

HALPRIN, TEMPLE, GOODMAN & SUGRUE

1100 NEW YORK AVENUE, N.W., SUITE 650 EAST
WASHINGTON, D.C. 20005
(202) 371-9100 TELEFAX: (202) 371-1497
HTTP://WWW.HTGS.COM

ORIGINAL

ALBERT HALPRIN
RILEY K. TEMPLE
STEPHEN L. GOODMAN
MELANIE HARATUNIAN
WILLIAM F. MAHER, JR.

EX PARTE OF LITE FILED

THOMAS J. SUGRUE
JOEL BERNSTEIN
J. RANDALL COOK

April 13, 1998

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RECEIVED
APR 13 1998
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: GN Docket No. 96-115

In the matter of Implementation of the
Telecommunications Act of 1996
Telecommunications Carriers' Use of
Customer Proprietary Network Information and
Other Customer Information

Dear Ms. Salas:

This letter provides information requested by the FCC Common Carrier Bureau staff during YPPA's meeting with the staff on March 18. Specifically, the staff requested information on the profitability of independent directory publishers, and the cost of subscriber listings compared to revenue. This letter also addresses some issues raised in the Association of Directory Publishers' March 10, 1998 ex parte.

Regarding the profitability of the independent directory business, YPPA does not have access to independent publishers' financial records. However, recent sales of independent publishers are a good indication of profitability. Advanced Communications Group recently agreed to purchase Great Western Directories for \$70 million. According to the article in the Yellow Pages & Directory Report (Attachment A), Great Western publishes 20 directories with a circulation of 3,000,000. Revenues in 1996 were \$44.3 million. Great Western started in 1984 with a single directory.

The staff also specifically inquired about R.H. Donnelley's sale of the One Book. Yellow Book USA purchased the 43 directories Donnelley published in the Mid-Atlantic region for \$122 million. See Attachment B. These directories compete directly with Bell Atlantic directories. Contrary to reports received by the Bureau staff, the \$122 million price

Handwritten signature: *OTZ*
Handwritten text: *SEARCHED*

Ms. Magalie Roman Salas
April 13, 1998
Page 2

does not represent an "abandonment" of the market. As explained during YPPA's March 18 meeting, Donnelley has been a sales agent for NYNEX's yellow pages. Now that Bell Atlantic and NYNEX are a single company, this sale removes any potential conflict for Donnelley.

Another indication of profitability is annual revenue. Attachment C is an article from the Yellow Pages & Directory Report, listing 1997 revenues for the nation's leading independent directory publishers. Some of those revenues are as follows: R.H. Donnelley - approximately \$200 million (this includes the Mid-Atlantic books sold to Yellow Book USA in 1998); McLeodUSA - \$100 million; Transwestern - \$91.4 million; Yellow Book USA - \$80 million; National Directory Co. - \$53 million; White Directory Publishing - \$44 million; and Community Directory Publishing - \$41 million.

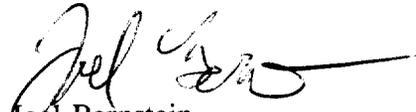
Listing costs for independent directory publishers are typically minimal compared to revenue. While YPPA does not possess the revenue figures or listing costs per book, YPPA believes that, for most books, listing costs are generally considerably less than one percent of revenue. As an example, R.H. Donnelley has published an independent directory called the One Book in Baltimore, MD and elsewhere (Donnelley's Mid-Atlantic properties were sold to Yellow Book USA in 1998). The Baltimore One Book has not included residential listings. According to Bell Atlantic, there are approximately 125,000 business listings, and approximately 575,000 residential listings in the Baltimore area. If One Book purchased its Baltimore business listings from Bell Atlantic at Bell Atlantic's price of 15 cents a listing, the cost to One Book would be approximately \$18,750. YPPA conservatively estimates that the Baltimore One Book produces \$15,000,000 in published revenue. If that is the case, the listing costs are approximately 0.125% of revenue. Even if One Book were to purchase all the Baltimore business and residential listings from Bell Atlantic (at 15 cents a listing) for a cost of approximately \$105,000, this still only represents 0.7% of revenue. At less than one percent of revenue, subscriber listing costs are only a small fraction of the cost of producing an independent directory.

Finally, the Association of Directory Publishers (ADP) filed an ex parte on March 10, 1998, claiming that Yadkin Valley Telephone Company is refusing to provide a directory publisher subscriber listing information, and that Pine Tree Telephone Company is engaging in anticompetitive pricing for its advertising rates. YPPA has no knowledge of, and takes no position on the veracity of these allegations. If, however, the allegations raised by ADP against Yadkin Valley are true, it appears that Yadkin Valley's behavior is in violation of the statute. No Commission rules or clarification is needed in this case. Refusal to provide listing information is a violation of the plain prohibition in section 222(e). YPPA respectfully suggests that the directory publisher involved may wish to file a complaint at the Commission.

Ms. Magalie Roman Salas
April 13, 1998
Page 3

The allegation against Pine Tree have nothing to do with subscriber listing information, but rather involve allegations of anticompetitive behavior regarding advertising rates. YPPA contends that the Commission does not regulate yellow pages advertising rates, nor does section 222(e) grant the Commission authority to do so. YPPA respectfully suggests that the directory publisher involved has recourse in the judicial system or at the Federal Trade Commission, but not at the FCC. The Pine Tree situation has nothing to do with availability of subscriber listing information, and is therefore not subject to section 222(e) or GN Docket No. 96-115.

Sincerely,



Joel Bernstein

Attachments

cc: Thomas Powers
David Sidall
Kyle Dixon
Paul Gallant
Kevin Martin
Richard Metzger
Blaise Scinto
William Kehoe
Tonya Rutherford
David Konuch
Doug Galbi

ATTACHMENT A

Great Western To Sell For \$70+ Million; O'Neal ...

DOCUMENT 6 OF 16

YPDR9733700000

Great Western To Sell For \$70+ Million; O'Neal To Receive \$30+ Million
From Sale

599 Words

4158 Characters

11/12/97

Yellow Pages & Directory Report

Copyright 1997 Information Access Company. All rights reserved.

Advanced Communications Group (Houston) last month agreed to purchase

* 100% of the assets of Great Western Directories (Amarillo, TX) for over \$70 million, including \$55 million in cash, \$15 million in notes and 2.5 million shares of stock, YP&DR has learned. The acquisition is contingent on ACG launching an initial public offering next month to raise an estimated \$138 million.

Great Western president Richard O'Neal, who started Great Western in 1984 with one directory, will receive \$30.8 million in cash and \$8.4 million in notes for his interest in Great Western, according to ACG's S-1 filing with the Securities & Exchange Commission. O'Neal, 57, will remain with ACG as president of the company's directory services group, and has a three-year employment contract with ACG.

Larry Baldwin, vice president and minority shareholder at Great Western, receives \$13.8 million in cash and \$3.8 million in notes for his interest in the company. He remains with ACG as vice president of operations for the directory services group.

Great Western's purchase price is 9.1-times operating income, and 8.8-times earnings before interest, taxes, depreciation and amortization.

ACG plans to offer yellow pages advertising along with local, long distance, and cellular service as well as Internet access to business customers in Kansas, Nebraska, North Dakota, South Dakota, Texas and Oklahoma. It plans to leverage Great Western's 174-person sales force and its relationship with 47,000 businesses by bundling sales of yellow pages and competitive phone service.

ACG already owns several small phone companies with over 40,000 telephone customers.

Pro forma revenues from telecommunications were \$41.1 million in 1996. Total pro forma revenues were \$85.4 million in 1996.

The sales strategy for ACG is slightly different from McLeodUSA (Cedar Rapids, IA), which offers yellow pages and competitive phone service, but does not bundle yellow pages ads with telephone service.

Separately, ACG also purchased Feist Long Distance Services (Spearville, KS), a subsidiary of yellow pages publisher Feist Publications that resold long distance service, for \$5 million in cash and acquired debt. ACG has a five-year agreement to cross-sell its

phone services to Feist's 36,000 yellow pages advertisers, the filing said. Revenues at Feist Long Distance through the first six months of 1997 were \$5.7 million, up 16.3%.

ACG will use the proceeds from its IPO to pay for its acquisitions, reduce debt of acquired companies and for general corporate purposes. PaineWebber (New York) and Oppenheimer & Co. (New York) are underwriting the IPO.

With new financing from ACG's IPO, Great Western plans to grow to \$100 million in sales by the end of 1999, mainly through acquisitions and start-ups, O'Neal said. The company currently publishes 20 directories with 3 million circulation. Revenues were \$44.3 million in 1996, up 50.7%, due mainly to its first paid edition in Tulsa, OK.

Great Western plans to publish two new prototype directories-Oklahoma City and Austin, TX-with about 500,000 circulation each, he said. Austin will be released in late April or early May 1998, while Oklahoma City is due in August. Each city will have about 25 to 30 reps in the market, and they will sell prototype ads in the directory along with cellular, local and long distance phone service as well as Internet access, O'Neal said.

Great Western faces competition in each market from Southwestern Bell Yellow Pages. SWBYP's Oklahoma City book carried 1,156 yellow pages in August 1997, up 1.4%. Circulation was 659,000, DHC rate was \$9,204 and revenues were estimated at over \$25 million. SWBYP's Austin book carried 1,365 yellow pages in December 1996. Circulation was 648,000, DHC rate was \$10,392 and revenues were estimated at over \$45 million.

I0607 * End of document.

ATTACHMENT B



Yellow Book Statistics:

- 250 Directories
- \$200 Million Revenue
- Over 900 Employees
- 13 Million Circulation
- 100,000 Advertiser Base
- 8 States
- 18 Offices

NEWS RELEASE

Contact:

Andrew Jarchin
Yellow Book USA
516/766-1900

Walter Giersbach
Reuben H. Donnelley
(914) 933-3194

For Immediate Release

Yellow Book USA Purchases Eastern Operations from R.H. Donnelley

Rockville Centre, NY, Dec. 15, 1997 - Yellow Book USA announced today it had acquired Reuben H. Donnelley's proprietary operations that publish 43 yellow pages directories in five mid-Atlantic states and Washington, D.C. The acquisition was a cash transaction valued at \$122 million.

Prior to this acquisition, Yellow Book published approximately 200 directories, with a circulation of over 5 million copies in New York, Florida, Pennsylvania and New Jersey. Yellow Book was founded in 1930 and is headquartered in Rockville Centre, New York.

Reuben H. Donnelley is the largest independent marketer of yellow pages advertising in the U.S., serving customers through print phone directories and online, audiotex and broadcast media.

Joe Walsh, chairman and chief executive officer of Yellow Book USA, said, "There are growth opportunities in these markets, and we plan to deliver the same high level of service as R.H. Donnelley did to meet the needs of businesses there. We are proud to welcome RHD associates to Yellow Book, and will continue to rely on their expertise to maintain continuity with advertisers and the independent telephone company clients." Approximately 380 R.H. Donnelley employees are affected by the sale and their employment will be continued with Yellow Book.

Walsh added "With our acquisition of R.H. Donnelley's Proprietary East books, Yellow Book blankets a significant portion of the yellow pages market from Upstate New York to Northern Virginia, and from Long Island to Pittsburgh. Add to that our strong position in Florida and we are uniquely positioned to maximize consumer usage and advertiser value, further strengthening the Yellow Book brand in the communities we serve."

- more -

Yellow Book Announces Acquisition - 2

With this acquisition, Yellow Book is now the largest independent publisher of yellow pages directories in the United States, publishing approximately 250 directories in some of the most affluent markets in the nation. Yellow Book publishes community directories, wide-area directories, College and University directories and the Business-to-Business Directory in the Long Island, NY market. Yellow Book's revenues, now approximately \$200,000,000, are supported by a 100,000-advertiser base with circulation of 13 million directories. Yellow Book will fulfill R.H. Donnelley's agreements with independent telephone company clients located in Pennsylvania including Commonwealth Communications, Inc. As part of the sale, R.H. Donnelley will continue to provide publishing services on a long-term basis for directories affected by the sale. R.H. Donnelley's Central and Western Pennsylvania and Metro Philadelphia markets include directories published as The Donnelley Directory®, now to be branded as Yellow Book. In the metropolitan Baltimore/Washington area, directory markets include Baltimore, Annapolis, Suburban Maryland, Northern Virginia and Washington, D.C., all to continue publishing under The One Book® title. R.H. Donnelley will continue to use the One Book Yellow Pages brand for its proprietary directory operation in the Cincinnati market. R.H. Donnelley's National Sales organization will support Yellow Book.

R.H. Donnelley's major clients and partners include Ameritech advertising services, Bell Atlantic Directory Services, and Sprint Publishing & Advertising in addition to other smaller telephone companies. It is a company of The Dun & Bradstreet Corporation, which also includes Dun & Bradstreet, the leading provider of commercial credit and business marketing information, and receivables management services; and Moody's Investors Service, the leading debt rating agency and a major publisher of financial information for investors.

"We believe Yellow Book USA will continue to provide the high levels of service and customer focus we established since we entered the Pennsylvania, Delaware, Maryland, New Jersey, Washington, D.C., and northern Virginia markets in the late 1980s," said Frank R. Noonan, president of R.H. Donnelley. "Our associates have delivered quality service and competitive rates to their customers, and high sales performance to R.H. Donnelley over the years, and for this we are grateful."

Earlier this year Yellow Book USA was acquired in a management-led buyout by VS&A Communications Partners II, L.P., a \$330 million private equity fund affiliated with the New York-based media and communications investment bank of Veronis, Suhler & Associates, Inc. In two years since its closing in September 1995, VS&A Communications Partners II, L.P. has invested or committed over \$200 million to investments in Yellow Pages directory publishing, radio broadcasting, cable television, business-to-business publishing, trade show, and business information industries.

###

ATTACHMENT C

Leading Independent Publishers Post Strong Gains ...

DOCUMENT 3 OF 16

YPDR9803700000

Leading Independent Publishers Post Strong Gains In 1997

831 Words

5618 Characters

01/28/98

Yellow Pages & Directory Report

Copyright 1998 Information Access Company. All rights reserved.

The nation's leading independent publishers continued to post strong gains in 1997, according to a YP&DR roundup.

McLeodUSA Publishing (Cedar Rapids, IA) increased revenues 91.9% to about \$100 million, said Art Christoffersen, president. The addition of Consolidated Communications Directories contributed to most of the increase. Existing books grew revenues 12% on average, he said.

The company expects to boost revenues to \$140 million to \$150 million in 1998 through acquisitions, start-ups and growth in existing markets, Christoffersen said.

Yellow Book USA (Rockville Centre, NY) boosted revenues over 20% to \$80 million in fiscal 1997, ended Oct. 31, said Joe Walsh, chairman and chief executive officer. The increase does not include the company's newly acquired R.H. Donnelley books, he said. With Donnelley, revenues are roughly \$200 million.

Walsh expects another 20+% increase in revenues in its Yellow Book markets in 1998, and double-digit gains in the Donnelley markets, he said.

TransWestern Publishing (San Diego) boosted revenues 17.6% to \$91.4 million in fiscal 1997, ended April 30 (YP&DR, May 28, 1997). Acquisitions, start-ups and increases in existing books fueled the growth.

The company expects to post low double-digit growth in fiscal 1998 through acquisitions, said Rick Puente, president.

National Directory Co. (Tustin, CA) increased revenues 30% to \$53.3 million in 1997, said Joe Browning, president and chief executive officer. Acquisitions in northern California and New Mexico fueled the increase. Local sales posted single-digit increases, even with price decreases in several markets, he said.

The company has increased the number of sales reps in its southern California markets, and simplified its rate card. NDC expects a 35% to 45% increase in 1998 due to new books in Arizona and California, and acquisitions, Browning said.

Community Directory Publishing Service (Grand Rapids, MI) boosted revenues 13.9% to \$41 million in 1997, said Scott McLean, director of client services. The growth can be attributed to the company's new books in London, Ontario and Flint, MI, along with growth from existing books.

The company expects revenues to increase 28.5% in 1998 from expansion into new markets, McLean said.

Locator Group (Orangeville, Ontario) posted a 173.8% gain to \$21.9 million in 1997, said Paul Moroney, founder and chief executive officer. The company's 14 new books in Canada, and acquisitions in Denver and Seattle fueled the gains.

The company expects revenues to increase to over \$30 million in 1998 from acquisitions and new books, Moroney said.

Pacific Coast Publishing (Tacoma, WA) posted a 20+% increase in revenues to \$32 million in 1997, said John Woodall, general manager. The company's new Spokane book and existing books fueled the gains.

The company projects a 15% increase in revenues in 1998, Woodall said.

White Directory Publishers (Buffalo, NY) posted a 25.7% increase in revenues to \$44 million in 1997, said Rick Lewis, president and chief executive. White's new books, the expansion of its Chapel Hill, NC, book to include Durham, NC, and existing operations fueled the gains.

The company plans to continue its expansion in the south in 1998, Lewis said.

* Great Western Directories (Amarillo, TX) posted a 7.9% increase in revenues through the first six months of 1997, according to its S-1 filing with the Securities & Exchange Commission. The company plans to go public in 1998 as part of competitive local exchange carrier Advanced Communications Group (YP&DR, Nov. 12, 1997).

Great Western hopes to grow to \$100 million in sales by the end of 1999, mainly through acquisitions and start-ups, said Richard O'Neal, president.

Southern Directory (Huntsville, AL) boosted revenues 14.7% to \$19.5 million in 1997, said Augie Vasha, president. The company achieved 10% growth in existing books and added paid editions in Asheville, NC, and Roswell, GA, to drive additional growth, he said.

Southern Directory expects a 30+% increase in 1998 due to an 8% increase in existing books and paid editions in Chattanooga, TN, and Athens, GA, Vasha said.

Feist Publications (Spearville, KS) posted an 18% increase in revenues to \$24.7 million in 1997, said Tom Feist, president. The gains can be attributed to a 55% gain in its Wichita, KS, directory, and a 9% increase in other markets.

The company projects a 15% to 20% gain in 1998, fueled again by Wichita, Feist said.

SunShine Pages (Metairie, LA) boosted revenues 66.7% to about \$10 million in 1997, the company said. Expansion through its partnership with E.W. Scripps fueled the gains.

Clarke Directory Publications (Irwindale, CA) increased revenues 11% in 1997 to about \$10 million, said Jim Clarke Sr., president. The gains can be attributed to an increase in the number of advertisers and higher spending from existing customers, he said.

Source: Yellow Pages & Directory Report, January 28, 1998

Dow Jones News/Retrieval®

The company expects about a 9% to 10% gain in 1998 by expanding its Inland Empire book to include Ontario, CA, he said.

The New York Times Regional Newspaper Group (Atlanta, GA) posted a double-digit increase in revenues in 1997, said Mitch Glaeser, general manager.

The company expects to post another double-digit gain in 1998 due to the release of its new Plant City, FL, book in April.

I0607 * End of document.