ASSOCIATION OF LOCAL TELEVISION STATIONS

EX PARTE OR LATE FILED

December 7, 1998

Office of the Secretary
Federal Communications Commission
1919 M Street, NW
Washington, DC 20036

RECEIVED

DEC - 7 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: MM Docket No. 91-221, *Ex parte* notice

Dear Sir:

On December 7, 1998, several broadcasters and I met with Roy Stewart, Chief of the Mass Media Bureau, Commissioner Susan Ness, Commissioner Gloria Tristani, Commissioner Harold Furchtgott-Roth, Commissioner Michael Powell, and Chairman William Kennard. Accompanying me at the FCC meetings were Mr. Harry Pappas, Mr. Ray Moran, Mr. Brad Moran, Ms. Lara Kunkler, Mr. Marshall Pagon ,and Mr. Jack Goodman. The attached Bear, Stearns & Co. Report was distributed.

Sincerely,

David Donovan
Vice President
Legal; and Legislative Afffairs

No. of Copies rec'd 0+1
List ABCDE

1320 19th Street, NW, Suite 300 • Washington, DC 20036 • tel 202.887.1970 • fax 202.887.0950

BEAR STEARNS

Equity Research

Television Broadcasting

Local Broadcast Television Ownership Update [LMA]ZE: *Back to Square Zero?*

- **OWNERSHIP DIVERSITY VERSUS NEW VIEWERSHIP CHOICES.** Rulings on local broadcast television ownership rules will pit the FCC's ownership diversity concerns against the benefits that LMAs create in local markets (such as launch of new viewership choice in the market).

- **FCC SEEMS CAUTIOUS; INDUSTRY WILL LIKELY FIGHT DISRUPTION.** We have always believed that the FCC would make few substantive changes to local television ownership rules. However, if rumored draft rules are adopted at the scheduled December 17, 1998 meeting, the FCC may prove more conservative than we expected, especially in terms of LMA waivers. The industry will likely respond. By our count, the LMA issue affects 63 LMAs in the top 100 markets that are owned by 12 public and 14 private broadcasters.

- **LMAS (DUOPOLY CANDIDATES) SUPPORT NEW NETWORKS AND DO NOT ALTER BALANCE OF LOCAL MARKET.** The 63 LMAs in the top 100 U.S. TV markets average 4.6% and 3.3% revenue and viewership share, respectively, of local markets. Nearly 70% of LMAs support the new WB and UPN networks.

- **LMAS (DUOPOLY CANDIDATES) OFTEN REQUIRE SUPPORT.** LMAs typically do well because of the financial, programming, and managerial resources of a local partner.

- **TIGHTENING TV OWNERSHIP RULES IGNORE TV OPERATING ENVIRONMENT.** The TV operating environment is becoming progressively more difficult; network economics are weak, viewership is declining, and programming expenses are rising. We believe it is increasingly more difficult to be a one-channel entrant in a multi-channel world.

Victor B. Miller IV
(212) 272-4233

Raymond Lee Katz
(212) 272-6857

NOVEMBER 1998

BEAR STEARNS

CABLE & BROADCASTING; ENTERTAINMENT

Raymond Lee Katz

U.S. CABLE

Raymond Lee Katz (272-6857)

SATELLITE BROADCASTING

Vijay Jayant (272-4283)

Raymond Lee Katz (272-6857)

TV AND RADIO BROADCASTING

Victor B. Miller IV (272-4233)

Dennis K. Morgan (272-4329)

Raymond Lee Katz (272-6857)

LARGE-CAP ENTERTAINMENT

Raymond Lee Katz (272-6857)

Jeffrey A. Vilensky (272-5251)

SMALL- & MID-CAP ENTERTAINMENT

Marina Kunis Jacobson (272-6307)

Raymond Lee Katz (272-6857)

Claire E. Lundin (272-4288)

The Reality: Expect Caution and Little Flexibility in LMA Waivers

We expect that the Federal Communications Commission will soon deliver new rules addressing local television ownership that are likely to speak to the fate of duopoly, local marketing agreements (LMAs), and cross-ownership (which we do not discuss in this report). This action is tentatively scheduled for the FCC's December 17, 1998 Agenda.

Elimination of the duopoly rule would give operators the right to own two television stations in the same market. LMAs allow one broadcaster (the LMA-ing station) to program another licensee's station (the LMA-ed station) in the same market. In return, the LMA-ing station receives the right to sell the LMA-ed station's advertising inventory.

We believe the rulemaking process pits the FCC's concerns that elimination of the duopoly rule would reduce the number of distinct and separate media outlets (i.e., "voices" or "ownership diversity") against certain broadcasters' belief that ownership of multiple local outlets creates more viewership (program) choices.

In July 1997, when we published our original report on this subject (*Local Broadcast Television Update: Will Choices Outweigh the Voices?),* we expected the final television ownership rules to be conservative — we did not anticipate that the FCC would codify significant changes in duopoly rules. Nor did we envision the Commission permanently "grandfathering" local market agreements. We believed this (no duopoly, no "grandfathering") would occur given the cautious tone of the FCC's November 1996 Notice of Proposed Rulemakings (NPRM) and comments submitted by the Department of Justice (May 16, 1997) and the Department of Commerce (May 22, 1997), which we expected would influence the FCC on the issue. (However, in its first application of the local ownership test, the DOJ actually ruled favorably for the television industry.)

Moreover, we were not encouraged by the FCC's Notice of Public Inquiry (June 17, 1997), which required all broadcasters that had entered into LMAs to provide details of their LMA arrangements.

In addition to the weight of opinion from the FCC's NPRM and comments from the DOJ and DOC, we also believed the FCC felt that the concept of the local marketing agreement never really "fit" the broadcast environment — LMAs were neither sanctioned duopolies nor purely stand-alone entities. In our original report on the matter, we believed that the FCC would try to attribute local marketing agreements, which would then require the Commission to explore the next step: duopoly.

While we never thought that the FCC would support duopoly, we did believe at first that the FCC would provide flexibility in the waiver process as broadcasters sought to seek specific duopoly waivers. However, while we will present evidence that might suggest that the average LMA is, in most cases, a viable candidate for duopoly waivers, if the tone of the staff FCC draft is any indication, we no longer expect the FCC to afford broadcasters much waiver flexibility.

Originally, we expected the FCC to allow broadcasters to petition the FCC for waivers that would allow broadcasters to state the advantages of creating LMAs (e.g., new stations are put on the air, new programming is aired, new news programs are often developed, and a new viewership choice is provided to a local marketplace) — *and* all of these are often undertaken at great cost by stronger local broadcast partners, who often have greater management, programming, and financial resources.

Bringing these forces to bear on a newer station allows a station to become economically viable more quickly. In many cases, these LMAs have become an important part of the distribution base of newer networks, including the WB and UPN networks. Despite these realities, we think that these appeals may not be as impressive to the Commission as they once were.

FCC Could Deliver a Cautious Approach to Local TV Ownership

It is our understanding that a draft (and we emphasize *draft*) is circulating within the FCC — yet to be discussed among the Commissioners — that is rumored to deal with the topic of local TV ownership rules with a very conservative framework. Considering the early nature of the rulemaking process, we do not want to speculate what the final outcome for the rules might be and do not have a sense of the rules' likely specificity regarding ownership. However, we have consistently heard some themes that seem common to many different sources. While these may prove to be nothing more than speculative at this time, we will discuss them here. The rules tentatively may include some, all, or ultimately, none of the following:

- **Duopoly.** The FCC is likely to adopt limited expansion of the concept of duopoly. We anticipate that duopoly will permit a station group to own stations that have Grade B signal overlaps in adjacent designated marketing areas. Other than this, we do not think any real expansion of duopoly is likely. In the next section of our report, we make a case that duopoly would not be disruptive to most markets in which LMAs currently exist. A list of the LMAs in the top 100 markets is included in Appendix 1. However, we currently do not expect the Commission to endorse the classic concept of duopoly, i.e., that an operator can own two television stations in the same market.

- **Local Marketing Agreements.** In terms of local marketing agreements, we expect the Commission to be very conservative:

  - ✓ Local marketing agreements are likely to be made attributable to the party that is LMA-ing the station. The Commission may even adapt rules that have been used in the radio business; if one station programs 15% or more of another station's time, that station (the programmed station) would become attributable to the station that is controlling the programming.

  - ✓ By attributing these television properties, owners to whom the LMA has been attributed will be in violation of duopoly rules.

  - ✓ As we mentioned in the previous section, we do not believe that the FCC will expand duopoly to include the ownership of two television stations in the same market.

- ✓ This, in turn, would make an LMA a candidate for divestiture.
- ✓ Our sources believe that the FCC will require all LMAs that were entered into by the November 1996 Notice of Proposed Rulemaking to be "unwound" within three years.
- ✓ Our sources believe that the FCC will require all LMAs that were entered after the November 1996 Notice of Proposed Rulemaking to be "unwound" within one year.

- **Waivers for LMAs.** In terms of waivers for LMAs, our sources tell us that the process could be fairly inflexible:

  - ✓ We believe those stations that are currently dark, in bankruptcy, or cannot be sold for a reasonable price may earn a waiver. Our sources tell us that this waiver test will be based on the current state of a LMA-ed station, not on the state of that television property when the LMA was formed. Under this scenario, prospects for a duopoly waiver are not bright.
  - ✓ Our sources also believe there will be a special waiver process for "viable LMA-ed" properties. Potential candidates for earning a waiver in this case might include stations competing in markets that a) have 15 or more commercial signals, b) rank sixth (or lower) in ratings in their market, and c) have combined revenue that is less than or equal to the fourth-highest revenue-producing station. Odds of LMAs meeting these criteria are also not very good, in our judgment. However, if this "waiver test" becomes a reality, we believe it is likely that Granite Broadcasting will be able to successfully own both the WB affiliate in San Francisco and the ABC affiliate in San Jose (which is part of the Monterey-Salinas market).

Rulemaking History: Final Rules Likely to Be Controversial

From 1991 to 1996, the Federal Communications Commission released a series of Notices of Proposed Rulemakings that address, in part, local broadcast television ownership rules affecting duopolies, local marketing agreements, and cross-ownership (with emphasis on radio-television cross-ownership). Whatever course these rulemakings take, they are likely to be controversial (especially regarding LMAs) because the FCC's interpretation of the Telecommunications Act of 1996 and Congress's intent and recent opinions by the Department of Justice on these matters seem divergent. (In our judgment, the Department of Justice's originally cautious stance toward the notion of LMAs has recently become more supportive.)

We believe that local ownership rules center on the battle between 1) broadcasters' emphasis that duopolies create programming diversity (choices) and 2) the FCC's concern that an ownership diversity of media voices be maintained. Ultimately, much of the FCC's stand may be driven by its determination to try and increase the opportunity for minorities to own broadcast television (and perhaps even radio) properties.

Broadcasters Emphasize Choices, FCC Emphasizes Voices

In the local television ownership debate, we believe that certain broadcasters will stress the following as reasons for relaxing the local ownership rules: competition from multi-channel video competitors (cable, wireless cable, direct broadcast satellite), new competitors like the Internet, and "measured" media like newspapers, radio stations, and outdoor. Others, including The National Association of Broadcasters (NAB), are likely also to highlight benefits derived from LMAs (investing in new stations and creating new signals to watch). On the other hand, we believe the FCC's focus centers on ownership diversity; concentration of ownership may be considered antithetical to the ability for minorities to have a real chance at amassing ownership of broadcast properties.

Duopoly: Grade B Yes, In-Market No

From a "legal" perspective, we believe the FCC's ultimate position on duopoly is likely to be less controversial than its stance on LMAs. This is because both the statute contained in the Telecommunications Act of 1996 and Congress's conference report (which provides the legislative history) are vague enough to allow the FCC to interpret the Act as the Commission believes it should be interpreted. However, as we mention in the section of our report *Most LMAs are Insignificant Forces in Their Local Markets,* we believe that the average LMA, if converted to a permanent duopoly, would pose little threat to the markets other television entrants.

What the Telecom Act Says About Section 202(c)(2), Local Ownership Limitations. "The Commission shall conduct a rulemaking proceeding to determine whether to retain, modify, or eliminate its limitations on the number of television stations that a person or entity may own, operate, or control, or have a cognizable interest in, within the same television market."

What the Conference Agreement Says. "Subsection 202(c)(2) directs the Commission to conduct a rulemaking proceeding to determine whether its rules restricting ownership of more than one television station in a local market should be retained, modified, or eliminated."

In the case of duopoly, there is compatibility between the statute and the conference agreement.

What the NAB Resolved. In January 1997, the National Association of Broadcasters' board of directors voted 13-9 to adopt the following resolution: "In light of these changes (competition from more broadcast signals, DBS, cable, wireless cable), the Board believes that, if local television stations are to continue to play the unique role they have in their communities, the FCC's outdated local television ownership rules must be revised so that, as Congress indicated, 'broadcasters are able to compete fairly with other media providers while ensuring that the public receives information from a diversity of media voices.' The Board, therefore, urges the FCC to permit common ownership of two UHF stations or one UHF and one VHF station in a market."

What Is Likely to Happen. The FCC considered its duopoly rules in the Second Further Notice of Proposed Rulemaking 96-438 in November 1996. In it, the Commission endorsed a form of duopoly by proposing to permit "out-of-market" duopolies that are in separate designated marketing areas (DMAs) and that do not have Grade A signal overlap. We believe that the FCC considers this to be a significant step in loosening local ownership. We do not believe that it will provide much duopoly relief beyond this.

However, many local broadcasters would like to see duopoly rules extended to Grade A overlaps as long as the broadcast properties operate in separate DMAs. In most cases, this may make some sense; few local ad dollars flow between DMAs, news coverage will be focused in each separate market (as is required by the FCC's designated "city of licensee" for each station), and stations do not share facilities.

In addition, in larger television markets with many local commercial and public television properties, the concept of duopoly also may be more palatable. In fact, larger markets may be the determinant of whether current LMAs can be given permanent duopoly status — for instance, are there enough local market signals coming into a local market to justify a duopoly?

Local Marketing Agreements: Attributable Yes, Waivers Unlikely

We believe the FCC's ultimate position on LMAs is likely to be more controversial because Congress's intent, as expressed in the Telecommunications Act of 1996, is not as forcefully stated as it is in the bill's underlying Conference Agreement.

What the Telecom Act Says About Section 202(g). "Nothing in this section shall be construed to prohibit the origination, continuation, or renewal of any local marketing agreement that is in compliance with the regulations of the Commission." The Telecom Act essentially permits LMAs as long as they are in compliance with FCC regulations. Unfortunately, these regulations, in terms of television LMAs, have never been formalized; indeed, television LMAs are at the heart of the ruling at hand.

What the Telecom Act Conference Agreement Says. "Subsection (g) grandfathers LMAs currently in existence upon enactment of this legislation and allows LMAs in the future, consistent with the Commission's rules. The conferees note the positive contributions of television LMAs, and this subsection assures that this legislation does not deprive the public of the benefits of existing LMAs that were otherwise in compliance with Commission regulations on the date of enactment." The conference agreement emphasizes the positive contributions of LMAs and anticipates LMAs in the future. This positive regard for LMAs expressed by Congress is not included in the actual language of the FCC's NPRM in November 1996.

Congress Guarantees Duopoly in 2006, Supports LMAs Again in 1997. We believe the Manager's Statement that accompanied the fiscal 1998 Budget Bill passed by Congress provided some hopeful comments for those who have sought relaxation of the duopoly rules. As part of the fiscal 1998 Budget process, Congress considered the process of who would be eligible to bid for the digital spectrum in 2002.

Congress agreed that broadcasters should be eligible to bid on the spectrum that would be auctioned when the analog to digital transition is complete. Congress felt that more bidders should create higher prices and more revenue for the government. However, in order to permit this, Congress had to anticipate "duopoly" (owning more than one signal in a market) issues, and it carved out provisions that would permit duopolies in 2006.

While the local ownership issues were on the table, we believe that support from Congress (particularly in the House in the form of Mike Oxley, Billy Tauzin, and Tom Bliley) — as well as lobbying from the Association of Local Television Stations (ALTV) and The Local Station Operators Coalition (LSOC), among others — caused Congress to add text to the Manager's Statement (which accompanies the Budget Bill passed by Congress) that strongly signaled Congress's intentions concerning local ownership in television to the FCC.

The Manager's Statement states, "The conferees do not intend that the duopoly and television-newspaper cross-ownership relief provided herein should have any bearing upon the Commission's current proceedings, which concern more immediate relief. The conferees expect that the Commission will proceed with its own independent examination in these matters. Specifically, the conferees expect that the Commission will provide additional relief (e.g., VHF/UHF combinations) that it finds to be in the public interest, and will implement the permanent grandfather requirement for local marketing agreements as provided in the Telecommunications Act of 1996."

While the Manager's Statement was not part of the Bill itself because it was not directly germane to the Budget process (raising revenue) and therefore is not law, we still believe that Congress sent a strong message to the FCC in a) guiding the Commission on its intent, b) showing that the loosening of local ownership rules has support, and c) clarifying any vagaries that may have emerged from the Conference Agreement of the Telecommunications Act of 1996 ("grandfathering" means "permanent grandfathering," for example.)

The Department of Justice Loosens Up. In 1998, the Department of Justice approved the sale of WSYX-TV in Columbus, Ohio, the 34th-largest television market in the country, to Sinclair Broadcast Group. Sinclair intends to LMA its current Fox-affiliated station, the license of which will be owned by a separate licensee. We believe that the DOJ's decision to permit that transaction was significant because, in its reply papers submitted in response to the Federal Communications Commission's (FCC) November 1996 rulemaking (which we address below), the DOJ delivered comments that we considered cautious regarding the consolidation of the television business (these earlier DOJ comments are summarized below). We believe the fact that the DOJ, in permitting the transaction, did not find any undue market power from an implied relationship between the combination of a "big three" network affiliate and a Fox affiliate (Sinclair owns the Fox affiliate in Columbus) in a market with five television properties, may provide a strong precedent for the DOJ's stance on local marketing agreements (LMAs), in general.

What the NAB Said. The NAB's Television Board passed a resolution on January 28, 1997, in support of LMAs. It said, "The NAB Television Board also recognizes that television local marketing agreements have enhanced competition and diversity in local markets, creating new stations and substantially strengthening others, to the benefit of the public. Congress also recognized these benefits. The Board therefore urges that the FCC should permit local marketing agreements to continue in effect or permit them to be converted to full ownership."

What Is Likely to Happen. In our judgment, the FCC has become progressively uncomfortable with LMAs. We think this is because the Commission feels that such agreements 1) lack consistency in terms of structure, 2) are a subrogation of duopoly rules, and 3) are antithetical to the promotion of minority ownership, in general.

Without clarity, we believe the FCC is likely not to be influenced by the conference agreement to the Act, the recent opinions of Congress in the 1998 Budget Bill, or actions by the DOJ. We think the FCC is likely to attribute LMAs (treat them as if they are owned by the party that is effectively operating the station under an LMA) in a fashion similar to radio. In other words, if a broadcast operator programs more than 15% of a television station's time, the station will become attributable to that broadcast operator. As we mentioned above, a LMA's fate would then depend on the elimination of the duopoly rules. Indications from our sources (who have some understanding of a *draft* ruling) lead us to believe that existing LMAs (which do not qualify for duopoly waivers) will be grandfathered for only a brief, specific time, such as one to three years.

Department of Justice's Initial Comments Were Cautious

On May 8, 1997, the Department of Justice (DOJ) filed comments addressing the FCC's November 1996 NPRM. Overall, we believe the DOJ's comments recommend a cautious course, mostly driven by the fact that the DOJ has "limited experience to date in evaluating competitive effects of mergers involving television broadcast stations operating in the same local market." (As we already mentioned, the DOJ did approve a TV transaction in the Columbus TV market that permitted Sinclair Broadcast Group to purchase an ABC affiliate in that market and LMA a Fox affiliate in the same market, citing no undue competitive influence. This is discussed above in the section entitled *The Department of Justice Loosens Up.*)

As part of its comments to the FCC's November 1996 Notice of Proposed Rulemaking, the Department of Justice offered some notes of caution:

- **Encouraged Debt-or-Equity-Plus Concept.** The DOJ supported the FCC's proposed "debt-or-equity-plus" attribution rule, which acknowledges "relationships other than the ownership of voting stock and participation as an officer or director can allow an entity to influence substantially the operations and strategies of a station." Acknowledging that it may be difficult to create a "bright-line" test that could possibly "catch" all the multitude of relationships, the DOJ recommends creating reporting requirements that would require the disclosure of all relationships that provide significant control or influence over stations' core functions.

- **Cautious on Duopoly.** The DOJ cautioned the FCC that mergers involving local television broadcast stations may raise significant antitrust concerns in local advertising markets, including the merged entity's potential control of a significant share of local advertising revenues, increasing concentration of television outlets in local markets that may affect the continued growth of new television networks, and the merged companies' control of more digital spectrum.

- **Increasing DOJ Scrutiny Likely in TV.** The DOJ said that it would continue to monitor broadcasting markets to ensure compliance with federal antitrust laws and "will have an ongoing and complementary role in evaluating the future direction of broadcast markets in this country."

- **LMAs Should be Attributable.** Justice believes that LMAs, like joint service agreements (JSAs) in radio, in which an entity controls the programming of, and/or the sale of the majority of another licensee's advertising inventory, should be attributable.

- **LMAs Should Have Filing Requirements.** The DOJ argued that there should be notification and filing requirements for television LMAs that would assist the Commission and the DOJ in evaluating the significance of LMAs: "Indeed, the simple fact that television LMAs (unlike similar arrangements in the radio industry) have historically not been subject to any type of reporting requirement has had the practical effect of limiting scrutiny of such arrangements by either the Commission or antitrust authorities."

Commerce Department Sought No Local Ownership Changes

On May 22, 1997, the U.S. Department of Commerce (National Telecommunications and Information Administration, or NTIA) filed comments addressing the November 1996 NPRM. Overall, we believe the NTIA's comments are cautious. For example, the agency recommended that a survey of LMA stations be conducted to recognize the Telecommunications Act of 1996's consolidation effects on the television business to date. The DOC also recommended that the process be slowed, which has allowed the authority to create rulemakings to shift to the current FCC Commissions from the previous ones. We believe that the current FCC may be considerably more conservative (in terms of expansion of ownership rules, not ideology) than the previous FCC. Summary points made within the NTIA filing include the following:

- **Make No Local Ownership Changes Until Effects of Telco Act Have Been Analyzed.** For television broadcasting, the Telecommunications Act of 1996 changed national ownership caps, while leaving local ownership rules in place. Before the Act, a local operator could only own 12 television stations and was limited to reaching 25% of U.S. households with its owned and operated stations (with VHF and UHF stations counted as 100% and 50% of a local market's households, respectively). The Act eliminated limits on the number of stations an operator could own and extended an operator's "reach" to 35% of U.S. households. The NTIA would like to first assess the effects of this before addressing local ownership issues. The NTIA also expressed concerns over increased competition and constriction of diversity that may occur, should local ownership rules be loosened.

- **FCC Should Evaluate Impact of Digital Licenses.** The NTIA cautions the FCC that "a change in ownership rules would permit (at least for some period of years) accumulation not only of conventional television broadcast licenses, but their companion DTV licenses as well." The NTIA believes the Commission should defer action on the duopoly rule until DTV (digital television) is deployed. DTV is not expected to be deployed nationwide until at least the year 2006. (However, we did mention that Congress actually sanctioned duopoly in 2006 by putting a mechanism in place that will permit a broadcaster to bid on its current analog spectrum once it is turned over to the government, following the successful transition to digital television.)

- **Minorities May Be Progressively Shut Out.** The NTIA argues that if local ownership rules are relaxed, demand for broadcast properties will rise, and only those with sufficient capital would be able to afford the price to play. "Thus, a change in local ownership limitations may reduce opportunities for minorities below the meager levels that already exist," its filing says.

- **"For All of These Reasons, NTIA Strongly Recommends Against Any Action that Would Relax the Commission's Current Limitations on Local Television Ownership."** In summary, the NTIA believes there should be no relaxation of these limitations. It does not support UHF-UHF mergers, citing the eventual creation of signal parity, via digital television and its ultimate migration to the UHF band.

- **NTIA Supports Debt-or-Equity-Plus Concept.** The NTIA believes a station should be attributable to a licensee if 1) a party holds a certain level of the capital structure (debt or equity) of another licensee or 2) has programming, personnel, or budgetary decision-making powers in an affiliate. The NTIA has requested that the FCC compile a specific list of relationships that may cause one station to be attributable to someone other than the licensee/owner.

- **Attribute, Conduct a Survey of, and Review All Existing LMAs.** The NTIA believes that LMAs should be attributable in a manner similar to radio (if an entity other than the licensee programs more than 15% of the day, the station would be attributable to that "programming entity"). However, the NTIA also believed that a survey of LMAs should be conducted before final rules were adopted. To address this concern, on June 17, 1997, the FCC issued a Notice of Public Inquiry to gather information from all broadcasters that have entered into LMAs. Lastly, the NTIA suggests that "any LMA concluded before the November 7, 1996, release date of the Further Notice should be reviewed before allowing it to continue until the end of its current term."

CASE FOR DUOPOLY: MOST LMAS ARE INSIGNIFICANT FORCES, SUPPORT NEW NETWORKS, AND REQUIRE SUPPORT

It is important to remember that at the end of the day, the concept of local marketing agreements is likely to fade "into the sunset" (which, given speculation, could range from one year to forever) and that duopoly will become the operative concept. As we said above, we believe the FCC does not like the concept of LMAs; it is not sanctioned duopoly and LMA-ed stations are not stand-alone entities either.

We believe that the FCC is very unlikely to sanction in-market duopoly as policy. Moreover, if the "draft rulings" become a reality, it is also unlikely that many duopolies would be permitted under the agency's "first blush" view of waivers.

However, we believe there is a case to be made that many of today's local marketing agreements could be converted to permanent duopolies with little effect to local broadcast television market balance of power. We believe that, in general, local marketing agreements are insignificant forces in local markets.

We have researched and analyzed LMAs in the top 100 U.S. television markets and have found 63 such arrangements within these markets. We believe there are another 15 to 20 local marketing agreement arrangements in markets below top-100 ranking. Our analysis suggests that LMAs, in general, would not exert much force in a local market. In addition, many LMAs are the "backbone" of the emerging WB and UPN networks.

To provide a context for the discussion of LMAs (and indirectly, duopoly, should multiple-ownership rules be changed or waivers granted), we analyzed data for the 63 local marketing agreements that exist in the top 100 U.S. television markets. After analyzing the summary data, which is included in Appendix 1, we make the following observations:

- **LMAs Capture Little of Industry's Total Advertising.** In 1997, the gross revenues captured by the 63 LMAs in the top 100 markets, which we estimated totaled approximately $379.6 million, accounted for approximately ***0.8%*** of all gross television advertising dollars ($44.5 billion) and ***1.8%*** of all gross local television station advertising spending ($21.4 billion).

- **The Average LMA Captures 4.6% of Local Market Revenue Share.** In 1997, we estimate that the average LMA-ed station captured approximately 4.5% of the local market's gross revenues. Of the LMAs in the top 100 markets, 66% (41 of 63) earned less than 5% of the local markets' gross revenue share.

Exhibit 1. Local Marketing Agreements — Revenue Share

Revenue Percent	Number of LMAs	Percent Distribution
0%-2.5%	18	29%
2.6%-5.0%	23	37%
5.1%-7.5%	8	13%
7.6%-10.0%	4	6%
10.1%+	10	16%
Total	63	100%

Source: Broadcasting Cable; Federal Communications Commission; BIA Investing In Television '98; company reports; Bear, Stearns & Co. Inc.

- **The Average LMA Captures Minimal Local Market Viewership Share.** As Exhibit 2 illustrates, during the May 1998 ratings period, of the 63 LMAs we studied in the top 100 markets, 74% (47 of 63) captured viewership shares of less than 4%. As Appendix 1 illustrates, the average LMA garnered 3.3% of the viewership share of a given market. Interestingly, this viewership average has not changed dramatically over time. In the May 1997 ratings period, for example, the same 63 LMAs averaged a 3.0% share of the audience. In one year of maturation, these 63 LMAs picked up only 0.3 ratings points, on average.

Exhibit 2. Local Marketing Agreements — Viewership Share

May 1998 Share	Number of LMAs	Percent Distribution
0	10	16%
1	0	0%
2	15	24%
3	11	17%
4	11	17%
5	8	13%
6+	8	13%
Total	63	100%

Source: Broadcasting Cable; Federal Communications Commission; BIA Investing In Television '98; company reports; Bear, Stearns & Co., Inc.

- **LMAs Typically Involve a Combination of Weaker Stations. Combined Revenue Shares of 21.3% Would Meet DOJ Test.** In 1997, according to our survey, which is included in Appendix 1, the average combined revenue share of the LMA-ing and LMA-ed stations represented approximately 21.3% of the local market's gross revenue, which is typically less than the revenue share captured by a "big three" (ABC, CBS, and NBC) affiliate. Typically, LMAs involve the combination of two newer networks (Fox, UPN, and WB). As is illustrated in Exhibit 3, in 1997, we estimate that in 79% (50 of 63) of the cases, the combined gross revenue share of the local "LMA-ing" television station and its LMA was less than 30%, short of the 35%-40% range typically regarded as acceptable by the Department of Justice for radio revenue shares.

Exhibit 3. Local Marketing Agreements — Combined Revenue Share

1997 Combined Revenue Share	Number of LMAs	Percent Distribution
Less than 20%	25	40%
20.0-25.0%	14	22%
25.1-30.0%	11	17%
30.1%+	13	21%
Total	63	100%

Source: Broadcasting Cable; Federal Communications Commission; BIA Investing In Television '98; company reports; Bear, Stearns & Co. Inc.

- **LMA Stations Typically Support the Emerging WB and UPN Networks.** Of the LMA stations, 66% (42 of 63) are affiliated with the emerging networks, UPN (24 stations), and WB (18 stations), which are airing new entertainment programming in these markets. If we include Fox affiliates, the number increases to 76% of LMA stations (48 of 63).

Exhibit 4. Local Marketing Agreements — Affiliations

May 1998 Affiliations	Number of LMAs	Percent Distribution
UPN	24	38%
WB	17.5	28%
Fox	6.5	10%
Independent	9	14%
Infomercial	1	2%
Home Shopping	0	0%
Big Three Affiliate (ABC, CBS, NBC)	4	6%
Dark	1	2%
Total	63	100%

Source: Broadcasting Cable; Federal Communications Commission; BIA Investing In Television '98; company reports; Bear, Stearns & Co. Inc.

Uncoupling these emerging networks from stronger local broadcasters could weaken the ratings base of UPN (which is already down 40% in the 1998-1999 broadcast season relative to the 1997-1998 broadcast season) and disturb the ratings growth of the WB network at a critical point in its development. We believe this is not particularly constructive.

- **LMA Stations Become Viable Through "Support."** Many LMA-ed stations have gone on air within the last several years and, in our estimation, have required the support of another station in the market to accelerate the LMA-ed station to become viable more quickly.

  Polls we took among those who operate LMAs and analysis of filings made as part of the FCC's comment period for the November 1996 Notice of Proposed Rulemaking suggest that LMAs are able to become viable so soon after launch because they receive financial, personnel, and programming resources to which an individual "start-up" station in a consolidating world would never have access.

- **If LMA is "Unwound," There is no Guarantee of Future Viability.** The bottom line is that even if LMAs were eventually "unwound," there is no guarantee that the new owner or licensee of that LMA could make the station successful. Drained of its capital, programming, and programming resources, these "independently-owned" LMAs are not guaranteed to perform and could eventually return to a state that, oddly, might ultimately make the station eligible for a duopoly waiver under a "dark station" or bankruptcy provision. In a consolidating television world, we think it would be very difficult for a small, independent television property owner to compete successfully in today's environment.

- **If LMA is "Too Viable," Station Would Have Trading Value.** In the worst case scenario, LMAs that would be deemed "too viable" by any stretch of the imagination are probably economically viable enough to sell into a healthy trading environment (which would benefit an option holder or an owner). Since many LMAs support the emerging WB and UPN networks, partners of these networks may be logical buyers.

THE TIMING: CURIOUS, GIVEN THE WEAKENING STATE OF THE NETWORK TELEVISION BUSINESS

We find the conservative nature of the Commission's rumored rulings to be curious, especially given the increasingly fragile network and, by default, local station economics and weakness in the stock prices of broadcast television companies. In a note we wrote in October 1998, we stated that we believed that pressure on television economics, especially at the network level, may force the FCC and/or Congress to take a harder look at local ownership rules and may make it easier for rules to be loosened. Instead, it appears that the FCC may look in the other direction.

The Heart of "Free Over-the-Air Television," the Broadcast Networks, Must Be Viable

The broadcast networks are at the very heart of the concept of "free over-the-air-television." Networks deliver vast audiences by making and leveraging huge programming commitments (dollars) in news, general entertainment, sports, and children's shows. The networks face a) competition from other video competition, b) increased program rights fees, and c) dissolution in the value of programming franchises which once differentiated the networks from all other video players. Such traditional programming bastions as sports, news, and original general entertainment programming have been successfully infiltrated by entrants such as ESPN and Fox Sports (sports), CNN, Headline News Network, Fox News, MSNBC, and CNBC (news), and USA Networks, TNT, and TBS (original programming). This continued infiltration has caused rights for programming to escalate despite decreasing audience levels.

Healthy broadcast networks also affect many other video players: 1) broadcast network programming creates high margins for local affiliated stations, which in turn reinvest monies into programming for local markets, 2) broadcast networks are also the source of "off-network" syndicated television programs (reruns) that are staple product at local broadcast stations and cable networks, and finally, 3) broadcast networks are the largest purchasers of television programs from Hollywood studios. The health of the broadcast networks is vital to the networks themselves, local affiliates, cable networks, and Hollywood studios. A healthy network business is essential for "free over-the-air television" and others to work.

One Channel in a Multi-Channel World?

Networks and local broadcasters (especially local broadcasters) are having a difficult time understanding why they are limited to one channel in a progressively multi-channel world. For example, in 1980, the average household (including those that had cable and those that did not) had 10.5 average channels available to it. With the simultaneous increased penetration and expansion of channel capacity in the average cable system, by 1998, the average number of channels available to the U.S. TV households approached 47 (including households with and without cable). While viewership options have increased nearly 350%, broadcasters are still limited to owning just one signal. While viewership migrates from over-the-air television to cable television, the local broadcaster can do little to defend itself.

Typically, LMAs (duopoly candidates) are entered into by local broadcasters hoping to have an additional footprint in a market in which the major entertainment companies and cable multiple system operators often have multiple channel footprints. For example, in the cable system serving Fairfield County in Connecticut, which is operated by Cablevision, the household has access to over 100 channel offerings. Local broadcast operators in the market, including LIN Television (soon to be acquired by Chancellor Media), Meredith Corporation, and Chris-Craft Industries, have two, one, and one of these channel positions, respectively. LIN (Chancellor) owns the ABC affiliate in the market and has LMA-ed the WB affiliate in the market.

However, compared with large entertainment companies and the cable system itself, local operators' channel "beachheads" pale by comparison. For example, we believe that Time Warner has complete or partial interest in 13 basic or pay cable channels on this local cable system. Liberty has 12 positions, NBC has eight, News Corp. has seven, Disney has seven, etc.

Exhibit 5. Number of Channels in Which Company has Stake in Local Cable System

	Basic Channels	Pay Channels	Total Channels
Time Warner	8	5	13
Liberty Media	11	1	12
General Electric	8	0	8
Viacom Corp.	5	3	8
News Corp.	5	2	7
Walt Disney Co.	7	0	7
Cablevision	5	0	5
Hearst Corp.	5	0	5
CBS Corp.	4	0	4
Cox Enterprises	4	0	4
Newhouse	4	0	4
John Hedricks	4	0	4
USA Networks	3	0	3
Scripps-Howard	2	0	2
Robert Johnson	2	0	2
Sony	2	0	2
Paxson Communications	2	0	2
Comcast	2	0	2
Tribune	2	0	2
LIN Television (Chancellor)	**2**	**0**	**2**
Univision Communications	1	0	1
Value Vision	1	0	1
Shop at Home	1	0	1
MediaOne	1	0	1
Microsoft	1	0	1
Landmark Communications	1	0	1
United/Chris-Craft/BHC	**1**	**0**	**1**
Meredith	**1**	**0**	**1**

Note: Bold entries represent owner of local television station.

Source: Cablevision; Paul Kagan & Associates; Bear, Stearns & Co. Inc.

Finding themselves besieged by rivals in local markets, local broadcasters, especially the competitively weaker players, are using LMAs as one way of remaining viable in an extremely competitive video market. The ultimate question is, "Will local broadcasters (excluding the broadcast networks) be allowed to participate in the multi-channel world, or will this be relegated solely to large entertainment, large cable, or large broadcasters?"

Local Television Operating Environment Is Difficult

As we wrote in our May 1998 industry piece, *Seizing Control of Their Destiny*, the operating environment for local television broadcasters has become progressively more difficult as well:

- Viewership is fragmenting given the competition from the "big four" (ABC, CBS, NBC, Fox) affiliates; the emerging networks, WB and UPN; the start-up network, PaxTV; 50-plus viable cable networks; and the Internet.

- National advertising is declining at the local station level because of increased video competition and the consolidating radio and outdoor businesses, which can now more effectively "package" entire listenership or billboard exposures, respectively, to national advertisers.

- Network-affiliate relations are more tense than in the past. Affiliates are faced with networks that would like to re-purpose programming and eventually dismantle network compensation payments. Both of these would negatively affect local station economics.

- Local stations have to pay for the development of digital television for which no economically viable model has been formulated. Furthermore,

    ✓ We know of no existing operating standard that makes the reception of digital television universally easy. Without an effective transmission standard, digital television will not become very viable or reach high household penetration.

    ✓ Launching digital television is an extremely expensive undertaking for local broadcasters.

    ✓ The FCC and Congress have generally not been supportive of the multi-casting business models that local television stations have been proposing.

    ✓ There is no guarantee that digital "must-carry" will be granted to local broadcasters, making it more difficult for HDTV's adoption rate by consumers and lengthening the time in which local broadcasters could recover initial investments.

TV Needs Strong Broadcast Networks and Local Stations

We believe that strong broadcast network and local station television models are essential to the long-term viability of free over-the-air television:

- A significant majority of viewers still watch the broadcast networks in primetime. During an average primetime week, it is not unusual for the six broadcast networks (ABC, CBS, NBC, Fox, WB, and UPN) to draw 60% or more of the television audience.

- The broadcast networks air, and sometimes develop, a significant amount of programs that later become the heart of off-network syndicated product (*Seinfeld, Friends, Cheers, Simpsons,* and *Frasier*, for example). This product is the syndication lifeblood of Fox, WB, and UPN affiliates, in particular. Many "off-net" shows also become programming staples for cable networks as well. If the networks cannot support continued development of these entertainment shows, the economics of many other television players (studios, local stations, and cable networks) could be disrupted.

- We estimate that local stations spend over $1.5 billion in creating local news programming in the top 50 markets in the U.S. No other entities can spend as much supporting their local communities.

We contend that a strong network and local station base is critical for the continued success and importance of broadcast television. Networks and their affiliates are at the heart of most major program development from a national and local perspective.

Advertising Trends and Company Valuations Are Weaker

We believe that economics for the local and national television picture have come under pressure in the midst of some pessimistic economic projections and industry trends. We believe that softness in third-quarter advertising driven by the General Motors strike and continued overall softness in non-political, "core" national advertising in late fourth-quarter 1998, as well as increasing programming costs and weak broadcast network economics, have translated into lower valuations and stock prices. They have also highlighted the need for television ownership rules to be addressed.

Exhibit 6. Recent Stock Performance of Selected Television Broadcasting Companies as of 11/20/98

Company	52-Week High	52-Week Low	Current Price	Percent from High	Percent from Low
Sinclair Broadcast Group	$31.1	$6.8	$11.6	62.9%	71.3%
Hearst Argyle Television	$41.3	$25.5	$27.9	32.3%	9.6%
Granite Broadcasting, Inc.	$13.6	$3.5	$6.9	49.5%	96.4%
Young Broadcasting, Inc.	$70.1	$21.1	$35.6	49.3%	68.3%
A.H. Belo Corp.	$28.5	$13.9	$19.2	32.6%	37.7%
Tribune Co.	$75.1	$44.8	$63.6	15.2%	42.2%

Source: Bloomberg Financial Markets.

Former FCC Chairman Hundt Supports Loosening Ownership Rules

In fact, addressing these concerns in a recent speech, former FCC Chairman Reed Hundt proposed a ten-step program to improve the prospects for local television stations. It included proposals for relaxation of the television rules that included a) increasing the national reach caps for any particular broadcaster to 50% from 35%, b) permitting duopoly, the ownership of two television properties within the same television market, c) permitting newspaper-broadcast cross-ownership, and d) permitting cable-broadcast cross-ownership. We believe that loosening TV ownership rules would help address many of the industry's competitive, structural, and economic threats.

There Is Broadcast Precedent for Loosening Ownership Rules

We believe that there is precedent for the relaxation of broadcast ownership rules. In 1992, the Federal Communications Commission began the process of significantly relaxing local ownership rules in radio to address a fundamental agency concern: the economics of radio were not able to sustain the vitality of the industry. In addition, the Telecommunications Act of 1996 was extremely helpful to the radio business, radically increasing the amount of stations any owner could own on both a local and national scale. Many had predicted that the intensity of consolidation in the radio business would cause the Commission to be more conservative in dealing with loosening ownership in television.

Television Broadcasters Took Advantage of Telecom Act of 1996 for Long-Term Survival

In reaction to increased competition and loosening of ownership rules in television under the Telecommunications Act of 1996, broadcasters that were committed to becoming preeminent players in television — such as News Corp., CBS, NBC (General Electric), Tribune, Sinclair Broadcast Group, Hearst-Argyle Television, Chancellor Media (LIN Television), and Raycom Media — began aggressively consolidating the local television business. We believe that consolidation is necessary for local television broadcasters to remain viable in an increasingly difficult operating environment. We contended that consolidation could help local broadcasters have leverage with the audiences, programmers, other market competitors, broadcast networks, local cable operators, advertisers, national advertising representation firms, and vendors (like Nielsen ratings services). Without the ability to assemble scale, we believe that many television broadcasters (more than 80, by our count) elected to exit the business.

In order to consolidate the industry, many players have had to use extensive debt financing for their acquisitions. This has contributed to substantial leverage throughout the industry. While leverage has been necessary to fulfill consolidation plans, it can be destabilizing in times of uncertainty and it can wreak havoc on equity valuations. We believe that leverage has played a significant role in the recent downturn in broadcast stocks. The combination of downward revisions to 1999 cash flow estimates of some companies and the application of lower multiples for valuation purposes (which reflect the perceived slowing economy and lower market valuations generally) appear to have led to disproportionate declines in the equity values of highly levered companies (see Exhibit 6). In these cases, enterprise value is revised downward while debt levels are not, prompting incommensurate changes in valuation at the equity level.

Difficult Operating Environment, Need to Consolidate, Recent Correction in Value of Stocks Invite Rule Changes

With network economics tightening, competition at the local level increasing, consolidation out of necessity driving the industry, and higher leverage affecting equity valuations, we believe that the Federal Communications Commission (or Congress) may, in time (and we stress *in time*), consider loosening television ownership rules. We think that is prudent. In our view, the most logical step towards loosening local ownership rules would be to increase the national ownership cap for the number of TV households that one television operator could reach to 50% from 35%. This would be especially useful to broadcast networks, which can utilize profitable station bases to "cross-subsidize" ever-increasing losses at the broadcast networks. Non-network owners would be allowed to increase scale, which we believe is increasingly important if one is to thrive in the television business. Alternatively, the FCC or Congress could support a) permitting duopoly, the ownership of two television properties within the same television market or b) permitting newspaper-broadcast cross-ownership or broadcast-cable cross-ownership (when there are more than two cable systems). We believe that loosening TV ownership rules would help address many of the industry's competitive, structural, and economic threats.

Theoretically, Who Would Be Affected BY FCC Rules, and What Steps Can They Take?

If the FCC decides to take a conservative view of LMAs, we believe that many public television operators would be affected, including Sinclair Broadcast Group, LIN Television (Chancellor Media), A. H. Belo Corporation, Clear Channel Communications, Hearst-Argyle Television, News Corp., Viacom, Pegasus Communications, General Electric, Scripps Howard, Paxson Communications, and Lee Enterprises. In addition, we estimate that approximately 14 "private" television operators also have entered into some form of LMA agreement.

Exhibit 7. Local Marketing Agreement Summary in Top 100 Television Markets ($ in Thous.)

Owner	Number of LMAs	1997 Gross LMA Revenues	1997 Gross Market Revenues	1997 Percent of Market Revenues	1997 Estimated LMA % of Cash Flow
Sinclair Broadcasting	18	$167,500	$2,097,200	8.0%	13.0%
Raycom	1	$43,500	$275,000	15.8%	NA
Clear Channel	8	$34,650	$617,000	5.6%	0.5%
Media America Corp.	1	$19,000	$328,300	5.8%	NA
LIN Television (Chancellor)	4	$16,000	$442,500	3.6%	0.5%
Hearst-Argyle Television	2	$15,000	$352,500	4.3%	0.2%
News Corp. (Fox Television)	1	$12,000	$497,800	2.4%	NM
Capitol Broadcasting	2	$11,500	$295,500	3.9%	NA
Viacom	1	$8,000	$166,000	4.8%	NM
A.H. Belo	4	$7,600	$468,200	1.6%	NM
Waterman Broadcasting	1	$7,200	$52,500	13.7%	NA
Pegasus Communications	2	$6,300	$93,500	6.7%	1.0%
General Electric (NBC)	2	$4,500	$249,000	1.8%	NM
Scripps Howard	1	$4,000	$156,500	2.6%	NM
Paxson Communications	2	$3,400	$699,000	0.5%	NM

Source: Broadcasting Cable; Federal Communications Commission; BIA Investing In Television '98; company reports; Bear, Stearns & Co. Inc.

The fact that so many LMAs exist (63 in the top 100 markets) and that so many prominent broadcasters have LMAs should draw some serious effort from the industry to try to influence this rulemaking process.

We believe that the average broadcaster has five lines of defense in maintaining or improving the present position of the FCC.

- Appeal to the FCC before the Ruling is done.
- Find Congressional support on a "jawboning" or legislative front.
- Restructure LMAs in a way that is more palatable to the FCC.
- Take the issue to court.
- If it has a particularly viable local marketing agreement, a broadcaster could capture full value for the assets and elect to strategically sell a station.

Appendix 1. Local Marketing Agreement Summary in Top 100 Television Markets ($ in Thousands) Part I

Market	Market Rank	Brokering Station Calls	Brokering Partner Station	LMAed Station Calls	LMA Owner	1997 LMA Station Revenue	1997 Market Revenues	1997 Station Percent of Market Rev.	1997 Total LMA Group Owner Revenues	1997 Total Group Market Revenues	Owner Group Percent of Market Revenues
Cedar Rapids	87	KFXA	2nd Generation	KFXB	Dubuque TV	$0	$40,100	0.0%	$0	$40,100	0.0%
Honolulu	71	KHNL	A.H. Belo	KFVE	Ka' Ikena Lani TV	$3,000	$61,800	4.9%			
Seattle	12	KING	A.H. Belo	KONG	Susan Uecker(Zeus)	$400	$297,500	0.1%			
Spokane	73	KREM	A.H. Belo	KSKN	KSKN Inc.	$0	$50,500	0.0%			
Tucson	78	KMSB	A.H. Belo	KTTU	Clear Channel	$4,200	$58,400	7.2%	$7,600	$468,200	1.6%
Jacksonville	54	WJXX	Albritton Comm.	WBSG	WBSG-TV LP	$4,500	$96,000	4.7%	$4,500	$96,000	4.7%
Green Bay	70	WGBA	Aries Telecom	WACY	Ace TV Inc.	$2,000	$50,400	4.0%	$2,000	$50,400	4.0%
Louisville	50	WDRB	Blade Communications	WFTE	Greater Lousiville TV	$4,000	$94,800	4.2%	$4,000	$94,800	4.2%
Charlotte	28	WJZY	Capitol Broadcasting	WFVT	Roxboro Broadcasting	$6,000	$156,000	3.8%			
Raleigh-Durham	29	WRAL	Capitol Broadcasting	WRAZ	Carolina Broadcasting	$5,500	$139,500	3.9%	$11,500	$295,500	3.9%
Miami	16	WFOR	CBS	WEYS	WEYS TV	$0	$428,500	0.0%	$0	$428,500	0.0%
Austin	60	KXAN	Chancellor Television (LIN)	KNVA	54 Broadcasting	$3,500	$83,000	4.2%			
Grand Rapids-Kalamazoo	37	WOOD	Chancellor Television (LIN)	WOTV	Channel 41 Inc.	$5,000	$95,500	5.2%			
Hartford	27	WTNH	Chancellor Television (LIN)	WBNE	K-W Televison	$5,000	$166,000	3.0%			
Norfolk	39	WAVY	Chancellor Television (LIN)	WVBT	Entravision Holdings	$2,500	$98,000	2.6%	$16,000	$442,500	3.6%
Harrisburg	45	WHP	Clear Channel	WLYH	Gateway Comm.	$3,000	$82,000	3.7%			
Jacksonville	54	WAWS	Clear Channel	WTEV	Mercury Broadcasting	$5,500	$96,000	5.7%			
Little Rock	56	KLRT	Clear Channel	KASN	Mercury Broadcasting	$3,200	$68,200	4.7%			
Memphis	42	WPTY	Clear Channel	WLMT	TV Marketing Group	$10,000	$105,000	9.5%			
Mobile-Pensacola	62	WPMI	Clear Channel	WDPX	Mercury Broadcasting	$2,250	$61,500	3.7%			
Providence	49	WPRI	Clear Channel	WNAC	LIN Television	$7,700	$76,500	10.1%			
Tulsa	58	KOKI	Clear Channel	KTFO	Mercury Broadcasting	$3,000	$74,000	4.1%			
Wichita	65	KSAS	Clear Channel	KAWJ	3 Feathers Comm.	$0	$53,800	0.0%	$34,650	$617,000	5.6%
Waco	96	KWKT	Comm Corp of America	KAKW	White Knight Bcst	$600	$27,200	2.2%	$600	$27,200	2.2%
Shreveport	76	KMSS	Comm Corp of America	KSHV	White Knight Bcst	$1,200	$44,300	2.7%	$1,200	$44,300	2.7%
Orlando	22	WFTV	Cox Broadcasting	WZWY	Reece Associates	$0	$223,000	0.0%	$0	$223,000	0.0%
Dallas	8	KDFW	Fox Television	KDFI	DMIC Corp.	$12,000	$497,800	2.4%	$12,000	$497,800	2.4%
Kansas City	31	KMBC	Hearst-Argyle	KCWB	KCWB-TV	$4,000	$156,500	2.6%			
Sacramento	20	KCRA	Hearst-Argyle	KQCA	Channel 58 Inc.	$11,000	$196,000	5.6%	$15,000	$352,500	4.3%
Albuquerque	48	KRQE	Lee Enterprises	KASY	Ramar Communications	$1,100	$88,000	1.3%	$1,100	$88,000	1.3%

Source: Broadcasting Cable; Federal Communications Commission; BIA Investing In Television '98; company reports; Bear, Stearns & Co. Inc.

Share May 1998	Share May 1997	Brokering Station Revenue	Brokering + LMA Revenue	Percent of Market Revenues	LMAed Affiliation	Start Date	Term	Time Brokered
0	0	$3,700	$3,700	9.2%	Fox	8/13/95	5	100%
4	4	$12,000	$15,000	24.3%	UPN	5/5/93	10	100%
2	0	$86,000	$86,400	29.0%	Independent	5/14/96	10	99.0%
2	0	$15,300	$15,300	30.3%	UPN	7/1/96	10	100%
3	3	$8,700	$12,900	22.1%	UPN	10/7/91	10	Nearly all
0	4	$0	$4,500	4.7%	ABC	2/12/97	10	100%
3	4	$7,900	$9,900	19.6%	UPN	6/2/94	1	94%
4	4	$16,500	$20,500	21.6%	UPN	3/15/94	7	83%
4	3	$15,500	$21,500	13.8%	WB	6/6/94	5	98.8%
3	2	$46,000	$51,500	36.9%	WB	6/8/94	10	99.0%
0	0	$49,000	$49,000	11.4%	Independent	1/1/97	1	96.4%
3	2	$20,500	$24,000	28.9%	WB	6/24/94	10	Nearly all
4	4	$27,000	$32,000	33.5%	ABC	11/11/91	11	Nearly all
3	2	$38,500	$43,500	26.2%	WB	12/9/94	10	Nearly all
2	2	$24,500	$27,000	27.6%	WB	12/14/94	10	Nearly all
3	2	$10,000	$13,000	15.9%	UPN	11/1/95	20	Nearly all
3	3	$17,000	$22,500	23.4%	UPN	9/25/95	5	Nearly all
4	3	$7,800	$11,000	16.1%	UPN	1/1/95	10	Nearly all
7	8	$14,000	$24,000	22.9%	UPN	8/19/93	10	Nearly all
5	4	$9,200	$11,450	18.6%	UPN	1/1/95	10	Nearly all
4	4	$21,000	$28,700	37.5%	Fox	6/30/96	10	Nearly all
2	3	$12,500	$15,500	20.9%	UPN	11/3/93	10	Nearly all
0	0	$9,500	$9,500	17.7%	Independent	2/1/96	5	NA
2	2	$4,400	$5,000	18.4%	UPN/WB	TBD	5	NA
2	2	$6,100	$7,300	16.5%	UPN/WB	TBD	5	NA
0	0	$59,000	$59,000	26.5%	Dark	TBD	10	NA
4	3	$72,000	$84,000	16.9%	Independent	5/20/94	4	96.4%
3	3	$48,000	$52,000	33.2%	UPN	9/14/96	5	98.0%
5	5	$58,000	$69,000	35.2%	WB	12/30/94	5	Nearly all
2	0	$17,000	$18,100	20.6%	UPN	12/12/94	5	100%

Appendix 1 (continued). Local Marketing Agreement Summary in Top 100 Television Markets ($ in Thousands) Part II

Market	Market Rank	Brokering Station Calls	Brokering Partner Station	LMAed Station Calls	LMA Owner	1997 LMA Station Revenue	1997 Market Revenues	1997 Station Percent of Market Rev.	1997 Total LMA Group Owner Revenues	1997 Total Group Market Revenues	Owner Group Percent of Market Revenues
Phoenix	17	KTVK	Media America Corp.	KASW	Brooks Broadcasting	$19,000	$328,300	5.8%	$19,000	$328,300	5.8%
Columbus	34	WCMH	NBC	WWHO	Fant Broadcsting	$4,500	$172,500	2.6%			
Providence	49	WJAR	NBC	WLWC	Fant Broadcsting	$0	$76,500	0.0%	$4,500	$249,000	1.8%
Omaha	74	KPTM	Pappas Telecasting	KXVO	Cocola Broadcasting	$3,500	$61,900	5.7%	$3,500	$61,900	5.7%
Atlanta	10	WPXA	Paxson Communications	WNGM	USA Broadcasting	$1,600	$424,000	0.4%			
Cleveland	13	WVPX	Paxson Communications	WOAC	Shop at Home Inc.	$1,800	$275,000	0.7%	$3,400	$699,000	0.5%
Wilkes Barre	47	WWLF	Pegasus Comm.	WOLF	WOLF License Corp.	$6,000	$47,500	12.6%			
Portland	80	WPXT	Pegasus Comm.	WPME	New England TV	$300	$46,000	0.7%	$6,300	$93,500	6.7%
Raleigh-Durham	29	WRAL	Ramcast Corp.	WFAY	Robinson Everett	$0	$139,500	0.0%	$0	$139,500	0.0%
Cleveland	13	WOIO	Raycom	WUAB	Cannell Cleveland	$43,500	$275,000	15.8%	$43,500	$275,000	15.8%
Kansas City	31	KSHB	Scripps Howard	KMCI	Miller Bcst.	$4,000	$156,500	2.6%	$4,000	$156,500	2.6%
Baltimore	23	WBFF	Sinclair Broadcast	WNUV	Glencairn Ltd.	$23,000	$194,000	11.9%			
Birmingham	51	WTTO	Sinclair Broadcast	WABM	Glencairn Ltd.	$5,700	$93,200	6.1%			
Dayton	53	WKEF	Sinclair Broadcast	WRGT	Glencairn Ltd.	$14,500	$82,600	17.6%			
Greensboro	46	WXLV	Sinclair Broadcast	WUPN	Mission Broadcasting	$3,100	$77,000	4.0%			
Greenville, SC (Asheville)	35	WLOS	Sinclair Broadcast	WFBC	Glencairn Ltd.	$3,200	$92,000	3.5%			
Indianapolis	25	WTTV	Sinclair Broadcast	WTTK	Glencairn Ltd.	$0	$188,000	0.0%			
Milwaukee	32	WCGV	Sinclair Broadcast	WVTV	Glencairn Ltd.	$16,000	$148,000	10.8%			
Mobile-Pensacola	62	WEAR	Sinclair Broadcast	WFGX	TV Fit for Life	$600	$61,500	1.0%			
Nashville	33	WZTV	Sinclair Broadcast	WUXP	Mission Broadcasting	$9,000	$144,000	6.3%			
Oklahoma City	44	KOKH	Sinclair Broadcast	KOCB	Glencairn Ltd.	$10,900	$104,000	10.5%			
Paducah	79	KBSI	Sinclair Broadcast	WDKA	Sudbrink Bcstg	$300	$36,300	0.8%			
Pittsburgh	19	WPGH	Sinclair Broadcast	WCWB	WCWB, Inc.	$8,900	$217,600	4.1%			
Raleigh-Durham	29	WLFL	Sinclair Broadcast	WRDC	Glencairn Ltd.	$11,500	$139,500	8.2%			
San Antonio	38	KABB	Sinclair Broadcast	KRRT	Glencairn Ltd.	$11,800	$128,300	9.2%			
Syracuse	72	WSYT	Sinclair Broadcast	WNYS	RKM Media	$1,700	$46,700	3.6%			
Charleston, WV	57	WCHS	Sinclair Broadcast	WVAH	Glencairn Ltd.	$10,000	$48,000	20.8%			
Las Vegas	61	KVWB	Sinclair Broadcast	KFBT	Glencairn Ltd.	$3,800	$124,000	3.1%			
Columbus, OH	34	WSYX	Sinclair Broadcast	WTTE	Glencairn Ltd.	$33,500	$172,500	19.4%	$167,500	$2,097,200	8.0%
Greenville, SC	35	WSPA	Spartan	WASV	Pappas	$300	$92,000	0.3%	$300		
Johnstown	92	WWCP	US Bcst.	WATM	Advent V Capital	$2,200	$28,500	7.7%	$2,200	$28,500	7.7%
Hartford	27	WVIT	Viacom	WTXX	Counterpoint Comm.	$8,000	$166,000	4.8%	$8,000	$166,000	4.8%
Ft. Myers	83	WBBH	Waterman Broadcasting	WZVN	Raycom	$7,200	$52,500	13.7%	$7,200	$52,500	13.7%
Summary Statistics						$381,547	$8,206,697	4.6%			

Source: Broadcasting Cable; Federal Communications Commission; BIA Investing In Television '98; company reports; Bear, Stearns & Co. Inc.

Share May 1998	Share May 1997	Brokering Station Revenue	Brokering + LMA Revenue	Percent of Market Revenues	LMAed Affiliation	Start Date	Term	Time Brokered
5	4	$57,000	$76,000	23.1%	WB	TBD	10	98.0%
2	3	$46,200	$50,700	29.4%	UPN/WB	3/18/94	10	Nearly all
2	0	$32,500	$32,500	42.5%	UPN/WB	4/14/97	10	Nearly all
5	4	$11,000	$14,500	23.4%	WB	6/10/95	10	Nearly all
0	0	$5,000	$6,600	1.6%	Infomercial	4/19/96	10	96.4%
0	0	$2,000	$3,800	1.4%	Independent	10/30/95	10	96.4%
4	4	$0	$6,000	12.6%	Fox	TBD	5	Nearly all
3	0	$4,500	$4,800	10.4%	UPN	1/29/96	5	Nearly all
2	0	$0	$0	0.0%	Fox	NA	NA	NA
10	10	$31,000	$74,500	27.1%	UPN	8/18/94	10	98.0%
2	2	$24,000	$28,000	17.9%	Independent	3/27/96	10	Nearly all
6	7	$37,500	$60,500	31.2%	WB	NA	NA	NA
4	3	$12,000	$17,700	19.0%	Independent	NA	NA	NA
5	7	$11,000	$25,500	30.9%	Fox	NA	NA	NA
4	3	$11,500	$14,600	19.0%	UPN	NA	NA	NA
2	2	$21,500	$24,700	26.8%	Independent	NA	NA	NA
8	0	$34,000	$34,000	18.1%	WB	NA	NA	NA
6	6	$18,500	$34,500	23.3%	WB	NA	NA	NA
0	0	$19,000	$19,600	31.9%	WB	NA	NA	NA
4	4	$22,500	$31,500	21.9%	UPN	2/22/96	5	99.0%
5	5	$9,500	$20,400	19.6%	WB	NA	NA	NA
0	0	$4,000	$4,300	11.8%	UPN	12/15/95	10	94%
3	3	$36,400	$45,300	20.8%	WB	1/6/92	10	83.0%
3	4	$22,000	$33,500	24.0%	UPN	NA	NA	NA
5	6	$21,000	$32,800	25.6%	WB	8/3/95	5	96%
2	2	$7,500	$9,200	19.7%	UPN	7/2/96	10	94%
6	7	$8,400	$18,400	38.3%	Fox&UPN	NA	NA	NA
2	2	$10,400	$14,200	11.5%	Independent	NA	NA	NA
7	7	$37,500	$71,000	41.2%	Fox	NA	NA	NA
0	0	$23,000	$23,300	25.3%	UPN&WB	3/22/96	5	Nearly all
5	5	$3,700	$5,900	20.7%	ABC	3/11/96	10	Nearly all
2	2	$35,000	$43,000	25.9%	UPN	7/19/96	3	18.0%
10	8	$15,100	$22,300	42.5%	ABC	6/1/94	10	40%
3.3	3.0	$1,370,800	$1,750,350	21.3%				

Companies mentioned:

A.H. Belo Corp.§ (BLC-19)
Cablevision Systems§ (CVC-44)
CBS Corp.§ (CBS-30)
Chancellor Media Corp.* (AMFM-39)
Clear Channel Communications‡ (CCU-48)
Comcast* (CMCSA-48)
Disney (Walt) Co.§ (DIS-29)
General Electric Co. (GE-92)
Granite Broadcasting* (GBTVK-6$^{3}/_{4}$)
Hearst-Argyle Television (HTV-28)
Liberty Media* (LBTYA-40)
LIN Television (Chancellor Media) (AMFM-39)
MediaOne (UMG-41)
Meredith Corp. (MDP-40)
Microsoft* (MFST-119)
News Corp. (NWS-29)
Paxson Communications (PAX-7 $^{13}/_{16}$)
Pegasus Communications Corp. (PGTV-17)
Scripps Howard Co. (SSP-51)
Sinclair Broadcast Group (SBGI-12)
Time Warner§ (TWX-179)
Tribune Co. (TRB-64)
USA Networks Co.* (USAI-29)
Viacom Inc.§ (VIAB-68)
Young Broadcasting* (YBTVA-38)

Above list priced as of the close on November 23, 1998.

* Bear, Stearns & Co. Inc. is a market maker in the security of this company and may have a long or short position in the security.

§ Within the past three years, Bear, Stearns & Co. Inc. or one of its affiliates was the manager (co-manager) of a public offering of securities of this company and/or has performed other banking services for which it has received a fee.

Director of Global Research
Kay Booth 272-4205

Economics
Wayne Angell, Chief Economist 272-4217
John Ryding 272-4221
Melanie Hardy 272-4447

International Economics
David Malpass 272-4293

Investment Strategy
Elizabeth J. Mackay, CFA 272-4219

Accounting & Taxation
Patricia McConnell, CPA 272-4193
Janet Pegg, CPA 272-4191

Basic Industry
Aerospace/Pollution Control
Steve Binder, CFA 272-4235
Auto & Auto Parts
Eric L. Goldstein 272-7616
Capital Goods/Machinery
John G. Inch 272-4054
Eng. & Constr./Precious Metals
Michael S. Dudas, CFA 272-2289
Specialty Chemicals
Christopher M. Bodnar 272-7459
Nonferrous Metals
Anthony B. Rizzuto, Jr. 272-4269
Steel & Steel Related
Robert K. Winters 272-6844
Paper/Forest Products
Linda E. Lieberman 272-4207

Consumer
Apparel
Susan R. Sansbury 272-4303
Containers & Pkging/Diversified Cos.
Gary Schneider 272-4261
Cosmetics/Pers. Care/Hsehld. Prod.
Constance M. Maneaty 272-4249
Gaming/Lodging
Jason N. Ader 272-4257
Skiing
Christine J. Lumpkins 272-8978
Packaged Food
Terry Bivens 272-6782
Restaurant/Consumer Growth
Joseph T. Buckley, CFA 272-4263
Retail
Steven Kernkraut 272-4305
Specialty Retailing/Hard & Soft Lines
Dana L. Telsey 272-6052
Specialty Retailing/Toys/Drugstores
John Balaskas 272-2276
Wholesale Distribution
John E. Ford 272-2103

Energy
Major Oil/Refiners
Frederick P. Leuffer, CFA 272-6344
Large-Cap Oil & Gas E&P
Ellen K. Hannan 272-4199
Mid-Cap Oil & Gas E&P
Dirk M. Van Doren 272-5708

Financial Services
GSEs/Consumer Fin./Credit Cards
David S. Hochstim, CFA 272-4243
Mid-Cap Banks
Kirstin B. Gard 272-6109
Sean Ryan, CFA 272-7569
Life Insurance
Jason B. Zucker 272-7051
Prop./Casualty Reins. & Ins. Brokers
Michael A. Smith 272-9465
Real Estate Investment Trusts
Ross L. Smotrich 272-8046
Specialty Finance
Michael K. Diana 272-6053

Health Care
Pharmaceuticals
Joseph P. Riccardo 272-4253
Scott J. Shevick, CFA 272-4301
Specialty Pharmaceuticals
David W. Maris 272-3801
Medical Supplies & Technology
Frederick A. Wise, CFA 272-4265
Scott Davidson 272-7927
Biotechnology/Int'l Pharmaceuticals
David Molowa, Ph.D. 272-2722
Ethan T. Lovell 272-9098
Health Care Information Systems
Raymond G. Falci 272-4245
Health Care Services/Facilities
A. J. Rice 272-3312

Media
Broadcasting/Cable/Entertainment
Raymond L. Katz 272-6857
Publishing/Info./Direct Marketing
Kevin R. Gruneich, CFA 272-5867
Alexia Quadrani 272-2149
Education
David A. Nadel 272-9918
Small & Mid-Cap Entertainment
Marina Jacobson 272-6307
Broadcasting
Victor B. Miller IV 272-4233
European Media
Nicholas Bell [44-171] 516-6977

Special Situations
Peter J. Barry 272-6090
Kimberly L. Howard, CFA 272-2431
John A. McConville, CFA 272-7139
Harvey L. Katz 272-3522
Bríd M. White, CFA 272-4267

Technology
PC, Server, & Enterprise Hardware
Andrew J. Neff 272-4247
Computer Services
James F. Kissane 272-2832
Business & Technology Services
Andrew Steinerman 272-5557
Component Suppliers/Contract Mfg.
Thomas Hopkins 272-3719
Enterprise Software
Richard F. Scocozza 272-5840
Internet/New Media
Scott Ehrens 272-9382
Communications Software
Bob Lam, CFA 272-7670

Telecommunications
Telecommunications Services
William Deatherage, CFA 272-2720
Bette Massick Colombo, CFA 272-2721
Competitive Local Carriers
James Henry 272-2741
Competitive Long Distance Carriers
Michele Wolf, CFA 272-8700
European Telecommunications
Stuart J. Birdt, CFA [44-171] 516-6360
Satellites
Vijay Jayant 272-4283
Wireless Messaging
Jeanine M. Oburchay 272-3169
Wireless Telephony
David A. Freedman, CFA 272-4209

Emerging Markets
Latin America
Mark Abramson 272-6489
Rizwan Ali 272-3513
David Chon 272-7527
Carlos A. Laboy 272-3203
Robert Lacoursiere 272-5981
Marc McCarthy, CFA 272-7822
F. Rowe Michels, CFA 272-2429
Christopher Recouso 272-6541
Cristina Sobral [55-11] 3170-4634
Sobani Warner 272-6250
David Wheeler [55-11] 3170-4632
East Asia
Scott Benesch [852] 2593-2747
Derek Chan [852] 2593-2736
Paul Deayton [852] 2593-2645
Bo Hong 272-2616
David Strine [852] 2593-2745
Daniel Widdicombe [852] 2593-2739