the 9/11 attacks. According to figures released by the Audit Bureau of Circulations, *Time* and *Newsweek* saw newsstand sales rise 80% on average for the second half of 2001, with most of the gain coming after 9/11. Sales rose 42% for *US News & World Report*.—JM

Clear Channel debuts The Eighties Channel in Atlanta

Clear Channel flipped its WYAI-FM move in (Bowdon-Atlanta, GA) from Country to "The Eighties Channel" 105.3 WMAX, The Max 1/18. CCU Atlanta WMXV-FM PD **Paul Kriegler** is acting PD of WMAX while the search begins for a permanent one.—CM

Salem gets "Smart" in LA

Salem's (O:SALM) KRLA-AM Los Angeles has dropped its "NewsTalk" moniker and started calling itself "SmartTalk 870 KRLA-AM." Said VP/GM **Dave Armstrong**, "Identifying the station as 'SmartTalk' gives us a more competitive edge in the market. Increasingly, we see the word 'smart' used to identify products, indicating that an educated choice is being made by the consumer. We feel that this suits both KRLA's on-air talent as well as our listeners."—JM

January retail sales dip slightly

Retail sales were down 0.2% for the month of January. The good news was that, excluding auto sales, the month was up 1.2%, which is a sign that the economy may be beginning to turn around. Auto sales dropped 4.3%, enough to pull the entire retail number into the red with it. The drop, however, had its own extenuating circumstance—it represented a comparison to auto sales figures generated with the aid of numerous unusual promotional activities, most notably 0% interest financing.—DS

By Jack Messmer


Warren Lada

Saga's philosophy: Stick to the basics

Saga Communications (A:SGA), like many of its larger competitors, owns both radio stations and television stations. But unlike most of those other companies, not one of Saga's TV stations is in one of its radio markets.

"One of the things we talk about a lot in our company is focus," said **Warren Lada**, Sr. Vice President of Operations. "We really do try to stick to the basics—play to our core competencies. I don't mean to sound cliché-ish about it, but that is a fact. We really try to focus on those things we think we can do exceptionally well. Although I do believe there are synergies, certainly, if you have a multi-media platform, that also creates problems for you as well—and I don't think they're necessarily a panacea. I don't think it's necessarily the best thing for the operation. In fact, I think sometimes it runs counter to what the operation really needs."

So Saga sticks to a single medium in each market—even selling a radio station that came along with its acquisition of a Victoria, TX TV station. Management doesn't rule out the possibility that it will someday have more than one type of medium in a single market, but that will only occur after some careful study.

"We'd rather be brilliant in one, than average in many," Lada said of Saga's single-medium focus. "Although I certainly know that we challenge our managers a lot to do the best that they possibly can, we really don't put upon them unrealistic expectations. It is difficult when they start having multi-media platforms to really do a good job with all of them at the same time."

In truth, Saga has dipped its toe into multi-media operations. It recently purchased a free-distribution weekly newspaper in Champaign, IL, where it has three FMs. "We did that primarily because we felt that the investment was very, very small and there were some synergies."

Lada shares CEO **Ed Christian**'s view that each market manager should have as much autonomy as possible *(RBR* 2/4, p. 9). "We really try not to make decisions from this office. At the same time, we try to be a resource for them—a sounding board," Lada explained. "I spend the vast majority of my day on the phone with our GMs, just talking through issues. It can be anything from problems to strategy to a change of direction—more the global stuff, the bigger picture things, than day-to-day."

Because of that market-by-market philosophy, Saga has no one template for its local sales operations. Some markets have a dedicated sales force for each station and some have AEs selling multiple stations.

"We take a look first of all at what the competitive environment is," said Lada, who noted that one important factor is the makeup of the staff in each market. "The problem we have—and I think most radio stations have at this point—is recruiting, hiring, developing and training good sales people. I think we do a good job at it—and I think we can do a lot better at it. I think every market is a little bit different."

When Saga finds good talent, it tries to hold onto them. "We have never lost a GM to another radio station," Lada noted. "We have relatively low turnover, not only with our general managers, but also with our sales managers."

Perhaps surprisingly, Saga has not been inundated by resumes from managers pushed out by consolidation at the mega-groups. "You would think that with all of the consolidation that has occurred over the past few years, that there'd be a lot of people looking for positions," Lada said. "I think a lot of these people who lost a position because of consolidation simply got out of the business. It is as difficult to find talented people as it ever has been, if not harder than it ever has been. I think the industry's changed a lot. I can say for myself personally, I got into the business because I loved it—I have a passion for it, I love everything that there is about the broadcasting business. I still wake up every morning geeked to go into work. It's not a job as much as it is a part of me."

Warren Lada joined Saga 11 years ago as a GM after a 10-year career with Chase Communications. He has been in his current position at Saga's corporate headquarters for more than four years.

Saga's banker-turned-CFO

Many broadcasters knew **Sam Bush** long before he became CFO of Saga Communications. He had been lending to the radio and TV industries as head of the media finance group at AT&T Capital.


Sam Bush

"As a lot of bankers or accountants do, at some point you move over and go to work for one of your clients—you see that happen quite a bit," Bush recalled. "I'd had several opportunities to do that, but it just wasn't enticing. But when Ed called, a couple of things were different. I really believed in the philosophy of what Saga was—very long-term thinking about where business would be. We had a very similar ideology relative to how we believed broadcast companies should be run." Bush said he was also enticed by Saga's ability, as a public company, to make acquisitions and grow.

But while other groups seemed to be snapping up every station that comes on the market, Saga took a more conservative approach over the past five years. "We weren't focused solely on growth based on the number of stations that you owned or how many acquisitions you could make—and what that did to your stock price," Bush explained. "We were based on every acquisition we made had to provide a return to our shareholders and ourselves, because we're all shareholders of the company."

While other groups were buying stations based on whether the acquisition was accretive—because the acquisition multiple was less than the implied multiple that the company's stock was trading at—Saga took the more conservative view that any acquisition had to make economic sense, regardless of what the stock market did.

"Our intent is to make money off those acquisitions today, tomorrow and ten years from now," Bush noted.

Not surprisingly, Saga has kept its debt leverage much lower than the ratios that many other groups have gone to in the years that followed deregulation in 1996.

"We certainly are more conservative than the industry," Bush said. "We have the capacity to be leveraged at a significantly higher level than we are. You may see us get leveraged into the four and a half to five times area for the right acquisition, where we could see some immediate returns. But that would only be based on us knowing that within a very short period of time we'd be able to bring that back down." But for now, as for most of its recent history, Saga's debt is less than three times its cash flow.

Saga has a $200M senior credit facility with a bank syndicate led by Fleet (with Bank of New York as a long-time participant), of which $105M is currently borrowed. The company does not have any bonds outstanding.

First Boston and Alex. Brown took Saga public in 1992 at $3.39 per share (adjusted for subsequent splits), but investment bankers haven't gotten much business from Saga since a secondary offering about a year after the IPO. The stock closed 2/15 at $21.

Saga: The Wall Street view

As one of radio's smaller public companies, only five Wall Street analysts actively cover Saga. Here's what three of them told *RBR* about the company.

"Most of the public groups are in large markets, so Saga's mid-market focus is different," said **Jim Boyle**, Managing Director of Wachovia Securities. "During the recession, this has been particularly helpful with its higher percentage of local ad revenue that held up better and was more stable, as well as for the lesser competition in mid-markets. Saga seems to be blessed with major market management talent in its mid-markets, typically enabling it to outperform its peers. Ed Christian, a long time radio veteran and localist purist, has very quietly assembled a valuable group that too often flies below the Wall Street radar screen."

Boyle currently rates Saga a "Buy" (2nd highest) with a $23 12-month price target.

"Saga has remained a disciplined buyer of radio properties," said **Paul Sweeney**, Managing Director of Credit Suisse First Boston. "They keep a relatively low profile, yet have been one of the more consistent radio stories."

Sweeney is currently recommending the stock to investors and gives Saga a "Buy" rating.

"The company, and the stock, has generally performed well relative to its peers. It tends to be a less volatile stock than its peers as it hasn't been as aggressive as some others on the acquisition front, and as such hasn't levered its balance sheet to the degree that some of its peers have," Sweeney noted.

"Saga is unique in the longevity and long-term orientation of management. I have a buy on it," said **Drew Marcus**, Vice President and Managing Director, Deutsche Banc Alex. Brown. "They are steady Eddy versus their more active peers."

Yes, Marcus said, the "steady Eddy" pun was intentional.

Saga by the numbers

While a couple of radio companies were breaking the $1B mark for the first time in 2000, Saga Communications was breaking $100M—a major landmark for a company which prides itself on deliberate and controlled growth.

Like other media companies, Saga has been held down by the poor economy in the past year, but still posted a revenue increase for the first nine months of 2001. The company is set to announce its full year 2001 results next month (3/5).

Saga Communications financial results (all $ in millions)

	2000	pct.	Q1-3 '01	pct.
Radio revenues	$89.1	11.2%	$69.3	7.1%
(same station)		7.1%		0.7%
TV revenues	$12.6	28.0%	$7.7	-14.0%
(same station)		4.3%		-14.0%
Total net revenues	$101.7	13.0%	$77.1	4.6%
(same station)		6.8%		-1.1%
Radio cash flow	$35.2	16.1%	$26.0	2.5%
(same station)		13.2%		1.8%
TV cash flow	$4.0	28.6%	$1.6	-37.9%
(same station)		17.5%		-37.9%
Total cash flow	$39.3	17.3%	$27.7	-1.3%
(same station)		13.5%		-1.9%
Net income	$8.7	1.2%	$6.1	2.9%

Source: Saga Communications SEC filings

By Jack Messmer

Strong Q4 for Radio One

Alfred Liggins

Urban specialist Radio One (O:ROIA & ROIAK) continued to outperform the radio industry in Q4, as CEO **Alfred Liggins** was happy to report (2/21). Net revenues rose 16% to $67.4M, broadcast cash flow (BCF) rose 10% to $32.9. After-tax cash flow per share decreased four cents to ten cents. On a same station basis, revenues rose 4% and BCF gained 5%. Radio One also reported that its same station cash flow margin improved from 51.6% to 52%.

For Q1, Radio One is expecting revenues of $56M and BCF of $23.5M. The company said that would represent same station revenue growth in the mid-single digits.

"While we certainly can't predict the future, it seems that the industry has bottomed out and we're starting to see some signs of life. It doesn't feel like a false start, but—you know—the false start that we had before didn't feel like one either," Liggins said in his conference call with analysts. "As we continue to execute on our game plan, which is staying focused on our target demographic of Urban or African-American programming, and also specializing in turnarounds, we still expect to again lead the industry in terms of revenue and BCF growth."

***RBR* observation:** As for leading the industry, don't forget operations—something that some of the financial players and even a few veteran broadcasters forgot about in the late 1990s. Liggins and COO **Mary Catherine Sneed** run a tight ship and have continued to impress Wall Street with their ability to compete—not just in their niche, but against all other broadcasters. Sneed had a bit of good news to convey in last Thursday's conference call. Inventory pressure is finally starting to appear in some markets, particularly Los Angeles and Atlanta, two of the company's most important markets.

Soft Q4 for Cox Radio

Bob Neil

Q4 results were down for Cox Radio (N:CXR), although CEO Bob Neil noted that the company beat the overall industry for the quarter and still posted record revenues and cash flow for the full year.

Q4 net revenues were down 1.1% to $101.7M and broadcast cash flow (BCF) dropped 12.6% to $37.3M. On a same station basis, revenues were off 2.3% and BCF was down 13.5%.

"Business continues to be placed very late. Business continues to be placed very much on a stop-and-start basis," Neil told analysts (2/21). Looking at Q1, he reported that January revenues were up 2.6% (almost 4% he said, excluding the reformatting of WTMI-FM Miami). February is pacing down 4.8%, mainly due to the lack of TV sweeps money. He said it was still too early to call March, but current indications are that it will finish with a positive number. Although local is still stronger than national business, Neil said there are some signs of a recovery for national.

What about pricing?

"On the pricing trends, I can't give you any great news right now. It's still a very difficult situation. Again, it varies from market to market. Some competitors have added spots—we just haven't done that—and that makes it still a very cut-throat pricing environment. As long as business continues to be placed so much at the last minute, that's not a good sign for pricing trends. It makes it more difficult," Neil said.

Cumulus: Q1 looking better after soft Q4

Lew Dickey Jr.

Cumulus Media (O:CMLS) saw net revenues decline 11.5% in Q4 to $50.8M, and broadcast cash flow (BCF) dropped 3.5% to $16.6M. The company proudly pointed to its EBITDA line, though, where earnings before interest, taxes, depreciation and amortization increased 14.1% to $13.1M.

On a pro forma basis—for the 221 stations in 45 markets that Cumulus operated in Q4 of both 2000 and 2001—net revenues declined 8.8% to $50.6M and BCF increased 4.3% to $17.3M.

In his 2/19 conference call with Wall Street analysts, CEO **Lew Dickey Jr.** said he is still unable to give guidance beyond Q1, due to the lack of visibility. "We do believe, however, that the trough was Q4 of last year, and that being said, the revenue environment is still, however, pretty sluggish," he said. "In addition, because of the Olympics, Cumulus is going to lose about $700K of television money in February that we received last year. That represents about 5% of our February revenue – and that's just in one category. The shortfall caused by this category, along with the challenging revenue environment, leads us to believe that Q1 of this year, 2002, will be flat to down 5% in revenue. And due to our continuing cost controls, our broadcast cash flow should be flat to up 5% for the same period."

Jersey sextet brings $13M

Stephen Gormley and **Gary Fisher** are placing a big bet on Atlantic City. Their Equity Communications LP is paying $13M for the six-station superduopoly assembled by **Cleo Brooks**' Margate Communications. That will expand Equity's holdings to a nine-station daisy-chain superduopoly along the New Jersey coast. An LMA began 2/6. Broker: Agawam Partners LLC

***RBR* observation:** Calling this a nine-station cluster may overstate the case a bit. Several of Margate's stations are in the Cape May area, which used to be a separate market before it was lumped together with Atlantic City. Also, all of Margate's five FMs are Class As, so none individually cover the entire market.

Saga adds four in New England

Saga Communications (A:SGA) has a $9.075M deal to buy Tele-Media Broadcasting's Keene, NH-Brattleboro, VT cluster—WKNE-AM & FM Keene and WKVT-AM & FM Brattleboro. The unrated market is just west of Saga's existing superduopoly in Manchester, NH and north of its Springfield, MA cluster.

Tele-Media bought all 4 in Dec. 1999 for $8.875M. Broker: **Frank Boyle**, Frank Boyle & Co. (seller); **Robert Maccini**, Media Services Group (buyer)

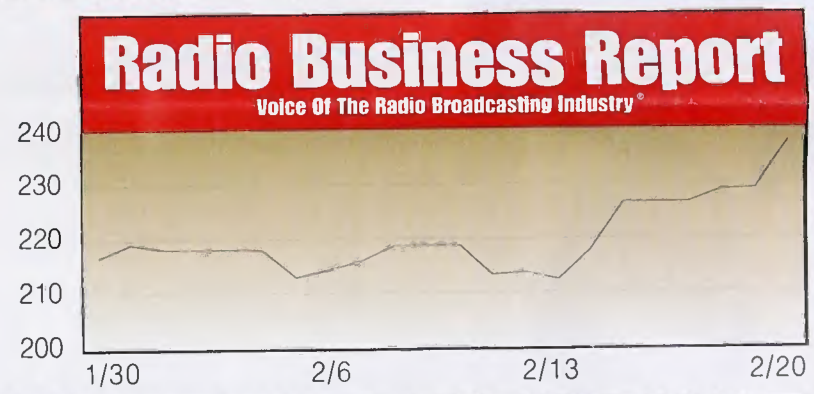
***RBR* observation:** As reported on page 4 and all this month in the *RBR Profiler*, Saga is a cautious company that knows how to build value. Despite being an unrated market, this acquisition fits perfectly into Saga's New England operation.

Commonwealth enters Tri-Cities

Dex Allen's Commonwealth Communications is entering the Tri-Cities market of Washington with a $4.125M deal to buy KONA-AM & FM. The seller is Tri-Cities Communications, headed by Dean Mitchell. Broker: **Dean LeGras**, The Exline Company

The Radio Index™

The Radio Index™ gave back some territory, but still remains much higher than in January. The Index slipped 5.455 for the week to close 2/20 at 232.590.



By Carl Marcucci

ABC offering cash back to advertisers? Not

While *The NY Post* reported 2/19 that ABC-TV is responding to its ratings crunch (it's fourth in the latest Nielsens) with a series of unheard of "cash-backs" to select advertisers, the network has denied it. It did create quite a furor last week. Yes, ABC's ratings are down 19% from last year, but "cash back" is apparently not in the cards. Said the *Post*: "Shows like Who Wants to Be a Millionaire that were rave hits a year ago have severely declined, causing the network to either make small paybacks in cash or to offer make-good advertising on similarly rated shows. With losses that could top $250M in ad revenue, ABC is paying advertisers the cash-backs because the network failed to supply the ratings it promised when it sold $1.5B in advertising last spring. The network has shelled out some $1.2M so far and may pay as much as $10M back by season's end."

Andy Donchin

Apparently, "cash back" may have been confused preemption credits, according to an ABC-TV source. Preemption credits are if you were to buy Spin City in the upfront and ABC preempted one episode or more, a credit would be given to the advertiser if they didn't want time on the other show that would replace it.

Andy Donchin, Carat USA SVP/Director of National Broadcast, tells *TVBR* he's heard it's not true and that "cash-back" would likely be scrapped for added free inventory: "I don't really think ABC is doing that. The contacts I have over there totally, steadfastly claim that they're not doing this. If they have enough to give away, they will do that. Put it this way. If a unit gets preempted, if I'm in a show and the show changes, I can take my money back. That's standard practice. Instead of just giving cash back to reach an audience guarantee, they steadfastly refuse—they're not doing it. They will just offer more free spots to make up for it. In these days, you hate to set precedents and I don't think they would want to do that either. I just think right now they can't catch a break, because everybody seems to be writing negative stuff about them. Honestly, we wouldn't want cash back. That's the last thing we would want to take. We obviously would want the amount of weight we bought. If we get the money back, we would have to go back and renegotiate everything again, and the marketplace isn't like it was back in last Summer."

CPM increases for the next TV upfront? Think again, say some

Some talk surfacing from the recent AAAAs annual media conference in Orlando is what where will TV CPM rates go in the next upfront which begins mid-May. The broadcast networks will then unveil their fall 2002-2003 programming lineups to both advertisers, buyers and network sellers. Par as of late, both buyers and sellers are speaking different languages on where the market will be. Will the prices be up or down? Word is some network execs, posturing on the ratings successes of Fox's Super Bowl and NBC's Olympics coverage, think rates will be up a few percentage points—from two to five (excepting ABC, which is currently in the throes of a 19% ratings slide).

TVBR asked a few in the biz for their opinions:

"I think it's a mistake for the buying side of the community to start posturing in the press and I personally don't feel comfortable participating in that role," **Allen Banks**, Chairman of the AAAAs Media Policy Committee and Executive Media Director, Saatchi & Saatchi, NA. "Being at the AAAAs conference last week, there were some signs that they thought the economy was turning around, there were some healthy signs. There was some more spending that was being made for various product categories. That you could take as perhaps a good sign that the worst of the bad economy is over with. But I haven't seen that myself at this point in time and nobody is lavishing all sorts of advertising dollars on us at this point. Clearly, it's a supply and demand business. And if the economy does turn around, as some suspect (and it may well in the second half of this year), it would mean that advertisers are feeling a lot more confident that they are freer to spend money so that they will make more money. There will be more of a demand for the inventory. And as a result, more demand means whatever supply is there will cost more. If the economy does not recover as quickly, then there's a good chance that the supply will outstrip the demand and prices will continue on their downward slide. That's the best prediction I can give."

Allen Banks

"All indications are that the money is not going to be up, however, I think it's too early to really say," observes Carat USA SVP/Director of National Broadcast **Andy Donchin**. "Everybody is still feeling it out, and nobody has enough information to determine what their exact budgets are going to be. We don't know what the schedules are like. It's just too early, but again, all indications point to a buyers' market than a sellers' market."

Adds **Jean Pool**, President/Operations, Mindshare N.A.: "I can't imagine there would be increases. Not in the economy we're doing business in. From my perspective, that would just be outrageous. The economy sucks, the clients are cutting back budgets faster than we can handle it, and they're talking about CPM increases? For what?! They will be lucky if it holds steady."

Jean Pool

Time compression rears its head again for CBS/Viacom

A legal battle between Viacom (N:VIA) and **William Ballard**, a former station manager for Viacom's WBFS-TV (UPN) Miami has again surfaced over compressing programming to add in more spots. Ballard says he was fired because he complained about the use of compression machines (Prime Image Inc.) at CBS stations, claiming it can violate contracts with programmers on ad limits and degrade the quality of programming. In complaints filed last October and recently amended (1/25) in US District Court in Miami, Ballard says the loss of his position was in violation of Florida's whistleblower law. He's asking $2M in damages. Ballard claims CBS/Viacom execs encouraged its TV GMs to add commercials to broadcasts, not only by compression, but by "covering," where spots sold by a network or syndicator are covered over by local ads.

In a 2/14 *Wall Street Journal* story, Ballard also claims **John Severino**, President of CBS's television station unit at the time, told him that KCBS-TV LA had used a compression machine to add more spots to NFL games, in violation of strict rules on the amount of advertising that can be aired during games.

Burtch Drake

Both Viacom and CBS are denying the charges and have filed a motion to dismiss. They claim Ballard was upset that he was passed over for a promotion that would have given the GM spot for both WBFS and WFOR-TV (CBS) Miami. **Dana McClintock**, a Viacom spokesperson, delivered the official response: "The plaintiff's allegations, which were dealt with extensively in the media last year, are utterly without merit. We're defending the case vigorously and expect to prevail."

CBS' KDKA-TV Pittsburgh was caught using compression to get more commercials into a football game last fall. CBS had reprimanded the station, but WSJ had also reported that one top CBS exec acknowledged that stations in Baltimore and Boston had also been inserting extra ads into programs.

Nevertheless, if it was a practice, it certainly isn't anymore. **Fred Reynolds**, President of the Viacom Stations Group has exchanged letters and spoke with the AAAAs and others "just to make sure everyone is on the same page. They understand, just as we understand, that there was a problem in Pittsburgh and it's not happening anymore. Reynolds has strictly forbidden the practice. What happened in Pittsburgh happened in a prior regime. None of our stations have the Prime Image box," a Viacom source tells *TVBR*.

Gene DeWitt

AAAA CEO **O. Burtch Drake** tells *TVBR* his organization is poised to get involved whenever the claims surface: "We're totally opposed to this time compression stuff. We're not happy with it at all. It's just another way of jamming more clutter into what is already a very cluttered environment. We plan to come down hard whenever we hear about it. It's one of these things that's always somewhat hard to detect, frankly, but we're totally opposed to it."

Gene DeWitt, Optimedia CEO and incoming SNTA President agrees, the practice doesn't fly with agencies. The money saved may not be worth it. "If I buy :30 seconds, I expect :30 seconds. If I pay $100K for :30 seconds and I get :27 seconds, then I'm going to pay 3% less. Maybe I'll pay 10% less, because I'm not sure that I will accept 3%. Do you want 97% of a car? Do you want 97% of a suit? Unacceptable."

***TVBR* observation**: Don't expect the case to be settled out of court. If Ballard is just trying to get a settlement out of CBS/Viacom, it's not going to happen.

Skategate controversy floods NBC's cash register

NBC, which paid $545M for Olympic broadcast rights, has surpassed its goal of $720M in ad revenue, in large part due to a surge in late business thanks to "Skategate," the gold-medal flap concerning pairs figure skating and the Canadian and Russian duos, according to *USA Today*. The controversy fueled ratings, which in turn enticed late advertisers to snap up the few remaining avails at top prices. Movie studios are among those clamoring for the final spots.—DS

Douglas McCorkindale

Gannett amends 401k plan

Gannett Co. (N:GCI) is taking action to let employees diversify their 401k plan investments—yet another corporate reaction to the Enron scandal. Companies which don't allow employees to sell company stock from their 401k plans, as was the case at Enron, have come under criticism from the public and Capital Hill. Until now, Gannett employees under age 55 were not permitted to sell the Gannett shares they received as the company-match portion of their 401k plan.

"Our board reviewed the 401k plan restrictions and decided they simply were outmoded," said CEO **Douglas McCorkindale**, in announcing the change (2/20). Now Gannett employees will be able to sell those company shares and diversify their 401k holdings. The company said implementation of the change will take about a month.

Gannett said its company stock constitutes 13.5% of the total holdings in its employees' 401k plans. Some of the companies which have been criticized for non-diversified 401ks have had figures in excess of 80%.

Gannett, the nation's largest newspaper group, owns more than 300 daily newspapers and 22 TV stations.—JM

Crime and punishment: A minute minute

Magyar ATV, a cable/satellite television service in Hungary, exceeded its allowable volume of advertising during October 2001, and faced some severe regulatory repercussions, according to a report from New World Publishing. On 2/6 at 6:59P, the channel was ordered off the air. It was forced to remain dark—all the way to 7:00P! Yow!

The punishment brings both pronunciations of minute into play: The headline above is meant to be read, "Crime and punishment: A my-NUTE MIN-nit."—DS

O'Reilly into syndication?

Fox News Channel's and (likely) soon to be Westwood One talker **Bill O'Reilly** is reportedly in discussions with Twentieth Century Television (Fox) for a new syndicated TV show. He was the host of Inside Edition from '89-'95. O'Reilly was quoted as saying if anything does happen in that arena, it won't be for a "year or two."—CM

Hundred mile headache for EchoStar

The FCC has decreed that satellite TV provider EchoStar must carry KVMD-TV Twentynine Palms, CA (channel 31, indepentent) with its contingent of Los Angeles area over-air TVs within 75 days of that station's provision of a usable signal. The signal is not usable without some major help because the station's city of license is over 100 miles from EchoStar's Los Angeles facility.

EchoStar argued that those very facts should preclude it from carriage. EchoStar said the station has only the most tenuous relationship with the urban Los Angeles area, and that it wasn't included on any major cable systems in the urban area.

However, the Los Angeles DMA is far-flung, and Twentynine Palms, which is pretty much due east of town via I-10 and then Rt. 62, is in it. The Commission said, "the Communcations Act does not permit it [the FCC] to change the shape of a television station market." Thus, they are unable to offer any relief to EchoStar in this case.

***TVBR* observation**: With all due respect to the owners of KVMD (the KVMD Acquisition Corp.), it's had to imagine that inclusion on the EchoStar lineup will be worth the cost of forwarding its signal the nearly 100 mile distance to the EchoStar plant. In the first place, how many people in the urbanized area rely on a satellite dish? And out of that presumably tiny percentage of the population, how many will find, much less seek out, the programming of the little Twentynine Palms independent television station from amongst EchoStar's vast array of options? It seems to us that KVMD-TV should focus serving its true community, and save the windmill tilt that is its battle with EchoStar, for some other time.—DS

Howard K. Smith dead at 87

Former "ABC Evening News" co-anchor **Howard K. Smith** died at his home in Bethesda, MD, on 2/15. Smith, who was 87, reportedly succumbed to pneumonia, aggravated by congestive heart failure.

Smith joined CBS News in 1941 as part of **Edward R. Murrow**'s team which became famed for its radio coverage of World War II. While still with CBS, Smith added duties in the new field of television and in 1961 jumped to upstart ABC. He became co-anchor of the evening newscast in 1969 and remained at the anchor desk for six years (first with **Frank Reynolds**, then **Harry Reasoner**). He retired in 1979 after spending his last four years at the network as a commentator.—JM

Inside the Court's ownership rulings

As reported on the TVBR cover, the US Court of Appeals for the District of Columbia has struck down the 35% audience cap for television station ownership, or the national television ownership rule (NTSO), as well as the rule which prevents ownership of a broadcast television station and a cable television system in the same market (cable/broadcast cross-ownership, or CBSO).

The challenge to the rules came from Fox Television Stations Inc. (which was named in the case title) and the National Broadcasting Company (NBC). They were joined by Viacom Inc./CBS Broadcasting Inc. (N:VIA), and AOL-Time Warner (N:AOL), the latter of which was particularly interested in the CBSO rule. Both Fox and Viacom have made deals throwing their total audience share above the 35% threshold and are trying to avoid spin-offs.

In defending the rules, the FCC was aided by the NAB, the Network Affiliated Stations Alliance, the Consumer Federation of America and the United Church of Christ.

The ownership audience cap was set at 25% in 1984, with a limit of 12 O&O broadcast television stations. The station cap was eliminated and the audience cap upped to 35% via the Telecommunications Act of 1996.

Chief Judge **Douglas H. Ginsburg** noted that in 1984, the Commission stated that it had "no evidence indicating that stations which are not group-owned better respond to community needs, or expend proportionately more of their revenues on local programming."

Ginsburg on the 35% rule: "In sum, we agree with the networks that the Commission has adduced not a single valid reason to believe the NTSO Rule is necessary in the public interest, either to safeguard competition or to enhance diversity." Further into the opinion, he states, "We have concluded that, although the NTSO rule is not unconstitutional, the Commission's decision to retain it was arbitrary and capricious and contrary to law because the Commission failed to give an adequate reason for its decision, failed to comply with [a provision of the Telecommunications Act of 1996], and failed to explain its departure from its previously expressed views.

The judge did not rule out retention of the 35% cap. "...the probability that the Commission will be able to justify retaining the NTSO Rule is sufficiently high that vacatur of the Rule is not appropriate...We therefore remand this case to the Commission for further consideration whether to repeal or to modify the NTSO rule."

In vacating the CBSO rule, which the FCC tried to defend on grounds of maintaining diversity, Ginsburg wrote, "Although the Commission presumably made its best effort, the reasons it gave...for retaining the CBCO Rule were a best flimsy, and its half-hearted attempt to defend its decision in this court is but another indication that the CBCO Rule is a hopeless cause."

***TVBR* observation**: Already the drumbeat is started—"this is the end of media competition, Americans will be spoon-fed only that information which a handful of powerful moguls wants them to know." This is all premature in the extreme. The court specifically said that there was indeed justification for a national audience cap, and that such a cap was not unconstitutional. The FCC must come up with a rationale for why, and demonstrate clearly where it should be set. There are also the twin possibilities of a Supreme Court challenge—if the FCC doesn't try it, there are others that will—and/or action by Congress. This is far from over.—DS

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Appeals court tips TV's cap

The US Court of Appeals for the District of Columbia has struck down the 35% audience cap for television station ownership, as well as the rule which prevents ownership of a broadcast television station and a cable television system in the same market. The case was brought before the court by Fox Television Stations, Petitioner, v. the Federal Communications Commissiona and the United States of America.

Chief Judge **Douglas H. Ginsberg** wrote, "We conclude that the Commission's decision to retain the rules was arbitrary and capricious and contrary to law. We remand the national television station ownership rule to the Commission for further consideration, and we vacate the cable/broadcast cross-ownership rule because we think it unlikely the Commission will be able on remand to justify retaining it."

Both Viacom's (N:VIA) CBS and GE's (N:GE) NBC aided Fox in presenting its case, and both exited the NAB in a disagreement over it. Said Viacom spokesperson **Gil Schwartz**, "We're pleased with the court's ruling. It's a great decision for viewers. We believe strongly that the FCC should eliminate its archaic restrictions on broadcast ownership—rules that date back to the 1940s and are clearly an anachronism in today's world of ever-expanding media choices."

The NAB, on the other hand, expressed its dismay with the ruling. Said President/CEO **Eddie Fritts**, "The 35% television ownership cap has been critically important in preserving the network-affiliate relationship that has made the US system of free, over-the-air broadcasting the envy of the world. This rule has been instrumental in promoting localism and diversity. NAB will continue to build a solid record to convince the FCC, Congress and the courts to preserve the 35% cap."

Eddie Fritts

At this point, it is unclear what steps the FCC will take in response to the decision. One option available to the FCC is to appeal one or both prongs of the decision to the Supreme Court. That is the course favored by FCC Commissioner **Michael Copps** (D), according to a Reuters report. FCC Chairman **Michael Powell** (R) has not publicly backed any particular course of action.—DS, CM

***TVBR* observation**: After the court ruling came down, the general press immedately began speculating on 'Who will buy NBC?' We think they have the question wrong. More likely, it's 'Who will NBC buy?' Parent company General Electric has access to incredible resources for acquisitions and it hasn't hesitated in backing NBC in big buys, such as its $2.7B purchase of Telemundo. On the other hand, Time Warner (before merging with AOL) explored buying Paxson (N:PAX) a couple of years back, but thought the price tag was too high—a price tag that would be just a fraction of what it would cost AOL-Time Warner (N:AOL) to convince GE to part with NBC.—JM

LIN files $300M IPO

It's been nearly two years since Entravision (N:EVC) did the US broadcasting industry's last IPO, but LIN TV is ready to test the waters. **Gary Chapman**'s company has filed to sell about $300M (up to a maximum of $345M) in new common stock to the public. It's the second trip down Wall Street for LIN, which was public from December 1994 until it was taken private by Hicks, Muse, Tate & Furst in March 1998. Hicks, Muse once planned to merge the TV group with AMFM Radio, but backed off when investors gave the idea a thumbs down. Now, LIN is set to go back to the market as a pure play TV company and, at the same time, absorb another Hicks, Muse-backed TV group, Sunrise Television.

On a pro forma basis, including the seven Sunrise stations to be acquired, LIN had 2001 net revenues of $332.4M, broadcast cash flow of $120.2M and EBITDA of $115.2M. The merged company will have 26 stations in 17 markets ranging from Indianapolis, IN to San Angelo, TX. LIN also owns 20% of KXAS-TV Dallas and KNSD-TV SanDiego, which are operated and 80% owned by NBC, 33.3% of WAND-TV Decatur, IL and a 50% non-voting interest in Banks Broadcasting, owner of KWCV-TV Wichita, KS and KNIN-TV Boise, ID.

Gary Chapman

In connection with the merger and IPO, Hicks, Muse is buying $78M in Sunrise preferred stock and notes that are held by a third party, and will then exchange them for LIN common stock based on the IPO price. Hicks, Muse will also receive approximately $25.1M in LIN stock for its current stake in Sunrise. Just what portion of LIN Hicks, Muse or anyone else will own won't be filed in until the IPO is priced. All of Hicks, Muse's stock will be non-voting Class B, while the stock being sold to the public will be Class A voting shares. All of the company's super-voting Class C stock will be held by Carson/LIN SBS LP, headed by **Royal Carson**, and Fojtasek Capital,Ltd., headed by **Randall Fojtasek**—giving them voting control of LIN. However, Hicks, Muse holds right of first refusal agreements with both Carson and Fojtasek.

LIN has LMA'd the seven stations it is acquiring from Sunrise since early January, when **Robert Smith** and other top Sunrise officials exited the company. Before the merger takes place, Sunrise is to sell its five NBC affiliates in North Dakota to Smith for $28.875M in cash and a note for $9.625M—a total of $38.5M.

LIN already has public bonds—$300M in 8.375% senior subordinated notes and $325M in 10% senior discount notes, both due 3/1/08. LIN also has $182.3M in bank debt from a syndicate led by JP Morgan Chase.

The LIN IPO is being managed by DB Alex. Brown, Bear Stearns & Co., JP Morgan, CS First Boston and Morgan Stanley.

***TVBR* observation**: Complicated? Yes. Did you ever see a **Tom Hicks** deal which wasn't?

The good news that this IPO should bring home to Wall Street is that the reports of the death of local television are not to be believed. Gary Chapman is a highly regarded operator, but he's not the only TV operator who's turning a profit in what is, admittedly, a horrible advertising market. Whether LIN is a takeover target for bigger media companies, now that the 35% cap is history, or continues to operate and buys more stations, a successful IPO should help rebuild investor confidence in the entire TV industry.—JM

Paxson revels in court ruling

Bud Paxson

The timing couldn't have been better for **Bud Paxson**. Paxson Communicaitons (A:PAX) had scheduled its regular Q4 conference call for last Tuesday (2/19) afternoon—as it turned out, just a few hours after a federal appeals court struck down the FCC's 35% national TV ownership cap and cable-television crossownership ban.

"So the NAB lost this one. Not the first one that **Eddie [Fritts]** has lost to me," said a triumphant Paxson. Because of the harsh wording of the court's decision, he said it will be hard for the FCC to justify any ownership cap at all. "The morning line—50% or more, that's a reasonable bet in my opinion," Paxson said. He would prefer, though, that the FCC not adopt any cap at all and leave ownership limits to the Department of Justice's Antitrust Division. The FCC, said Paxson, is "not qualified to be in it."

With no cap at all, Paxson Communications, with the highest US household coverage of any group (its UHF stations only counted half against the 35% cap), hopes to become the prize in a bidding war by the nation's media giants. First, though, it has to become unyoked from General Electric's (N:GE) NBC, which owns a large stake in PAX and has an option to acquire the rest once that's permitted by regulations. PAX claims that NBC violated the terms of their deal when it agreed to buy Telemundo for $2.7B because that increased the regulatory barriers to any eventual merger of NBC and PAX. Arbitration hearings are set to begin the end of April.

"We continue to feel confident about our case," said PAX President **Jeff Sagansky**. Despite the legal wrangling with NBC, he said there had been no loss of business from PAX's local JSA partners, including many NBC O&O and affiliate stations.

PAX reported that 2001 revenues remained relative flat, down 2.3% to $308.8M. But EBITDA rose 27% to $23M, due to cost-cutting.

***TVBR* observation**: If you bet that Bud couldn't turn a profit by buying radio stations during the early 1990s recession, you lost. If you bet that Bud couldn't launch a national TV network, you lost. If you bet that the courts would rule against Bud on must-carry, you lost. If you bet that the courts would rule against Bud on the 35% cap, you lost.

Care to bet on the outcome of Bud's battle with NBC?—JM

KCAL sale doesn't impress Moody's

Young Broadcasting's (O:YBTVA) $650M sale of KCAL-TV Los Angeles (*TVBR* 2/18) to Viacom (N:VIA) will pay down Young's debt, but Moody's Investors Service is sticking with its negative outlook and existing debt ratings for Young.

"While Moody's recognizes the reduction in the company's debt position net of the asset sale proceeds, a substantial amount of uncertainty continues to surround the company, and the current ratings and outlook are warranted in the absence of a shift by management to a full asset rationalization mode, which we do not believe to be the case," Moody's analysts wrote.

The debt rating service sees significant challenges ahead for Young to make recently-acquired KRON-TV San Francisco succeed as an independent, after losing its NBC affiliation. At the same time, the sale of KCAL leaves the company without its biggest cash flow generator.

"In addition, the company has expressed interest in creating duopolies in some of its mid-sized markets," the analysts wrote. "Moody's is concerned that Young will seek properties that are of the 'turn-around' variety, which may divert significant management attention away from the core assets and may prove to be non-accretive to the company's cash flow over the near-to-medium term." That sort of entrepreneurial bent by a still highly leveraged broadcaster makes the bond rating firm's analysts nervous.

***TVBR* observation**: As we noted last issue, making KRON work as an independent is still a huge challenge for **Vincent Young** and his team. Moody's has ample reason to be worried about whether he can make that $830M gamble pay off.—JM

ACME sees Q1 improvement after soft Q

ACME Communications (O:ACME) reported (2/15) a 10% drop in Q4 revenues to $18M, which sent broadcast cash flow plunging 48% to $2.9M. Even so, CEO **Jamie Kellner** said, "We are beginning to see some signs of firming advertiser demand during the first quarter of 2002 and are hopeful that this momentum will continue into the second quarter and throughout the rest of the year." Kellner also noted that ACME's stations had posted a 15% increase in viewership for the November sweeps over the previous year.

ACME also announced that it had gotten a new senior credit facility of $30M for acquisitions from Foothill Capital Corp. Foothill, which is owned by Wells Fargo & Co., bills itself as specializing in "'non-traditional' secured lending transactions."

ACME owns 10 medium and small market TV stations, including nine WB affiliates and one UPN affiliate.—JM