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RBR TVBR MBR

A Publication from Radio & Television Business Report

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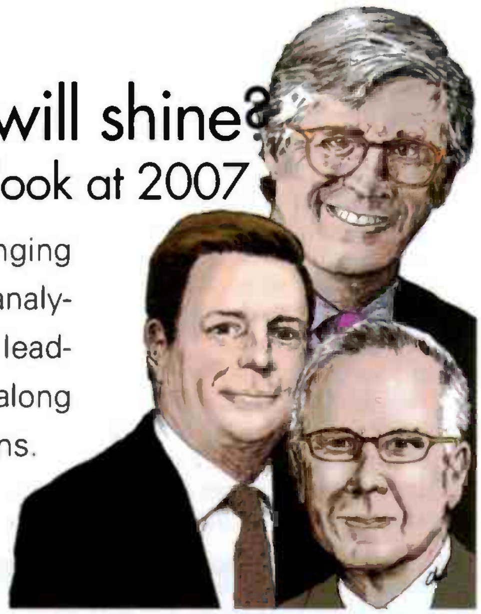

Cover Art (top to bottom): O. Burtch Drake, American Association of Advertising Agencies (AAAA) CEO; **Jeff Haley**, Radio Advertising Bureau (RAB) CEO; **Chris Rohrs**, Television Bureau of Advertising (TVB) President

DEPARTMENTS

Do-nothing Congress did a few things

The 109th Congress has been singled out for its singular lack of accomplishment, but in 2006 it did two things which have a direct impact on broadcasters. For starters, it confirmed a compromise which had been arrived at during a budget reconciliation conference committee at the tail end of 2005. The topic was the deadline for the DTV transition, meaning the date that analog transmission becomes a thing of the past. The Senate was pushing for 4/7/09, widely believed to be a tip of the cap to the NCAA March Madness basketball tournament. The antsier House was looking at 12/31/08. They split the difference and settled on 2/17/09 at the very beginning of the 2006 session.

In June, Congress finally got around to enacting a version of the Broadcast Decency Act, raising the top-drawer broadcast indecency fine tenfold to $325K. We're still waiting for the first perp to draw it.

Broadcasters had a front row seat as highly a interested party as the 109th looked at paving the way for telcos to compete with cable. Television operators are looking to get multicast must-carry enshrined into law, and have been making overtures to telcos along these lines as cable companies continue to oppose the concept. The process stalled in the 109th. Look for it to be back in the 110th, along with heightened oversight of FCC moves, particularly as the Commission continues to review media ownership regulation. ■

Let's make a deal

Two new kinds of mega-deal began to emerge in 2006. The pattern after the radio floodgates opened in response to the Telecommunications Act of 1996 was either for one group to sell itself off to several other growing groups, or for one group to swallow another. The operating principle was get big or get out.

In 2006, however, we saw big companies determine to get smaller. NBC/Universal spun off television stations, as did Tribune, and other companies decided to spin off radio properties, most notably CBS.

Television deals, many creatively structured, made a comeback as dealers stopped waiting for stalled regulatory relief. Radio action tended toward small market deals, with cluster fill-ins and niche properties constituting just about all the major market action.

But the real heavy action was the sale of mega-groups in their entirety. Univision went to a new set of investors in a deal valued at $13.7B, and then Clear Channel followed suit in a transaction pegged at almost double that all told. The rough estimate is $16B for Clear Channel radio, $1B for TV and $9.7B for outdoor, a total of $26.7B reduced by $8.1B in swallowed debt.

The repercussions of the CCU deal will be felt well into 2007, as some of the properties are sold, including the entire 40+ television group, 448 stations in small market clusters, and about 80 spin-offs from oversized clusters with non-transferable grandfather clauses which are going out of effect. ■

Local suffering in Coen forecast

"Consolidation at the local level is killing people," said Universal McCann Sr. VP and Director of Forecasting **Bob Coen** in his annual forecast presentation to the UBS 34th Annual Global Media & Communications Conference. Coen wasn't talking about media consolidation, but rather advertiser consolidation, such as Federated Department Stores rebranding long-established chains nationwide as Macy's. For all of the media he tracks, Coen said local advertising was up 2.2% in 2006, well below his original forecast of 4%. He is projecting only 2.7% overall local ad growth in 2007. TV got a big political boost in 2006, growing 11%, so Coen is expecting national spot to be flat this year, while local spot is expected to grow 4%. That is much better than the local growth he sees for other media, including only 1% for radio. After originally forecasting that local radio would grow 4% in 2006, Coen revised that down sharply to flat back in June and finally to down 1%. For more on the 2007 outlook for television from other gurus, see pages 28-31.

Bob Coen's advertising forecast for 2007

Media	Dec. '06 Forecast	Ad spend (millions)
Four TV networks	3.0%	$17,442
National spot TV	0.0%	$11,144
Cable TV	6.5%	$20,362
Syndication TV	6.0%	$4,301
National radio (net & spot)	4.0%	$4,588
Magazines	5.0%	$14,096
National newspaper	1.0%	$7,313
Direct mail	7.5%	$64,405
National yellow pages	3.0%	$2,229
Internet	15.0%	$10,715
Other national media	5.7%	$39,045
TOTAL NATIONAL	5.9%	$195,640
Local newspaper	2.0%	$41,277
Local TV	4.0%	$15,572
Local radio	1.0%	$15,355
Local yellow pages	1.5%	$12,370
Other local media	5.6%	$18,559
TOTAL LOCAL	**2.7%**	**$103,133**
GRAND TOTAL	**4.8%**	**$298,773**

Source: Universal McCann

Bob Coen's advertising forecast for 2006

Media	Dec. '05 Forecast	June '06 Revision	Dec. '06 Final	Ad spend (millions)
Four TV networks	6.5%	6.5%	5.0%	$16,934
National spot TV	8.5%	10.0%	11.0%	$11,144
Cable TV	7.0%	4.5%	4.5%	$19,119
Syndication TV	4.5%	5.5%	5.0%	$4,058
National radio (net & spot)	4.0%	1.0%	3.0%	$4,411
Magazines	5.5%	4.5%	4.5%	$13,425
National newspaper	3.5%	0.0%	-3.0%	$7,241
Direct mail	7.5%	8.0%	8.5%	$59,912
National yellow pages	3.0%	2.0%	1.0%	$2,185
Internet	10.0%	25.0%	20.0%	$9,317
Other national media	6.4%	6.3%	6.4%	$36,950
TOTAL NATIONAL	6.8%	7.1%	6.9%	$184,696
Local newspaper	3.0%	2.0%	1.5%	$40,468
Local TV	4.5%	7.0%	5.0%	$14,973
Local radio	4.0%	0.0%	-1.0%	$15,203
Local yellow pages	3.0%	1.0%	1.0%	$12,187
Other local media	6.8%	5.8%	7.5%	$17,579
TOTAL LOCAL	**4.0%**	**3.1%**	**2.2%**	**$100,410**
GRAND TOTAL	**5.8%**	**5.6%**	**5.2%**	**$285,106**

Source: Universal McCann

CARL MARCUCCI

Most industry ad chiefs optimistic

We asked the following industry organization heads for their 2007 forecasts, insights, solutions and ideas. Overall, the outlook is good, given the '06 political comps and mixed signals on the economy.

The Participants

Jeff Haley,
Radio Advertising Bureau (RAB) CEO

Chris Rohrs,
Television Bureau of Advertising (TVB) President

Mitch Burg,
Syndicated Network Association (SNTA) President

Sean Cunningham,
Cabletelevision Advertising Bureau (CAB) CEO

John Sturm,
Newspaper Association of America (NAA) CEO

Nancy Fletcher,
Outdoor Advertising Association of America (OAAA) President

Sheryl Draizen,
Interactive Advertising Bureau (IAB) SVP/GM

O. Burtch Drake,
American Association of Advertising Agencies (AAAA) CEO

What is your outlook for 2007?

Haley: Looking at some of the forecasts that are out there, the consensus estimate appears to be around 2% overall growth for radio in 2007.

Rohrs: Spot is a two-year business cycle more than ever. '07/08 will be up 8% over '05/06. Looked at alone, '07 will be down 3% from '06. 2006 will be +8% over '05.

Burg: We are building off a terrific year in 2006 with record reported advertising revenue in syndication now exceeding $4.3 Billion (Source: TNS Media Intelligence). As we look forward to 2007, we're very optimistic as syndicated television continues to deliver better against the criteria that advertisers value: high-quality, advertiser friendly programming, more A/B positions, short pods, the highest degree of program audience retention, and stars that positively engage valuable consumers. To that end, we will be sharing new research with the media community that addresses consumers' attitudes toward our stars, to reinforce why we better engage consumers.

Cunningham: In spending, single-digit growth in advertising dollar volume for 2007 over 2006, with a growing contribution from non-linear cable options such as branded VOD and branded web properties. In technology, accelerated delivery census-level metrics for viewing options such as VOD. In advertising practice we see continual trial of mobile consumer video options (I-Pod, Cell Phones, etc.); and with expanded trial will come hard questions on the viability of effective advertising on these devices.

Sturm: Among most economists, the forecast for 2007 is below-trend growth for the overall economy, consumer spending and employment. That is growth nonetheless, and we expect ad revenues to increase about 1% next year. On the print side, advertising levels in newspapers will look a lot like 2006. The bright side is advertising on newspaper Web sites, and we expect to see a 22% increase online.

Fletcher: Out of home advertising will continue to be a dynamic growth industry in 2007 as more and more advertisers use out of home as a significant part of their media strategies. The out of home industry will grow between 8-9% in 2007 with the transit segment increasing over 24% due primarily to the airport category. Out of home is growing faster than any other ad medium except Internet. PricewaterhouseCoopers anticipates out of home will grow 26% by early 2009. The out of home industry also anticipates doubled growth in 2007 compared to the overall ad industry which averaged 5.2% growth in '06.

Draizen: 2006 will be another record year for Interactive advertising with revenues expected to surpass $16 billion and the outlook for 2007 remains just as strong. This continued steady growth is a clear indication that marketers believe in the effectiveness and accountability of this medium to reach and engage their customers on a deeper level. Not only do marketers know that Interactive is an integral part of their marketing plans, they are also experiencing the true power of integrating the arsenal across all interactive platforms including display; search; digital video; email; mobile; lead generation and more.

Drake: Overall, the business outlook for agencies is somewhat pessimistic. Our members anticipate that growth in the coming year will be flat or modest, 2% to 3%, at best. Technology and new media will continue to play an important role in our business in the year ahead, as clients and agencies work together to engage consumers in innovative ways through traditional and new media.

What is your industry facing that needs to be overcome in 2007?

Haley: Radio, like all measured media, faces declining growth rates versus the rest of the marketing opportunities out there. We need to be more proactive in our efforts to position the medium as the way to move goods and services.

Rohrs: Spot TV is facing the continued movement of dollars out of national spot into network, both broadcast and cable. In part this ▸▸

As seen in Adweek, Brandweek and Mediaweek; placed by Arbitron on behalf of the radio industry.

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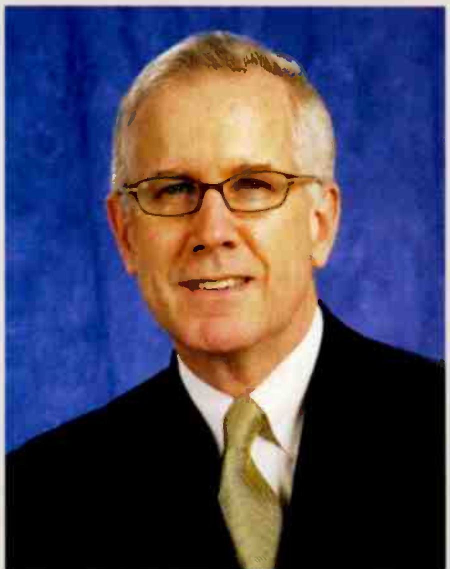
has to do with cost of process. In 2007 we need to take substantial steps to ensure that our transaction process is user-friendly and cost-effective.

Burg: All industries face change; this is true on both a short term and long term basis. Television remains the best available communications vehicle to deliver proven results for marketers. As metrics evolve towards commercial ratings and engagement, syndicated television's value position becomes even stronger. As DVR penetration increases to over 30% in 2007, accurate measurement of true audience becomes even more important and Nielsen research indicates that Syndication remains the commercial delivery leader on a "Live", "Live+ Same Day" and "Live + 3, 4 or 7 basis".

Cunningham: The call for greater accountability by clients can't be addressed by rushing questionable measurement products into the TV/Video advertising marketplace. In the case of the much-debated Nielsen "commercial ratings", the rush to market the product to a single part of their constituency most likely obscured the most important question about this type of (expensive) offering: Is this product actually getting us significantly closer to heightened "accountability" for advertisers? (Hint: the answer isn't anywhere near a resounding "yes"). In local markets I think there will be a small need to de-bunk the notion that "the telcos are coming" as a dynamic that will have any impact on the local television advertising marketplace. At last check Verizon had 180,000 video subs, the cable MSOs have over 60,000,000. Even a more mature multichannel video competitor such as the Satellite ADS providers have seen their growth all but cease in 2006. Meanwhile it's back to growth mode for local subs in many major markets.

Sturm: I think the industry needs to continue monetizing its presence online. Web revenues are about 6% of overall newspaper revenues today, but they are increasing 25-30% each year. It is not hard to envision a future where the Web becomes a significant driver of newspaper revenue. Publishers generated more than 5% of their total advertising dollars through their online properties in the first three quarters of 2006, and the third quarter of the year marked the tenth consecutive quarter of double digit online ad spending increases. We expect this upward trend to continue as publishers build brand loyalty with Internet properties that consumers and advertisers value.

Jeff Haley, CEO
Radio Advertising Bureau (RAB)



Chris Rohrs, President
Television Bureau of Advertising (TVB)

Fletcher: The out of home industry must actively integrate new technologies into the fabric of the business. Empirical quantitative metrics will be introduced in 2007 by the Traffic Audit Bureau (TAB) that will provide better methods to determine exposure and effectiveness, ultimately helping to calculate an out of home campaign's ROI. This information will make it easer to evaluate the benefits of out of home advertising compared to other mainstream media and will even the "advertising playing field" for the out of home business. With the advent of digital advertising, advertisers can target and purchase by day part, location or geography. The new digital technologies will revolutionize the way advertisers buy out of home, which is more akin to broadcast buying. Finally, the out of home ad industry is on the threshold of a new generation of eco-friendly products and initiatives that will have a positive impact on the earth, and will provide worker safety benefits. These include: paste-free posters and innovative clip display and tension rod systems, PVC-free non-vinyl substrates, and lighting systems that cut energy consumption in half.

Draizen: The Interactive industry has experienced such extraordinary growth that recruitment and hiring is a real challenge facing all companies. As an industry we must continue to find ways to attract and train new talent as well as retain our existing pool of experts. College level programs around interactive marketing are called for as is cross-training of experienced veterans in other areas of marketing and media.

Drake: Attracting bright, talented people to the business, especially those from diverse backgrounds and those with Web experience, continues to be an important issue for the industry. Beyond recruiting, retaining and nurturing talent is very much top of mind for agencies. Also, agencies will work to prove their value, as clients continue their push for marketing accountability.

What is the biggest change you would like to see happen to help your medium?

Haley: I would like to see the perception of radio change in the advertising and buying communities. I think that the industry's movement into electronic measurement will help propel that, as it will put radio on a more equal footing with other reach media. But we need recognition for what we deliver. radio's emotive attribute ties consumers to their favorite radio station in uniquely personal ways. You cannot duplicate the one-on-one relationship that comes from connecting with your favorite air personality or program.

Rohrs: I already spoke of the need to implement eBusiness process solutions so I'll go with a Nielsen issue as the change I'd like to see. We need to settle on Live+Same Day as our second data stream and make that our standard metric. It's unfair and misleading to only account for Live viewing.

Burg: Discussion of the best approach to commercial ratings needs to continue and everybody would like to get this right. The focus of syndicated television's efforts in this area is to be positively proactive in providing Nielsen with the information required to simultaneously release syndication ratings along with Network and Cable television. On a broader basis, one area that concerns me is the perception that television's communications effectiveness has been diminished by lower individual television ratings. This is not necessarily true and television remains the most impactful way to communicate; the change is that there are different solutions ▸▸

Mitch Burg, President
Syndicated Network Association (SNTA)

Nancy Fletcher, President
Outdoor Advertising Association of America (OAAA)

Sean Cunningham, CEO
Cabletelevision Advertising Bureau (CAB)

required to meet the marketer's goals. Beyond a handful of impressively rated programs, there is little about prime that is prime beyond the cost. Looking at top rated programs, syndication has more top 10 weekday programs than any of the networks and 40% of the top telecasts on a weekly basis. Want your commercial to communicate better? Syndication's average pod in our "strip" programming is only 2:18 long and our exclusive pods average less than 90 seconds. It's not that television is less effective; we just have to recognize how to make it work best for marketers.

Cunningham: I think getting to true dynamic ad insertion within a short timeframe will provide an incredible accelerant to cable's advertising revenue growth. The marriage of all the set-top-box data that cable operators are aggregating (census level data) with an eye towards dynamic insertion. This in combination with the way the most desirable advertising target audiences aggregate around their favorite cable brands creates an incredibly fertile combination in the practice of dynamic ad insertion.

Sturm: I'd like to see more younger people picking up the newspaper, but the reality is that consumers of all ages are empowered by an arsenal of new technologies that provide unlimited choices in how we take our information and entertainment. Newspapers are now embracing the changing media landscape, creating new products and launching new designs that offer more color, movement and interaction. The overall newspaper reader experience is changing for the better.

Fletcher: The business strives for stronger recognition of its inherent value within the overall ad industry and among brands.

Draizen: The Interactive industry needs to continue our focus on creating a world-class medium that delivers the highest level of transparency and accountability. We need to build on the 2004 Impression Measurement Guidelines creating additional measurement guidelines for video; clicks; rich media; gaming; mobile and all other Interactive platforms as well as encourage the auditing and certification against these guidelines. The end result will be continued confidence from marketers and agencies alike.

Do you expect more growth in 2007 for local or national and why?

Haley: National clearly represents a growth area for radio and the RAB is actively charting a course that will deliver more of those dollars to the medium. Local business has been challenging in many markets, but radio is a mainstay in the local community. That will see us through any rough spots and as business regains a healthy footing, radio will be there to superserve its clients at both the local and national level.

Rohrs: Growth in 2007 will be driven by Local. We are up against Political dollars in 2006 National.

Burg: Why not both? Syndication's national growth in 2007 will be driven by a proposition of high- quality, advertiser friendly programming with respected stars that delivers higher communications value through more A/B positions and shorter pods, with real ratings. This need not come at the expense of local stations; rather, other media will struggle to match the communications power of television.

Cunningham: On the linear side, both national cable and local cable will grow in 2007; a difficult call on which will see more incremental dollars but local cable's% growth in 2007 over 2006 will most likely be higher than that of national cable. On the non-linear side, both national and local cable are looking at doubling and tripling their flow of 2007 ad dollars over 2006; too close to call between national VOD & Local VOD; but all signs are way up on non-linear growth in both national and local cable sectors.

Sturm: I think local advertising will fare better than national advertising, though I don't expect either to rise largely above 2006 levels. National advertising is likely be aversely affected by smaller gains in consumer spending this year.

Fletcher: Both local and national sales will increase next year. The accelerated deployment of roadside digital displays is attracting more local advertisers to the medium. Further, contemporary social trends favor out of home. National out of home sales will benefit from the continued fragmentation of television (TiVo) and other media and the erosion of TV advertising value. National advertisers place increasing emphasis on the importance of media mixing in brand development and out of home provides an ideal format for complementary messages placed in conjunction with other media. Consequently, current ad practices emphasize continuous presence and recency over frequency of impressions, and out of home is unsurpassed in its ability to do both.

Draizen: We will continue to experience growth on both the local and national levels. There has clearly been a paradigm shift where the local media outlets have been upended by online search and classifieds products. ▸▸

What is the biggest concern from your constituents? How are you going to help them?

Haley: What the RAB can do foremost for its member stations is help drive new dollars to the medium. We are developing initiatives that will impact business over time. We will also continue to deliver top-notch training to ensure that our sales force on the street remains competitive and gains ground against the competition.

Rohrs: Broadcasters' biggest concern is the devaluation of traditional media as new technology rolls out. We will need to keep the perception of our traditional platform vital while spotlighting and fostering our evolution to multiplatform distribution.

Burg: One of our biggest challenges is to listen to the needs and issues of the marketing community in a changing world. This is an exciting and active process for SNTA employees and we enjoy working with our members to better meet these needs. We continue to strive to provide relevant and timely client-specific perspectives that provide valuable insights that are actionable and important. Our work relating to clutter, DVRs and commercial ratings are examples of this. Other efforts may seem more mundane but are equally important. One example is working with our members to effectively communicate that syndication accepts day/date specific commercials, traffics commercials and can change copy comparably to network and cable. Moving forward, we are working with the 4As, the ANA and Nielsen to meet the challenges of a dynamic communications world.

Cunningham: In the realms of the consumer, business and media press where platforms dubbed "new media" are instantly granted favored-nation status, the viability of many of these emerging platforms (which we welcome) is largely unproven, but often assumed a sure fire success. In all of our meetings with advertising agencies and the advertisers themselves, as well as in our research it has become clear that today's multi-channel TV is the least "Traditional" of all the major mediums tasked with retail traffic-building, winning product/category share wars and building the advertiser's brands. We will make over 250 presentations in 2007 to groups of media decision-makers in markets big and small, across the full spectrum of product lines. Cable TV's growth, selling power, powerful multi-platform brands, economic, technological and geographic advantages, linear and non-linear offerings, multi-cultural growth momentum will all be on the menu.

Sturm: I think our members would like to see newspapers judged by their overall readership rather than circulation, an outdated metric that doesn't accurately reflect the medium's total audience. At a time when competition for audiences is at an all time high, it is more vital than ever for newspapers to provide information that most accurately reflects total audience. Data that measures the expanded audience is precisely what advertisers want to enhance their understanding of consumer use across newspapers' multiple media platforms. For this purpose, NAA has developed the Newspaper Audience Database, or NAdbase, to analyze the total audience (print readership and online usage) of the nation's top 100 newspapers.

Fletcher: Our constituents want to improve customer relationships through ease of buying, efficient business systems, and a more nimble delivery process. OAAA has initiatives in-place to address these concerns.

Draizen: The complexity of new technologies and the speed at which they are changing the Interactive marketplace make it essential for the industry to develop solutions and best practices for these issues. The Interactive medium, unlike other media, has a complex and sophisticated infrastructure for the management, delivery and optimization of advertising. This will only continue to become more complicated as emerging platforms like rich internet applications (RIA) mobile, iPTV, gaming and others become part of the Interactive landscape. Establishing an Ad Ops Council allows us to deal with current fundamental technology issues and anticipate future challenges. The ultimate objective for the Ad Ops Council is to identify and resolve industry-wide operational issues that challenge the efficiency and growth of Interactive.

Drake: In addition to diversity issues, e.g., work force diversity, supplier diversity, etc., in the coming year, agencies will be concerned with advertising to children and DTC drug advertising. Additionally, agency compensation remains a hot button issue. The AAAA will continue our numerous programs in support of providing guidance and best practices for inclusion and diversity at our member agencies, including minority scholarships and internship programs. Our Washington, DC office will continue its work with government relations and advocating on behalf of our members the benefits of self-regulation. On the compensation front, the AAAA continues to provide management consulting services to our member agencies on the topics of agency-advertising relations, agency compensation, and intellectual property ownership rights, among other issues. ■

John Sturm, CEO
Newspaper Association of America (NAA)

Sheryl Draizen, SVP/GM
Interactive Advertising Bureau (IAB)

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American Association of Advertising Agencies (AAAA)

DAVID **POLTRACK**

Commercial audience:
The new currency measurement

CBS believes that it is of critical importance for the television advertising industry to change its audience measure currency from a program audience base to a commercial audience base this year. The purpose of this article is to present our point of view. First, let's define the issue. Up until this year Nielsen has not included DVR homes in its sample because it could not measure playback viewing in these homes. Now that Nielsen is including these homes in the sample we have to decide how to credit playback viewing versus live viewing.

The advertisers argue that during playback viewers fast-forward through commercials. Therefore, they should not be included in the reported audience for advertising negotiations. The sellers counter that not all viewers fast forward through all of the commercials during playback. They also argue that exposure to commercials in the fast-forward mode has some proven communications value. The first formal negotiation on this issue came during the 2006-2007 Upfront when advertisers insisted on basing buys on Live-Only audience and sellers responded by attempting to include, and get credit for, delayed viewing. Faced with a lack of reliable data to evaluate each position, and, frankly, in an effort to move negotiations forward, Live-Only remained the currency for last year's Upfront. Let's look at how this has affected this season's results.

4-Net Rating	Live-Only	Live+ Same Day	Live+ 7 Day	Live+7 Day Lift vs. Live-Only
Households	28.7	29.3	29.9	+4%
Adults 25-54	17.7	18.3	18.9	+7%
Adults 18-49	15.4	15.9	16.5	+7%

Source: NTI NPower, Fall, 2006

You can see from this chart that, even with only eleven percent of the sample having DVRs, the exclusion of Playback is eliminating a significant amount of viewers from the advertising equation. The bottom line is that the Networks are not getting paid for 7% of their audience. Some of this audience is watching some of the network commercials. This is an unacceptable situation for the sellers, especially when you consider that DVR playback, as a percent of all viewing, is growing.

The solution currently under consideration is to switch the "currency" audience measurement from program audiences to commercial audiences. Since Nielsen records viewing in DVR homes through detection of audio codes, commercial minutes fast-forwarded through are NOT included in the audience count.

Based on the dialogue in [mid-December's] Nielsen meeting on this subject, it would appear that the industry is committed to move to commercial audience measurement. The biggest challenge remaining is to determine how fast the conversion to the new commercial audience currency can be made. More specifically, can this change be made in time for the 2007-2008 upfront?

The CBS Research position is clear on this, it has to happen. We cannot continue to give away more and more valuable audience as DVR penetration grows. Let me illustrate the situation. DVR penetration in U.S. households is estimated to stand at 12%-13% today. Nielsen has not yet reached the 12% level in its sample, so the numbers we are looking at currently understate the true impact.

For the upcoming 2007-2008 broadcast year, DVR penetration is projected to average somewhere between 20% and 25%. So the impact of Playback could roughly double next year. To see how significant this will be, let's look at two popular programs that currently air opposite each other, CSI and Grey's Anatomy. We will use Adults 25-54 for this example. The first thing we see is that having a DVR dramatically increases the level of viewing for these two competing hit programs. Grey's Anatomy posts a 15.7 Adult 25-54 rating in DVR homes compared to a 9.5 rating in non-DVR homes. For CSI, the ratings are 12.9 in DVR homes and 8.7 in non-DVR homes. Viewing for both programs in DVR homes is about half again greater that viewing of these programs in non-DVR homes.

However, these ratings are Live+7 Day Playback ratings. If we look at the Live-Only ratings in DVR homes, we see a much lower 6.8 rating for Grey's Anatomy and 6.0 for CSI. In other words, over half of the viewing of these programs in DVR homes is playback viewing.

It is obvious that a currency measurement that includes DVR playback adds to the value of these two hit programs while one that excludes this form of viewing significantly devalues these programs.

Clearly, this issue has to be dealt with now. Let's see how the proposed measurement system would work. We begin by switching from the higher program rating base to the commercial rating base. Since people tend to switch channels during commercial breaks the audiences during minutes filled with commercials are lower than those during minutes filled with programming.

INDEX *	HH	A 25-54	A18-49
5-Broadcast Network	95	94	94
58-Ad-Supported Cable Networks	90	89	89

* Index = Commercial Rating vs. Program Rating in Non-DVR Households
Source: NTI NPower, Fall, 2006

This chart gives the average program to commercial minute differentials for the four broadcast networks and the 58 ad-supported cable networks in non-DVR households. In key demos, the network commercial audiences are about six percent lower during commercial breaks, while the audience of the average cable network falls eleven percent during those breaks. While the change to commercial audiences would lower all ratings, these commercial-to-program rating differentials are well known and have already been factored into the media evaluation process. More significant are the differentials between the levels for the broadcast networks versus the cable networks.

Offsetting this downward adjustment is the addition of playback audience to each program's total audience. It would work like this. Currently, we have seen that, on average, 7% of a network program's audience is watching via playback.

We also know from preliminary data we have seen that about 40% to 50% of all commercials are viewed in the normal manner during ▸▸

playback. It should be noted that this is significantly higher than had been assumed. This translates to a recapturing of about three percent more audience for the average broadcast program. And this is at today's eleven percent DVR home representation in Nielsen's sample.

Let's look at what happens at the 20% level predicted for next year.

AT 20% DVR PENETRATION	CRNT. LIVE-ONLY PROGRAM RTG.	PROPOSED LIVE+7 COMMERCIAL RTG.	INDEX PRPSD./CRNT.
5 BDCST. NETS			
HH	28.0	27.7	99
A25-54	17.3	17.1	99
A18-49	15.1	14.9	99
58-CABLE NETS			
HH	31.1	28.5	92
A25-54	15.0	13.8	92
A18-49	14.3	13.1	92

Source: NTI NPower, Fall, 2006 ratings in DVR and non-DVR HHs adjusted to 20% DVR penetration level.

This chart compares the projected Live+ 7 Day commercial rating assuming 20% DVR penetration to this season's Live-Only program rating. You can see that the broadcast network programs recapture almost all of the audience lost in the conversion from program audiences to commercial audiences due to the higher viewing in DVR homes.

Since most DVR playback is to broadcast network programs, the cable networks are unable to recapture as much audience through playback. The top network programs do even better. With high playback levels, they recapture virtually all of the audience lost in the conversion to commercial audiences. As we move forward to higher levels of DVR penetration, the broadcast network program levels will remain stable as increased viewing in DVR homes offsets viewing lost through the fast-forwarding of commercials. With lower levels of Playback, cable network programs cannot offset the loss of audience to popular, time-shifted broadcast programs. As a result, cable's audience position deteriorates.

Also, as the networks further quantify the value of exposure to commercials in the fast-forward mode, the advertising value of popular, high playback programs will be further recognized.

The one-time-only adjustment from a program audience base to a commercial audience base is just that, an adjustment, not an indication of any negative change in the viewing of these programs. This would represent an actual increase in advertising value for these shows, particularly relative to the audiences of less popular programs.

So what does this mean for the longer term? The commercial audience to program audience ratio in non-DVR homes is likely to remain stable.More homes will switch to DVR-enabled status. Viewing of the most popular broadcast network programs will increase as DVR penetration increases. This increase will eventually lead to commercial audience levels that exceed current program Live-Only program audience levels. The broadcast networks will increase audience share at the expense of the cable networks. Top broadcast programs will also become more valuable as vehicles for product placement. The increased number of DVR households will lead to larger audiences for these programs and product placement will offer an alternative to the fast-forward-vulnerable 30-second commercial.

The CBS Research department is ready to develop Upfront estimates on a commercial audience basis. Hopefully, our competitors and the buyers will be ready as well. This change is already twenty years overdue, let's not delay it another year. ■

David F. Poltrack, Chief Research Officer, CBS Corp and President, CBS VISION

Spot cable keeps getting hotter

Tribune's business was down significantly this year. Granite Broadcasting is seeking protection from creditors under Chapter 11. Is it a possibility that after 35 years of not being taken seriously, the spot cable players have really started to dig in deeply into the meat of broadcast TV spot sales? Over the last five to eight years advertisers realized they could reach a 100-250 GRP point goal with local cable inserts on 6-8 networks. The main driving factors for spot cable's growth include accountability, addressability/localization, affordability, the growth of new cable nets and the ease of the medium's e-business.

How have spot cable players' revenues been increasing YOY? According to Universal McCann (from 2002-2004) and TNS Media Intelligence forecasted growth rates for 2005 and 2006, spot market dollars that include national spot, local spot and cable spot revenues in Comcast markets, for example, have grown 14.28% since 2002 or 3.5% per anum. Comcast's ad revenue increased 10% to 395 million in Q3 2006 when compared to 2005. They finished the 2006 political season close to 90% ahead of 2004 and saw shares of political dollars in many markets increase from 5-6% in 2002 and 2004 to 15-20% in 2006.

Said **Kevin Cuddihy**, VP/Ad Sales at Comcast Spotlight: "We've seen a 48% increase in that same time for an average yearly growth of 12%. Each of the four quarters of 2006 has improved in our core business growth."

NCC is the largest spot cable ad sales firm in the country, jointly owned by—Comcast, Cox Communications and Time Warner Cable. NCC represents 210 US markets and reaches virtually every cable home. How did they do in 2006? "We had a great year, as political advertising took off for us, and our core business continued to grow. We made budget, and grew our share of national spot advertising to its highest level yet," **Andrew Capone**, NCC SVP Marketing & Business Development, attests.

National advertisers have discovered they can now get through NCC a ratings presentation—an actual submitted avail just like they would get from an affiliate from Katz or Blair. This set of avails is cost per pointed and looked at right next to the network affiliates.

Says Capone: "Spot cable delivers consumer reach against America's most desirable demographics, rather than just GRPs. The TV audience has atomized, and we can deliver them whatever they are watching."

Advertisers are increasing presence on VOD services as well, including long-form video, sponsorship of pre-existing content and now dynamic VOD ad insertion—the ability to splice fresh ads into on-demand content on the fly.

Agencies didn't spend nearly as much money buying spot cable a few years ago because of the administrative burden. Spot cable's e-business leap forward has turned that around completely. The efficiency and effectiveness of the process—from order, confirmation, to affidavit to invoicing to post analysis—has helped large players like NCC get the entire spot cable business (local operators to national MSOs to interconnects) to go electronic. As well, NCC has helped business for local and regional interconnects with fast turnaround of avails requests. ■

DAVE SEYLER

Sinclair Plays Hardball

Sinclair Broadcast Group first signaled its attitude towards cable retransmission of its over-the-air television stations back in July. Cable operator Suddenlink acquired a cable system in the Charleston-Huntington WV DMA from Charter Cable, and Sinclair used that opportunity to knock on the door with a request for more money if Suddenlink wanted to continue providing Fox WVAH-TV Channel 11 and ABC WCHS-TV Channel 8 to its 240K subscribers.

Suddenlink yelped loud enough to be heard in Washington DC, specifically in the halls of The Portals where the FCC makes its home. It wasn't shy about quoting numbers, either. It said that prior to closing of its acquisition of the system, Sinclair was looking for an upfront retransmission fee of $4M. Now, said Suddenlink, the ante was up to $40M upfront and an additional $2.4M in annual fees.

By the middle of August, following a round of emergency petitions, petitions for declaratory rulings and petitions for emergency relief, the parties came to an agreement (terms undisclosed), and had the FCC vacate the matter with prejudice as moot by joint request.

But it turned out to be a prelude to an even greater conflict: Sinclair v. Mediacom. This time, instead of 240K subscribers, the stakes involved 800K subscribers and 24 stations in 16 markets. With a 12/1/06 deadline for a new deal, the two companies sparred in the courts and over the PR wires. Sinclair's threat was to pull its stations from all of the affected Mediacom systems if it didn't get the terms it wanted.

From Sinclair's point of view, it wasn't doing anything evil. It was simply engaged in good old American capitalism. Sinclair attorney **Barry Faber** said in a conference call that Sinclair views its stations, sitting on a cable system lineup, as equivalent to a cable service like ESPN, and that just because the channels happen to be offered free over the air does not mean that Mediacom can simply benefit from having it there for free. He characterizes the disagreement as a simple dispute over price like might happen in any supplier/distributor negotiation in any type of business.

Mediacom General Counsel **Joseph E. Young** stated that it has offered Sinclair its pick of any of the terms it has arrived at "...with 40 independent broadcast groups" with network affiliates in their markets. Apparently none of those packages were good enough to satisfy Sinclair.

Neither side has thus far discussed exactly what terms have been put on the table. Sinclair said it was far less than fees from top basic cable channels, while Mediacom has obviously implied that Sinclair wants more than it pays any other broadcaster.

Sinclair also wondered what all the fuss was about. In Faber noted that the stations did not rely solely on Mediacom for circulation. They're available on satellite as well as directly off the air. As December 1 approached, Sinclair put together a deal in which viewers could get rebates of $100 or $150 on a DirecTV subscription in most of the affected markets. And Mediacom started looking into providing rabbit ears for its subscribers, a move that Sinclair applauded.

The industry organizations behind each group have lined up as you might expect. **Dennis Wharton** of the National Association of Broadcasters told RBR/TVBR that typically these things work themselves out without any disruption to subscribers. He said, "We believe broadcasters bring tremendous value to cable systems. There ought to be some recognition of that value. DirecTV and Dish pay broadcasters cash and generally they have more channels and their prices are generally less than what cable operators charge."

The American Cable Association sees it a little differently. "The facts are," it wrote, "that broadcast and programming content owners are harming consumers by holding the carriage of local signals hostage to the payment of exorbitant cash fees and the carriage of costly additional programming." It pledged to try to work the powers that be in Washington to protect customers, "who ultimately must bear the brunt of these laws and regulations."

At deadline, it looked like the talks between Sinclair and Mediacom were going nowhere. ■

RBR/TVBR OBSERVATION

It's hard to believe that must carry has turned into we won't let you carry. Broadcasters say the cable MSOs have gotten a free ride for too long and they are insisting on being paid just like ESPN, TNT and Animal Planet. Now they have the leverage to demand payment, since EchoStar and DirecTV have become viable alternatives to cable, not to mention the new cable/broadband competitors being built out by telephone companies, particularly Verizon.

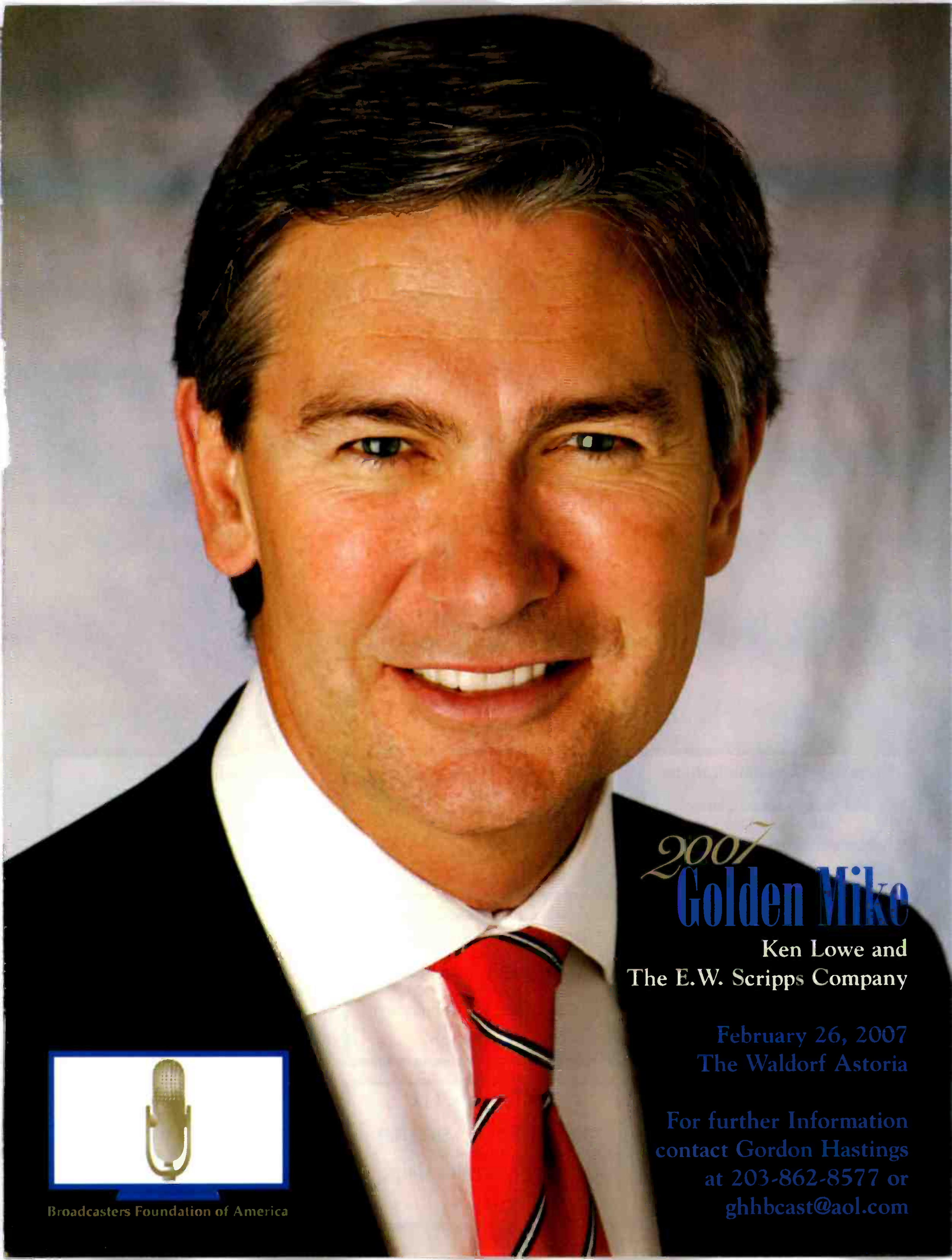
But at the same time broadcasters are looking for cable cash to replace lost network comp, the cable guys are leery of just how much more cost they can pass along to subscribers. Note the difficulty the NFL Network is having in getting carriage as yet another sports channel (which tend to be the most expensive channels on cable).

Nexstar led the charge months back in demanding retransmission payments and now Sinclair is front and center in its disputes over getting payment from cable systems. The biggest battles may be yet to come, since CBS Corporation CEO **Les Moonves** has made it clear that he wants cash when the CBS O&O stations renew their retrans agreements, since they are no longer linked to payments for the Viacom cable networks.

There are risks, though. In an age of ever-increasing competition, do broadcasters really want to limit distribution by going off cable in some markets, leaving only over the air and satellite delivery? There are alternatives, even for TV station owners who don't have cable network investments of their own. Gray Television, for example, has focused on getting cable carriage for its new CW and MyNetworkTV multicast digital channels rather than cash retransmission payments. **Bob Prather** figures his sales staffs can turn that ad inventory into more than the 25 cents or so per subscriber he might get each month from making cable systems pay for his big four network affiliates.

At the end of the day, the broadcast and cable media are in the business of delivering a large audience to advertisers. Infighting between competitors that results in higher tune-in prices for consumers ultimately damages this model, a model that is sustaining plenty of damage without any self-inflicted help.

We suggest that retransmission negotiations be handled with caution. The same goes for the symbiotic relationship between the recording industry and radio. TV and cable, and radio and recording can bash each other all they want at the negotiating table. But if the result is to price subscribers off the cable carrier or price a television station off the cable system completely just what has been won? ■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has sold
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serving Los Angeles, CA to
LAA 1, LLC
for
$41,000,000

Lakewood Church
has sold
KTBU-TV
serving Houston, TX to
USFR Media Group
for
$30,000,000

Radio Fargo-Moorhead, Inc.
has acquired a
Seven Station Radio Cluster
serving Fargo, ND from
Clear Channel Communications
for
$14,000,000

David and Mel Winters
have sold
Two Radio Clusters
serving Marinette WI/Menominee MI and Ironwood MI to
Armada Media Corporation
for
$8,500,000

Results Radio, LLC
has sold
KRPQ (FM)
serving Santa Rosa, CA to
Maverick Media
for
$7,700,000

Results Radio, LLC
has sold
KMHX (FM) and KSRT (FM)
serving Santa Rosa, CA to
Lazer Brodcasting Corp.
for
$6,850,000

AAA Entertainment, LLC
has sold
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serving Peoria, IL to
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for
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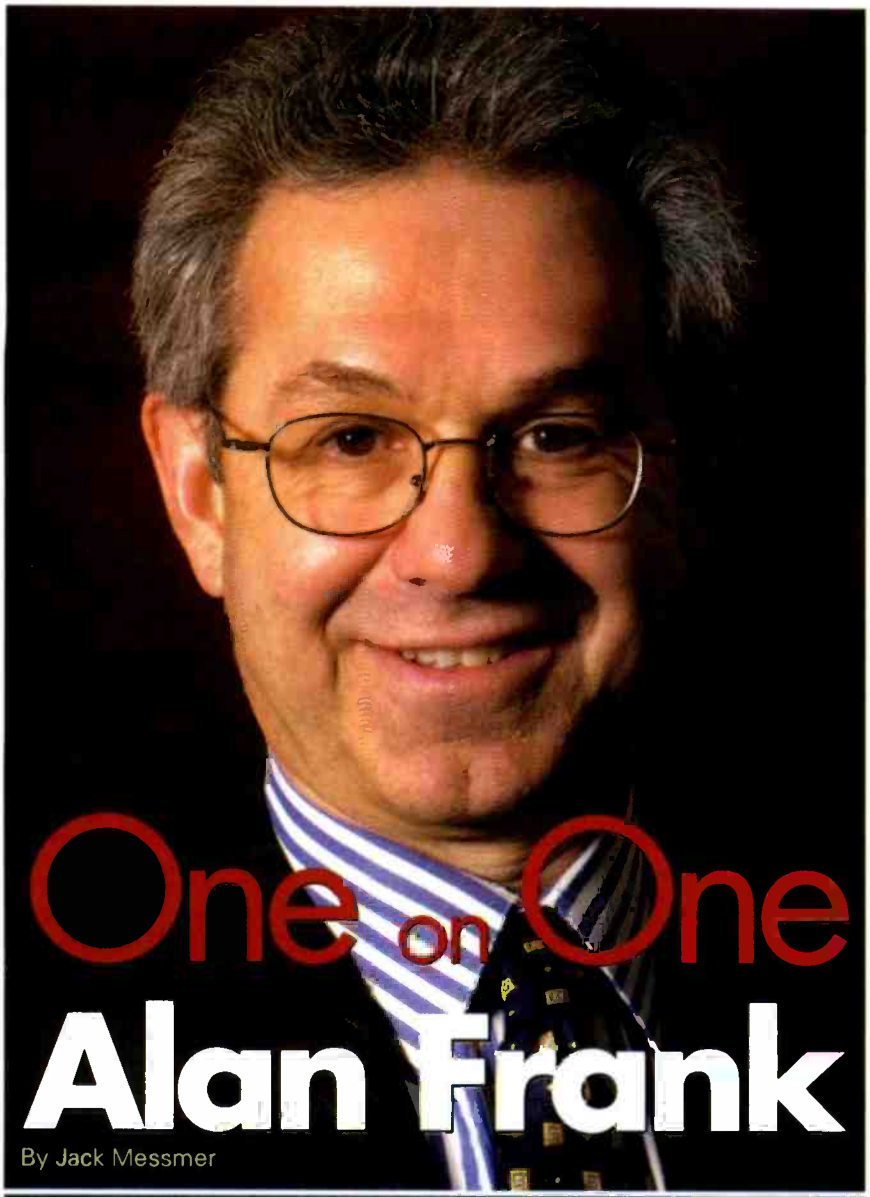


One on One

Alan Frank

By Jack Messmer

Alan Frank became President and CEO of Post-Newsweek Stations, the TV group of The Washington Post Company, in January 2000. Prior to that, he had been Vice President and General Manager of the company's WDIV-TV Detroit since 1988. In 1992 he negotiated the purchase of PASS Sports, Michigan's cable sports system, which was sold to Fox Sports in 1997. Frank joined WDIV in 1979 as program manager. In 1986 he became vice president of programming and production for Post-Newsweek Stations. Prior to joining WDIV, Frank held management positions with Group W.

As if he didn't have enough to do, Frank is currently both the Chairman of the National Association of Broadcasters (NAB) Television Board of Directors and Chairman of the Board of Directors for the Television Bureau of Advertising (TVB). He also serves on the board of MSTV and is a member of the board of directors of two "new media" companies, iBlast and Internet Broadcast Systems (IBS).

Q. You have six stations and you're in three different networks, plus an independent. Do you find that there is really much difference in the relationship between the owner and the different networks?

It does change and the change is cyclical. Things are sometimes quite bitter than other times. Depending on where the network is and what's going on and how they are feeling and what day of the week it is, there are very different answers.

Q. How have you been pursuing the issue of online streaming? Have you been happy with how the networks have been treating the affiliates in that regard?

It's been really difficult to engage the networks in that regard. It is really up to the affiliate boards to make sure that we have an alignment of interests—that our interests equal their interests. If the network does something on a different platform it's not detrimental to the affiliates if we're doing it together, because the health of a show is something that is in our benefit as well as theirs. But it's not doing particularly well in primetime. It's kept there because the network is making money on numerous other platforms, that is not an alignment of interests. So what we want to make sure of is that we're walking together and so we're promoting together and benefiting together in the same interests. In that regard, we've tried to establish new businesses with some of the networks and sometimes we've been more successful than other times because it's a difficult field and no one can predict exactly how it will turn out. So it's been a difficult process.

Q. As far as those new ventures, are you multicasting?

Yes, we have been for some time. In almost all of our markets we have some form of multicasting going on. For one, the NBC stations have WeatherPlus, but the other stations have some other things going on. In fact, we're close to making some commitments on what we think will be significant multicast opportunities.

Q. You don't have any CW or MyNetworkTV affiliates. Were you interested?

We looked at it; it just wasn't the right opportunity in any of our markets. We were close on the CW, but we just didn't like the deal and weren't enamored with where Fox was going [with MyNetworkTV] so we just didn't pursue it.

Q. How is life going with your one independent station?

It should be as good everywhere. We're just hitting a homerun there everyday. We're on the verge of controlling that market from our ratings and revenue standpoint. It's really been spectacular success. The hard work and the great enthusiasm of the folks at WJXT [Jacksonville, FL] has been remarkable and the community has responded in magnificent ways. We are the local station, that's how we bill ourselves. WJXT, the local station, and it's been an amazing success. We've doubled the amount of news, more than doubled, we do over eight hours of news

every day and our news is all number one and our syndication is very successful. Frequently we'll beat two or three networks nightly; some nights we actually win primetime. We've just been doing very well. Our ten o'clock news is a huge success. Our four hours in the morning is a huge success. Our afternoon has remained a big, big number one; we've done a lot of very special programming that's really interesting in that market. The surprise, I mean we all knew it, but the surprise was when you become a news station you cover news and you not only cover local news you cover all news—otherwise you're not a news station. So when things happen nationally, our anchors and our reporters cover that event.

Q. You're sitting there with a very comfortable public company at a time when a lot of the others are having troubles and you're seeing all the newspaper companies ending up on the auction block. It must be pretty pleasant to be able to sit there and not have the kind of worries that some of the other people do, given the attitude of your ownership.
I think that's well put. The other thing that's happened and I think it's a story not well reported is the Washington Post Company has performed a minor miracle in that half of the company is not advertising dependent. So the subscription-based part of our cable and the Kaplan, our education division, which is growing remarkably, are not advertiser dependent. So while Newsweek Magazine and the Washington Post and our TV stations certainly are [advertising dependent], the rest is not and it's what the Street has really wanted from companies like Viacom and Time Warner and they now have it with the Washington Post Company. At some point people will recognize a remarkable turnaround but you know it's to **Don Graham**'s credit that that has happened, so it's a great thing for our company.

Q. And it's a situation where you have a patient corporate leadership that is not worried about quarter-to-quarter which is unusual in this day and age.
Exactly. They are as much concerned about the quality of the journalism and the quality of how we represent our communities as anything else. Of course, we are expected to be strong leaders in all areas including profitability, but that's an easy thing when you understand that we can draw the best people because they like working where they know it counts what they put on the air.

Q. What new syndicated shows are you excited about?
Well, the one that we have for almost every one of our markets is **Rachel Ray** and that's been the best new show. She has a terrific talent there is no question about it and they are working to get the show to take advantage of who she is and not be the show that it was on cable, but the show that it has to be on syndication. They have a great production team. I have real faith in **Terry Wood** and the people producing the show. I think they will do it, but it will take a little while to get the show there. That's the only one of the new shows that I think really has a chance.

Q. And what are your old favorites? You have Dr. Phil in a lot of markets.
Yeah, we have it everywhere except one market and that's been remarkably successful for us. We only have Oprah in two markets. We'd love to have had it in more. ET and Wheel of Fortune and Jeopardy, those shows are all very successful for us.

Q. Now that we are a few weeks into the Fall season what have you seen on the networks that you think is going to do well for your stations this year?
Ugly Betty. Ugly Betty is going to be I think a big, big hit for a long time. I think Heroes could be a hit for a long time. And clearly NBC's bet on Sunday Night Football was a good move—they needed to do it, they desperately needed it. It's been very good for our stations this fall. I worry what's going to happen in January, when they'll have to replace it, but for the fall it's been a very successful programming move. I do think what this fall has shown is that the network model of introducing all their shows in September probably needs to be rethought. I think they would be better off on a gradual basis rolling out shows. It is just too difficult these days to get viewers to give in to totally new viewing patterns and I think they need to stop with the Fall rollout and do a year-long rollout—you know, do two shows at a time, redo a night, redo a time period, redo this and just continually be reintroducing shows or introducing shows, but I don't think you could introduce 5, 7, 9 shows in September/October. There are a number of very good shows that have not succeeded and I think in part because they just get caught up in all the new shows. There are just too many new things to try.

Q. How concerned are you about the FCC's indecency crackdown?
I think stations and networks have to stand up for what's right and take responsibility for what isn't right. I don't agree with CBS in their decision to fight this Super Bowl penalty. That never should have happened. CBS did apologize, said it shouldn't have happened, but it did happen and they should say we'll take the punishment. On the other hand, I think a number of times the FCC has reacted because it has been through public campaigns with tens of thousands of postcards or emails that are exactly the same from people who have never seen the show that they are complaining about. To me that's one complaint, that's not ten thousand complaints and I think the FCC is not putting things in a perspective in any way that is meaningful and everything has been given equal weight—that's a remarkable way to administer a policy. I don't think the whole current procedure has provided any clarity. On the other hand I think stations have been overly sensitive. I think it was impossible that "Saving Private Ryan" would have been judged indecent. It aired twice before. The same happened with that a number of stations didn't carry the documentary on 9/11. That was remarkable. There's no reason to not take that and if the FCC had said that had been indecent that would have been a perfect case to go to court on.

Q. Let us give you a bully pulpit and ask what concerns you about television?
I think we have to get this digital transition completed in a way that is satisfying for consumers. That's not a broadcaster problem, we're part of the mix, but the broadcasters have to be very active in that. I think the networks are going to have to decide how they are going to work with the affiliates in the future in long term ways because that relationship is changing. I think stations are just going to have to continue to understand that their success is going to depend on being hyper-local and have as much community involvement as they can to succeed, because that's where their viewers are and that's where their clients are and that's what they are going to have to do. ■

T A L K • R A D I O • N E T W O R K • F M

CARL **MARCUCCI**

Cavuto takes his financial brain trust to radio

Fox News Channel's (FNC) VP/Managing Editor of Business News **Neil Cavuto** anchors the weekday one-hour program, Your World with Neil Cavuto, and the weekend show, Cavuto on Business. He was named anchor and managing editor of business news for FNC in July 1996. He was later promoted to VP/Business News, while continuing to serve as Anchor and Managing Editor. Under his leadership, FNC's business news unit overtook CNN and CNBC to claim the top five shows in cable news, which include the popular Saturday morning business block.

Responsible for anchoring a daily, one-hour daytime financial program, "Your World With Neil Cavuto," (4:00-5:00 PM ET, Monday-Friday) and a wrap-up program highlighting the week's business news, "Cavuto On Business" (10:30-11:00 AM ET, Saturday), Neil oversees all business coverage for FNC and serves on the network's executive committee. "Your World" is currently the #1-rated signature business show on cable.

In addition to his duties on the television network, Cavuto will begin anchoring a financial newscast, The Cavuto Money Report, for FOX News Radio beginning 1/15. The report offers three separate one-minute weekday reports: an early morning pre-market report, a market opener, and a market wrap. Timed to the daily opening and closing of the stock market, the reports will cover business news beyond Wall Street and will be offered to radio stations across the country.

Prior to joining FNC, Cavuto anchored and hosted more than three hours of live programming daily for CNBC, including the network's highest rated program, "Market Wrap," as well as "Power Lunch" and "Business Insiders." He also served as a contributor to NBC's "Today Show" as well as "NBC News at Sunrise," while at CNBC. His 20 years of financial reporting include stints at PBS "Nightly Business Report," where he was a New York bureau chief, Investment Age Magazine and the Indianapolis News.

Cavuto is also the author of the New York Times' bestseller More Than Money: True Stories of People Who Learned Life's Ultimate Lesson (ReganBooks 2004).

Here we ask Neil about his programs, their success and a bit about media stocks and the economy.

Your radio reports debut 1/15. Tell us a bit about their style and content.

They are going to be very straightforward and simple. The latest going on in the business world but basically very short and to the point. That is the nature of radio anyhow, but the nature of FOX Radio is just to get to the meat of it and what it means to you. I think there's a tendency when we look at economic numbers, for example, just to prattle off the number and go on. We will very quickly try to say if the number is up or down, whether it's disappointing or better than people had hoped and what it might mean going forward. These are going to be very punchy and to the point.

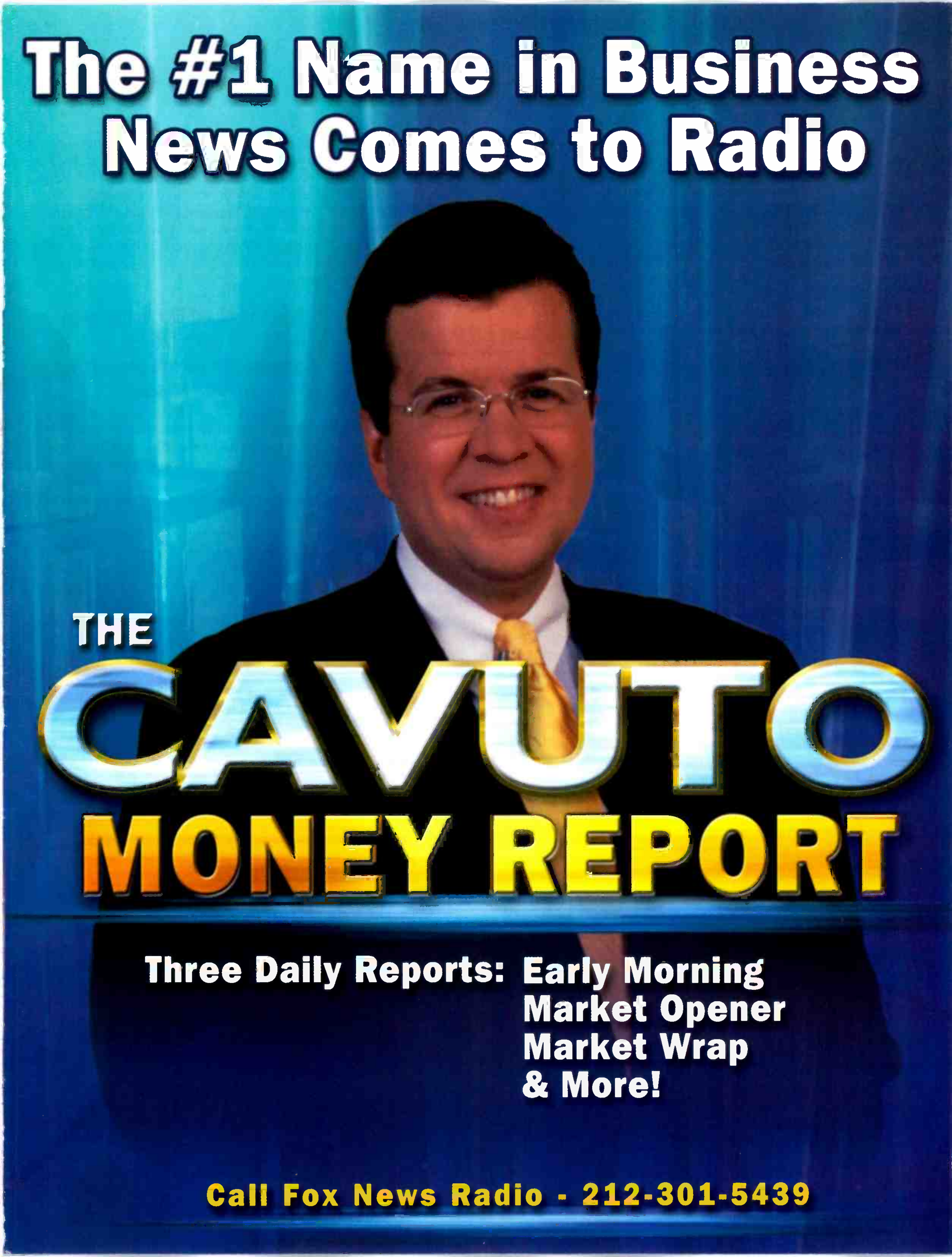
[FOX News EVP] **Kevin Magee** runs our radio division and does a great job with it and has told me that there has been a great deal of interest. So either they are obsessed about having a nerd like me or they want a lot more business.

How will you cross-promote The Cavuto Money Report with FNC's "Your World with Neil Cavuto" and "Cavuto on Business?"

Well I hope to. It's not going to be a cardinal rule every day. Sometimes it doesn't lend itself to that. If, for example, in my Morning Report the day before I had had the chairman of Pfizer on telling me about pulling a drug, I'll certainly pull a bite or some quotes from him in the next Morning Report. As in the case of Pfizer when it pulled this cholesterol drug the stock had tumbled the day before and I had the guy on my show, in that case I would certainly use some of what he said in my radio report. It really depends on the news at the moment and whether there is much carryover the next day. Now as for the after the market report that I do if there is something on my show that very day, the same rules would apply. If, for example, we had yesterday the ones that wrote the Iraq Commission Report on my show and also looked at the market fallout from that, that I would have in my radio report. Again, it just depends on the day's news.

How have your television programs evolved over the years?

Well I think with the network's success, Carl, the audience has grown. I always like to joke when I started here, it was like I had entered the witness protection program. I'd come from CNBC and NBC News doing spots on the Today Show to ▸▸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virtually no one hearing or watching me. So obviously we were doing the same kind of shows then that we are now, only a lot more people are watching us. I think our basic strategy then, ten years ago, as of now, is just to speak clearly and in English. We have a couple of basic cardinal rules we apply to what we do on TV. I think by extension what we will do in radio is to speak clearly, in English; to avoid jargon; to avoid acronyms, to not assume that everyone is in on every little nuance of business. I think the Wall Street Journal does that very effectively. If you notice they will never use a lot of market jargon. If they do use it they will explain it. I think I'm of that same mindset. I don't believe that you have to show off for an audience. You just have to explain things clearly and people are pretty smart. They'll know when they are being talked down to and they will know when they're not. I think the key to our success has been that we're big believers in just being very regular, very clear.

Give us your outlook for 2007 on media stocks—radio and television.

I tend to think media stocks had an awful 2005, a better 2006. I think with the advertising environment improving there was a thought that maybe the media stocks would soar. I know my parent company certainly did better in the market than did Time Warner, but the fact of the matter is you talk to any big ad buyers and they are still very skittish. They are not convinced that 2007 is going to be a great year. Wall Street, as you know, is a forward-looking beast. You can have a great year—all the major entertainment companies had great years—ad-wise, what have you, but I think Wall Street looks forward and says yeah but it can't continue. I'm not smart enough to know whether that is the case for next year.

I do see a slowdown in the economy coming. I think the second half of 2007 does look dicey, even for the market. I think we've had a great better than four-year Bull Market, almost uninterrupted. That can't continue. I don't think that's a bad thing. I think it's just sort of a catching up to a mean. Again I'm not in the camp that says housing crashes. I'm not in the camp that says it's the end of the world. I'm just saying that a slowdown would probably be in the healthy order of things. Now the fallout for media companies is that when things slow down obviously companies are less inclined to advertise. That could be problematic for media companies, but because they now spread their wealth into so many different media—from TV to in this case radio and the Internet—I think they kind of hedge their bets better than they have in the past. So I'm not dire on the group I just don't think it will be a robust year for the group.

Do you have any opinion on the national debt that we're finding ourselves in from the Iraq War and the weakening of the dollar?

I've been in this business now covering financial news for 25 years and I've seen and heard this talk, particularly on the dollar, for the better part of ten years now and always the same concerns. We're piling up debt, foreign holders of our currency are getting anxious, they're going to dump our debt. The question that's left out though is where else do they go? Europe with their budget deficits are actually higher as percentage of the GDP versus our budget deficits. Their unemployment rate in France, for example, is double what ours is. In Germany it's almost double what ours is. Their productivity, if you go to Italy, it's half of what ours is. If you go to France it's a third of what ours is. I don't see it readily being Europe. I know the European Central Bank is raising rates and that's giving them a bit of a competitive advantage over the dollar as we face the prospect of rates likely coming down in this country to repress the slow down.

Having said all of that I'm not overly worried about it because I see with the growth we've experienced we've been able to pare our budget deficit down. I think the trade deficit is a very big worry, but ironically that very weak dollar is going to help it because it's going to make our goods decidedly more competitive abroad, and conversely foreign goods more expensive. So in a way what ails us is what could help us. That could help draw money back into American goods both here and abroad that will narrow that trade deficit.

Now I think some bigger macro issues have to be addressed. I think we have to look at entitlement programs and the kinds of things like Social Security and Medicare that could bust everything. But having said all that I think while we have our problems we're still the best financial bet in town. I don't buy this argument that there is going to be a dollar freefall because a dollar freefall would have to be accompanied by the economy seriously hiccupping. At best I'm looking for a slowdown, and it would require an alternative place that looks really hot compared to the US. At this point I don't see that.

You've helped FNC's business news unit go to the top among competitors for five years now. What's the secret?

I think you have to not treat it as some odd sort of crazy stepchild of news. I think there has been a tendency Carl over the years to compartmentalize business news for just the Wall Street investor, and to assume that that's the best kind of audience you can get. I think business programming, by and large, has always been focused as if you were a broker. Well the 70% of Americans who are directly or indirectly investing in the market, they're not all brokers and yet I think programming has been geared to them as if they were. I think that if you broadened it out and you look at business angles in almost every general news development you'll be better off. That's what we've done, that's what we'll continue to do.

What we're trying to do in business, on radio, on the Internet with the various shows that we do is we're always true to our niche. That is not being arrogant, I'm just trying to explain this in layman's terms, clearly and succinctly. I'm a very big believer that business news has been horribly misrepresented to the public as being dull. Now I might not strike you as the most riveting guy, but I believe that it's riveting stuff. I think it's been poorly positioned in the marketplace and relegated to, like I say, in the business pages of the newspapers or business magazines and people summarily look at that and say well then it's not for me. I always like to tell people almost anything going on in the world has an angle on business and money that you might not appreciate or you might not see. I make it my mission, FOX makes it its mission, to show you that and when you do that and help people see things in a somewhat different context, I think you are giving them a much broader and more appealing view of business than has traditionally been the case. ■

HD Radio's property tax consequences

Radio's change to digital broadcasting can mean additional taxes in the following states taxing business personal property: AL, AK, AZ, AR, CA, CO, CT, DE, DC, FL, GA, ID, IN, KS, KY, LA, ME, MD, MI, MS, MO, NB, NV, NJ, NM, NC, OH, OK, OR, SC, TN, TX, UT, VT, VA, WV, WI and WY.

Radio stations must purchase additional equipment to put out the digital signal and the additional equipment will cause higher property taxes. This is particularly true with the conversion to HD Radio, as the analog broadcast equipment will have to be kept in service for several years while the public purchases enough digital receivers to make the digital signal dominant.

In most states taxing business personal property, their laws require the assessor to determine the "fair market value" of the property as the starting point for the tax calculation. Since the determination of "fair market value" presents a difficult task for assessors, many states have adopted standard classifications and percentages that are applied to the original cost of each piece of equipment to arrive at what is considered to be a reasonable estimate of the value. However, when an industry is experiencing large changes in equipment, there is a significant effect on the fair market value of the existing equipment that the standard percentages simply do not account for and the result is not does not approximate "fair market value."

Industries often contest valuations. For example, the author has assisted television stations in obtaining reductions in their property taxes in Alabama, North Carolina, Texas, Florida, Louisiana, Kansas, Missouri, Indiana, Nevada, and Maryland due to the change to digital TV. Most states have informal and formal means to resolve the valuation issues with assessors.

During the changeover to HD Radio, a radio station will have the following groups of broadcast equipment:

- additional equipment purchased to put out the digital signal (the digital transmitter, for example),
- equipment to broadcast the analog signal that will be useless or inefficient once the analog signal is shut off (the analog transmitter, for example), and
- equipment that is not effected by the change (microphones, for example).

It is the first two groups that result in excess taxes and cost. Because the radio station is sending out two signals to just one set of listeners, expenses have increased while revenue remains the same. Thus, both the analog and digital equipment has a lower value to the station. Even the new digital equipment has little or no value on the resale market as improvements in power and efficiency will come rapidly in the first years of HD Radio. Stations that do not intend to broadcast a digital signal for several years will experience a loss in value on their analog transmitter and antenna, since potential buyers of the analog equipment will know that the useful life of the equipment has decreased.

The tax increase for an individual station will be determined by the age of their equipment, the original cost, the location of the equipment, and the tax rate. While the effect may be relatively small for one station for each year, the cost occurs each year until the analog signal is shut off and the analog equipment is removed from the station. A group of stations may see a significant impact on their bottom line.

Since protesting the equipment's valuation can be expensive, working together through the state broadcaster organizations has proven to be a cost effective way to reduce taxes. The most feasible approach has been for the association to engage a property tax specialist to file amended property tax returns for a volunteer member broadcaster with the local assessor. The amended property tax returns become the vehicle to start discussions on the valuation. If the local assessor is inflexible on the valuation, appeals are utilized to get the issue before either a board of equalization hearing or the courts.

In many states there is a statewide authority for property tax issues. Once an amended return is filed, the association can then approach the state seeking a reduced valuation to be applied statewide. This approach has worked with television stations in at least three states.

Legislative action is a last resort option. In Kansas, informal discussions with senior tax staffers determined that legislation was the only route. The Kansas Broadcasters Association was able to get a partial credit put into a statute for personal property taxes on digital radio equipment acquired prior to July 1, 2006. Kansas ended the taxation of most business personal property for equipment acquired after June 30, 2006 as part of the same legislation. This combination of the credit and end of the tax for new equipment will mean significant savings for Kansas radio stations.

The transition to HD Radio may last for several years. It has been estimated that it will be 2017 before 95% of the FM stations in the United States will be broadcasting a HD Radio signal. The local broadcaster will continue to pay taxes on both analog and digital equipment at normal assessed values unless the assessors agree to recognize the lower market value of this equipment. The increased property taxes along with increased electricity bills for powering an additional transmitter will definitely affect the profitability of radio stations.

There are valid reasons to seek lower valuations on the analog equipment which now has a shorter useful life. The digital equipment is not producing additional revenue and is of limited resale value. As property taxes are a local revenue source, the valuation issues must be addressed state by state. The state broadcast associations present the most effective agent to present the radio station's case to assessors. ■

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JEFFREY **SMITH**

Still haven't made the switch to HD?

HD Radio hit a major milestone on September 18th of this year when WIYY-FM in Baltimore became the 1,000th station in the country to sign on HD Radio and iBiquity Digital hopes to see 1,200 stations by the end of 2006. Now that stations are adopting HD Radio technology and spending significant amounts of money on the infrastructure to support it what can it do?

One of the highlights of HD Radio is the ability to put multiple different audio streams on one frequency. This technology, know as multicasting, is being talked about by radio people all over the country. It gives an HD Radio broadcaster the ability to broadcast its traditional analog signal plus an HD version of the same program. It also allows for the addition of an HD2 and HD3 channel. These channels allow broadcasters to offer different and until now unthinkable types of alternative programming to compliment their main channel. Some broadcasters are offering variations of their main programming, like classic country or deep rock cuts. Others are offering simulcast of other company owned stations or totally different programming all together.

Several things that should be understood by any broadcaster considering the move to HD Radio are costs, licensing and FCC regulations. Many industry people estimate the cost of an HD upgrade for the average radio station to be between $50,000 and $150,000. Broadcasters need to consider upgrading transmitters, antennas, processing, STL/TSL equipment and in some cases studio equipment such as consoles and automation. In the case of a broadcaster deciding to multicast considerations must also be made to the program source and processing for each addition audio stream.

Once cost is calculated, licensing the technology from iBiquity Digital is another step. According to iBiquity Digital's website (www.iBiquity.com) the cost to license a station to broadcast in HD is now $10,000 and increases after June 30th 2007. There is also a fee of 3% of the incremental net revenue of any HD2 or HD3 stream with a minimum charge of $1,000 annually.

One last thing to consider before turning on that HD transmitter is the FCC. Currently HD Radio and multicasting is allowed by the FCC only after certain notifications and authorizations have been made. To broadcast in HD a station must "notify the Commission by letter within 10 day of the commencement of in-band, on-band digital transmissions" (FCC DA 03-831). If a station wishes to multicast in HD, in addition to notifying the FCC a station must request experimental authority. According to the FCC requests "for experimental authority pursuant to Section 73.1510 require only an informal application, typically a letter, and include no fee or form" (FCC DA 05-609A).

Once all the licensing and fees and upgrades have been done you are set to start broadcasting in HD so lets take a look at a few of the concepts and ideas that will be around the 2007 NAB Show. Multicasting is sure to be a big part of this years radio portion of the NAB. While multicasting has been around for a little while, 2007 will introduce several new technologies designed to make it easier to multicast and to add features to it. Some of the features that may be shown this year include new ways to deliver data services to listeners and new forms of programming to deliver on multicast channels. The data portion of HD Radio can offer a lot to both the listener and the broadcaster. It allows for delivery of song title and artist, as well as traffic information, advertiser information, interactive promos and even more. One of the new technologies being discussed now is HD Radio Conditional Access. This is a technology that does exactly what the name implies. It would give listeners the ability to hear exactly what they want when they want it. This is a format that has worked very well for television with pay-per-view and has a great potential to work for radio as well.

One of the other things that broadcasters need to keep an eye on once they have begun broadcasting HD Radio are the ever changing rules and regulations from the FCC. One of the latest changes takes effect December 30th of this year. Effective then all multicast channels will have to follow the same EAS rules as the primary channel. The rules require stations to carry national EAS messages on all HD Channels, including HD2 and HD3. Participation in state EAS Plans will be voluntary, as it currently is for broadcasters. The rulemaking states that if an HD Radio station chooses to participate in state and local EAS activations, he must comply with the Commission's Part 11 EAS rules. In reviewing the potential burden of carrying EAS messages on multicast streams, the FCC concluded that the costs of complying with the EAS requirements are outweighed by the public safety benefits of ensuring that all listeners receive EAS messages (FCC DA 05-191).

Broadcasting HD Radio and multicasting can be a little overwhelming to start but there are many resources fro broadcasters. Among the best sites for anyone looking for information are from iBiquity Digital, www.iBiquity .com and the HD Radio Alliance www.hdradioalliance.com. In addition to these sources for information most major equipment makers and resellers are very up to date on HD Radio technology and would be more than willing to help anyone get started. ■

Jeffrey Smith, CEA, CBNT, formerly with Nassau Broadcasting, can be reached at 609-915-2699

HD Radio OEM rollout teased; multicast networks recommended

By Carl Marcucci

Hosted by Bear Stearns media analyst **Victor Miller**, a conference last month included **Bob Struble**, CEO, iBiquity Digital and **Peter Ferrara** President & CEO, HD Strategic Alliance. It provided an update on a critical component to HD Radio's success—the automakers' incorporation of the units into new vehicles. So far, only BMW is officially in the game.

Said Ferrara: "I think there are going to be some very exciting OEM announcements coming in 2007. We'll be concentrating a fair amount of our marketing in helping them bring those products to market."

Added Struble: "The auto guys are really skittish about advanced release of plans, so that's why we've got to be a little circumspect. But the latest count is we've got nine source programs. This is where radios have been ordered and are planned to be put into cars. There are nine different manufacturers with 51 different models that we are aware of being sourced. Those will roll out over the next couple of years. As it stands now, this is looking like a very typical consumer electronic product introduction into autos, which is you see it in the high end first; you see them as options and then as momentum builds it goes down markets to the more mass market vehicles and becomes more standard."

Things are looking better now for HD. If HD Radio gets into American autos within the next few years, accelerating the OEM rollout, HD will start becoming a household word. Quick thoughts: 1) The more we get folks listening to HD multicasts, the less they will listen to the main signal—that's OK, as long as the multicasts start making money—in a non-traditional way—and show up in ratings. 2) As the conference attendees mentioned, some multicast channels may have sponsorship hours; some may be brokered out or branded ("The Starbucks Channel" or "Circuit City Channel") to start pulling ROI. 3) Would it make sense to begin "HD multicast networks," where these new formats with their sharply-targeted demos would be present in multiple markets (ie "Techno/dub" network)? They wouldn't necessarily have to be the same exact music, DJs, etc. in each market's multicast, but could still be networked to offer the opportunity to sponsors/advertisers nationwide. It would have to be worked through the Alliance, but it seems doable. We'll be looking into this as an option in next month's SmartMedia issue. ■

Crystal ball gazing at TV in 2007

What is ahead financially for the television business in 2007? We asked a few industry observers—analysts and station brokers—for their views on what to expect for both TV revenues in a non-election year and where station prices/multiples are heading.

Robin Flynn, Senior Analyst, Kagan Research

After a banner year in 2006 thanks to Congressional elections, TV station revenues will undergo their usual weak cycle in 2007, a year without the benefit of Olympic or political ad spend. We project that TV station revenues overall will decline by just over 3%, with national down 8% and local up 1%. Our forecast follows that of many TV station players expecting a weaker 2007, such as E.W. Scripps, which projects a 3%-5% decline in TV station ad revenues.

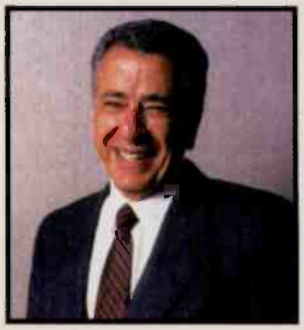
That's after a 7.5+% overall surge for TV station revenues in 2006, fueled by a 10.5% gain in national and 5% gain in local revenues Benefits of 2006 Congressional election advertising varied by broadcaster depending on the locations of their stations. Many CW affiliates have seen a gain in prime time ad revenues lately, not due to political spend, but thanks to the fact that they are no longer competing with UPN stations for ad dollars.

Our 2007 forecast for ad revenue decline is less steep than that which occurred in 2005, when TV station ad revenues dropped 9%. That year stations suffered from the absence of political ad dollars which had surged during the 2004 Presidential elections.

Our 2006 estimates match the gains we had projected back when we issued estimates in Q2, meaning the year has pretty much turned out as expected—good news for TV station owners. It indicates the migration of national ad dollars to the Internet or other ad video vehicles has not accelerated over the year, but that TV station owners have been able to hold on the expected market share. Q3 and Q4 have been kind to TV station owners with the on-rush of record political spend, yielding some truly spectacular growth rates—such as Journal Communications' same-station 50% growth for TV ad revenues in November.

Outside of political, categories that started the year soft, such as auto and general consumer goods, have pretty much stayed soft, while the stronger ad categories, such as telecom, technology and computers, have stayed hot.

Our forecast does not include ad revenues from station web sites, which most groups are devoting increasing attention to, and for which some are projecting 25+% gains off low levels. Many groups expect that eventually internet ad intake will comprise 15% of total revenues. Retransmission income is also rising, and with many contracts up for renewal in the coming years, those economics are expected to improve. Sinclair, for example, says its retransmission revenues top its network comp intake at its peak. ■



Frank Kalil, President, Kalil & Co.

We at Kalil & Co., Inc. believe that TV revenues in 2007 will be greater than 2005, which is the fair comparison, considering that 2006 was a political year. 2008 will set new television revenue records.

We have filled in the Network Compensation void, we have paid for digital, and there is more excitement about television now than there has been in years.

Big companies are like big tankers...tough to turn. Agile operators like **Jason Elkin** and others are making things happen. **Perry Sook** is leading the charge for retransmission fees, a great source of new income. People like **Bob Prather** are pioneering digital spectrum use. The **Doug Kiels** of this world are creating energetic workplaces. These are just a few of a growing list of great operators and the results they are producing bear witness to the effectiveness of proper leadership.

Good operators are building better sales staffs, encouraging better commercials (like the type that compete with program content, as in the Super Bowl), they are raising rates instead of adding units, and they are investing in news and sales. They are going for top-line growth. Look at the operators, not the stations.

It used to be that the job of managers was to guard the license, sit at the head table at local functions, and, if pressed into service, refer a request for a purchase of advertising time to someone else on the staff. Nowadays, they lead the charge. Look at the operators embracing the web and new technologies.

Our company has been around long enough to witness the resistance we had when we went from black-and-white to color, and we see the same thing with high definition. High definition, not just digital, is a great boon for television.

Again, contrary to wishful thinking, having more television stations on the market will not lower prices. There is much more money available than there are stations to buy. Period. Interest rates are low, investment money and debt are plentiful, inflation is low, and good operators are making television stations perform like never before.

Ladies and gentlemen, we have a perfect storm. ■

Mark Fratrik, Vice President, BIA Financial Network

Television station managers and group heads all have the same question, "Can the year 2008 come any quicker?" Local television stations in many states were pleasantly surprised in 2006. More political campaigns were competitive, leading to incredible amounts of spending in the last few days of the campaign. This additional spending could not have come at a better time, given the decrease in automobile spending. The only problem with such a boost in total spending in 2006 will be the more significant decrease in revenues for 2007. Hence, station personnel are already counting the days down until 2008 rolls around.

At the same time, there is less concern about station sales activity for this coming year. Last year was a better year in television station sales with the total number sold and the total value of those sales increasing noticeably in 2006. Even if you remove the number of television stations and the corresponding values of the Univision transaction, there was still an increase.

Yet, television groups that are not planning to sell in 2007 have great apprehension for revenue growth this year. Revenues generated by local television stations should benefit from an economy that will grow at around a nominal rate of 5%, a slightly lower level than in previous years. Employment growth should continue to be strong in most regions of the country, leading to consistent consumer spending growth. The only retail area that will not see that strong growth will be the domestic automobile sector, depressing the revenue potential of local television stations. So, after seeing an 8.7% growth in revenues for 2006, we expect a decrease of 1.3% for 2007. Of course, decreases will be more striking in markets that had large political advertising expenditures in 2006.

Even though the FCC has not acted, or is expected to act until the end of 2007, on local ownership and cross-ownership deregulation, the level of station sales will still be stronger than in the early years of this decade. Certain groups that were hoping for some relief from the FCC have decided not to wait, and instead, have made the strategic decision to exit the local television station business, either completely or in some regions/market sizes. At the same time, other television groups have acquired, or are poised to acquire, stations that fit into their strategic plans. Prices that were paid for many of these stations in 2006 were relatively strong, as these acquiring groups plan to increase their performance. Prices for the stations to be sold in 2007 will not be as strong as the most recent sales as the number of strategic acquisitions become more limited.

As we approach the end of the year, the outlook for the following year will be overwhelming. The prospects for heated primaries for both political parties' nominations for President, the increased competitiveness for Senate seats and other contested elections, as well as the Olympics, will lead to significant growth estimates for 2008 in many markets. Maybe by then, there might also be some ray of hope on the FCC concluding its review of ownership rules with some relaxation, leading to further acquisitions. The only concern is, therefore, to make it through 2007 without too much carnage. ■

Brian Cobb, President, CobbCorp

More television stations are on the market than ever. That's good news for buyers who have a vision of the future of over-the-air television. However, it's not great news for sellers to have such a plethora of properties available all at once.

Most of these transactional opportunities will disappear by the end of the year, meaning the stations will be sold. The logic behind selling some of the stations puzzles me. For example, media groups faced with declining sales due to newspaper-related issues have elected to keep their print outlets but sell the TV stations. Yet, many of the stations had increases in profits in 2006, and in fact, some of the stations are actually coming off of a great year in 2006. Granted political was a big factor, but it's still cash, isn't it?

I think a far more rational reason to sell is to take advantage of the low capital gain rates and having already reaped the rewards of the political season and the fourth quarter collections.

Many perceive that the future of free television is a glass half empty. To me, it's at least half full. First and foremost, over-the-air full powered television is the only medium providing 100% household coverage. Must carry on cable and satellite, fills in the gaps.

There are now other revenue streams that are helping, not hurting, the growth of over-the-air television. Television stations are finally beginning to receive compensation from satellite and cable providers. After all, without the over-the-air stations, cable would not have reached any significant penetration. The satellite providers figured this out more quickly. I think much of their rapid growth was there willingness to carry more programming than cable. AND...it's not over, the Telcos are coming!

Most forecasters are projecting national television revenue to be flat in 2007. That's not bad following a blockbuster political year. It's comical to hear prospective buyers say that political shouldn't be counted when measuring cash flow multiples. It's there every other year like clockwork. It's become more reliable than automobile advertising.

The biggest percentage revenue increase projected is the Internet advertising category, at least 15% if not more. When you read that it's coming out of television advertising, keep in mind that the biggest percentage growth category for TV stations next year will be the advertising they garner on their own Web sites. This trend should continue for the next several years.

Television owners are now embracing digital and are beginning to offer additional programming on some of the spectrum slices they are carving out for news, weather, ethnic programming and local sports. All of these provide additional revenue streams with minimal incremental expense.

I believe 2007 will be an excellent year to work on local sales, Internet penetration and digital tier programming. Even better, wouldn't you love to buy a station in 2007, close October 1, reap the fourth quarter revenue and roar into 2008 with the Super Bowl or Olympics and wrap up the year with what will be a huge election bonanza? ■