Radio Business Report™
OBSERVATIONS
July 1, 2002 — Voice Of The Radio Broadcasting Industry® — Volume 19, Issue 25

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

Sen. Russell Feingold (D-WI)

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 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

Rumors of bad press send Radio One shares plunging

Alfred Liggins

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

Radio Business Report
Voice Of The Radio Broadcasting Industry ®

July 1, 2002
Volume 19, Issue 25

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Radio Business Report is published weekly by Radio Business Report, Inc. Publishers of Radio Business Report, Television Business Report, The RBR Source Guide, RBR Daily Email, RBR Radio, www.rbr.com and the Information Services Group database.

Subscription rate: One year $220.

RADIO NEWS®

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 Heftel 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.

Lowry Mays

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. 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 contractural 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 exisiting 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.

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.

Analyst discounts CCU firestorm

Bill Meyers

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 unlikly 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. Wegner 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 or 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 it's 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.

By Carl Marcucci

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.

Liquor and Hispanic radio

Jack Hobbs

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 UDVs, 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."

General market radio

Jim Maksymiu

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 eamed 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 hem 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."

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

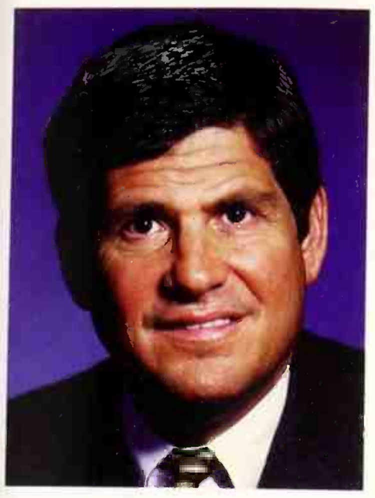
"BK Got Music Summer 2002" continues in July with the Essence Music Festival. BK and Essence Entertainment and the 24 prize winners of "What's Your Hi Fi Q" will spend a week touring New Orleans. Featured performers at the 2002 Essence Music Festival include Alicia Keyes, Al Green, Mary J. Blige, Babyface, 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.

By Jack Messmer

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:STWI) 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

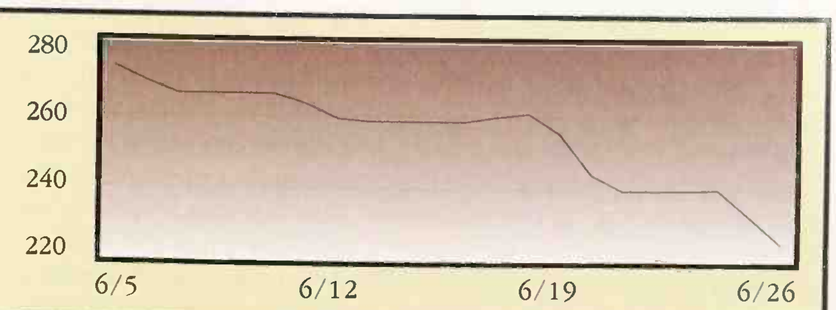
Tommy Vascocu's Encore Broadcasting is turning its Odessa-Midland, TX duopoly into a superduopoly. It's buying standalone KMCM-FM from ICA Media for $2.5M.

***RBR* Observation:** Vascocu 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.

Radio Business Report OBSERVATIONS Voice Of The Radio Broadcasting Industry

The Radio Index™

Wracked by market jitters, The Index plunged 30.686 for the week to close 6/26 at 224.961. That put radio stocks back at levels last seen in February.



Television Business Report™
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Voice Of The Television Broadcasting Industry®

July 1, 2002 — Volume 19, Issue 25

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 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 KDLH-TV Duluth, MN-Superior, WI—Channel 3, CBS
#139 KMIZ-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 & KSTF-TV Cheyenne, WY-Scottsbluff, NE—Channels 5 & 10, CBS
#200 KGWC-TV, KGWL-TV & KGWR-TV Casper-Riverton, WY—Channels 14, 5 & 13, CBS
(by Nielsen market)

NAB loses 35% cap appeal

A federal appeals court in Washington has refused to review its February decision which struck down the FCC's ban on a single company owning both TV and cable in the same market and told the FCC to rework and justify its national TV ownership limit. The appeals panel rebuffed efforts by the NAB and the Network Affiliated Stations Alliance, which had sought a rehearing on keeping the 35% national TV ownership cap in place. They may now appeal the case to the US Supreme Court.

The ownership cap had been challenged by News Corp. (N:NWS) and Viacom (N:VIA), both of which are already over the 35% cap pending the outcome of current ownership limit reviews. Cable giant AOL Time Warner (N:AOL) had challenged the TV-cable crossownership ban.

In response to a "clarification" sought by the FCC, the appeals panel did remove wording from its February decision which said the Commission "applied too low a standard" in determining whether the ownership cap was in the public interest. The court didn't give the FCC guidance on just what hurdle it has to clear to maintain an ownership limit of any kind, but said it would decide later what standard is appropriate.

***TVBR* Observation:** Regardless of what the FCC decides early next year (if **Michael Powell** keeps things on schedule), we'd be willing to bet that the TV ownership dispute winds up right back in court. Gotta make sure the lawyers are able to make their Lexus payments.

Belo TV revenues up 3.5%

May was a good month for Belo's (N:BLC) television group, if not for its newspapers. TV revenues rose 3.5% to $60.5M, while newspaper revenues declined 1.5% to $62.1M.

Granite completes preferred buyback

Granite Broadcasting (O:GBTVK) reports that it has purchased 46,788 shares of its 12.75% cumulative exchangeable preferred stock under its modified Dutch auction tender offer. In all, Granite is paying $30.4M to buyback those preferred shares. Slightly more than 200K shares of the preferred issue are still outstanding.

FCC sets August 27th as auction day for 740 licenses

The FCC announced 6/26 it would auction 740 wireless licenses starting 8/27, representing about 18 megahertz of spectrum sought by rural mobile telephone carriers. Congress mandated that the FCC hold the sale between 8/19 and 9/19. The licenses are a slice of a larger swath of spectrum used by television broadcasters who operate on channels 52-69 that were supposed to be auctioned off 6/19. The stations are to give up the airwaves but potentially not until 2007 or later. The rest of the 60 mhz of spectrum in the UHF will be sold later but no date has been set yet. 125 bidders will be eligible to participate in the August sale.

NY Metro TV Alliance to choose Ed Grebow for tower replacement effort

The New York Metropolitan Television Alliance is reportedly courting Sony Electronics currently Deputy President **Ed Grebow** to head up efforts to build a new broadcast tower to replace the one previously atop the World Trade Center North Tower. Grebow would replace Douglas Land, who stepped down in May. Grebow held executive management positions at CBS from '88 to '95.

The Alliance has stated the only practical site for a new, and necessary, 2,000-foot tower is Governors Island, off the southern tip of Manhattan. However, NYC Mayor Michael Bloomberg is nixing the idea.

***TVBR* observation:** We reiterate, for the third time: Build the tower on the WTC site. An earlier proposal that had been circulating was a 2,000-ft broadcast tower with a restaurant and shops near the top. The look of the CN Tower in Toronto, but less expensive and less imposing. Let's face it. Noone will likely opt for new tall buildings at the site, nor residences. A 2,000-ft. tower would bring back the tall structure effect to southern Manhattan and solve the broadcasters' problem as well. Shine lights on it at night, or create ultra-modern lighting systems within the structure. The rest of the WTC site will likely become a memorial park.

The Empire State Building, while it could be modified to hold all of the NYC broadcast stations, has now been deemed by the group as a perfect auxiliary site. The NYC broadcasters are committed to having two sites.

Wallace raises TV outlook

Analyst **Tim Wallace** of Banc of America Securities has raised his forecast for TV revenues following the strong network upfront. "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."

Nine more DTVs on air

The NAB announced 6/21 that nine more television stations have begun transmitting a DTV signal:

WVLT-TV Knoxville, TN (market No. 62) Gray-owned CBS affiliate
WGBX-TV Boston, MA (market No. 6) PBS Member Station
WZDX-TV Huntsville, AL (market No. 83) Huntsville TV Acquisition Co.-owned Fox affiliate
WUPA-TV Atlanta, GA (market No. 83) CBS-owned UPN affiliate
WIVB-TV* Buffalo, NY (market No. 47) LIN Television-owned CBS affiliate
KSTW-TV Seattle, WA (market No. 12) CBS-owned UPN affiliate
WWMT-TV Grand Rapids, MI (market No. 38) Freedom Broadcasting-owned CBS affiliate
WNET-TV New York, NY (market No. 1) PBS Member Station
WLFI-TV* Lafayette, IN (market No. 190) LIN Television owned-CBS affiliate

This brings to 431 the number of stations broadcasting in digital. DTV signals are now being transmitted in 130 markets that include 87.76% of U.S. TV households. In addition, 45% of all U.S. TV households are in markets where broadcasters are delivering four or more DTV signals.