ATTACHMENT A

OUT-OF-MARKET LISTENING AND VIEWING:

IT'S NOT TO BE OVERLOOKED

Mark R. Fratrik, Ph.D.
Vice President, BIA Financial Network

January 2, 2003

TABLE OF CONTENTS

Executive Summary

To evaluate the impact of proposed combinations of broadcast stations, regulators and analysts often seek to define the relevant geographic market and determine stations competing in those markets. But radio and television signals enter markets from stations located far away. Signals may come in via over-the-air transmission, and with television may also come in via cable or satellite delivery of distantly located stations. Whatever the means, "importation" of out-of-market stations can, and does, complicate the delineation of those stations that compete in a market.

This paper documents the extent of "out-of-market" listening and viewing throughout the country in markets of all sizes. While there is noticeable out-of-market listening and viewing in markets of all sizes, it is most prevalent in smaller markets. Some of the most significant results found in this study include:

- The average level of in-market listening to local radio stations is 67.7% for Spring 2002, 2.5% lower than the corresponding level for Spring 1998.
- In general, the levels of in-market listening are highest in the largest Arbitron markets, with only 64.4% of total listening going to in-market radio stations for the average market ranked 101 and higher.
- 229 Arbitron markets list stations as "home" to those markets that either are physically located in another Arbitron market or do not physically lie within any Arbitron market.
- There are 67 Nielsen Designated Market Areas in which adjacent market television stations received enough viewing to meet minimum reporting standards. In five markets, the total share attributable to adjacent market stations is 25% or more of the total viewing.
- As the number of local market television stations decreases, the average adjacent market share generally increases.

Without acknowledging these out-of-market listening and viewing options, regulators will be underestimating the choices available to the public and most likely overestimating the impact that any proposed combination of stations will have in the marketplace.

OUT-OF-MARKET LISTENING AND VIEWING:

IT'S NOT TO BE OVERLOOKED

Introduction

The challenges facing regulators and other analysts of radio and television mergers are considerable. To evaluate the impact of proposed combinations, regulators and analysts seek to define the relevant geographic market and determine which stations are competing in those markets. Complicating this process for broadcasting acquisitions is the simple fact that radio and television signals do not stop at predefined geographic boundaries that some third party determines as the outer edges of a market. Instead, those signals extend into many different areas.

Similarly, there are other radio and television signals that enter into markets from stations located far away. These signals may come in via over-the-air transmission, and with television may also come in via cable or satellite delivery of distantly located stations. Whatever the means, the "importation" of out-of-market stations can, and does, complicate the delineation of those stations that compete in a market. Included among these "imported" stations for radio markets are radio stations that are listed as "home" to a different market even though they are physically located in the geographic market at issue for a proposed transaction.

The purpose of this paper is to document the extent of this out-of-market listening and viewing throughout the country in markets of all sizes. Such listening and viewing is very significant as the Federal Communications Commission (FCC) and other governmental agencies evaluate the impact of proposed combinations of radio and television stations. Without acknowledging these out-of-market listening and

viewing options, regulators will be underestimating the choices available to the public and most likely overestimating the impact that any proposed combination of stations will have in the marketplace. And, while there is noticeable out-of-market listening and viewing in markets of all sizes, it is most prevalent in smaller markets. Consequently, the underestimating of choices available to the public and the overestimating of a potential combination's impact will be most pronounced in these situations.

We will first review the methods by which the leading audience research firms delineate their markets and how they assign stations to those markets. With an understanding of these parameters, we can better understand the current impact of out-of-market stations. We then provide data demonstrating the level of listening and viewing to these out-of-market stations. We will also identify a number of situations in the radio industry where a radio station is listed as home to a market while it is physically located in another market. Finally, we provide a historical perspective of the amount of viewing going to in-market, over-the-air television stations and conversely to other video programming sources. After identifying the extent of the listening and viewing to out-of-market broadcast stations, one will easily see that the average consumer has many more choices available than just the stations assigned by audience research firms to his or her local market.

Audience Survey Firms' Definition of Geographic Markets

Radio – The Arbitron Ratings Company

Definition of Radio Markets

There are presently 286 radio markets for which Arbitron generates radio listening audience estimates. Over time, the number of these markets changes as Arbitron "creates" new markets and stops surveying existing markets. An "Arbitron Radio Market can be composed of up to three geographic areas: the Metro Survey Areas (Metro), the Total Survey Area (TSA), and the Designated Market Area (DMA®)."[1] While estimates for audiences are often supplied for all three areas, the most commonly used estimates are those for the Metro area. Stations that are listed as "home" to a particular market are those listed as home to the Metro area. These Metro areas generally correspond to the federal government's metropolitan areas, but "a radio Metro may deviate from its respective OMB definition due to topographical, sampling, or *other considerations*."[2] (emphasis added).

In other words, Arbitron's Metro areas may include additional counties or exclude relevant counties, and thus exclude competitive radio stations, due to other considerations that may or may not be reflective of actual radio station competition. Furthermore, changes to the existing boundaries of Metro areas are not easily made as Arbitron now has a policy that for any change in market definition to occur, at least three-quarters of the subscribing station owners in that market must agree to that change. In other words, even if an objective study of listening patterns suggest changes to a radio market

---

1 See Description of Methodology, page M3, *Arbitron Market Report*.

2 Ibid.

boundary, these changes will not necessarily occur given the need to obtain the consent of three-quarters of the subscribing station owners.

The size of these Metro areas can vary significantly, both in terms of square miles and the number of counties. Of the 286 Arbitron Metro areas, 89 are Metro areas with only one county. At the other extreme, there are two Arbitron Metros with 20 counties each within their borders. The range of geographic size is also quite dramatic with one market being only 226 square miles (Trenton, NJ) while another market is almost 27,000 square miles (Flagstaff-Prescott, AZ).

Listing of Stations as "Home to Market"

Stations that are physically located within the boundaries of a particular Metro are listed as home to that market. However, stations that are not physically located within those geographic boundaries can request home status so long as they meet minimum reporting standards.[3] Requesting a different "home market" often occurs when stations are either not in any Arbitron market or are in a market of smaller rank. Other stations also meeting minimum reporting standards for a particular market, but which did not request home status, are classified as out-of-market stations.

[3] Ibid., p. M4. These minimum reporting standards are based on the number of diaries that mention a particular station and a market wide cume (the number of different persons who listened to a station for a minimum of five minutes during the week) minimum.

Television – Nielsen Media Research

The television market, the Designated Market Area (DMA), is defined by Nielsen based upon an objective viewing standard. All counties in the contiguous forty-eight states are assigned to one and only one DMA.[4] There are counties that are switched between different DMAs depending upon changes in viewing habits.

The viewing used to assign counties to specific markets can occur from over-the-air transmission as well as cable carriage of stations located far away from the viewing. For example, there are several counties assigned to the Denver DMA that are located hundreds of miles away from the city of Denver.

Extent of Out-of-Market Listening

Given the boundaries of the Arbitron defined radio Metro areas, we can evaluate the significance of the "importation" of stations designated as being outside of the area, i.e., home to another market. These Arbitron markets will actually include stations that are not physically located in any of the counties in those markets.

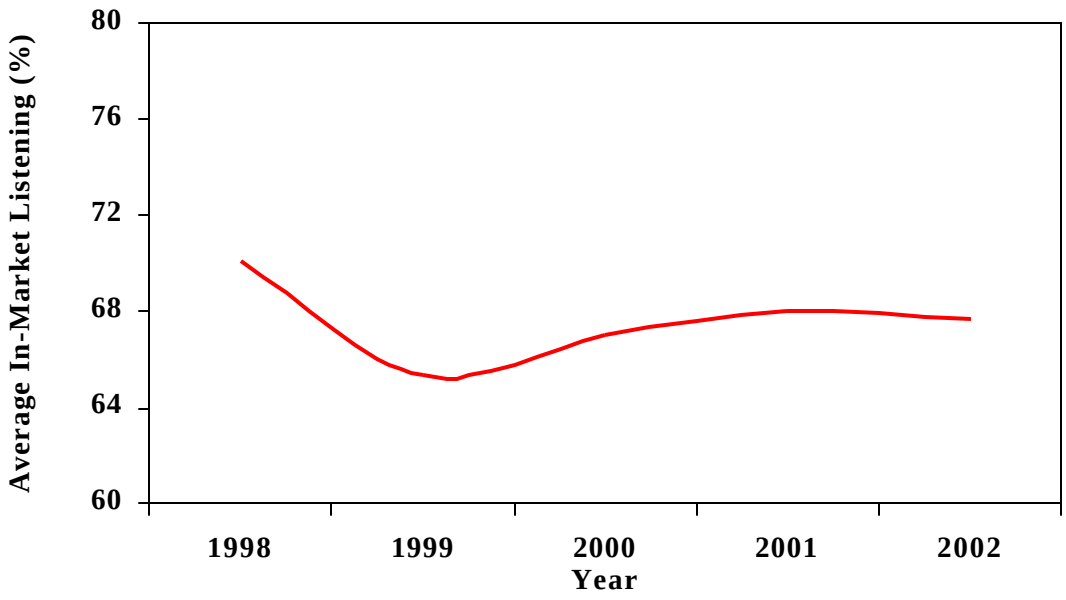
Levels of In-Market Listening Shares

To gauge the level of out-of-market listening, we first determined the level of listening from stations that are "home" to the defined markets. The shares of all the individual stations that are "home" to each market are summed to determine the amount of in-market listening using the Spring survey data

[4] There are several cases where a county is split and the different parts of these counties are assigned to different DMAs. Still, in no case is a portion of one county assigned to more than one DMA.

over the past five years.[5] For the average market, the level of in-market listening is 67.7% for Spring 2002. In other words, nearly a third of the measured listening is attributable to out-of-market commercial stations, local public stations, and lost listening (e.g., unidentifiable calls). This average level of in-market share totals is 2.5% lower than the corresponding level for 1998. Figure 1 shows the national average over the past five years.

Figure 1
National Averages of In-Market Listening, 1998-2002

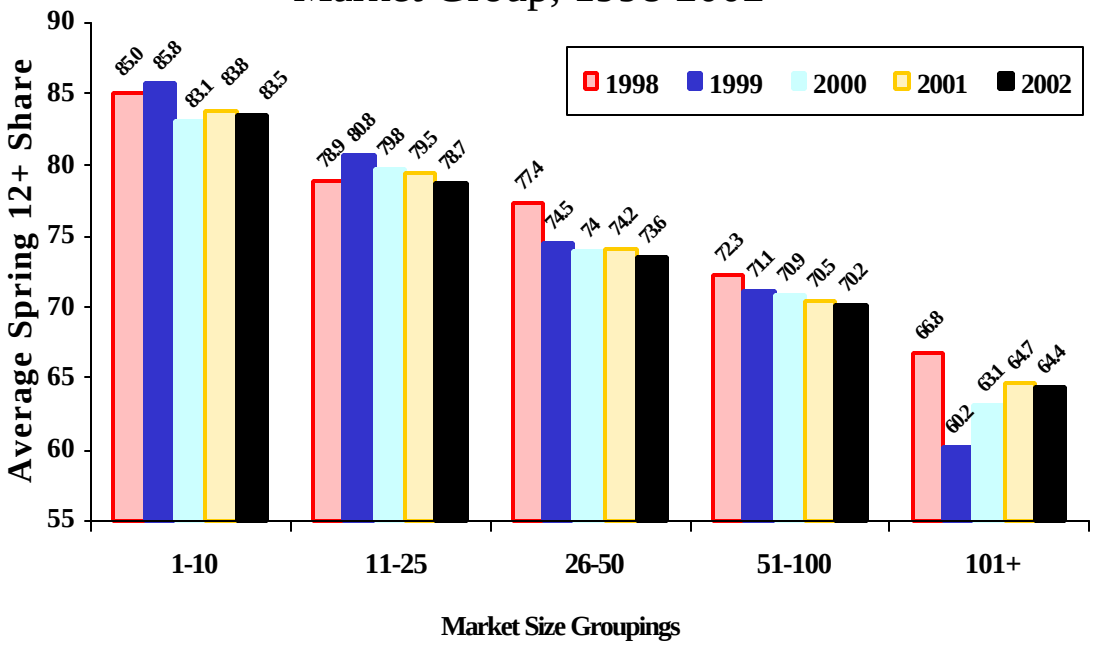


[5] The data presented in this study only uses 282 markets and does not include Puerto Rico or any of the three new markets, Olean, NY, Muncie-Marion, IN and Victor Valley, CA, introduced by Arbitron in the Fall of 2002.

In general, the levels of in-market listening are highest in the largest Arbitron markets. There are also high levels of in-market listening in markets that are not adjacent to or close in proximity to another Arbitron market. As mentioned above, these "home" market stations can include "imported" stations (i.e., stations that are physically located in another market but have requested home status from Arbitron). The extent to which that impacts the amount of home market listening in a given market will be discussed in the next section.

As shown in Figure 2, as the market size decreases, so does the amount of in-market listening. Figure 2 also shows the average levels of in-market listening per market group using the Spring 12+ shares over the past five years. While the levels have fluctuated somewhat during that time period, generally speaking, the amount of in-market listening has gone down for all markets.

Figure 2
Average Amount of Home Market Listening per Market Group, 1998-2002



In the smaller markets, market groups 101 and higher, only 64.4% of the listening came from stations listed as "home" to that market in Spring of 2002 compared to 83.5% in markets ranked 1-10.[6]

In other words, there is more competition from outside the market in the smallest markets compared to the larger Arbitron markets. The extent to which these out-of-market shares come from stations truly "home" to the Arbitron market, (i.e., physically lie within the market), or come from stations that are actually "imported" into the market, will be discussed in the next section.

[6] In some of these markets the "home" listening is substantially lower than the average. For example, in Ann Arbor, MI (market rank=146) only 10.4% of the listening goes to stations home to that market. In Daytona Beach, FL (market rank=94) the corresponding value is 23.0%.

Number of Out-of-Market Stations Generating Shares

To further evaluate which "out-of-market" stations receive reportable listening shares, we examined the physical location of these stations. Of the markets used in this analysis, 229 of them, 81.2%, had stations that are "petitioned imported" stations into the market. We define a "petitioned imported" station as a station that is either 1) physically located in one Arbitron market and petitions Arbitron to be listed as "home" to another market,[7] or 2) a station that does not physically lie within any Arbitron market, and receives a high enough share to be placed or moved into the market upon request. Table 1 shows the average number of stations and their average listening share per market size for each type of imported station.

Table 1: Average Number of "Imported" Stations and their Average 2002 12+ Share

	CHANGED HOME MARKET		LIE OUTSIDE ANY ARBITRON METRO		ALL "PETITIONED IMPORTED" STATIONS	
Market Rank	Avg. # of Stations	Avg. 12+ Share Total	Avg. # of Stations	Avg. 12+ Share	Avg. # of Stations	Avg. 12+ Share Total
1-10	1.0	0.9	1.8	1.2	2.8	2.1
11-25	0.5	1.8	3.4	3.7	3.9	5.5
26-50	0.5	5.2	4.6	8.4	5.1	13.6
51-100	0.8	2.5	4.2	6.8	5.0	9.3
101+	1.3	2.8	3.6	10.0	4.9	12.8

[7] There were some cases where we could not completely document this situation. This occurred in markets that were imbedded in another market or had several imbedded markets within its boundaries. There were 12 markets in which this situation occurred.

For example, in markets above 101, there were 4.9 stations, on average, located outside the Arbitron Metro area that received enough listening to meet minimum reporting standards. Collectively, those 4.9 stations garner, on average, 12.8% of all the listening. Of those 4.9 stations, 1.3 stations (receiving 2.8% of the listening) are physically located in the market but have petitioned Arbitron to be listed as home to another market. Likewise, in that same market size range, 3.6 stations (with 10.0% of the listening), on average, are stations not physically located in any Arbitron market, and have petitioned Arbitron to be home to that market.

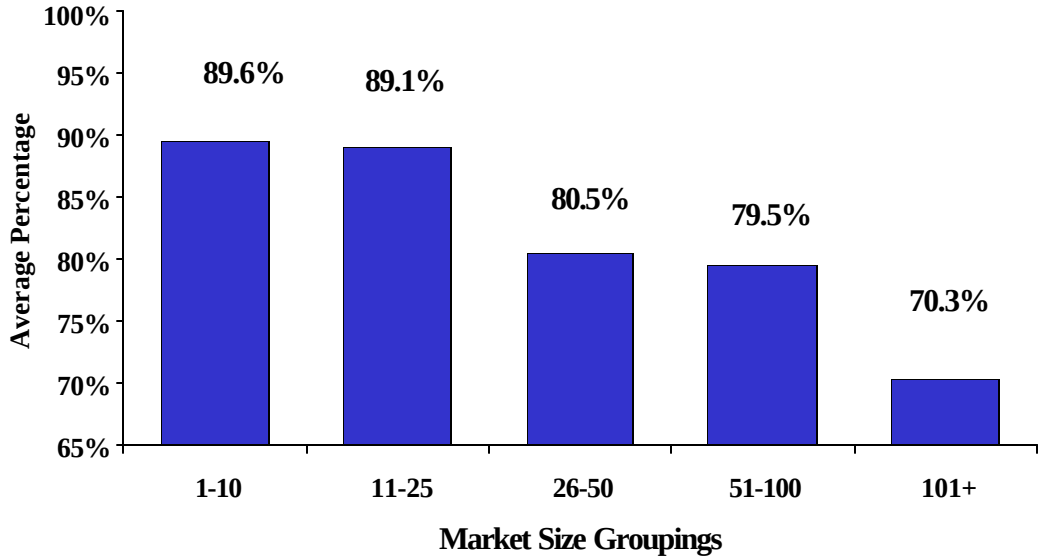
These market size averages underestimate the impact that out-of-market stations have because, in calculating the averages, we included markets where there are no out-of-market stations. In some markets, there are out-of-market stations collectively garnering more share than in-market stations. For example, in the Portsmouth radio market (rank =116), there are 29 out-of-market stations attracting 56.5% of the listening audience in the Portsmouth market.

As seen in the table above, the impact of stations physically located outside any Arbitron metro is very significant in evaluating the competitive landscape in many Arbitron metros. There are 204 markets in which a station not listed as "home" to any Arbitron market receives a sufficiently high share in the market to be considered an in-market station. As evident in Table 1, these instances may occur more frequently than stations changing from one market to another, although they do not, on average, generate shares comparable to the stations that are located in one market but request to be listed as home to another market. In markets 101+, the average share per market begins to be substantial on a per station basis, and collectively they play an important role in increasing the diversity of programming available to listeners in those markets.

Listening to In-Market Stations from Listeners Outside the Market

The evaluation of the out-of-market listening is not complete by just analyzing the stations and the listening within defined Arbitron markets because stations' signals can extend well beyond the defined Metro markets into neighboring counties. These Metro-located stations are providing additional choices to these outside market communities, whether they are part of other Arbitron Metros or not. Arbitron accounts for this larger listening area by expanding the survey area beyond the defined Metro, referred to as the Total Survey Area (TSA). Figure 3 shows the average percentage of listening within the Total Survey Area that originates in the Metro area.

Figure 3
Average Percentage of Listening w/n Total Survey Area Originating in Metro Area



In the larger markets, out-of-Metro listening to in-market stations is not as prevalent as in the smaller markets. Stations located within the Metros of markets 26-50 and 51-100 both have around 80%, on average, of their listening originating within the Metro area. In contrast, only 70.3% of the listening to these Metro-located stations in markets 101+ comes from within the Metro areas, with nearly one-third coming from persons located outside the Metro area.

Here again, there are some markets that vary far from these averages. For example, in the Fresno, CA market (market rank = 68), only 58.1% of the listening to stations listed as home to that market actually occurs in the Metro area. Even in the large market of Cleveland, OH (market rank = 25), only 75.6% of the total TSA listening occurs in the Metro area, with nearly a quarter of the listening to Metro-located stations attributable to out-of-Metro listeners.

Extent of Out-of-Market Viewing of Television Stations

Turning to television, the extent of importation of out-of-market stations is not as significant as in radio, partly because television markets generally are larger. Yet, in some markets, out-of-market television stations receive significant amounts of viewing.

Listing of Markets

In May of 2002, there were 67 DMAs in which adjacent market stations received enough viewing to meet minimum reporting standards.[8] The listing of these markets, along with the amount of out-of-market viewing per market is listed in Table 2, ranked in descending order of adjacent market total viewing share.

[8] Source: BIAfn MEDIA Access Pro™.

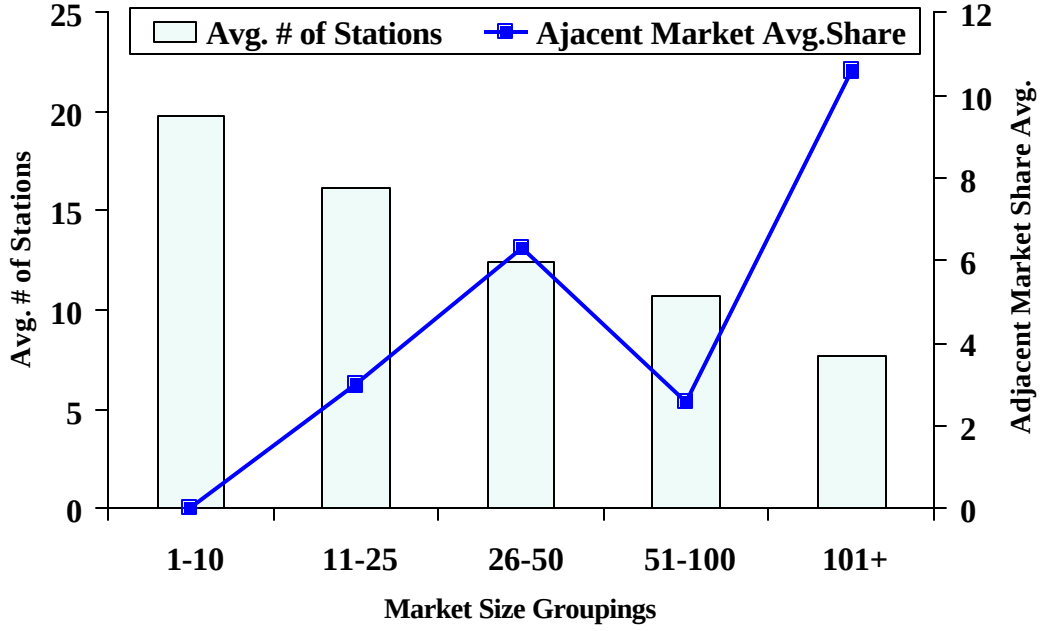
TABLE 2: May 2002 Total Day Share of Adjacent Market Stations

RANK	MARKET	MAY 2002 TOTAL DAY SHARE	RANK	MARKET	MAY 2002 TOTAL DAY SHARE
189	Lafayette, IN	35.0	167	Utica, NY	7.0
199	Mankato, MN	33.0	168	Hattiesburg-Laurel, MS	7.0
202	Zanesville, OH	27.0	173	Elmira, NY	7.0
193	St. Joseph, MO	26.0	109	Tyler-Longview, TX	6.0
178	Harrisonburg, VA	25.0	119	Santa Barbara-Santa Maria-San Luis Obispo,	6.0
201	Bend, OR	21.0	179	Alexandria, LA	6.0
188	Parkersburg, WV	20.0	107	Tallahassee, FL-Thomasville, GA	5.0
197	Cheyenne, WY-Scottsbluff, NE	18.0	148	Albany, GA	5.0
210	Glendive, MT	18.0	152	Rochester, MN-Mason City, IA-Austin, MN	5.0
106	Springfield-Holyoke, MA	17.0	166	Clarksburg-Weston, WV	5.0
198	Ottumwa, IA-Kirksville, MO	17.0	85	Chattanooga, TN	4.0
204	Victoria, TX	17.0	120	Monterey-Salinas, CA	4.0
183	Jackson, TN	16.0	122	Macon, GA	4.0
157	Biloxi-Gulfport, MS	15.0	24	Baltimore, MD	3.0
208	Alpena, MI	15.0	35	Greenville-Spartanburg, SC-Asheville, NC	3.0
48	Providence, RI-New Bedford, MA	14.0	94	Colorado Springs-Pueblo, CO	3.0
150	Wheeling, WV- Steubenville, OH	14.0	134	Wausau-Rhinelander, WI	3.0
162	Gainesville, FL	14.0	137	Beaumont-Port Arthur, TX	3.0
174	Lake Charles, LA	14.0	164	Quincy, IL-Hannibal, MO-Keokuk, IA	3.0
186	Charlottesville, VA	14.0	176	Watertown, NY	3.0
160	Sherman, TX - Ada, OK	13.0	177	Marquette, MI	3.0
151	Salisbury, MD	12.0	184	Grand Junction-Montrose, CO	3.0
159	Panama City, FL	11.0	200	Casper-Riverton, WY	3.0
161	Palm Springs, CA	11.0	207	Helena, MT	3.0
180	Bowling Green, KY	11.0	39	West Palm Beach-Ft. Pierce, FL	2.0
181	Jonesboro, AR	11.0	64	Flint-Saginaw-Bay City, MI	2.0
194	Lima, OH	11.0	92	Davenport, IA-Rock Island-Moline, IL	2.0
209	North Platte, NE	11.0	96	Johnstown-Altoona, PA	2.0
205	Presque Isle, ME	10.0	108	Ft. Smith-Fayetteville-Springdale-Rogers, A	2.0
171	Dothan, AL	9.0	111	Lansing, MI	2.0
125	Lafayette, LA	8.0	146	Terre Haute, IN	2.0
102	Lincoln-Hastings-Kearney, NE	7.0	172	Yuma, AZ-El Centro, CA	2.0
110	Florence-Myrtle Beach, SC	7.0	192	Laredo, TX	2.0
126	Columbus, GA	7.0			

Clearly, many small markets have considerable viewing going to adjacent market television stations. For example, over a third of the viewing in both Lafayette, IN and Mankato, MN is to over-the-air television stations in adjacent markets. This viewing of out-of-market, over-the-air television stations is significant because it raises the number of stations providing programming to consumers in local markets.

Figure 4 drives home this point by showing the average number of over-the-air local television stations present in various market size ranges along with the average amount of adjacent market viewing. As the number of local market stations decreases, the average adjacent market share generally increases. In the larger markets, there is very little out-of-market viewing because of the large number of stations located within the market. In the smaller markets, where there are fewer stations, more viewers "import" these out-of-market stations.

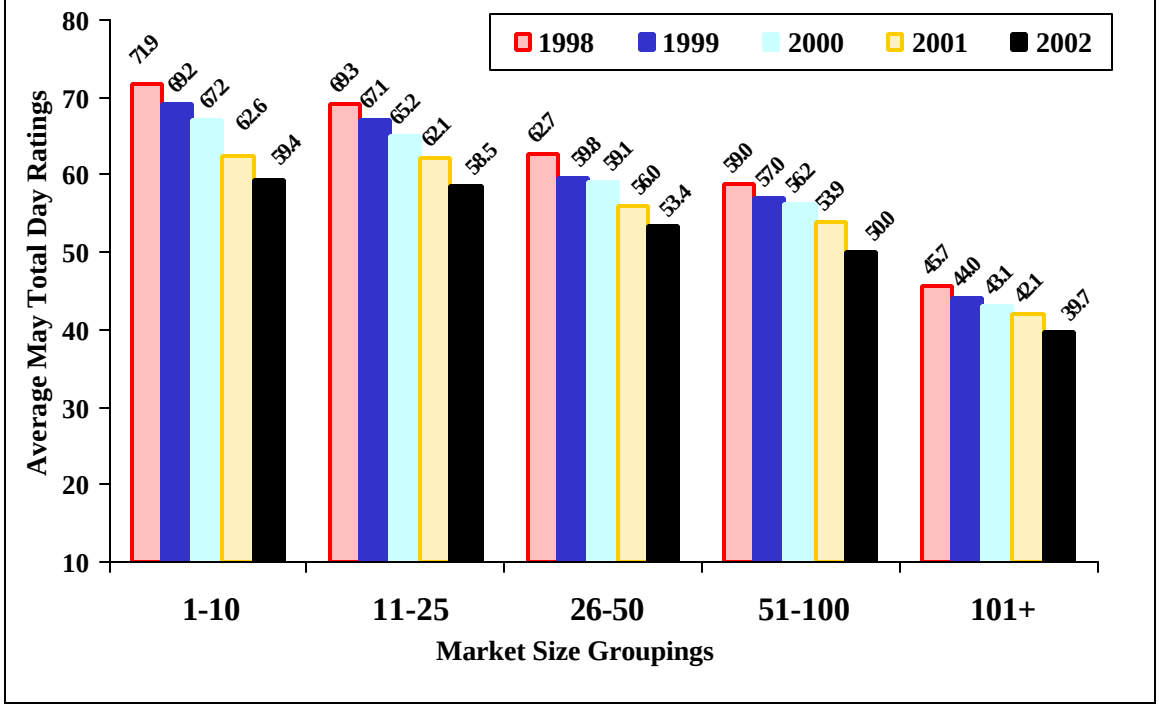
Figure 4
Average Number of Television Stations per Market and the Amount of Adjacent Market Viewing Present in the Market



Local Market Viewing

Another indication of the increased number of choices available to local audiences is the decreasing audience shares attributable to local television stations. With the increased number of cable channels now available, as well as adjacent and other market television stations carried on cable systems, the viewing of in-market television stations has steadily decreased over the last five years, declining 17%. Figure 5 shows the decline in local market viewing over the past five years.

Figure 5
Average Amount of Local Market Viewing, 1998-2002



As it stands today, on average, no more than 60% of the total viewing in any market grouping goes to local broadcast stations. In fact, in the smallest markets, less than two-fifths (39.7%) of the markets' total day viewing is attributable to local over-the-air television stations.

Conclusion

To determine the impact of proposed acquisitions in the broadcasting industry, the FCC needs to evaluate the number and types of stations available to the local communities affected. While the listing of stations located in pre-determined geographic markets is a helpful start in that evaluation, it is truly only a start. There are a considerable number of stations, both in radio and in television, that are not listed as being located within the geographic confines of those markets yet provide service to them.

Moreover, there are many cases in the radio industry where stations provide additional services to a particular geographic area in which they are physically located but are *not* counted by Arbitron as a local competitor.

By not acknowledging all of these "out-of-market" stations, the FCC or any other analyst may be seriously undercounting the level of service being offered in any particular area. This undercounting may be most significant in the smaller markets, where there may be relatively few "home" market stations. Consequently, the FCC may err when not permitting a proposed broadcast acquisition due to diversity or competition concerns even though there may be sufficient services being provided.

ATTACHMENT B

Table 1 – Comparison of Radio Markets with Selected TV Markets

	Number of Counties		Population Within		% Missed
Market	**Radio**	**TV**	**Radio**	**TV**	**Radio Pop.**
New York, NY	25	29	19,878,500	20,302,300	2.1%
Boston, MA	11	16	5,911,200	6,111,600	3.4%
Detroit, MI	8	9	4,940,600	4,985,500	0.9%
Houston-Galveston, TX	8	19	4,740,000	5,080,800	7.2%
Phoenix, AZ	3	11	3,433,200	4,009,080	16.8%
Miami-Ft. Lauderdale-Hollywood, FL	2	3	3,927,700	4,007,400	2.0%
Pittsburgh, PA	8	16	2,495,800	2,899,200	16.2%
Indianapolis, IN	8	32	1,490,900	2,602,700	74.6%
San Diego, CA	1	1	2,837,500	2,837,500	0.0%
Nashville, TN	14	47	1,572,200	2,265,000	44.1%
Kansas City, MO-KS	10	29	1,771,500	2,184,500	23.3%
Salt Lake City - Ogden, UT	11	40	1,929,500	2,430,400	26.0%
West Palm Beach-Boca Raton, FL	4	5	1,590,600	1,627,000	2.3%
Oklahoma City, OK	6	34	1,092,600	1,630,700	49.2%
Louisville, KY	8	28	1,065,400	1,549,800	45.5%
Las Vegas, NV	1	3	1,423,300	1,461,100	2.7%
Little Rock, AR	4	37	589,200	1,359,500	130.7%
Lexington-Fayette, KY	7	39	484,800	1,152,500	137.7%
Wichita, KS	3	65	549,800	1,175,400	113.8%
Ft. Myers-Naples-Marco Island, FL	2	6	707,600	932,100	31.7%
Des Moines, IA	4	35	541,200	1,021,900	88.8%
Portland, ME	4	11	676,600	947,400	40.0%
Rochester, NY	5	6	1,040,400	1,065,200	2.4%
Omaha - Council Bluffs, NE-IA	4	26	698,200	1,007,900	44.4%
Syracuse, NY	4	8	746,100	997,763	33.7%
Chattanooga, TN	6	17	479,900	868,000	80.9%
Madison, WI	4	11	556,600	874,300	57.1%
Burlington, VT-Plattsburgh, NY	6	17	355,100	823,600	131.9%
Baton Rouge, LA	4	13	608,500	812,800	33.6%
McAllen-Brownsville-Harlingen, TX	2	4	924,300	999,200	8.1%
El Paso, TX	1	4	686,200	870,100	26.8%
Springfield, MA	2	3	608,900	680,500	11.8%
Lansing-East Lansing, MI	3	5	448,900	654,800	45.9%
Reno, NV	3	15	513,400	624,126	56.3%
Boise, ID	2	13	442,500	588,500	33.0%
Duluth, MN - Superior, WI	2	13	165,400	439,500	165.7%
Beaumont-Port Arthur, TX	3	6	386,900	459,200	18.7%
Medford-Ashland, OR	1	7	183,900	407,300	121.5%
Terre Haute, IN	5	15	188,400	395,500	109.9%
Wheeling, WV	3	11	152,800	356,500	133.3%
Billings, MT	1	18	130,500	253,500	94.3%
Rapid City, SD	2	22	113,500	243,300	114.4%
Meridian, MS	1	7	78,400	188,500	140.4%
Lafayette, IN	1	2	150,300	159,700	6.3%
Casper, WY	1	5	66,900	128,200	91.6%

Table 2 – Comparison of the Number of Radio Stations in Arbitron Metros and Nielsen DMAs

Market	Within Metros	Within DMA
New York, NY	150	158
Boston, MA	114	135
Detroit, MI	53	57
Houston-Galveston, TX	54	76
Phoenix, AZ	80	122
Miami-Ft. Lauderdale-Hollywood, FL	45	63
Pittsburgh, PA	63	83
Indianapolis, IN	34	86
San Diego, CA	43	49
Nashville, TN	73	137
Kansas City, MO-KS	38	69
Salt Lake City - Ogden, UT	47	107
West Palm Beach-Boca Raton, FL	43	44
Oklahoma City, OK	32	79
Louisville, KY	37	72
Las Vegas, NV	31	34
Little Rock, AR	37	116
Lexington-Fayette, KY	31	102
Wichita, KS	26	101
Ft. Myers-Naples-Marco Island, FL	36	40
Des Moines, IA	25	71
Portland, ME	40	65
Rochester, NY	32	32
Omaha - Council Bluffs, NE-IA	22	44
Syracuse, NY	43	49
Chattanooga, TN	30	59
Madison, WI	30	41
Burlington, VT-Plattsburgh, NY	28	80
Baton Rouge, LA	20	28
McAllen-Brownsville-Harlingen, TX	25	27
El Paso, TX	32	45
Springfield, MA	18	23
Lansing-East Lansing, MI	17	25
Reno, NV	27	40
Boise, ID	26	36
Duluth, MN - Superior, WI	18	54
Beaumont-Port Arthur, TX	20	25
Medford-Ashland, OR	17	43
Terre Haute, IN	20	36
Wheeling, WV	15	25
Billings, MT	18	35
Rapid City, SD	16	31
Meridian, MS	15	24
Lafayette, IN	7	7
Casper, WY	12	24

ATTACHMENT C

The Declining Financial Position of

Television Stations in Medium and Small Markets

Prepared by:

Theresa J. Ottina

Director, Research & Analysis

National Association of Broadcasters

Research & Planning Department

December 2002

The Declining Financial Position of Television Stations in Medium and Small Markets

Introduction

The television duopoly rule currently allows common ownership of two television stations in a Designated Market Area ("DMA") where eight independently owned, full power television stations will remain in the DMA post-merger, and at least one of the stations is not among the top four ranked stations in the market. This "eight voice" standard effectively prevents the formation of even a single duopoly in medium and smaller markets. The Federal Communications Commission in 1999 determined to limit strictly the ability of television licensees to form duopolies to ensure a diversity of voices. But given the current competitive conditions in local media markets, a relaxation of this rule to permit co-ownership of television stations in smaller markets would provide needed financial relief to television broadcasters, and allow television stations to compete more effectively with cable operators and other multichannel video programming distributors.

Methodology

To illustrate the current financial position of stations in medium and small DMAs, an examination of the profitability of television stations in markets 51-175 was conducted. This data was compiled from the NAB/BCFM Television Financial Survey for the data years 1993, 1997, and 2001. This survey, conducted annually by the National Association of Broadcasters in conjunction with the accounting firm Hungerford, Aldrin, Nichols & Carter P.C., requests revenue and expense information from all commercial television stations. The response rates for each of the years examined are as follows: 1993 data: 69.5%; 1997 data: 70.0%; 2001 data: 64.0%.

For the cash flow and pre-tax profit line items, data were used for markets only where both the highest rated and the lowest rated affiliated stations[1] participated in the survey. The table below displays the number of markets included in each market-size grouping.

Table 1

Number of Markets

	Number of Markets Included		
Market Size	**1993**	**1997**	**2001**
51-75	20	21	18
76-100	18	16	15
101-125	16	15	13
126-150	17	15	14
151-175	18	16	10

Please note, for the network compensation and news expense line items, all affiliated stations are included in the analysis.

[1] Includes ABC, CBS, FOX and NBC affiliated stations. We chose to look at affiliated stations because, particularly in smaller markets, stations not affiliated with the four leading networks are much less likely to provide regular local news programs.

Analysis

A review of television station profitability in smaller markets reveals that profit margins are already at risk today, especially for the lower rated affiliated stations. It is clear that these stations show not only *declining* profitability in the years examined, but also are now at a stage where the average low rated station shows *negative* profitability. Declining network compensation coupled with increasing news expenses adds to the tenuous financial situation of these small market stations.

To demonstrate this, the following section contains an analysis of the average cash flow[2], pre-tax profits[3], network compensation and news expense[4] in market sizes 51-75, 76-100, 101-125, 126-150, and 151-175. Please note, due to an insufficient number of markets with data on the highest and lowest rated stations, averages for the 176+ market size grouping are excluded from this analysis.

[2] Cash flow is defined as net revenues minus total expenses.
[3] Pre-tax profits is defined as cash flow minus depreciation & amortization & interest.
[4] Network compensation and news expense include average numbers for *all* affiliate stations (ABC, CBS, FOX, and NBC) in the market-size grouping. They are not broken out by average high and average low rated stations.

Markets 51-75: 1993-2001

While the highest rated stations experienced a 13% increase in cash flow between the years 1993-2001, the lowest rated stations saw their cash flow decrease by one-third. In examining the pre-tax profits, the profitability of the average highest rated affiliate station remained flat, while the lowest rated affiliate station experienced a decrease in profitability by 124%, showing an average loss of $269,865 in 2001.

Although network compensation increased by 7% between 1993-2001, between 1997-2001 there was a 33% decrease in this revenue source. Additionally, news expenses increased by 71% for the average affiliate station between 1993-2001 (see Table 2).

Table 2

Markets 51-75

	Cash Flow		***Pre-Tax Profit***		***Network Compensation***	***News Expense***
Year	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: All Affiliate Stations**	**Average: All Affiliate Stations**
1993	$5,577,011	$2,928,620	$3,347,311	$1,115,709	$466,639	$1,292,613
1997	$7,446,263	$3,606,818	$5,527,154	$1,275,170	$741,660	$2,143,301
2001	$6,312,692	$1,940,512	$3,340,566	$(269,865)	$498,233	$2,214,057
% Change	*13%*	*-34%*	*-0.2%*	*-124%*	*7%*	*71%*

Markets 76-100: 1993-2001

The highest rated stations experienced a 21% increase in cash flow between the years 1993-2001, and the lowest rated stations saw their cash flow increase by 48%. However, in examining the pre-tax profits, the profitability of the average highest rated affiliate station decreased by 83%, while the lowest rated affiliate station experienced a decrease in profitability of 320%, showing an average loss of $770,915 in 2001.

Although network compensation increased by 55% between 1993-2001, between 1997-2001 there was a 13% decrease in this revenue source. Additionally, news expenses increased by 104% for the average affiliate station between 1993-2001 (see Table 3).

Table 3

Markets 76-100

	Cash Flow		***Pre-Tax Profits***		***Network Compensation***	***News Expense***
Year	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: All Affiliate Stations**	**Average: All Affiliate Stations**
1993	$3,734,721	$1,239,820	$2,045,673	$350,983	$338,175	$901,694
1997	$5,196,269	$2,002,674	$1,604,544	($177,509)	$602,945	$1,318,438
2001	$4,501,747	$1,837,445	$349,123	($770,915)	$523,930	$1,838,865
% Change	*21%*	*48%*	*-83%*	*-320%*	*55%*	*104%*

Markets 101-125: 1993-2001

While the highest rated stations experienced a 42% increase in cash flow between the years 1993-2001, the lowest rated stations saw their cash flow decrease by 42%. In examining the pre-tax profits, the profitability of the average highest rated affiliate station increased by 78%, while the lowest rated affiliate station experienced a decrease in profitability of 581%, showing an average loss of $254,234 in 2001.

Although network compensation increased by 11% between 1993-2001, between 1997-2001 there was a 22% decrease in this revenue source. Additionally, news expenses increased by 58% for the average affiliate station between 1993-2001 (see Table 4).

Table 4

Markets 101-125

	Cash Flow		***Pre-Tax Profits***		***Network Compensation***	***News Expense***
Year	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: All Affiliate Stations**	**Average: All Affiliate Stations**
1993	$2,808,893	$898,394	$164,115	($37,326)	$324,683	$708,426
1997	$4,282,359	$1,378,834	$1,397,684	$570,936	$458,650	$909,901
2001	$3,981,049	$523,806	$292,545	($254,234)	$359,843	$1,120,541
% Change	*42%*	*-42%*	*78%*	*-581%*	*11%*	*58%*

Markets 126-150: 1993-2001

The highest rated stations experienced a 9% increase in cash flow between the years 1993-2001 and the lowest rated stations saw an increase of 173%. However, in examining the pre-tax profits, the profitability of the average highest rated affiliate station experienced a 7% decrease, while the lowest rated affiliate station experienced a decrease in profitability of 301%, showing an average loss of $1,432,339 in 2001.

Although network compensation increased by 21% between 1993-2001, between 1997-2001 there was a 20% decrease in this revenue source. Additionally, news expenses increased by 56% for the average affiliate station between 1993-2001 (see Table 5).

Table 5

Markets 126-150

	Cash Flow		***Pre-Tax Profit***		***Network Compensation***	***News Expense***
Year	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: All Affiliate Stations**	**Average: All Affiliate Stations**
1993	$2,252,511	$169,042	$1,070,902	($357,084)	$310,482	$528,591
1997	$2,350,371	$800,912	$1,427,403	$206,147	$470,707	$719,187
2001	$2,448,103	$461,252	$999,599	($1,432,339)	$374,274	$824,752
% Change	*9%*	*173%*	*-7%*	*-301%*	*21%*	*56%*

Markets 151-175: 1993-2001

While the highest rated stations experienced a 57% increase in cash flow between the years 1993-2001, the lowest rated stations saw their cash flow decrease by over one-third (36%). In examining the pre-tax profits, the profitability of the average highest rated affiliate station experienced a 35% increase, while the lowest rated affiliate station experienced a decrease in profitability of 126%, showing an average loss of $92,917 in 2001.

Although network compensation increased by 5% between 1993-2001, between 1997-2001 there was a 37% decrease in this revenue source. Additionally, news expenses increased by 82% for the average affiliate station between 1993-2001 (see Table 6).

Table 6

Markets 151-175

	Cash Flow		***Pre-Tax Profits***		***Network Compensation***	***News Expense***
Year	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: High-Rated Station**	**Average: Low-Rated Station**	**Average: All Affiliate Stations**	**Average: All Affiliate Stations**
1993	$1,744,616	$634,619	$943,362	$352,106	$241,616	$405,818
1997	$2,134,991	$976,248	$519,551	$554,059	$404,826	$628,734
2001	$2,741,192	$403,303	$1,269,239	($92,917)	$253,636	$739,290
% Change	*57%*	*-36%*	*35%*	*-126%*	*5%*	*82%*

Conclusions

From the data presented in this report, it is clear that many television stations today in smaller markets are struggling to achieve profitability. The results of this study demonstrate a clear and consistent decline in the financial position of many smaller markets broadcasters over time. These financial pressures are particularly acute for smaller market stations that are not the top-rated station in their respective markets. Indeed, the average low-rated station for each market size grouping showed a negative profit in 2001. As this study demonstrates, a relaxation of the television duopoly rule to permit common ownership of two stations in smaller markets would provide needed financial relief for these struggling stations, thereby increasing the strength of local television.

ATTACHMENT D

SmithGeiger LLC

Newsroom Budgets in Midsize (51-100) and Small Markets (101-210)

Prepared for

December 2002

31365 Oak Crest Drive • Suite 150 • Westlake Village, CA 91361
(818) 707-3086 • (818) 707-9283 FAX • email@smithgeiger.com • www.smithgeiger.com

Introduction

The broadcast television industry has become increasingly competitive over the past 20 years. With the advent of the Fox network in the late 1980's, and the formation of both the WB and UPN broadcast networks in the 1990's, the number of local television news providers has increased from 33%-100% in some markets. Add to this the increased audience fragmentation brought about by the growth in both cable and satellite penetration, and it has never been more difficult for a local television station to attract an audience. This lack of audience leads to lower Nielsen ratings and lower advertising rates, bringing the station reduced revenues overall.

In this volatile revenue environment, the cost side of operating a television station is experiencing major changes as well. The prices for cameras and editing equipment are decreasing rapidly, even for the more advanced digital equipment. However, with the growth of news outlets in each market, the demand for qualified personnel is on the rise. This high level of demand is resulting in increased salary and benefits costs for television stations as they work to attract and retain skilled employees.

The net result of these changes in the broadcast industry is that the continuing profitability of a local television news operation is now highly uncertain. And starting a new local news operation is an even less attractive proposition. We estimate that the breakeven point for a startup local television news station in terms of profitability is at least five years into the future, with the recoup of initial investment perhaps taking even longer.

The goals of this project are to determine the startup and operating costs for local television news operations in both mid-size (market sizes 51-100) and smaller markets (sizes 101-210).[1]

Process

To create accurate estimates of the startup and operating costs of these news operations, we polled multiple television stations in each market range. Speaking directly with the general managers of these stations, we were able to create budgets for the "average" mid-size newsroom and the "average" small newsroom. We have taken pains to build budgets representing the mid-range of spending levels – not those newsrooms that are heavily invested or those that are financially starved, but those that are consistent, solid performers in their markets.

While the identities of those with whom we spoke must remain confidential, we can disclose that we spoke to a range of stations, varying by geography, network affiliation, and ownership.

[1] Market sizes are determined by Nielsen Media Research.

Results

The following budget is estimated within +/- 10% of an average news operation in market sizes 51-100. These estimates were derived by examining the news budgets of several stations within this market range and using these numbers to create a hybrid "average" budget. These figures represent the costs required to operate a local television news operation for a single calendar year.

MARKET SIZE 51-100

OPERATING BUDGET FOR NEWS OPERATION

Personnel		
Salary	$	2,960,000
Benefits	$	500,000
Personnel total:	$	3,460,000
Equipment and Operations		
Cameras	$	72,000
Accessories, routers, etc.	$	65,000
Vehicles	$	98,000
Satellite time	$	50,000
Computers	$	25,000
Furniture	$	25,000
Editors	$	100,000
Misc. operating costs	$	215,000
Equipment total:	$	650,000
Capital		
Space	$	100,000
Working capital	$	100,000
Insurance	$	80,000
Wiring and misc.	$	20,000
Capital total:	$	300,000
Production[2]	$	300,000
Engineering[3]	$	200,000
Promotions[4]	$	350,000
TOTAL ANNUAL BUDGET FOR NEWS OPERATION	$	5,260,000

[2]Approx. 35% of total production budget; includes directors, technical directors, studio camera operators, studio staff, prompter, etc. This is exclusive of other costs such as editing, graphics, art, makeup, lighting, set design, and local commercial production.

[3]Approx. 20% of total engineering budget; includes control room operators, etc. This is exclusive of other costs such as maintenance, videotape operations, transmitter operations, and field engineering.

[4]Approx. 50% of total promotions budget; includes personnel, radio buys, outdoor buys, etc.

The following budget is estimated within +/- 10% of the average startup costs for a news operation in market sizes 51-100. These estimates were derived by examining the news budgets of several stations within this market range and using these numbers to create a hybrid "average" startup budget. These figures represent the first-year startup costs required to launch a local television news operation.

MARKET SIZE 51-100

STARTUP COSTS FOR NEWS OPERATION

Personnel	
Salary	$ 2,960,000
Benefits	$ 500,000
Personnel total:	$ 3,460,000
Equipment and Operations	
Cameras	$ 200,000
Accessories, routers, etc.	$ 150,000
Vehicles	$ 490,000
Microwave and ku trucks	$ 400,000
Satellite time	$ 50,000
Computers	$ 80,000
Furniture	$ 50,000
Editors	$ 600,000
Parker vision system	$ 500,000
Misc. operating costs	$ 215,000
Equipment total:	$ 2,735,000
Capital	
Space	$ 1,000,000
Working capital	$ 100,000
Insurance	$ 80,000
Wiring and misc.	$ 100,000
Capital total:	$ 1,280,000
Production[5]	$ 300,000
Engineering[6]	$ 200,000
Promotions[7]	$ 350,000
TOTAL STARTUP COSTS IN FIRST YEAR	$ 8,225,000

[5]Approx. 35% of total production budget; includes directors, technical directors, studio camera operators, studio staff, prompter, etc. This is exclusive of other costs such as editing, graphics, art, makeup, lighting, set design, and local commercial production.

[6]Approx. 20% of total engineering budget; includes directors, control room operators, etc. This is exclusive of other costs such as maintenance, videotape operations, transmitter operations, and field engineering.

[7]Approx. 50% of total promotions budget; includes personnel, radio buys, outdoor buys, etc.

PERSONNEL AND EQUIPMENT

The personnel and equipment needs for a mid-size station (markets 51-100) break down as follows:

PERSONNEL	
News Director	1
Assistant News Director	1
Anchors	4
Reporters	8
Camera operators	4
Editors	2
Writers, assistants, secretaries	26

EQUIPMENT	
Cameras	9
Computers	40
Vehicles	14
Editing server	1
Microwave trucks	2
KU truck (or KU attachment to microwave truck)	1
Parker Vision system[8]	1

DISCOUNTED CASH FLOW ANALYSIS

To determine the attractiveness of a local television news operation to a new investor, we conducted a cash flow analysis of a start-up news operation, using the budget figures outlined above. To this end, we made the following assumptions:

- Variable revenue growth rate, beginning at 35% annually in years 1-5, eventually declining to 6% per annum in years 15+.
- All equipment was depreciated on a straight-line basis, assuming a 5 year useful life and $0 residual value in year 5.
- Corporate tax rate of 40%.
- Inflation of 3% annually, applied to all costs, salaries, and expenses.
- A discount rate of 10%.
- Interest expense has been excluded for simplicity.

The growth rates we have projected are fairly aggressive, as many television news operations are now experiencing annual growth rates in the low single digits. We have been especially aggressive in the first few years since the news operation will be growing from a very small initial base of revenue.

The discount rate in a case like this is difficult to determine, but we feel the 10% figure is quite conservative, particularly given the return many investors may expect from a television station and the inherent risk in the television business. By conducting a thorough sensitivity analysis, we determined that at higher discount rates (20% and above), starting a new television news operation

[8]A Parker Vision system is a relatively new piece of equipment incorporating many of the pre-set visual elements used in a newscast, such as 2-boxes, fades, wipes, etc. These systems are being adopted by local news operations in increasing numbers in order to improve efficiency.

becomes an increasingly unattractive proposition. (At these rates, the recoup of initial investment would take upwards of 20 years.)

As you can see in the following analysis, with the current assumptions, a television news operation of this size is projected to become cash flow positive in year 6. However, taking into account the time value of money, an investment of this type would not break even until year 14.[9] This is the time at which an investor would fully recoup her initial outlay from years 0 and 1. Although the project has a negative internal rate of return in year 10 (-11%), by year 20, the IRR is 6%. By year 30, the IRR increases slightly to 8%.

[9] Breakeven is defined as the year in which the project's net present value is 0.

SmithGeiger LLC

DISCOUNTED CASH FLOW ANALYSIS
MARKET SIZE 51-100

	Years 1-5	Years 6-8	Years 9-10	Years 11-12	Years 13-14	Years 15+
Growth rate	35%	20%	15%	10%	8%	6%
Discount rate	10%					
Inflation	3%					
Tax rate	40%					

COSTS	**YEAR 0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Salary	$ (100,000)	$ (3,563,800)	$ (3,670,714)	$ (3,780,835)	$ (3,894,260)	$ (4,011,088)	$ (4,131,421)	$ (4,255,364)	$ (4,383,024)	$ (4,514,515)	$ (4,649,951)
Equipment	$ (2,470,000)	$ (396,550)	$ (408,447)	$ (420,700)	$ (433,321)	$ (446,321)	$ (459,710)	$ (473,501)	$ (487,706)	$ (502,338)	$ (517,408)
Depreciation		$ (494,000)	$ (573,310)	$ (654,999)	$ (739,139)	$ (825,803)	$ (421,068)	$ (433,700)	$ (446,711)	$ (460,112)	$ (473,915)
Depreciation Tax Shield		$ 296,400	$ 343,986	$ 393,000	$ 443,484	$ 495,482	$ 252,641	$ 260,220	$ 268,026	$ 276,067	$ 284,349
Sat time and misc operating costs		$ (265,000)	$ (272,950)	$ (281,139)	$ (289,573)	$ (298,260)	$ (307,208)	$ (316,424)	$ (325,917)	$ (335,694)	$ (345,765)
Working capital	$	$ (103,000)	$ (106,090)	$ (109,273)	$ (112,551)	$ (115,927)	$ (119,405)	$ (122,987)	$ (126,677)	$ (130,477)	$ (134,392)
Capital Expenditures	$ (1,180,000)	$ (206,000)	$ (212,180)	$ (218,545)	$ (225,102)	$ (231,855)	$ (238,810)	$ (245,975)	$ (253,354)	$ (260,955)	$ (268,783)
Production	$ (300,000)	$ (309,000)	$ (318,270)	$ (327,818)	$ (337,653)	$ (347,782)	$ (358,216)	$ (368,962)	$ (380,031)	$ (391,432)	$ (403,175)
Engineering	$ (200,000)	$ (206,000)	$ (212,180)	$ (218,545)	$ (225,102)	$ (231,855)	$ (238,810)	$ (245,975)	$ (253,354)	$ (260,955)	$ (268,783)
Promotions	$ (350,000)	$ (360,500)	$ (371,315)	$ (382,454)	$ (393,928)	$ (405,746)	$ (417,918)	$ (430,456)	$ (443,370)	$ (456,671)	$ (470,371)
TOTAL COSTS	$ (4,600,000)	$ (5,113,450)	$ (5,228,160)	$ (5,346,310)	$ (5,468,006)	$ (5,593,352)	$ (6,018,858)	$ (6,199,424)	$ (6,385,407)	$ (6,576,969)	$ (6,774,278)
REVENUE	$	$ 2,622,632	$ 3,540,553	$ 4,779,746	$ 6,452,657	$ 8,711,087	$ 10,453,304	$ 12,543,965	$ 15,052,758	$ 17,310,672	$ 19,907,273
AFTER TAX REVENUE		$ 1,573,579	$ 2,124,332	$ 2,867,848	$ 3,871,594	$ 5,226,652	$ 6,271,983	$ 7,526,379	$ 9,031,655	$ 10,386,403	$ 11,944,364
CASH FLOW	$ (4,600,000)	$ (3,539,871)	$ (3,103,828)	$ (2,478,463)	$ (1,596,411)	$ (366,700)	$ 253,124	$ 1,326,955	$ 2,646,248	$ 3,809,434	$ 5,170,086
PRESENT VALUE OF CASH FLOW	$ (4,600,000)	$ (3,218,065)	$ (2,565,147)	$ (1,862,106)	$ (1,090,370)	$ (227,692)	$ 142,882	$ 680,938	$ 1,234,494	$ 1,615,572	$ 1,993,292

	10 YEARS OUT	**20 YEARS OUT**	**30 YEARS OUT**
NET PRESENT VALUE	$ (7,896,202)	$ 15,199,302	$ 34,762,154
ANNUALIZED NPV	($1,285,070)	$1,785,304	$3,687,543
INTERNAL RATE OF RETURN	-11%	6%	8%

The following budget is estimated within +/- 10% of an average news operation in market sizes 101-210. These estimates were derived by examining the news budgets of several stations within this market range and using these numbers to create a hybrid "average" budget. These figures represent the costs required to operate a local television news operation for a single calendar year.

MARKET SIZE 101-210

OPERATING BUDGET FOR NEWS OPERATION

Personnel		
Salary	$	750,000
Benefits	$	150,000
Personnel total:	$	900,000
Equipment and Operations		
Cameras	$	25,000
Accessories, routers, etc.	$	20,000
Vehicles	$	35,000
Satellite time	$	25,000
Computers	$	15,000
Furniture	$	10,000
Editors	$	50,000
Misc. operating costs	$	120,000
Equipment total:	$	300,000
Capital		
Space	$	80,000
Working capital	$	75,000
Insurance	$	55,000
Wiring and misc.	$	20,000
Capital total:	$	230,000
Production[10]	$	120,000
Engineering[11]	$	80,000
Promotions[12]	$	150,000
TOTAL ANNUAL BUDGET	$	1,780,000

[10]Approx. 35% of total production budget; includes directors, technical directors, studio camera operators, studio staff, prompter, etc. This is exclusive of other costs such as editing, graphics, art, makeup, lighting, set design, and local commercial production.

[11]Approx. 20% of total engineering budget; includes directors, control room operators, etc. This is exclusive of other costs such as maintenance, videotape operations, transmitter operations, and field engineering.

[12]Approx. 50% of total promotions budget; includes personnel, radio buys, outdoor buys, etc.

The following budget is estimated within +/- 10% of the average startup costs for a news operation in market sizes 101-210. These estimates were derived by examining the news budgets of several stations within this market range and using these numbers to create a hybrid "average" startup budget. These figures represent the first-year startup costs required to launch a local television news operation.

MARKET SIZE 101-210

STARTUP COSTS FOR NEWS OPERATION

Personnel		
Salary	$	750,000
Benefits	$	150,000
Personnel total:	$	900,000
Equipment and Operations		
Cameras	$	60,000
Accessories, routers, etc.	$	50,000
Vehicles	$	70,000
Satellite time	$	25,000
Computers	$	50,000
Furniture	$	20,000
Editors	$	100,000
Misc. operating costs	$	120,000
Equipment total:	$	495,000
Capital		
Space	$	750,000
Working capital	$	75,000
Insurance	$	55,000
Wiring and misc	$	75,000
Capital total:	$	955,000
Production[13]	$	120,000
Engineering[14]	$	80,000
Promotions[15]	$	150,000
TOTAL STARTUP COSTS IN FIRST YEAR	$	2,700,000

[13]Approx. 35% of total production budget; includes directors, technical directors, studio camera operators, studio staff, prompter, etc. This is exclusive of other costs such as editing, graphics, art, makeup, lighting, set design, and local commercial production.

[14]Approx. 20% of total engineering budget; includes directors, control room operators, etc. This is exclusive of other costs such as maintenance, videotape operations, transmitter operations, and field engineering.

[15]Approx. 50% of total promotions budget; includes personnel, radio buys, outdoor buys, etc.

The personnel and equipment needs for a smaller market station break down as follows:

PERSONNEL	
News Director	1
Assistant News Director	0
Anchors	3
Reporters	6
Camera operators	2
Editors	2
Writers, assistants, secretaries	1

EQUIPMENT	
Cameras	5
Computers	15
Vehicles	5
Editing server	0
Microwave trucks	2
KU truck (or KU attachment to microwave truck)	0
Parker Vision system[16]	0

DISCOUNTED CASH FLOW ANALYSIS

To determine the attractiveness of a local television news operation to a new investor, we conducted a cash flow analysis of a start-up news station, using the budget figures outlined above. To this end, we made the following assumptions:

- Variable revenue growth rate, beginning at 35% annually in years 1-5, eventually declining to 6% per annum in years 15+.
- All equipment was depreciated on a straight-line basis, assuming a 5 year useful life and $0 residual value in year 5.
- Corporate tax rate of 40%.
- Inflation of 3% annually, applied to all costs, salaries, and expenses.
- A discount rate of 10%.
- Interest expense has been excluded for simplicity.

The growth rates we have projected are fairly aggressive, as many television news operations are now experiencing annual growth rates in the low single digits. We have been especially aggressive in the first few years since the news operation will be growing from a very small initial base of revenue.

The discount rate in a case like this is difficult to determine, but we feel the 10% figure is quite conservative, particularly given the return many investors may expect from a television station and the inherent risk in the television business. By conducting a thorough sensitivity analysis, we determined that at higher discount rates (20% and above), starting a new television news operation becomes an increasingly unattractive proposition. (At these rates, the recoup of initial investment would take upwards of 20 years.)

[16]A Parker Vision system is a relatively new piece of equipment incorporating many of the pre-set visual elements used in a newscast, such as 2-boxes, fades, wipes, etc. These systems are being adopted by local news operations in increasing numbers in order to improve efficiency.

As you can see in the following analysis, with the current assumptions, a television news operation of this size is projected to become cash flow positive in year 6. However, taking into account the time value of money, an investment of this type would not break even until year 13.[17] This is the time at which an investor would fully recoup her initial outlay from years 0 and 1. Although the project has a negative internal rate of return in year 10 (-8%), by year 20, the IRR is 7%. By year 30, the IRR increases slightly to 9%.

[17] Breakeven is defined as the year in which the project's net present value is 0.

SmithGeiger LLC

DISCOUNTED CASH FLOW ANALYSIS
MARKET SIZE 101-210

	Years 1-5	Years 6-8	Years 9-10	Years 11-12	Years 13-14	Years 15+
Growth rate	35%	20%	15%	10%	8%	6%
Discount rate	10%					
Inflation	3%					
Tax rate	40%					

COSTS	**YEAR 0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Salary	$ (100,000)	$ (927,000)	$ (954,810)	$ (983,454)	$ (1,012,958)	$ (1,043,347)	$ (1,074,647)	$ (1,106,886)	$ (1,140,093)	$ (1,174,296)	$ (1,209,525)
Equipment	$ (350,000)	$ (159,650)	$ (164,440)	$ (169,373)	$ (174,454)	$ (179,687)	$ (185,078)	$ (190,630)	$ (196,349)	$ (202,240)	$ (208,307)
Depreciation		$ (70,000)	$ (101,930)	$ (134,818)	$ (168,692)	$ (203,583)	$ (169,521)	$ (174,606)	$ (179,845)	$ (185,240)	$ (189,750)
Depreciation Tax Shield		$ 42,000	$ 61,158	$ 80,891	$ 101,215	$ 122,150	$ 101,712	$ 104,764	$ 107,907	$ 111,144	$ 113,850
Sat time and misc operating costs		$ (145,000)	$ (149,350)	$ (153,831)	$ (158,445)	$ (163,199)	$ (168,095)	$ (173,138)	$ (178,332)	$ (183,682)	$ (189,192)
Working capital	$	$ (77,250)	$ (79,568)	$ (81,955)	$ (84,413)	$ (86,946)	$ (89,554)	$ (92,241)	$ (95,008)	$ (97,858)	$ (100,794)
Capital Expenditures	$ (930,000)	$ (159,650)	$ (164,440)	$ (169,373)	$ (174,454)	$ (179,687)	$ (185,078)	$ (190,630)	$ (196,349)	$ (202,240)	$ (208,307)
Production	$ (120,000)	$ (123,600)	$ (127,308)	$ (131,127)	$ (135,061)	$ (139,113)	$ (143,286)	$ (147,585)	$ (152,012)	$ (156,573)	$ (161,270)
Engineering	$ (80,000)	$ (82,400)	$ (84,872)	$ (87,418)	$ (90,041)	$ (92,742)	$ (95,524)	$ (98,390)	$ (101,342)	$ (104,382)	$ (107,513)
Promotions	$ (150,000)	$ (154,500)	$ (159,135)	$ (163,909)	$ (168,826)	$ (173,891)	$ (179,108)	$ (184,481)	$ (190,016)	$ (195,716)	$ (201,587)
TOTAL CASH OUTFLOW	$ (1,730,000)	$ (1,787,050)	$ (1,822,764)	$ (1,859,548)	$ (1,897,437)	$ (1,936,462)	$ (2,018,658)	$ (2,079,218)	$ (2,141,594)	$ (2,205,842)	$ (2,272,645)
REVENUE	$	$ 949,604	$ 1,281,965	$ 1,730,652	$ 2,336,381	$ 3,154,114	$ 3,784,937	$ 4,541,924	$ 5,450,309	$ 6,267,855	$ 7,208,034
AFTER TAX REVENUE		$ 569,762	$ 769,179	$ 1,038,391	$ 1,401,828	$ 1,892,468	$ 2,270,962	$ 2,725,154	$ 3,270,185	$ 3,760,713	$ 4,324,820
CASH FLOW	$ (1,730,000)	$ (1,217,288)	$ (1,053,585)	$ (821,157)	$ (495,608)	$ (43,994)	$ 252,304	$ 645,937	$ 1,128,591	$ 1,554,871	$ 2,052,175
PV OF CASH FLOW	$ (1,730,000)	$ (1,106,625)	$ (870,731)	$ (616,947)	$ (338,507)	$ (27,317)	$ 142,419	$ 331,468	$ 526,496	$ 659,417	$ 791,202

	10 YEARS OUT	20 YEARS OUT	30 YEARS OUT
NET PRESENT VALUE	$ (2,239,125)	$ 6,608,234	$ 13,936,244
ANNUALIZED NPV	($364,407)	$776,201	$1,478,346
INTERNAL RATE OF RETURN	-8%	7%	9%

Existing News Operation Scenario

The cash flow analyses above have focused primarily on the attractiveness of a startup local news operation to potential investors. We now turn to the question of profitability as it pertains to existing news operations.

As a general rule, local news operations in market sizes 51-100 earn a 40% profit margin, and local news operations in market sizes 101-210 earn a 30% profit margin. Based on the cost estimates established earlier in this document, this gives us the following:

MARKET SIZE 51-100		**MARKET SIZE 101-210**	
ANNUAL NEWS OPERATIONS		ANNUAL NEWS OPERATIONS	
News Revenue	$ 7,364,000	News Revenue	$ 3,510,000
News Costs	$ 5,260,000	News Costs	$ 2,700,000
News Profit	$ 2,104,000	News Profit	$ 810,000

Though these news operations earn a profit, they also require the parent company or station to carry a significant cost load and deal with other intangibles such as personnel management, liability, and goodwill in the community. In addition, the increased competition in local news has made it more and more difficult for existing local news operations to earn the Nielsen ratings required to sustain current revenue levels. For these reasons, local stations may look to exit the local news business in favor of lower cost propositions.

One of the most attractive alternatives to providing local news is to fill the existing news timeslots with acquired programming. This option creates fixed costs, clear ad rates, and has the additional benefit of eliminating escalating variable news costs. These acquired programs are often popular off-network sitcoms, such as *Friends* or *Everybody Loves Raymond*. The downside to these programs is that they do not attract the same level of revenue as local news programs. Advertising spots in local news typically demand a premium price of approximately 40% over the standard ad rate. This news premium reflects the credibility that news brings to advertisers. However, acquired programming represents a much lower cost than news production. In most cases, this lower level of costs is more than enough to make up for the reduced revenue caused by giving up local news production.

The following figures estimate the profit to a local station switching from local news to acquired programming. We assume that the station must fill the 6 p.m. and 10 p.m. timeslots and that the acquired programs are of similar value to *Friends* and *Everybody Loves Raymond*, currently among the most popular and most expensive programs in syndication. Program acquisition cost estimates are based on the going average rates for these programs in market ranges 51-100 and 101-210.

These estimated program costs were calculated based on the following:

- Program acquisition costs are equal to approximately 25% of the expected time period revenue.
- The purchaser is entitled to a single run of each episode of the acquired program.
- The purchaser is required to run the program for a period of 3.25 years.[18]

We further assume that ratings (and therefore, revenue) may drop by 20% with the switch from news to syndicated programming.[19]

MARKET SIZE 51-100

ANNUAL NON-NEWS OPERATIONS (SYNDICATED OFF-NETWORK PROGRAMMING IN PLACE OF NEWS)	
Revenue	$ 2,945,600
Costs	$ 736,400
Profit	$ 2,209,200
Difference vs. news	$ 105,200
% increase over news	5.0%

MARKET SIZE 101-210

ANNUAL NON-NEWS OPERATIONS (SYNDICATED OFF-NETWORK PROGRAMMING IN PLACE OF NEWS)	
Revenue	$ 1,404,000
Costs	$ 351,000
Profit	$ 1,053,000
Difference vs. news	$ 243,000
% increase over news	30.0%[20]

As you can see, the average profit from acquired programming is likely to be slightly higher than that from news operations for both market sizes, even accounting for decreases in ratings and revenue per commercial spot sold.

[18]Costs for acquired programming can vary significantly based on the number of runs per episode, the popularity of the acquired programming, the time period over which episodes are to be run, and the number of bidders in a market. The figures here are estimated "averages" for a typical station in each market range.

[19] Please refer to Appendix A for a closer look at the calculations behind these figures.

[20]This percentage is substantially higher than the percentage increase in larger markets due to the smaller original profit (profit from news operations) for smaller market stations.

Financial Conclusion

The costs of starting up and maintaining a local television news operation in medium and small markets continue to increase, while revenue is more and more difficult to come by. Even under the most optimistic assumptions, investing in a start-up news station results in negative cash flow for the first five years. And only after the first 13-14 years can an investor expect to recoup the initial outlay required to fund the operation. In this climate, if a local station were to cease its news operations, it is difficult to imagine another entity stepping in to take its place. Only the most deep-pocketed investor would be comfortable with an investment facing such strong competition and such a lengthy time horizon.

In addition, the pressure on existing local news operations continues to mount. As expenses rise and news operations become a larger and larger cost item, local stations may choose to forego their news for the cheaper, less financially risky, and often more profitable option of acquired programming. For an owner strapped for cash, eliminating the high cost of news reduces the pressure from a revenue standpoint. And given the dark outlook of local news for new investors, it seems likely that the number of local news voices in these markets will decrease.

APPENDIX A

MARKET SIZE 51-100

ANNUAL NEWS OPERATIONS		
Revenue	$	7,364,000
Costs	$	5,260,000
Profit	$	2,104,000

ANNUAL NON-NEWS OPERATIONS
(SYNDICATED OFF-NET PROGRAMMING IN PLACE OF NEWS)

REVENUE ADJUSTMENTS		
Non-news revenue adjustment		-40%
Decrease in ratings		-20%
COSTS		
Cost of programming		25%
(as % of revenue for time periods)		
Revenue	$	2,945,600
Costs	$	736,400
Profit	$	2,209,200
Difference	$	105,200
% increase		5%

MARKET SIZE 101-210

ANNUAL NEWS OPERATIONS	
Revenue	$ 3,510,000
Costs	$ 2,700,000
Profit	$ 810,000

ANNUAL NON-NEWS OPERATIONS
(SYNDICATED PROGRAMMING IN PLACE OF NEWS)

REVENUE ADJUSTMENTS	
Non-news revenue adjustment	-40%
Decrease in ratings	-20%

COSTS	
Cost of programming	25%
(as % of revenue for time periods)	

Revenue	$ 1,404,000
Costs	$ 351,000
Profit	$ 1,053,000
Difference	$ 243,000
% increase	30%

About Us

SmithGeiger L.L.C. is a custom market research and consulting firm headquartered in Los Angeles, serving all facets of the media industry. We specialize in creating unique research methods to uncover consumer attitudes and preferences. Our analysis identifies opportunities and action steps, which we convert into clear and concise recommendations designed to achieve success.

Partner Biographies

David L. Smith, CEO

David Smith directs the development of strategic consulting partnerships, oversees all consulting relationships, and is responsible for marketing and cultivating client relationships. He has consulted with ABC, A&E, AOL, CBS, CNBC, CNN, Cox, Disney, FOX, Hearst, Lifetime, Microsoft, MSNBC, NBC, Paramount, Scripps, Sony, 20th Century Fox, Universal, USA Networks, UPN, Warner Bros., WB, and many other clients during his 20-year consulting career.

Prior to forming SmithGeiger, Smith opened the Entertainment Practice in Los Angeles and New York for Frank N. Magid Associates. As President of Entertainment, Smith presided over the largest growth in the firm's long history and served as a senior consultant to virtually all of the major studios and production companies in the industry. He consulted on all facets of his clients' business, including: brand identity, format development, talent evaluation and performance, distribution, marketing, and promotion.

Smith began his career in media as a journalist, reporting and anchoring in television stations across the country. Later he served as an Associate Professor of Journalism at the University of Missouri School of Journalism, where he received under-graduate and graduate degrees.

Seth Geiger, President

Dr. Seth Geiger directs the development of strategic research partnerships and oversees research innovation and product development. He has consulted with clients across the broadcast, cable, satellite, syndicated television, telecom and internet industries, including: ABC, AT&T Broadband, Buy.com, CNN, DirecTV, Disney Online, FedEx, IBM, Microsoft, MSNBC, Nokia, Robertson Stephens, Showtime, SprintPCS, TiVo, USSB, Warner Bros. The Weather Channel, WE: Women's Entertainment and Visa.

Prior to forming SmithGeiger, Geiger served as Vice President of Professional and E-Commerce Services for BizRate.com, the leading supplier of ecommerce research and intelligence, and the largest B2C shopping marketplace on the web.

Before joining BizRate.com, Geiger worked for Frank N. Magid Associates, where he established the company's strategic research direction and designed research initiatives in new media and television convergence. Geiger joined Magid from the University of California, Santa Barbara, where he was an assistant professor of Communications.

Dr. Geiger holds a Ph.D. and Master's degree in Communication Research from Stanford University and a Bachelor's degree in Anthropology from Cornell University.

31365 Oak Crest Drive • Suite 150 • Westlake Village, CA 91361
(818) 707-3086 • (818) 707-9283 FAX • email@smithgeiger.com • www.smithgeiger.com

ATTACHMENT E

The Least Consolidated Media Sector Is—*Surprise!*— Radio
(revenue share of the top 10 owners)

Sector	Holdings	Rev. Share
Movie Studios	$32.6 billion in revenue	99%
DBS	16.2 million subscribers	95%
Theme Parks	$10.3 billion in revenue	93%
Cable Systems	60.5 million subscribers (83%)	89%
Outdoor	$1 billion in revenue	85%
Web Sites	146 million weekly visits	76%
Movie Theaters	20,600 screens	57%
TV Stations	$15.8 billion in revenue	55%
Newspapers	26.7 million circulation	48%
Radio	**2,000 stations**	**44%**

Source: OAAA, Nielsen, NATO, NAA, IAB and Wachovia Securities' estimates.