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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

May 7, 1999

Notice of Ex Parte Communication

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: MM Docket No. 98-35

Dear Ms. Salas:

Yesterday, Ben Tucker of Fisher Broadcasting, David Barrett of Hearst-Argyle, Alan Frank of Post-Newsweek, and Karen Fullum and the undersigned from the National Association of Broadcasters met with Commissioners Ness and Tristani, and Anita Wallgren and Rick Chessen of their offices; and James Yager of Benedek Broadcasting, Andrew Fisher of Cox Broadcasting, Paul Karpowicz of LIN Television, and Ms. Fullum and the undersigned met with Commissioner Furchtgott-Roth, Helgi Walker, Susan Fox, Jane Mago, and Roy Stewart, Buck Logan, and Robert Ratcliffe of the Mass Media Bureau, concerning the above-referenced proceeding.

At these meetings, we addressed the questions raised in the Commission's *Notice of Inquiry* concerning raising the television national ownership limit beyond 35 percent. We pointed out that:

- The 35 percent limit was carefully considered by Congress only three years ago, and the Commission should not make changes in a judgment so recently rendered by Congress.

- Claims by the networks that they are not profitable do not reflect revenues from their owned and operated stations, affiliated cable networks, syndication operations, and other activities which are related to and supported by the operation of the broadcast networks.

- Increasing the national cap to 50 percent would markedly change the relative bargaining position of the remaining affiliates, reducing their ability to make local programming decisions or negotiate effectively over the terms of affiliation agreements.

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- Were the four major networks to own stations reaching 50 percent of the national audience, they would dominate the program syndication market, making it virtually impossible for syndicators to develop programs not purchased by the networks.
- Allowing the national cap to be increased would diminish opportunities for new entrants to purchase television stations.

In addition, a copy of the attached article was left with Commissioner Tristani.

Please direct any questions concerning this matter to the undersigned..

Respectfully submitted,

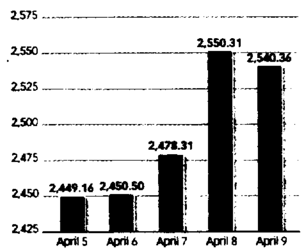
Jack N. Goodman

Attachment

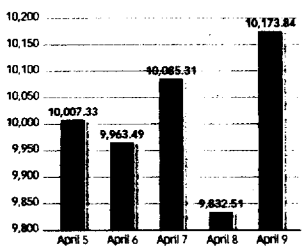
cc: Commissioners Ness, Furchtgott-Roth & Tristani
Susan Fox
Anita Wallgren
Helgi Walker
Jane Mago
Rick Chessen
Roy J. Stewart
Buck Logan
Robert Ratcliffe

ELECTRONIC MEDIA stocks index for the week ended April 9

EM INDEX



DJ INDEX



Winners

	April 9	Change from April 1
Seagrams	$61.31	+17.91%
News Corp.	$35.50	+16.16%
Univision Communications	$57.88	+15.17%
Yahoo!	$207.00	+15.16%
Infinity Broadcasting	$30.88	+15.15%
General Instrument Corp.	$35.50	+12.92%
King World	$35.06	+12.65%
CBS Corp.	$44.94	+11.99%
Tribune	$73.06	+11.65%
@Home Corp.	$172.63	+11.64%
Disney	$34.50	+9.52%
McGraw Hill	$59.13	+9.11%
AT&T	$85.50	+8.92%
USA Networks	$39.25	+8.84%
Viacom (cl. B)	$46.38	+8.64%
Sony	$102.94	+7.37%
MediaOne	$69.75	+6.69%
America Online	$159.94	+6.63%
Jones Intercable	$43.25	+6.46%
Chris-Craft	$47.63	+6.42%
BellSouth	$43.75	+6.06%
Time Warner	$75.25	+5.99%
Granite Broadcasting	$6.75	+5.88%
Ameritech	$63.50	+5.39%
IBM	$186.31	+5.26%
Comcast (cl. A)	$64.94	+5.16%
SBC Communications	$51.94	+4.40%
Media General	$48.00	+3.78%
Metro-Goldwyn-Mayer	$13.81	+3.76%
Clear Channel Communications	$71.75	+3.61%
A.H. Belo	$18.31	+2.09%
Times-Mirror	$54.63	+1.75%
Microsoft Corp	$94.25	+1.69%
Paxson Communications	$8.31	+1.53%
Spelling Entertainment	$8.94	+1.42%
Cox Communications	$77.06	+1.40%
Meredith Corp.	$31.94	+1.39%
GE	$112.19	+0.50%
Gannett	$63.19	+0.50%

Losers

	April 9	Change from April 1
Knight-Ridder	$49.63	-0.63%
Scripps	$43.50	-0.71%
Chancellor Media Corp.	$46.63	-0.93%
Cablevision	$74.06	-1.58%
Washington Post (cl. B)	$514.63	-2.36%
Harte Hanks	$27.13	-2.91%
Century Communications	$44.50	-3.26%
Adelphia Communications	$61.00	-3.56%
Fox Entertainment	$25.88	-4.83%
Hearst-Argyle	$28.19	-6.08%
Young Broadcasting	$39.56	-8.79%
Unapix Entertainment	$1.75	-9.68%
Sinclair	$11.94	-17.67%

Unchanged

	April 9
Scientific-Atlanta	$27 13

FINANCE

'Old' media reaps value of the new

The value of traditional media companies is being redefined and changed as they seek a foothold in digital cable and the Internet.

Take NBC for instance.

Over the past six years, NBC has invested a mere $500 million to build a cable and Internet portfolio now valued at between $8 billion and $10 billion.

Half of that portfolio value is tied to the CNBC franchise, born out of NBC News, which is about to be spun into a second personal finance-based cable and Internet service later this year.

DIANE MERMIGAS

CNBC and sister service MSNBC are on track to generate an estimated $727 million in revenues in 2000, triple what it was in 1996. CNBC.com, which is being enhanced with new features this month, also is NBC's most valuable Internet asset.

Collectively, the earnings growth of NBC's cable and Internet assets is more than offsetting cost pressures at the NBC Television Network. CNBC's operating profits will grow about 30 percent to more than $205 million in 1999, while all of NBC's cable will generate about $275 million in operating earnings this year, also up 30 percent from 1998.

NBC's fledgling Internet assets will post an initial operating profit of $10 million this year, compared with a $20 million loss in 1998.

Those combined cable and Internet gains will account for the $125 million, or a 10 percent gain, in NBC's overall 1999 corporate profits, which should total about $1.4 billion.

Offsetting network decline

Cable and the Internet will make bottom-line growth possible at NBC even as operating profits at its television network continue to decline as much as 20 percent this year—to between $475 million and $505 million.

Within three years, annual operating profits generated by NBC's cable and Internet assets will likely exceed those of the NBC Television Network, even if NBC sells its 25 percent stake in Cablevision System's Rainbow Media Services, as it has hinted it will.

A closer look at NBC's $2 billion Internet holdings in dozens of companies reveals an even more astounding story of value creation.

By bolstering its Snap! with NBC-generated product and cross-promotion from its broadcast and cable TV networks and TV stations, it has transformed it into an Internet asset worth nearly $1 billion in about one year. By NBC's own admission, Snap! is now a strong merger target.

Just as cable provides subscriber and pay-per-view fees to supplement stagnant advertising, the Internet will generate electronic-commerce revenues and transaction fees—especially for a company like NBC that has connections to GE Financial.

That potential profit windfall has many analysts betting on an eventual alliance between NBC and the likes of America Online or Yahoo!, regardless of NBC's plan to publicly spin off its Internet-related assets.

Today, NBC's cable and Internet businesses represent more than 40 percent of the company's overall $25 billion market value, up from just 10 percent at the end of 1997.

CBS, ABC make moves

Taking its cue from NBC, CBS last week agreed to exchange $100 million in promotion and sales support over seven years for a 35 percent equity stake in the Big Entertainment Internet sites: Hollywood.com, BigE.com and CinemaSource. CBS also agreed to swap $100 million in promotion time in exchange for a 50 percent equity stake in StoreRunner.com.

But The Walt Disney Co. may have gone the furthest in creating and bartering with new media value when it traded its controlling interest in Starwave along with $70 million in cash for a 43 percent stake in Infoseek.

Infoseek's more recent $80 per share trading price values Disney's stake at more than $2 billion—the same value as Disney's radio network or ESPN 2, or 50 percent stake in Lifetime Television.

The estimated 500 million people Disney reaches every day through its various entertainment outlets and products represents an unparalleled branding opportunity for Disney's and Infoseek's new GO Network.

This radical realigning and redefining of values at major media companies will only become more profound. Expanded bandwidth and the proliferation of information devices will bring interactivity into every home and change the way consumers use, access and receive online, cable and broadcast services.

In the meantime, Web aggregators and distributors will continue to consolidate and seek unique content. Traditional media companies will continue to develop new cable and Internet revenue outlets in order to survive.

But, as James Preissler, an Internet analyst at PaineWebber, recently pointed out in a report titled "Mass Market Internet," the holders of real value will be the content providers, or the traditional media concerns.

"While the battle for mass-market eyeballs is being fought, these portals desperately need the exposure but the access to proprietary content that only traditional media can offer," Mr. Preissler said.

That's the leverage traditional media companies will use in creating the new business models, revenue sources and value that will profitably carry them into the next decade. #

Diane Mermigas is financial editor for ELECTRONIC MEDIA