Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of		
2002 Biennial Regulatory Review—Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996	)	MB Docket No. 02-277
Cross-Ownership of Broadcast Stations and Newspapers	)	MM Docket No. 01-235
Rules and Policies Concerning Multiple Ownership of Radio Broadcast Stations in Local Markets	)	MM Docket No. 01-317
Definition of Radio Markets	)	MM Docket No. 00-244

<u>COMMENTS OF VICTOR B. MILLER IV OF BEAR, STEARNS & CO., INC.</u>

Victor B. Miller IV, Managing Director, Equity Research—Radio and Television Broadcasting of Bear, Stearns & Co., Inc. hereby submits for inclusion in the record in the above-referenced proceeding a transcript of the Bear Stearns Television Industry Summit 2002, held at Loews L'Enfant Plaza, Washington, D.C., on November 26, 2002.

Respectfully submitted,

By: /s/

Victor B. Miller IV
Managing Director,
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of
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January 2, 2003

BEAR STEARNS

TV Summit –2002
Loews L'Enfant Plaza
Washington DC
Tuesday, November 26, 2002

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TV Industry Summit

Television Industry Summit

2002

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November 26, 2002

November 26, 2002

Table of Contents **Page**

BEAR
STEARNS

Victor Miller, Raymond Lee Katz and Kevin Gruneich
Invite You to Attend The

Television Industry Summit
Tuesday November 26, 2002
8:15AM-4:15PM

Loews L'Enfant Plaza
480 L'Enfant Plaza, SW
Washington, D.C.

Panels Discussing:

- Impact of Cable Networks, MSO's, DBS and PVR's on Viewership and Advertising
- Economics of Local TV Broadcasting – Revenues and Expenses
- Issues Facing the TV Business - Washington Perspective
- Health of Small and Mid-Market Television
- Duopoly and Cross-Media Ownership
- Broadcast Network Economics
- Digital TV Update

Experts Include:

David Barrett (Hearst Argyle), Bruce Baker (Cox TV), Jonathan Blake (NBC, CBS affiliates), Gary Chapman (LIN), Robert Dechard (Belo), David Donovan (MSTV), Randy Falco (NBC), Jerald Fritz (Allbritton), Wade Hargrove (ABC Affiliates), Jim Keelor (Liberty), John Lansing (E.W. Scripps), Paul McTear (Raycom), Kevin O'Brien (Meredith), Nat Ostroff (Sinclair), David Poltrack (Viacom), Chris Rohrs (TVB), Greg Schmidt (LIN), Shaun Sheehan (Tribune), David Smith (Sinclair), Jeff Smulyan (Emmis), Perry Sook (Nexstar), Walter Ulloa (Entravision), Tony Vinciquerra (Fox), Dick Wiley (Wiley, Rein & Fielding), Jim Yager (Gray), and More to be Named Later.

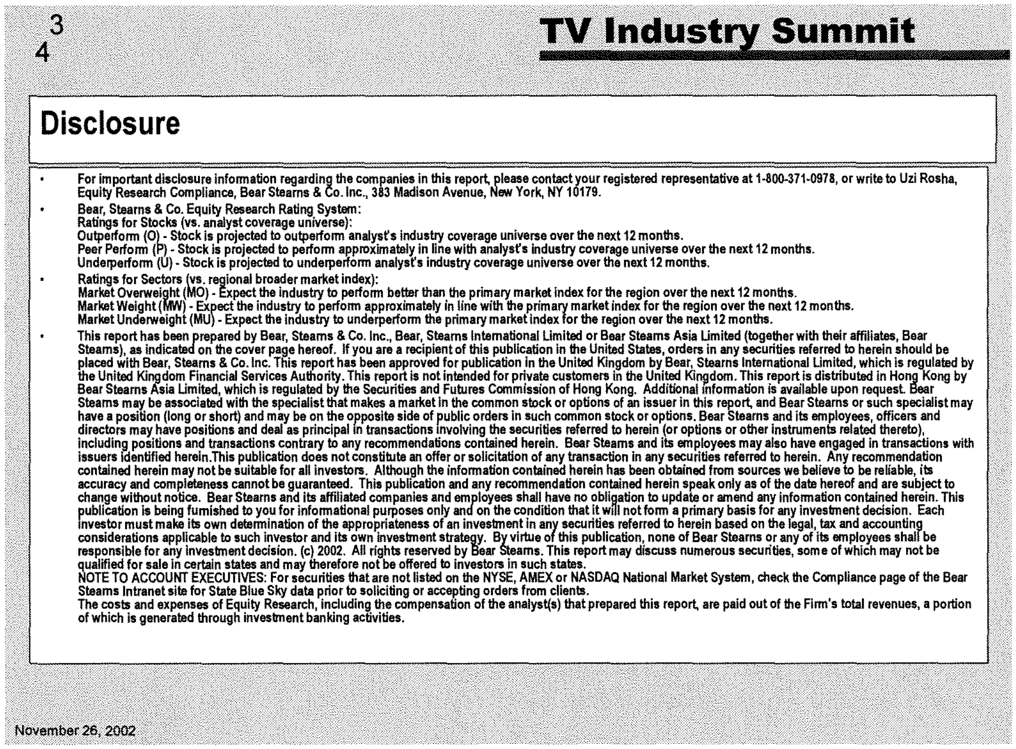
AGENDA

Time	Presentation
7:45am	**Continental Breakfast and Conference Registration**
8:15	**Opening Remarks**
8:30	**Impact of Cable, DBS and PVR Competition on Viewership and Advertising** *David Barrett, President and Chief Executive Officer, Hearst-Argyle Television, Inc.* *Jerald Fritz, Senior Vice President, Legal and Strategic Affairs, Allbritton Communications Company* *John Lansing, Senior Vice President, Broadcasting, The E.W. Scripps Co.* *Chris Rohrs, President, Television Bureau of Advertising*
9:45	**The Economics of Local TV Broadcasting-Revenues and Expenses** *Bruce Baker, Executive Vice President, Cox Broadcasting* *Gary Chapman, Chief Executive Officer, LIN TV Corp.* *Kevin O'Brien, President, Broadcasting Group, Meredith Corp.* *Jeff Smulyan, Chairman, Emmis Communications*
11:00	**Duopoly and Media Cross-Ownership** *Robert Decherd, President and Chief Executive Officer, Belo Corp.* *Shaun Sheehan, Vice President, Washington, Tribune Company* *David Smith, Chief Executive Officer, Sinclair Broadcast Group* *Walter Ulloa, Chairman and Chief Executive Officer, Entravision Communications Corporation*
12:00pm	**Broadcast Network Economics** *Tony Vinciquerra, President and Chief Executive Officer, Fox Networks Group* *Randy Falco, President, NBC Television Network* *David Poltrack, Executive Vice President, Research and Planning, CBS Television*
1:15	**The Health of Small and Mid-Market Television** *Jim Keelor, President and Chief Operations Officer, Liberty Corporation* *Paul McTear, President and Chief Executive Officer, Raycom Media, Inc.* *Perry Sook, President and Chief Executive Officer, Nexstar Broadcasting Group, Inc.* *K. James Yager, Chief Operations Officer, Gray MidAmerica Television, Inc.*
2:15	**Digital TV Update** *Jonathan Blake, Partner and Head of Telecom and Media Practice, Covington & Burling* *Nat Ostroff, Vice President, New Technology, Sinclair Broadcast Group, Inc.* *Greg Schmidt, Vice President, New Development & General Counsel, LIN TV Corp.*
3:15	**Issues Facing the Television Business-Washington Perspective** *David Donovan, Chief Executive Officer, MSTV* *Wade Hargrove, Partner, Brooks, Pierce, McLendon, Humphrey & Leonard, L.L.P.* *Richard Wiley, Managing Partner, Wiley, Rein & Fielding LLP*
4:15	**Summit Conclusion**

Introductory Comments: Television Summit 2003

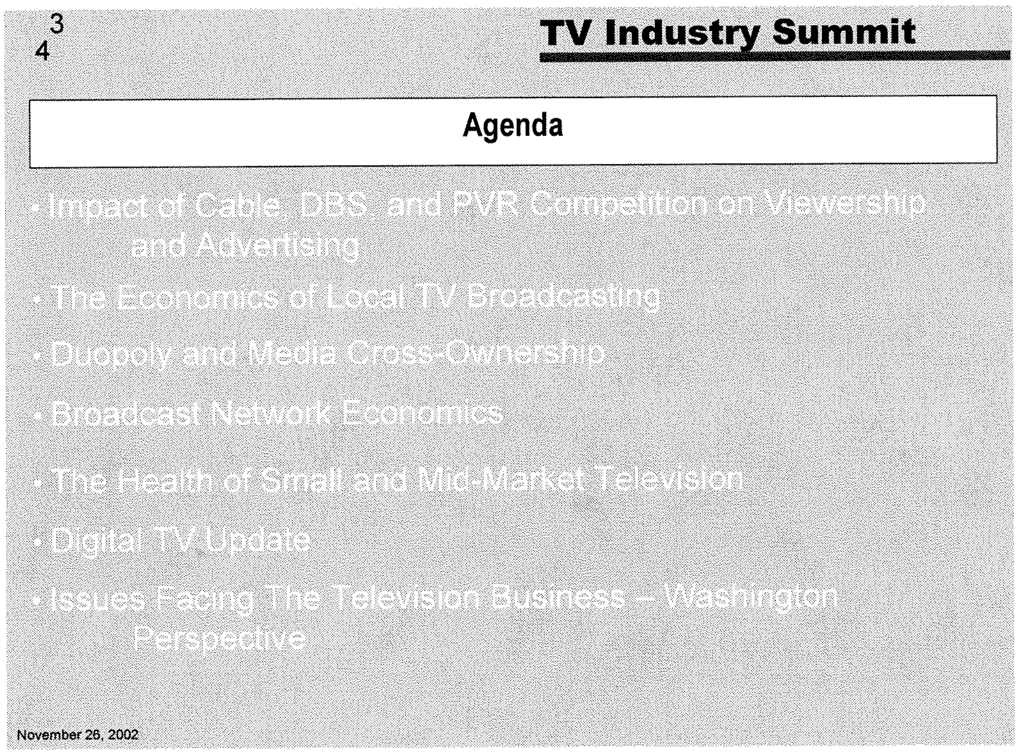
Opening Remarks:
Victor Miller – Senior Managing Director – Bear, Stearns & Company

Victor Miller: I'm Victor Miller, the TV and radio broadcasting equity analyst for Bear Stearns; and on the behalf of Ray Katz...Ray is back there? All right. He's our [Bear Stearns'] large cap entertainment equity analyst and Kevin Gruneich, Bear Stearns' publishing and information service equity analyst...and I would like to thank you for attending the TV summit here in DC. Here comes some thank-you's. I want to wholeheartedly thank the many executives in the television industry who have come from far and wide to give their time to this event. The sessions today would not have been possible without your support. I also want to thank the Federal Communications Commission and members of the Senate and House Commerce Committees and hope you find these sessions informative and useful. I would also like to welcome our friends from the mutual fund and money management business and extend a welcome to the press as well. I want to introduce you to Chris Ensley, Tracy Young and Debaki Chakrabarti who is all the way in the back; they're also part of our the media broadcast team. They make me very proud of what we do at Bear. And if you need anything please see any of them or myself. We have a copy of the agenda. I hope you all had it from the back. Just so you know, introductions will be very brief today; in other words, we'll probably just give people's titles and move right into discussion and, yes, we will feed you. Everyone's been wondering if lunch is happening, it is happening, it's just going to be working lunch. So, uh, we will look after you. While I may be asking a lot of questions today, you're more than welcome to ask a question. I've left a four by six card in front of each of you. That's one of the options. If you have a question you can just wave the card and any of our guys will be looking to get that and they will bring it. If you don't want to ask the question yourself…if not, you've got the microphone in the middle. Now let's get down to business today. We have a few goals. By the way, we are going to hand out—now that everyone's seated—we'll hand out copies of the sixty-one slides that we're going to be using today for our discussion. We just wanted to make sure people weren't taking multiple copies because we have just enough for the people who have signed up today. First, there are the goals today. We're going to have three of them. First, we're going to have seven panels that discuss the issues, challenges, and opportunities facing the local TV broadcasters and the broadcast networks. And although we will be focused on what is happening today in the industry, we will also ask our panelists to project a bit and keep the future in mind. In many of the issues we raise, we will ask our panelists what the issue, challenge, and opportunity we raise means in today's environment and what it will mean five years from now. We will be aided in each discussion by a well-qualified group of TV broadcast industry executives. The second goal is we hope this day will further educate everyone who has traveled near and far. We hope you will leave with a better understanding of the complexity, challenges, and opportunities that members of the free over the air TV broadcasting business face. We hope that you get a sense of the pressures being placed upon the broadcast networks and local TV stations' economic models and try to get a sense of how these players are trying to adapt their models to respond to these pressures. There is a third goal: we will not dwell on the issues that divide the networks and the affiliate groups; and we will not pit these parties against themselves in our questions. We believe that these parties have much more in common than they do not have in common. So we will try to focus on what unites the business, not on that which divides it. We are hopeful that the networks and affiliates will start to bridge their differences to build a stronger future for the free over the air TV business in general.

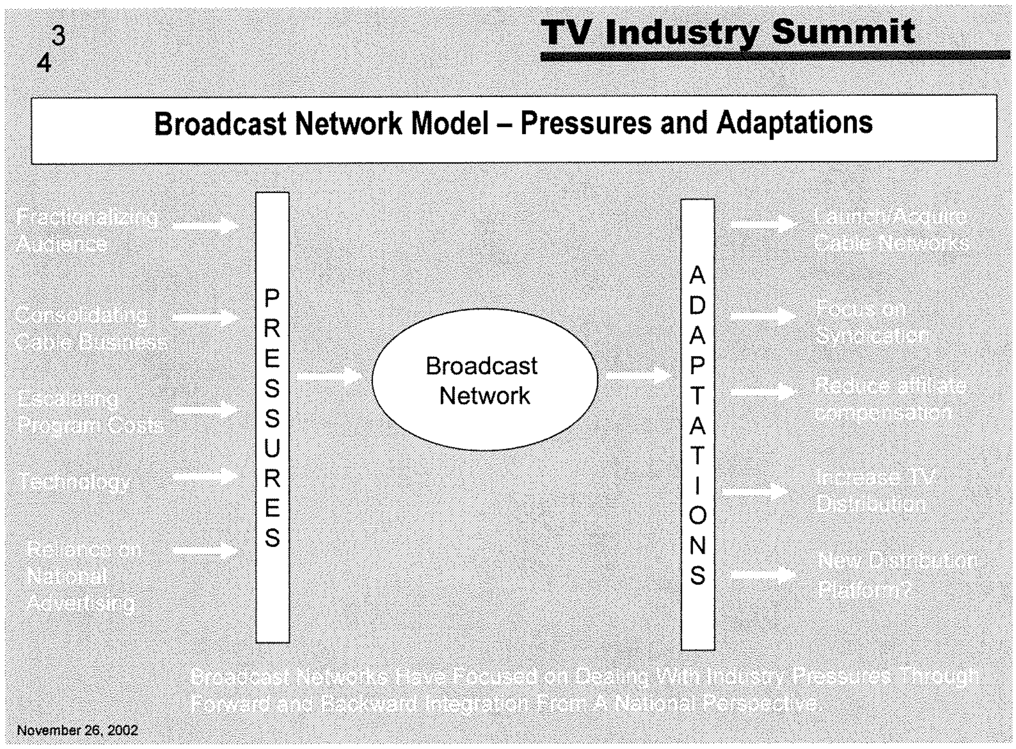


And now I have to make some disclosure statements so you know which corporate relationships Bear Stearns has with clients that may be participating today. Bear Stearns has a banking relationship with Viacom, Sinclair Broadcast Group, LIN Television, and Gray Television. Bear Stearns and one of our affiliates holds a one percent or more of the stock in Viacom, Univision, and Entercom Communications—that is not me personally I do not hope…although with the way the stocks have been performing I wish I did. Ray Katz, I would like to let you know that he's got a banking relationship with Charter, Cablevision, Viacom, The Disney Company, Fox Entertainment, and AOL Time-Warner; and that Bear Stearns or its affiliate owns more than one percent of Comcast, Charter, Cablevision, and Viacom. And Kevin does not have corporate clients represented here.

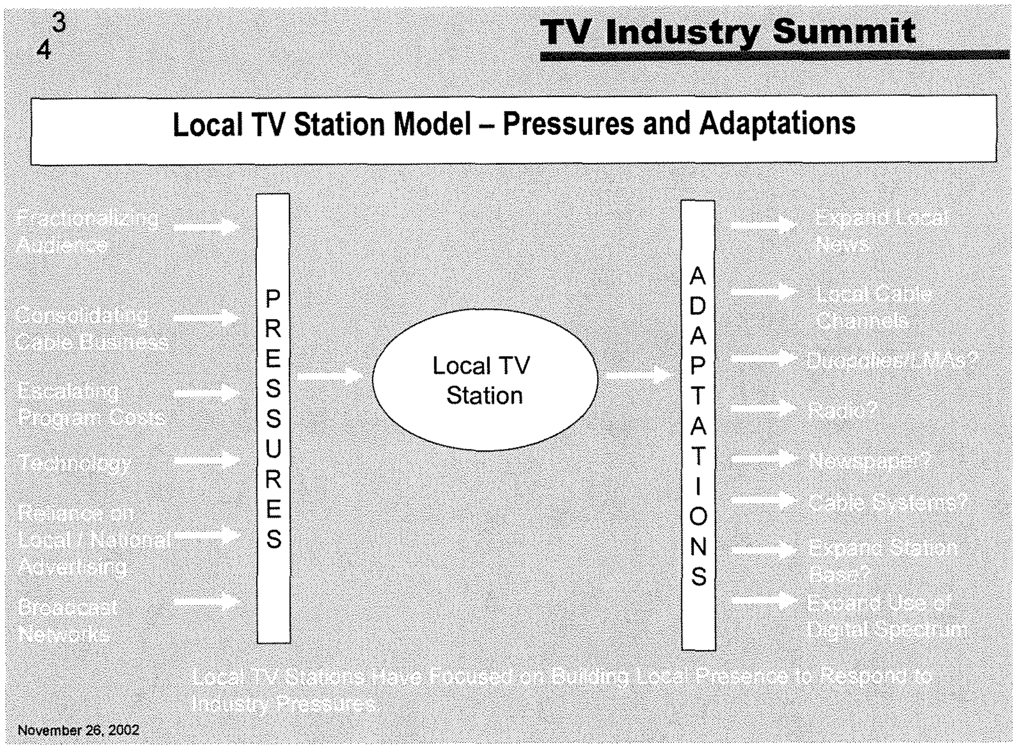
I'd like to do is show you a few slides to set up the day. If you could go to this first slide.



Here's our agenda…you know it, you've got a copy of it. Let's go to the first slide.



Now, what we're going to spend time today on is talking about the pressures that these businesses are undergoing. First, we're starting with—this is just the broadcast network business. Obviously, they're facing fractionalizing audience from the seven existing networks and the seventy-plus viable cable networks…you know that. The consolidating cable business; obviously, AT&T, Comcast and what that's going to mean for the industry as the cable business consolidates. Escalating programming costs, even in the throes of having a smaller and declining audiences. Technology with broadband and compression…and a reliance on a national advertising as your sole source of income. All those pressures are being exerted onto the broadcast networks. And what have they done to respond or adapt to those pressures? Well, they have launched cable networks, they've focused on the syndication business; they've gone to reduce affiliate compensation; they've increased their TV distribution bases...through duopolies and just buying more television stations. And, of course, we're wondering if any new distribution platforms develop. Now, I think the question we'll have is, five years from now...again, we're looking at this; what happens in the business five years from now? We're unlikely to launch new cable networks. Syndication business is what it is. Affiliate compensation, last time I checked, is theoretically going to be going to zero at some point. And then the question is a lot of—so all these pressures as they continue to mount are going to flow right through here. And this is the debate of what's going to happen here; whether the networks are going to see any kind of increase in their television distribution base to deal with some of these pressures.



On the next slide, we then bring it down to the local station level. And while the networks are looking at protecting their franchise from a national perspective, the local TV stations are trying to protect themselves mostly from a local position. So, they have all the same things: fractionalizing audience, consolidating cable business, escalating cost, threat of technology, reliance on one revenue stream called advertising. And they also have the broadcast networks to contend with; that was the first slide. All those pressures are being exerted on that local television station model. And how are they responding? They're expanding local news, adding local cable channels, trying to create duopolies and LMAs…cross ownership with radio, newspapers, cable systems…expanding their own station bases; and expanded use of the digital spectrum. So the way that the local TV station business, we think, is trying to adapt to the pressures that are exerted on them is to create an impenetrable local force to basically fend off the incoming national horde. So that's just the model to think about.

3
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TV Industry Summit

Relative Valuation: Television Versus Radio

	Local Television	Local Radio
Forward Multiple	12.4 x 2003 EBITDA	17.7 x 2003 EBITDA
Competition	Audience fractionalizing Eight new broadcast networks 70+ viable cable networks	Listenership stable Satellite radio - small impact to date
Networks	Very powerful	Not powerful
Advertising	Very competitive Pressure on CPM Losing share relative to other measured media	Gaining share relative to measured media
Content	Rating system Mandated Children's programming hours V-Chip	None
Digital	$4.6 billion industry investment	$750 million industry investment

Industry Structure Favors Radio

November 26, 2002

The next page, the question is why does local radio trade at seventeen-point-seven times cash flow on a forward basis while local TV is five multiples less? Competition, we have audience fractionalization, eight new broadcast networks, seventy-plus viable plus cable networks. Listenership is fairly stable and right now satellite radio has had a small impact. The networks are very powerful in local TV, not as powerful in local radio. Advertising, very competitive on local television—we'll get into that; pressures on the cost per thousands and losing share relative to other measured media...radio gaining share. Content, we have to have ratings systems, mandated children's programming hours, V-chips to contend with in local TV. Radio has none of that. The digital conversion is costing our industry four to six billion dollars, the radio business will probably be seven hundred and fifty million dollars to convert to digital. So, the bottom line is, why the multiple disparity is because the structure of the radio business is healthier. And now what we're going to do is talk about all day...is the structure of the broadcast network business model and the television station model and how they're responding to these pressures and also what the structure of the business should look like in the future. I'm going to, by the way, we're going to do this debate style. I'm going to sit out here because, first of all, you guys are going to have to crane your necks for seventy-five minutes and look over there and the audience wants to see more than you looking at me.

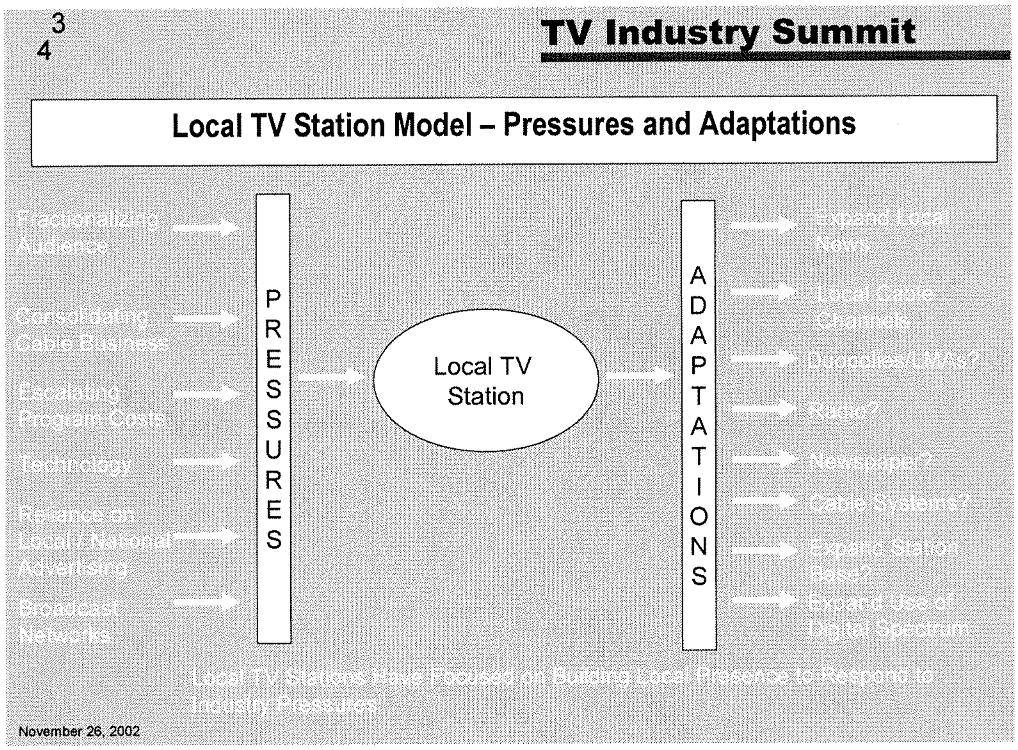
TV Summit –2002
Loews L'Enfant Plaza
Washington DC
November 26, 2002

<u>Panel One: The Pressures on the TV Station Business: The Impact of Cable Networks, MSO's, PVRs and Public Broadcasting on Viewership and Advertising</u>

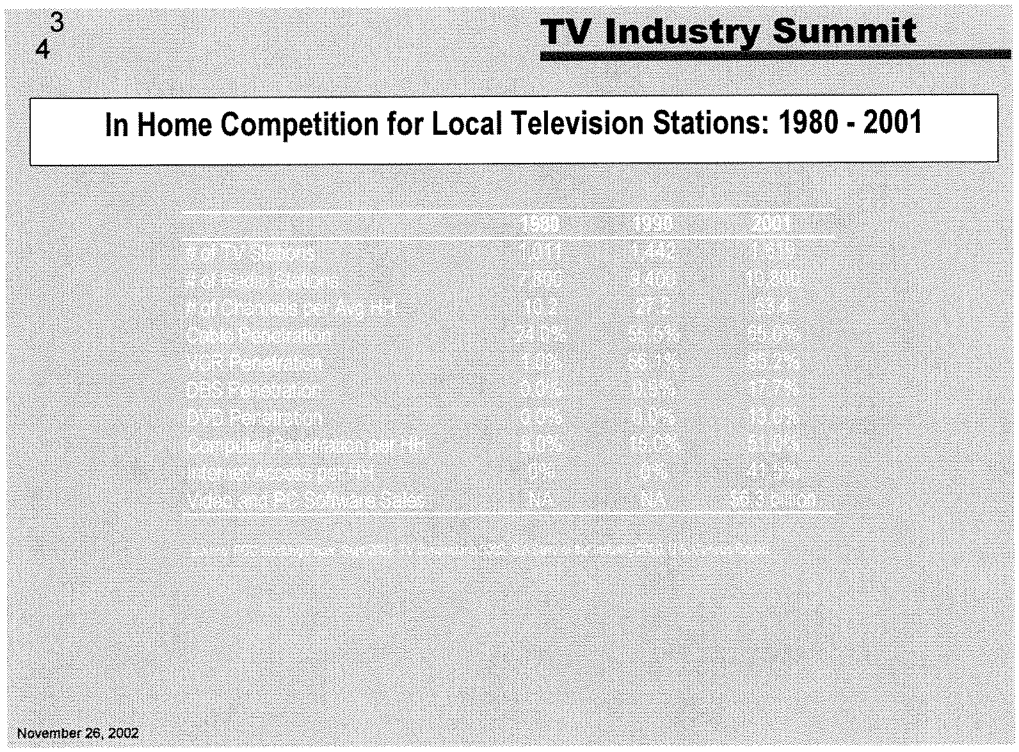
<u>Panelists:</u>
David Barrett – CEO – Hearst-Argyle Television
Chris Rohrs – CEO – Television Bureau of Advertising
John Lansing – SVP – Broadcasting – E.W. Scripps Company
Jerald Fritz, VP, Legal and Strategic Affairs, Allbritton Communications

Panel Time: 8:30AM to 9:45AM E.S.T.

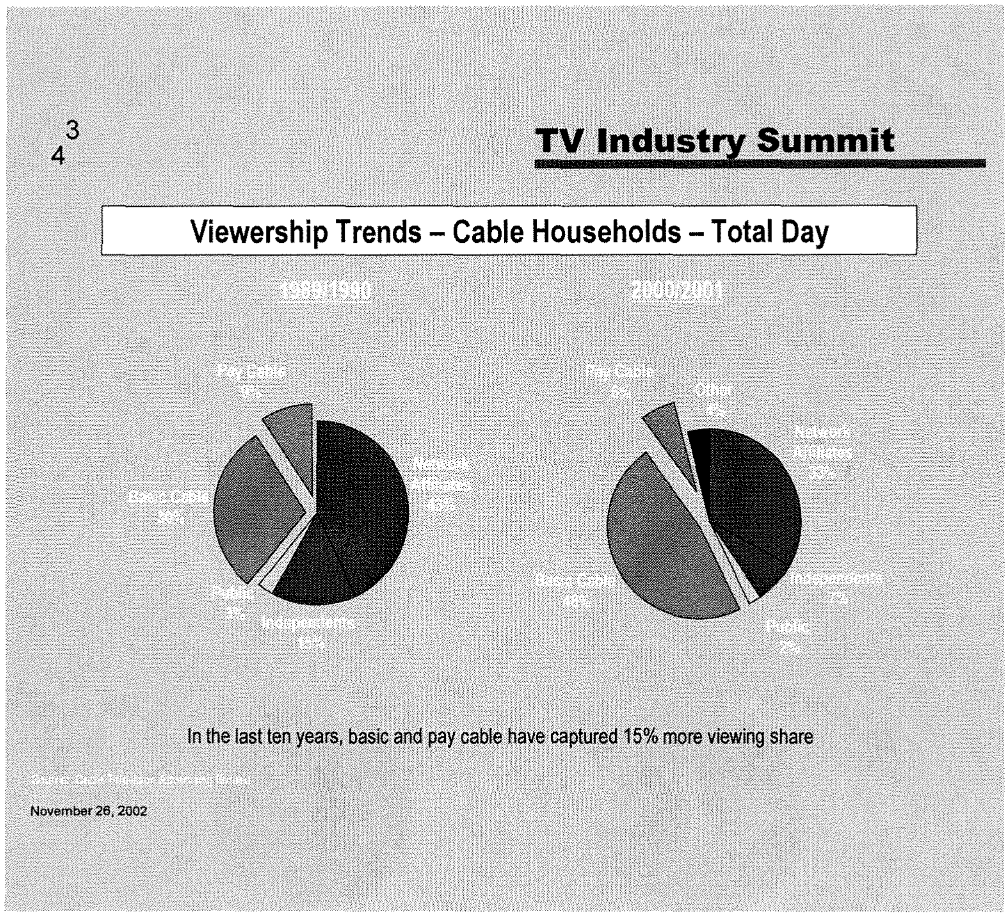
So, the first panel we're going to have David Barrett, who's the Chief Executive Officer of Hearst-Argyle Television; Chris Rohrs, who's the CEO of the Television Bureau of Advertising; John Lansing, who is the Senior Vice President of Broadcasting at the E.W. Scripps Company; and Jerry Fritz, the Vice President of Legal and Strategic Affairs of Allbritton Communications. Thanks for coming.



This panel, if we go back to our model, the local TV station. This panel is going to focus really on the pressures [that the local TV model must contend with] and we're going to tangentially talk about the [impact of these pressures] on advertising. But the next panel is going to get into the heart of the revenue and expense side of this equation. Anyway, let's look at the reality.



Here's our first slide. You guys have…do you guys have books up there? Turn…page seven on the slides. Here's the number of TV stations, radio stations et cetera…cable penetration, VCR penetration. You can see dramatic changes in the last twenty-one years, no matter how you look…slice this up. So, for our first topic we're going to discuss the impact of the cable systems, networks, broadcast networks, PVRs (personal video recorders), DVDs, Internet, public broadcasting et cetera on the broadcast viewership. It's a lot of parties at the table for the consumer's attention in the home. In this discussion we will discuss the impact of all these players on local broadcasters and how local broadcasters have adopted to the changing marketplace.

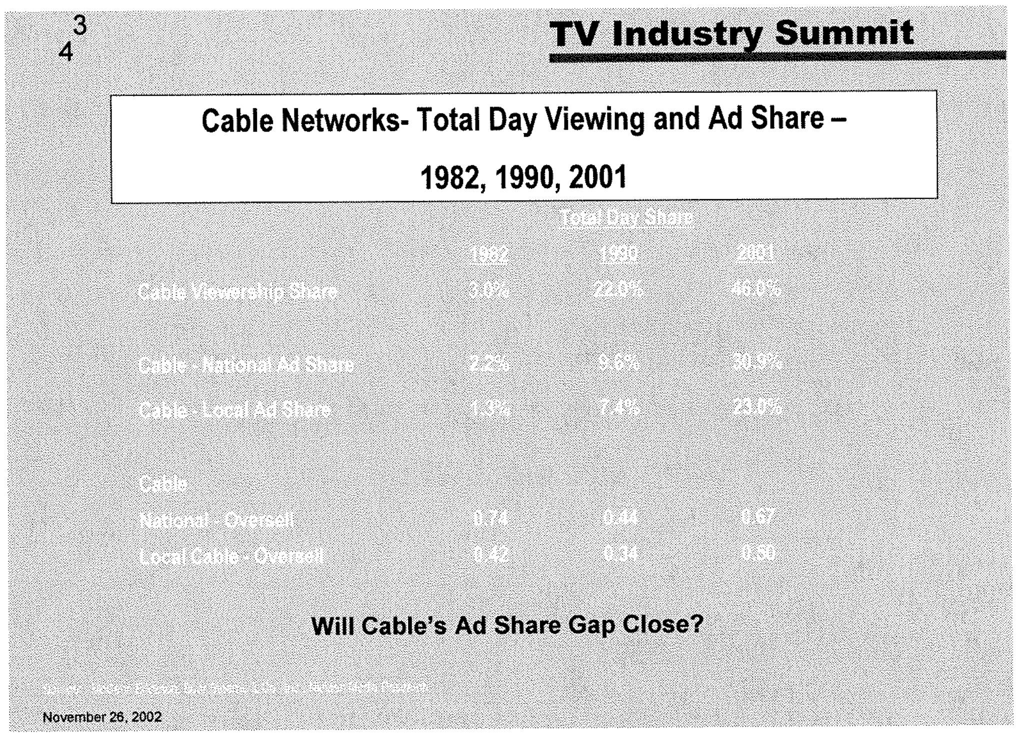


So, if we look at page eight…so we've established that there's a lot of competition, a lot of new people looking to get the attention of the person, the average person in the home. Let's talk about the cable share of ad dollars right away. You can see that cable share of ad dollars—we've broken that out—have gone up about fifteen percentage points from the Nineteen Eighty-nine, Nineteen Ninety season through the 2000, 2001 season. The first question to open it up, David, let's start with you, is what impact the cable network business has had on your business and how have you changed the nature of the local TV station business to address the issue? And if you have any comments on what I started with, jump in at any time.

David Barrett: Well, I think that we would observe that throughout the history of media, with each passing day, media is more competitive. Every single day we're in business more competitive than the day before it. And certainly cable, which was spawned as a delivery mechanism to help television stations better reach, in some part, better reach all of their potential viewers has become a significant business force. Our point of emphasis, as a company, and I think most of the big groups share this observation, is that ours are inherently local businesses and we have placed more and more emphasis on developing our local advertiser customer base; that is, indeed, the advertising customer base that radio stations pursue and the local cable MSOs are pursuing. But I think you've seen a significant shift of composition of advertising revenues on local TV stations, moving from seventy [percent of revenue being derived from] national [advertising], thirty [percent of revenue being derived from] local [advertising], to a mix of probably fifty-five local, forty-five national if you get outside the top ten markets. So that has really been, I think, the positive point of development for the TV sector. We're developing more customers and I would observe that the TV, local TV business, is extraordinarily durable. These are businesses that are some fifty years old. And in the main—most stations in the year 2000 delivered the highest revenue total and the highest bottom line total in the history of the medium. One could say that was an aberrational high and I would say that '01 is an aberrational low. But the earnings capacity of local TV stations still remains strong and that earnings capacity is buttressed by how well the station does in the local marketplace.

Victor Miller: Have you guys made any programming changes to adapt to the local...cable business? Or, I'm sorry, the cable network business? Jerry?

Jerry Fritz: Well, you know, I was thinking when I came here this morning that there's some things that you just can't avoid. I spent last night with our twin fourth graders going over fractions and here we are twelve hours later and I'm still talking about fractions—applied fractions. I think fourth grade fractions are easier. I agree with David, the three companies here—Scripps, Hearst, and Allbritton—have all concentrated on re-forming their local response to cable. We all have cable news channels, for example. We all have increased the amount of local news that we generate. We strive for the best-syndicated programming and our affiliations with our networks; although all of us have had discussions with our network to improve the network affiliate relationship...we strive for the strongest network programming. We strive for the best syndicated product that we can buy. But, fundamentally, David said it best that we are a local medium and we are all concentrating on something that cable cannot provide—at least has not been able to provide in any economical way—which is local news.



Victor Miller: Let's talk about the next slide I've got up here…is the cable share of ad dollars versus the ratings. You can see cable's viewership share has gone from about three percent in '82 to almost forty-six percent of total day viewing in 2001; this was from Nielsen November sweeps. But the cable share of national ad dollars is about thirty-point-nine percent and local dollars is about twenty-three percent. So their oversell-which is, obviously, an undersell here—would be about a conversion ratio of about sixty-seven percent on the national side and fifty percent on the local side. The question, it says right on the bottom, maybe, Chris, you could start off with this, is will cable's ad share...will they ever close the gap and then I want to talk—have John, have him talk about what, you know, what you're seeing in terms of pressure being applied, you know, from the cable network side in terms of, you know, the advertising side of the picture. Chris?

Chris Rohrs: Well, the short answer, if I think, is it's going to be very difficult for them to close the gap on the network side, of course, the gap is widening; it's not narrowing. The CPM gap is growing and I think it's going to be...some people feel it will be easier for them to narrow the gap on the local side; I don't think it will be. I think it'll be a very daunting challenge. By the way, we have cable's local ad share at about fifteen percent—this says twenty-three. We feel it's lower at about fifteen percent of local television revenues. There are two particular problems for local cable to narrow the gap as opposed to network cable. The first, and most obvious, is that they have a limited share of the total cable avails [advertising inventory]. Local gets the short...the short shrift in the cable world in terms of the avail distribution. And the second problem that local cable, in particular...

Victor Miller: [For clarification], twenty percent of the total inventory of the cable network [business] is local [sold by local cable system operators]; the other eighty percent is national [inventory] sold by the cable networks themselves...

Chris Rohrs: Right…it's a different model than the overall broadcast world in terms of the distribution of inventory. The second real challenge for local cable to narrow the gap has to do with the satellite distribution and the…and the audience—about twenty percent of which comes, for cable networks, from satellite. And, of course, there's no local cable insertion so they have an audience disadvantage also; those two factors are going to make it tough for local, in particular, to close the gap and for cable, overall, to close the gap…they're fighting three main problems: there's a reach disadvantage, an audience reach disadvantage; there's just a sheer rating disadvantage, fractionalized, smaller audiences…. But, most important of all, there's too much inventory and it's absolutely hammering the network cable business and it's beginning to also hurt the local cable business; there's too many avails out there. One other…point I would make. Just back on your set-up, Victor, in terms of the number of stations and radio and cable here a couple of slides ago. What's striking to me about that, it's a picture of unbelievable change…more sources of viewing and…but what has not changed is the amount of time that people have. There's still twenty-four hours in the day. So, in that context, it's quite astonishing that broadcast has held on to the strength that it has…with that explosion of choice; no change in the amount of time to view. And, yet, for instance, I pulled the numbers last night. Last week, ninety-nine of the top one hundred programs in television ran [on] broadcast. Despite all that change and explosion of viewing options and demands on your time broadcast still maintains a great connection to the audience. So, long answer, I don't think the gap will close very easily.

Victor Miller: Paul, what do you see in the local market? Are you seeing any money flowing to the local cable guys? Are they the same advertisers or are they different advertisers altogether?

Paul McTear: Well, there's definitely an impact on local ad sales brought on by the local interconnects. Often times, they're out selling inventory at a rate that would be very competitive with ours but their delivery is all but nil. And what we also have to suffer with is the fact that, while broadcasters are held accountable for their delivery of an audience, the cable interconnect is not; they're not posted based on their ratings delivery. And, so, they're out selling spot rates but not necessarily selling that audience to the advertiser. So, is it a threat? Yes, but I think the playing field will be leveled in the near future as Nielsen begins recording the actual ratings for local interconnect separate from the DBS so that they can see the reality of the ratings delivery. And, in the end, it will illustrate the enormous cost per thousands that people are paying in the local marketplace. One thing that's interesting, in our company as David's is, is in the national cable network business, is that the difference in the model—the cable network advertising model versus the local cable advertising model—are very different. When you go into a local cable interconnect, as I have visited Time Warner, for instance, in Cincinnati, and they're very proud of their ability to do zone advertising...and to cut the community of Cincinnati into twelve zones and sell advertising into those zones...and you really begin to realize how many viewers are they [are] really delivering to an advertiser in a zone and what is that advertiser actually paying for that delivery. It really becomes almost a joke. Now, you compare that to the national cable network model—albeit different, it's focused on niche categories and the ability for an advertiser such as a Lowe's or a Home Depot to reach a, if you will, a pre-qualified consumer through advertising on a niche network; or a tennis shoe advertiser on a niche network, such as ESPN. Then the higher cost per thousands might be justified on the basis of delivering a niche product to an advertiser interested in buying that product. That model is not in existence in the local cable interconnect business and I think that difference is important for people to understand.

Victor Miller: David, I think you had a follow-up?

David Barrett: Well, Victor, in the context of where this goes over five years I think it's important that we consider how our customers view television—the viewer customers and the advertiser customers. And I think, increasingly, they don't view it as cable or broadcast television, they view it as television. And then one focuses on who's got the viewer proposition—that means who's got the most popular programs, who can aggregate the largest audience? And that aggregation of the largest audience against demographic groups is what the advertiser proportion is all about. And that absolutely advantages the over the air television stations compared to the niche boutique cable network offerings. The viewer proposition is superior, the advertiser proposition is superior, the ability to aggregate these demographic "sells" the advertisers want to buy is an advantage. And then it becomes, in a very competitive world, who's got the best programs, who's got the best management, who's got the best relationships with advertisers. And who can produce the best results. And it is very difficult for a local interconnect to overcome these advantages that a local television station has in Washington or Baltimore if we stick close to home—certainly Comcast is mounting an effort to be in the local business but their ability in Baltimore to overcome the advantages and the relationships that Scripps-Howard and CBS

Viacom and Hearst-Argyle have in that marketplace with viewers and advertisers is a formidable challenge.

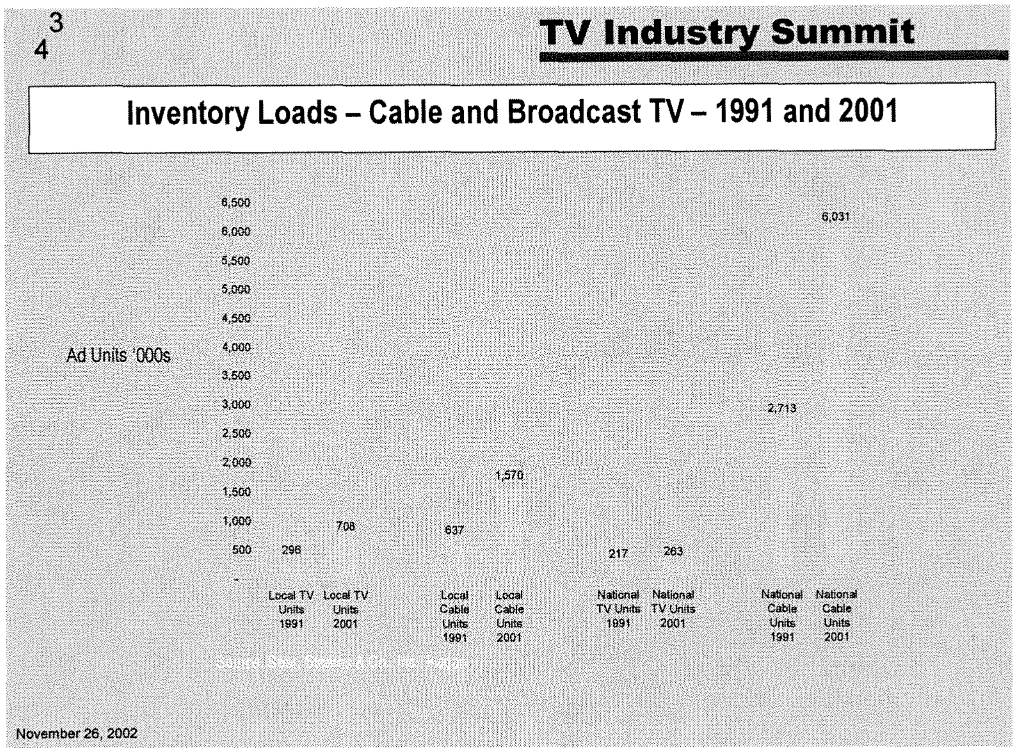
Victor Miller: Let me ask you guys—the three operators here—can you actually tell us; do you have any idea of how much money some of the interconnects are taking out of your marketplace? Can you just give us a sense, you know, in x market we think it's about x dollars? Do you have any sense of…some of the money being pulled out of your markets by those?

John Lansing: It is significant. I will say that in most of our markets I would say it represents the size of a third-tier TV station, meaning, you know, maybe a quarter of what one of the top two or three TV stations would be doing. Their growth over the last three to five years has been interesting; but, as I said earlier, I think the accountability the chickens would come home to roost in terms of accountability for that. And there's a real story to tell. And, with the help of TVB, we've had the ability to go out and tell that story.

Jerry Fritz: Consolidation on the local clustering has had a significant impact. In Washington, DC, for example, twelve years ago when we started News Channel Eight there were nine cable operators. Now, there is Comcast with seventy percent of this market; Cox with twenty percent' and then Adelphia with ten…soon to be sold to somebody else probably. But, so, now you have essentially one and…or two large operators. Comcast's ability to attract qualified sales people, increase commissions, have more sophisticated selling, does have an impact maybe on the level of an independent or a WB type of affiliate. I will make one, sort of, finer point on…a point that was mentioned earlier. The holy grail of cable has been to have the ad dollars track the audience share—that is to say ten one share cable channels equal one broadcast ten share. And it just doesn't happen. And the reason it doesn't happen is that there are unduplicated viewers involved and, secondly, the sample size, where these lower level—or these lower rated—cable channels makes it very difficult to have any credibility to the numbers.

Victor Miller: So you guys would all agree it sems the interconnect, using eighty channels or whatever…they've essentially created the economics in a marketplace of a WB or a UPN type—like a virtual fifth, sixth ranked station in the marketplace by using a heck of a lot of bandwidth.

Jerry Fritz: If they're clustered and if they can have the reliability of a technology so that spots run when they say they're going to run, there's one stop shopping and things like that. If you have multiple cable systems within a market where they interconnect, isn't a hard interconnect and doesn't work very well, then it doesn't reach that type of…



Victor Miller: Chris, I'm going to start with you on this slide. I know you wanted to add something but…here's the inventory loads, and I just want to talk about the impact that this had, either psychologically or just from the reality. Someone had mentioned earlier that we've got too much inventory—I think it was to you, Chris; we looked at the inventory loads for the local TV units in Nineteen Ninety-One and we found about two hundred and ninety-six thousand local units. And, then, by 2001 it was about seven hundred and eight thousand. So [local TV has] added about four hundred thousand units of incremental advertising. Local cable has added almost a million incremental units. And from the national cable network we've added almost three-point-three million incremental units of advertising in the last ten years. What impact does this have on the television business? Just the fact that we've got too much inventory out there? Is there any spill over into the local TV business just because of this reality? And then I'd like the operator—and of the operators can jump in on that.

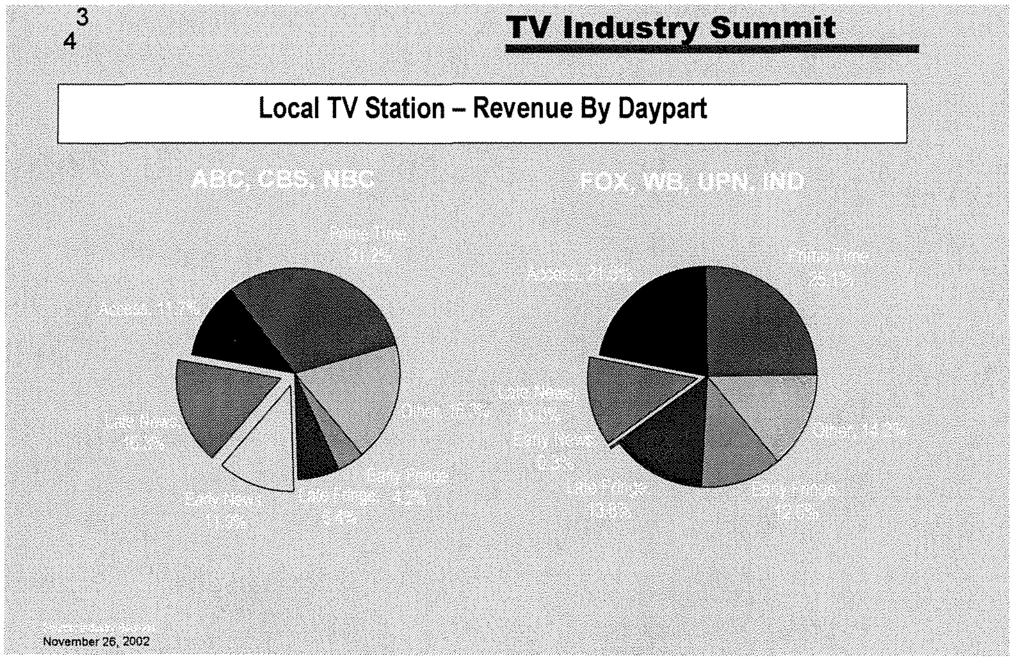
Chris Rohrs: Well, if you want to understand why the network cable pricing is suffering compared to broadcast networks you don't have to look any further than the right side of that screen. That is the biggest problem that the cable networks have and...and it's a self-inflicted wound but that is an explosion of inventory. And the real problem is that most of it is not desirable inventory. By that I mean, tagging on to what Jerry said, it is so low rated that it is not effective and useful for advertisers. In the Washington, DC market, as an example, we look at a lot of markets and we look at the cable and broadcast performance. In the May rating period this year, ninety-nine percent of the cable network programs in the Washington market did less than a one rating—that's a household rating, so that's the fairest measure you can give them. That's a problem. Ninety-nine percent of your inventory is doing less than a one rating and that explosion of inventory creates a real pricing problem. And, after all, it's a supply and demand business; it's a pure marketplace business that we're in. And, so, when you have a hyperinflation of supply and demand not strong enough because of the [weakness of the] inventory it's a real problem.

Victor Miller: David:

David Barrett: Well, it's a business, to follow on to Chris, that for years demand exceeded supply. And today's supply exceeds demand if you look at it in the most simplistic sense. But, indeed, the quality of the supply of desirable inventory remains fairly limited. And TV stations have had to become much more adept at differentiating their product, the quality of the inventory they have and contrasting this aggregation of attractive desirable demos against all these fractions. And the advertisers have had to work a lot harder—the agencies and the clients—to differentiate and distinguish between what's desirable inventory to buy or not. And, you know, I contrast it to the magazines. There's over five thousand magazine titles on a full service newsstand, if you will...only a select number of those—probably less than a hundred—are really dealing in attractive economics that are aggregating mass audience and selling substantial advertising revenues. That doesn't mean there isn't a business proposition with some of these other boutique titles. But the attractive advertising proposition resides in he or she who aggregates the largest of the audience.

Victor Miller: Jerry or John, do you think there's been any psychological effect [on the local TV ad market] with this much inventory in the marketplace when you go to sell your advertising either locally or through your rep firms?

John Lansing: Yes, I'd like to speak to a positive aspect of that, actually, is that the psychological effect is to allow us to remind ourselves and remind our advertisers that what we have is still alive and well. If you look at a market like Kansas City or Detroit—I'll take Kansas City...late news in Kansas City, total rating points for late news, thirty to thirty four rating points there sitting in late news in Kansas City. So, what we're out there selling in a market like that is not just a better product...not just a higher rating, better reach...we're also selling a relationship with a local advertiser that we can share with them our own local identity in that marketplace. The public service that local television does, election coverage, sports coverage, prep sports; all these efforts that go into shaping really what our personality is in a marketplace and then taking that to an advertiser and then allowing us to bring creative and innovative ideas for advertising—including program length commercials, including live—back to the future—live commercials in local programming; things that get a local advertiser excited about being on television and moving their product. And that part is really...that's the positive effect, really, of all the competition that's happening right now.



Victor Miller: Question for you, Jerry, what day part has been most impacted by cable? And the other question is, with cable network starting to dominate the sports; rolling out a lot of national network, you know, news coverage and really dominating the kids side of the business. What impact do you see this having on the local television business?

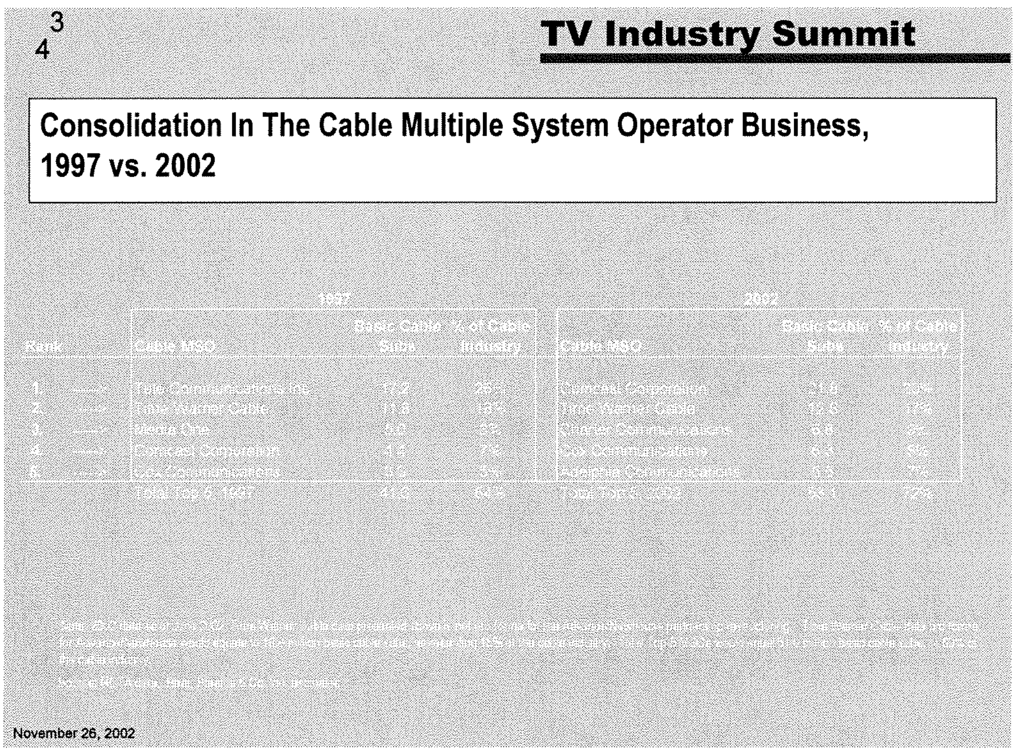
Jerry Fritz: I think the greatest impact has probably been on prime. Over the past ten years I would say, though, that it's more evenly—becoming more evenly spread with the growth of cable channels like E! and Home and Garden and Food and Court TV and the news networks where there are some original programming. It pretty much tracks our original programming. I think one of the interesting phenomena is that this growth of cable programming, original programming, is really forcing the networks into doing something that we've advocated for a long time, which is fifty-two week original programming...moving away from sweeps, moving toward...earlier debuts the way Fox has early debuted...some of the shows in August. But I think you're going to be moving more toward original programming year round.

Victor Miller: A question for David. You know, ABC, obviously, has been moving—almost all the NBA games are going to be on cable; they used to be on local. A lot of sports are migrating, you know, away from that [local television]. What impact does that have on a Saturday or weekend economics for a local television station? And, you know, the networks used to be in the kids business in a big way at one point—now that's almost a non-existent business, I think, on a relative basis. You know, all the national network—CNNs, all these things...is that having an effect? You know, they're going after strategic parts or your day parts—your sports, your kids, your news. Is that...what do you think happens there? Five years?

David Barrett: The case can be made that a lot of the sports programs aren't playing nationally—the ratings for hockey, indeed, the ratings for baseball and the World Series aren't appealing across a national distribution platform as well as they historically have; it's very regionally or locally driven. And that allows the cable companies to be a better place, in some respects, to have some of those events. There was a lot of discussion between ABC and its affiliates about the NBA package; the affiliates weren't terribly anxious to have those NBA games because most of those games deliver small audiences. So I think things are going to find their own water level in the right venue. I'll argue that the networks are trying to over-program a lot of the scheduling. There are times of the day and times of the week when I wish the networks weren't insisting on programming those time periods at all. I would love to see the model change in terms of how they structure their day—there's too much duplication in eight to eleven in prime. The network, I believe, that moves to—one of the three traditional networks that moves to the Fox "fifteen hour a week" model will have a distinct advantage and it would greatly help the local stations. I would love to see ABC go from eight to ten with prime time programming, allow us to do an hour of local news at ten o'clock at night and then, perhaps, we'd do a network program from eleven to twelve and get a head start on the Leno and the Lettermans of the world. But, you know, that's to kind of throw a provocative comment out there.

Victor Miller: That's what today's about so let's keep that up.

David Barrett: Not everybody on the affiliate side looks at that as a good idea. I think that would—it recognizes that the best economics for the network are in their own stations and the favorable economics are on the station side. So they would be able to scale back a lot of their entertainment and development cost and focus their attention on fewer number of hours. And, you know, I think we'd be happy to compete in our ABC markets at ten o'clock—even where we are winning at eleven o'clock.



Victor Miller: Let's talk about...here's another slide, slide number eleven. Um, the consolidation of the cable industry looks at the top five players. Here we are the top five, Nineteen Ninety-Seven, [there were approximately 65 million subscribers]; forty-one-point-six million basic cable subs, or sixty-four percent of those subscribers [were] controlled by the top five players at that time. Now you can see in 2002 we've increased the number of subs by almost twelve million [to approximately 74 million subs] and the concentration level has actually gone up by another eight percent so that the seventy-two percent of all of the cable subscribers [53.1 million] are now controlled by just five companies. The question is, according to the FCC actually—they wrote a piece called 'Survivors in the Sea of Competition." - as of July 2002 as many as twenty-two point three million cable subscribers had access to local or regional news programming as well. So there's a programming angle to this. So, the question is how has the consolidation of the cable industry impacted local cable ad sales, which you started to do…to talk about? And how do local stations view, you know, this reality of a consolidating MSO business? And let me start with Chris.

Chris Rohrs: Sure. Obviously, there's greater concentration there. But I think the bigger story has to do with the regional reorganization of the cable MSOs, where they've more or less split up the country and each market has a dominating MSO. What that has enabled, among other things, is a stronger sales effort on the local side…more concentration of the subscriber base—they're able to sell that in a more orderly way. Which, in an interesting way, I view as a positive for broadcast. The reason for that is local cable sales has been a pretty disorganized effort over the last ten years. It is now maturing and it's been enabled somewhat by the reorganization and concentration—Comcast probably being the most prominent leader of strengthening their local sales organizations because they have the market—individual market concentration. That's going to help us because the disciplines and procedures and accountability that will now be required of them will be an advantage for us; it will now be a level playing field. John began to get into some of those accountability measures—post analysis of media buys. Accurate numbers...verification that spots actually ran. All of those disciplines that are used with local broadcast are now going to be expected of the local cable sales operation. So I think the real story here is the geographic concentration and the splitting up of markets among the MSOs.

Victor Miller: David?

David Barrett: I think this slide bears on the whole ownership question. It's evident that the cable operators can control a significant distribution platform in a marketplace. And we've talked—Jerry has referenced Comcast covering seventy percent of Washington. As the FCC reviews these new ownership regulations I think this is a very telling piece of what's on the mind of broadcasters that we need some balance and we need some equity in terms of how ownership is viewed. You know, the limitations on television operators, when one considers TV duopoly, is in stark contrast to a cable operator being able to own seventy or eighty percent of a marketplace. So I think in the comments that are going to be filed with the FCC this becomes a very significant element of the whole review of ownership.

Victor Miller: As you...just going...not along the line of questioning that I had but I'd just like to get this panel's opinion. Re-transmission consent is your right; either re-transmission consent or must carry rights that you have every three years to negotiate. How much more difficult does an AT&T-Comcast merger make that theoretically in a market where, like, Philadelphia where the two combined [AT&T/Comcast] are ninety-five percent of the entire marketplace in terms of cable? John do you want to...?

John Lansing: Well, yes, I mean, it obviously puts a monopoly in a more powerful monopolistic position in order of—in terms of negotiating re-transmission rights. I think this goes back to David's point and that is the imbalance between the—the power in the marketplace between broadcasters who, in my view, are disadvantaged in their ability to double-up in the marketplace...to take some of the overhang of expenses out of the local market and create two stations operating under one news room perhaps...to give a little bit more of an equal footing in negotiating with these growing interests on the cable side who have inherent rights given by the municipality to have exclusivity in that marketplace...while broadcasters are held back and, in some cases, not allowed to take advantage of what would be a really smart ability to grow in the market and put two stations together.

Victor Miller: Anybody want to follow that? Jerry?

Jerry Fritz: I'll just note that to the extent that you have this clustering and the Commission and the courts have now thrown out the cable broadcast cross-ownership rule; that scares us because now, not only does a cable system have a number of programming channels. Now, potentially a broadcast station that they can own; it's a disadvantage because they are the pipeline to disadvantage those who are not in the cable fold. That's point one. Point two; we worry that with this clustering, that now cable can have the economies to compete on a programming basis equivalent to broadcasters. You see a Comcast with Comcast Sports Net. So, now, they take what they can do nationally to local. They can buy up local sports rights and potentially come up with a news operation. Now, I think that news is an incredibly expensive undertaking. We are able to—and all three of us up here that have cable networks—have the ability to provide that localism that cable currently lacks and we're able to amortize that investment over not just our broadcast station but our cable network as well. That is duopoly. Even though it's not regulated by the FCC that's a duopoly that allows us to do exactly what we've been advocating, which is the ability to amortize those expenses over multiple distribution platforms.

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TV Industry Summit

Impact of Network Ratings on Local TV Stations - Primetime

Ratings for ABC, CBS, NBC, Fox, UPN, and WB for the Broadcast Season

	1999 - 2000	2000 - 2001	2001 - 2002	Percent Change 1999 - 2002
ABC	9.3	8.3	6.3	-32%
CBS	8.5	8.5	8.1	-4%
NBC	8.6	7.9	8.8	3%
Fox	5.9	6.1	5.7	-3%
UPN	2.7	2.5	2.7	-1%
WB	2.6	2.5	2.5	-5%

November 26, 2002

Victor Miller: Let's talk about…the news operations and the broadcast networks a little bit. David, I think I'll start this question with you and I'll ask Jerry too because I believe both of you have a few ABC affiliates in your portfolio?

David Barrett: We have twelve.

Jerry Fritz: We have all of our stations.

Victor Miller: You are one hundred percent—Jerry is one hundred percent ABC affiliates so he need not look farther than this, the first line on this.

Jerry Fritz: I see Susan Fox [Walt Disney Company Washington Counsel] is here some place…

Victor Miller: That's not her fault. I mean, she didn't program the network. When a network has a significant audience decline over a year or two, how much can that impact the local affiliate's economics? I mean, when it comes down to dollars and cents in that time period? Can you give us any sense?

David Barrett: Well, very damaging. We tell people that about thirty-five percent of our revenues are derived from local news time periods and another thirty to thirty-five percent from prime time. And, of the news time periods, eleven o'clock is...the late news is probably the most significant of the news shows. So, a network's weakness in the ten to eleven o'clock hour is particularly difficult for local stations to deal with and we have seen significant downward pressure on rates. Our rate realization for prime time inventory at our ABC stations is off sharply. We are advantaged when we can bundle that prime time inventory with news inventory and attractive syndicated inventory. But, nevertheless, there is a precipitous drop in the rate one can charge for a pure prime time schedule when you have a number three or number four network demographically.

Jerry Fritz: You know, weak day part translates to lower per spot rates. This is why the ABC NFL deal...went from essentially break-even even in many large markets under the last deal, not the current deal, to a money loser in almost all markets. It...now the network will tell you it was never sold to be a break even but, in fact, for larger markets it was break even at least. And, now, because of the network decline, it has been a money loser. It's harder to calculate the lead-in, lead-out effect...it's probably lagging on the way up and on the way down. But I will note that, in many cases, the question is really reversed. The local affiliates' news reputation has a very strong impact on the acceptance of the network news. When you have very strong news operations like our Tulsa station or our Little Rock station, which are—the tops...dominant in the market. That really pulls and lends credibility to the network news. I think broadcasters are producing a lot more news now than they were before. But I worry about the third or the fourth news operation in a market. The economics are very expensive. And just witness what happened last week in Detroit where you have a company with a duopoly that has essentially given up except on its Fox affiliates now asking the Scripps-Howard station to program that. So I worry about the, sort of, the third and fourth news operations.

Victor Miller: So, in Detroit the CBS affiliate's no longer in the news business, they own a Fox affiliate in the marketplace?

Jerry Fritz: That's an O and O [owned and operated station of a broadcast network].

Victor Miller: That's an O and O [owned and operated station of a broadcast network]—it's owned by Viacom and, actually, Scripps is actually programming the news on the Fox affiliate.

John Lansing: See, I would take the view that there's only so much local news that can exist in the local marketplace. How many live trucks need to show up at a house fire…six, seven, five? I don't know. I think the question really is, what's the viable number of news operations that can perform at a level that the public finds it to be serviceable?

Tape 1 – Side One Stops

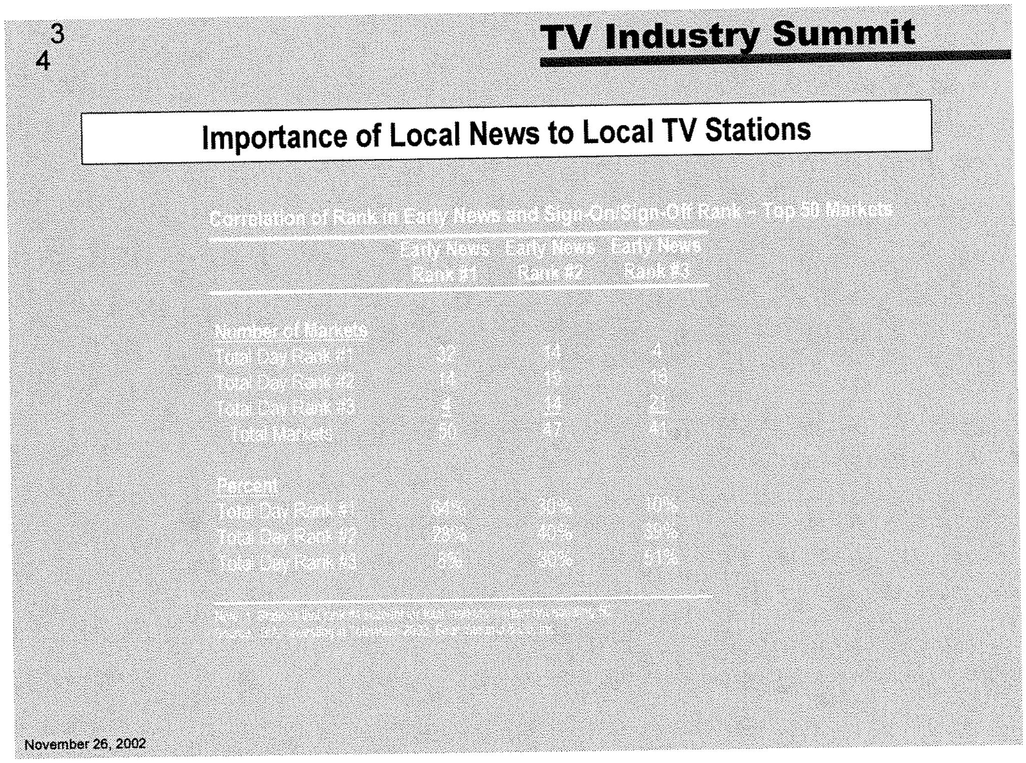
Tape 1 – Side Two Begins

John Lansing: [continuing, in mid-sentence] …Of how these markets really do need to consolidate and take some of the overhang out of the expense side of producing local news. Another point I wanted to make, and this is to amplify one that Jerry made. We talk a lot about the effect of network lead-in on late news and, in fact, it can be devastating if it's low and it can be fantastic if it's high. But there is the inverse effect. If you look at some of the strongest markets for ABC around the country—and David and Jerry have a couple and we happen to have a couple ourselves—and then you look at how the resurgence of Good Morning America that ABC is proud of and should be proud of…and I can tell you, you can tie that resurgence directly to the strength of the local stations that were already strong in those marketplaces. And, so, that effect is symbiotic.

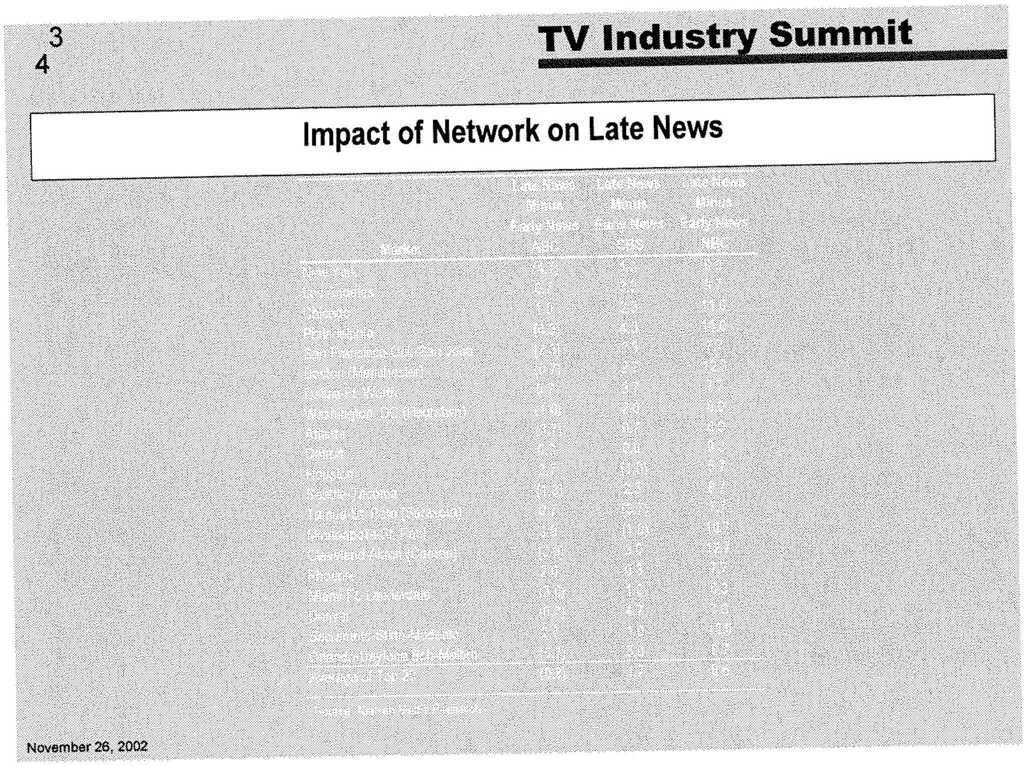
Victor Miller: Now do the network and the affiliates…I mean, do the affiliates try to work with the network and try to, like, say, you know, what can we do about the prime time? What can we do about this day part? You know, what is the dialogue between the two parties in, hoping to improve…this?

David Barrett: Well, there's dialogue, there's feedback. But, I think the networks, all of them, reserve the right to make their own decisions about the product that they put on the air. What is significant is how much promotion time a leading local ABC affiliate is prepared to devote to network programs to help dig itself out of the hole.

Victor Miller: Let me try…there's a couple…I want to show you a couple of slides here on the local news.



If you look at over here, my little pointer here, you can see that what we've done here is we looked at the May 2002 ranks for the early news. And the reason we look at early news is because that's the one that's not impacted by the networks at all. This is just the strength of the local stations on its own, its own selected syndicated product, and its own news show. Well, what's interesting is if you look at, here's the number one, number two, number three ranked early news. If you are the number one ranked early news, [in] thirty-two out of the fifty top fifty markets, you are going to be ranked number one for the entire day; sixty-four percent of the time, you will be ranked number one. If you're among the top two, ninety-four percent of the time you're also among the top rated stations in the marketplace. So, if you look at the network—I'm sorry, these are small, very small numbers.



This is slide number fourteen. What we've done here is we've now looked at the late news, which have higher HUT [households using television; a measure of the average percentage of TV households that are watching TV during a specific daypart] levels, right? We've got more concentrated viewership, viewership is pretty high at eleven o'clock, theoretically, and it's more concentrated–more people actually watching one source of their programming, and that's local news. So, in general, late news shares should be higher than early news shares, and that's what we see in general. But, what's interesting is we've looked at the top twenty markets here; and, in general, the ABC affiliates show a point-eight percent share decline in late news relative to the early news program. And you can see CBS is actually a plus one-point-seven; NBC, a plus eight-point-six. So that means if you're an NBC affiliate the network is actually helping you create a lot of momentum, as you said, that ten to eleven o'clock time period going into your late news; and that actually helps. So, it is a symbiotic relationship. So, what is then, what is the flow-through—not only in watching prime...decline, for example, on ABC but it's been CBS in the past, NBC; we haven't seen declines in some time. But what is the impact in the late news of, you know, when networks have these vacillations in ratings?

David Barrett: Well, one can look at this slide in a couple different ways...

Victor Miller: And I'd like you to do that [laughs].

David Barrett: It's doing a great job from ten to eleven; at ten fifty-nine there's a lot of audience there, which pushes into the eleven o'clock news. I'd also observed that, given how poorly ABC has performed in prime, the fact that its stations only have a point eight differential means that those local brands are very, very strong. And, really, one has to look at these television stations, not just by day part but in terms of what kind of branded media franchises they are in the local market. The early news is usually influenced by that five o'clock news, by what's programmed at four o'clock. And there's a strong historical correlation between stations that have had Oprah

Winfrey on the air from four to five...have tended to do a little bit better than others in the five o'clock news. And stations that have done well at five and have a strong news brand can recapture audience at eleven o'clock at night notwithstanding what the network lead-in is. And in some cases, one needs to consider how the NBC schedule, which has been fairly hip as a brand—it's got some edgy shows...in some markets that plays better than others. The NBC schedule plays better in Boston than it does in Greenville, South Carolina. The demographics of that marketplace embrace that brand better in terms of the Boston market. So all those things have to be taken into account. I'd observe that historically ABC has had a very strong lineup of affiliates that win in local news. There is an Oprah correlation but those stations have done a spectacular job across the ABC lineup and kind of holding up the network in its ebb and flow dynamic.

Victor Miller: How many hours of news did you produce, let's say, five years ago? How many hours do you produce, on average, now? And why are you producing more or less news programming? Why don't you start...we'll just go right across...

John Lansing: Yes, we're producing roughly four and half to five hours a day. Where we're expanding recently, frankly, is in the morning. We're starting earlier in the morning, moving to five a.m., and, in some cases, four-thirty and in...

Victor Miller: From Six?

John Lansing: Yes, earlier in the morning, from six in the morning to five and then, now, in some cases…in one case actually we're moving to four a.m. And we see that as one growth area in local broadcasting is the early morning news, local news, where gross rating points for morning news in local markets are generally up across the board.

Jerry Fritz: We have about four and half to five hours; it depends on the markets. Some markets are bigger news markets than others. We found, for example, our Little Rock market is not as strong as our Washington market just in terms of the demographics of news. That having been said, we have taken the ability here, just recently, in Washington to…to consolidate our all news operation, our cable news operation, with our broadcast news operation—which gives us that ability to do a lot more news and to give CNN news inserts for the headline news to do a lot more breaking stories with ten potential live feeds…three satellite trucks, seven microwave antennas—things like that. So we place an enormous amount of emphasis on news. Because the strategy is, the strategy is to dominate what we can control. And what we can control and what cable can't control—because that's our primary, you know, growth competitor. We've always competed against each other but to control, to own the news…and David said that's sort of a function across all ABC stations. But our group particularly—and I think Scripps and Hearst as well—is to own the news. An we compete against these guys in several markets and it's a rough battle. But that's what we want to own. We want to own the news because that's the growth and that's what we can control in the future.

Victor Miller: David, are you producing more or less news than you were five years ago?

David Barrett: We're producing more. I'd echo John's thoughts about expansion in the early morning. I'd also add that in a lot of cases, weekend morning news' are attractive. Our audience tells us that they want more news on the weekends; it is sometimes difficult to reconcile the network programming obligation to introduce local news on Saturday and Sunday morning. But there's a viewer appetite for that and there's an advertiser appetite for that inventory. And, you know, if one looks back seven or eight years of the unit rates that TV stations were getting from six to seven in the morning and on Saturday morning…where there is a news program now—the rate realization is significantly better.

John Lansing: The other thing, Victor, just to tag onto that is beyond news there's been an expansion of other programming, including high school sports programming. At many of our stations weekly sports programming attaches a local NFL team. Also, local programming in other categories; local talk shows and, in the case of one in

Phoenix...and we've added local programs in the categories of our cable networks—local home and garden oriented programs that allow us to sell the local category in that same branded network that we have at the network level.

Victor Miller: Let's talk a little bit about...a question again...just a general; let me start with you, Jerry, on this. Just how sensitive are local and national advertisers to changes in your local news ratings? You know, are they just trying to...are they less sensitive in that day part? Are they more sensitive to that day part in terms of...rates? And do local advertisers buy differently than the national advertiser when it comes to your local news programming?

Jerry Fritz: Our buyers across the board are fairly sophisticated and they are able to discern the strengths of the local versus the network. And, so, we strictly sell on the strength of our local news...regardless...

David Barrett: I'd observe on the national level there's more of a commodity notion about this inventory and that means that we're probably impacted by the ebb and flow of audience more in the national buy. Locally, people are watching our stations, they have a better appreciation for the quality in the local news commitment that stations have. And I'd observe that our company probably finds it easier to capture a premium for its audience leadership from the local advertiser, who has a finer appreciation for what we're doing than is the case with a commodity like a national sales transaction.

Victor Miller: Now, here's just a theoretical question; if one of the new networks, WB or UPN, actually stopped operating as a network what impact do you think this would have on the television industry or the local business? Anybody?

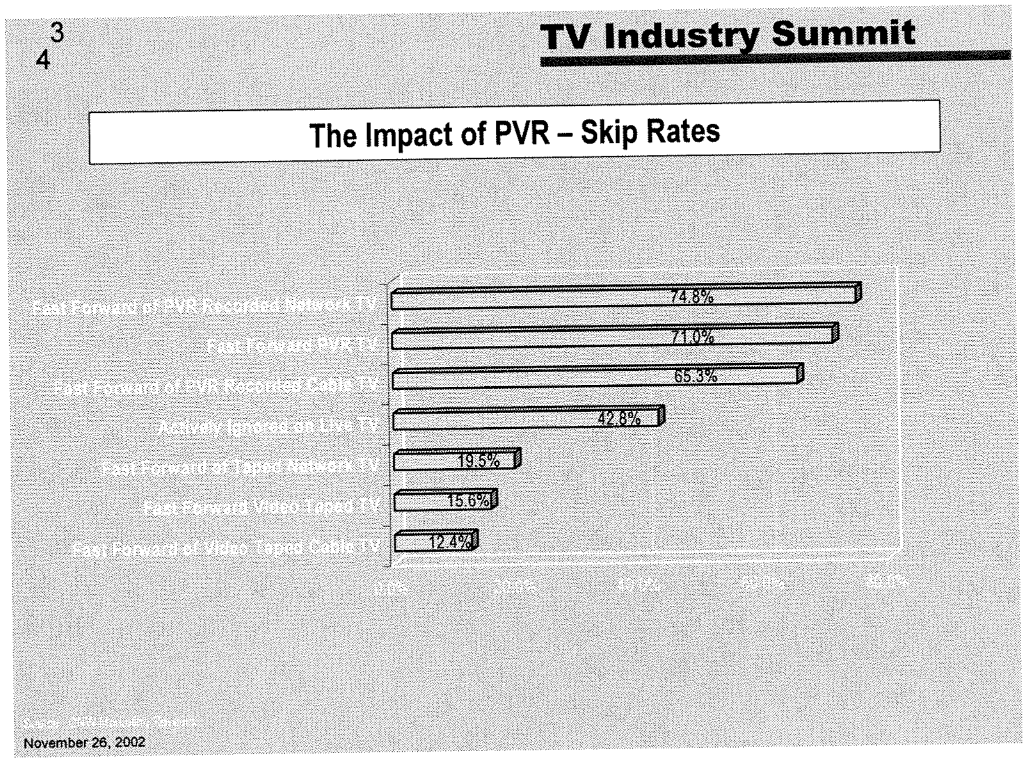
Jerry Fritz: I think it would affect the value of local stations, the more networks...when you have situations where you have more networks than stations in any market it just increases the value of the station. Look at what Fox did with New World, where you have more networks and stations and the networks are willing to pay to keep its distribution so it affects the value of the stations. We want to make sure that WB and UPN are viable networks.

David Barrett: That branded programming source is valuable for those stations. We'd be in a tough spot in Sacramento if we lost the WB programming source and brand there. It's been advantageous to that station, a smaller UHF station, to help it develop. So I think it's been very beneficial as stations try and find programming.

Chris Rohrs: Also, it would affect supply-demand equilibrium and impact pricing in a probably significant way—both nationally and locally.

Victor Miller: Let's talk about...here's a...here's an article, very nice, that the Wall Street Journal and the New York Times have written three articles in the last two days on some of these topics we'll be discussing today. Yesterday's Journal, if viewers zap ads, so will buyers. And it talks about the impact of the TIVOs and Replays.

And then this morning in the Journal there's an article on TIVO as well on the front page—a slightly different angle on the article, when you read it for yourself you'll get to see what we're talking about.



Here's the impact of PVR [personal video recorder] on skip rates. The skip rate on a fast forward of a PVR, personal video recorder, recorded network TV, is seventy-five percent. Fast forward PVR/TV, seventy-one percent. And you can see that's a lot different than your taped network, you know, a VCR at twenty percent and a fast forward on a taped TV about sixteen percent. It's a dramatically different skip rate. I mean, very dramatic. And what's interesting is we decided that if the…what would the cost of free, quote-unquote, free over-the-air TV look like if there's a complete demise of the advertising business? There's about thirteen billion of local spot dollars, twelve billion of national spot dollars. So the TV business is about a twenty-six billion dollar business; the networks are about sixteen billion, syndication at three. So, total TV broadcast, almost forty billion dollars. There's about ninety-five-point-seven million multi-channel video subscribers, eliminating about three million of overlap, including piracy, SMATV and MMDS. This would imply that if there was a demise of the over-the-air free television business that the increase in the basic tier fee to basically replace this money would be about thirty-four dollars per sub per month just for the TV business. And then when you add the cable network business it would add another fifteen dollars per subscriber per month. So cable bills would be closer to a hundred dollars a month without free over-the-air television being supported by the ad model. What the hell are we going to do about this, guys?

Chris Rohrs: That was a rather fast leap from [laughter] to the…I like the quote that came out a week or so ago that said that there were more homes in America with outhouses than with digital video recorders…which is literally true but…

Victor Miller: But, you know, once it's in the cable box….?

Chris Rohrs: Understood.

Victor Miller: You know, we can't say that this technology, just because there's not a lot of it today that it won't exist. And we're looking at a five year. You know, five years, what's this economic model look like?

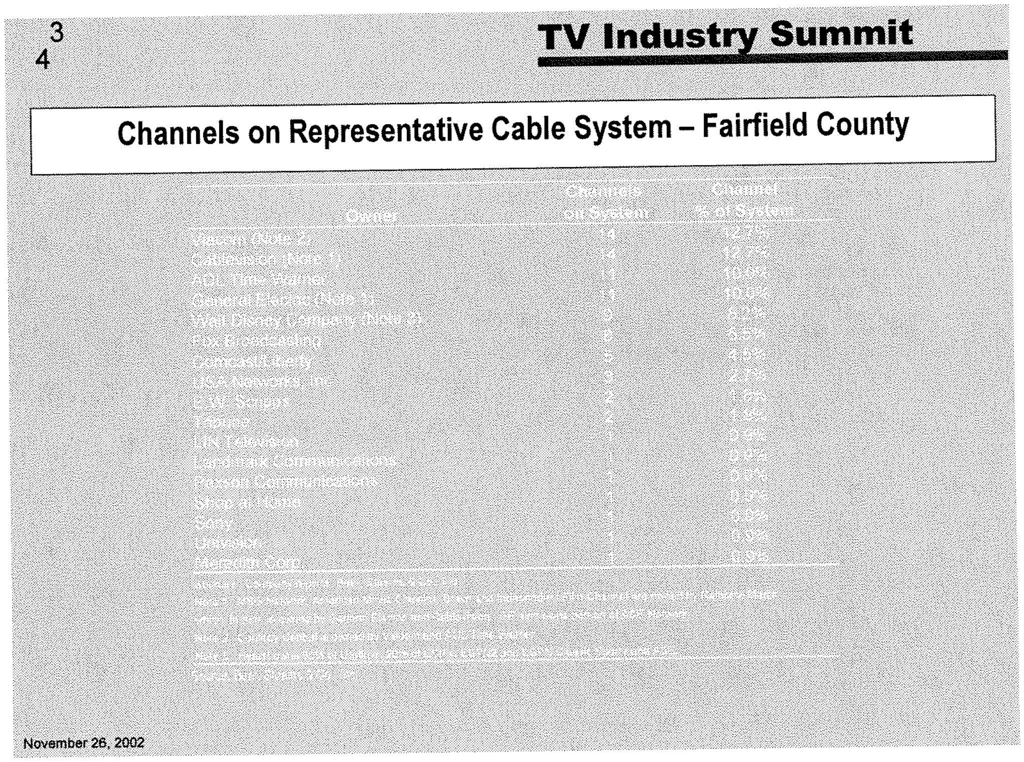
Chris Rohrs: There is going to be a lot of penetration in five years, I think, because people who use the product like it a lot. I think you always have to be cautious about the behavior of early adaptors, however, and be skeptical and cautious. There will be significant penetration and I personally believe it's going to bring very dramatic changes to television advertising. Some of them are evident what they will be—at least I think they are. You will see irregular length commercials begin to proliferate. And the digital build-out supports that; it doesn't have to be a thirty-second commercial anymore. You will clearly see irregular length commercial breaks. You'll see less predictability...and probably you're going to see better commercials across the board; it's going to spawn better commercials. And then everybody will make adjustments in the business model. To say that it's going to lead to more product placement, I don't think that works as an alternate solution either because that only works with a couple of products. Very rapidly you have the problem with too much. So it's going to bring change but I think it will be evolutionary. And the advertiser and broadcaster will have time to adjust to it.

Victor Miller: Any of your guys?

David Barrett: Well, what...you know, what I focus on is the suggestion of demise of free over-the-air television. From a public policy point of view that would be a tragedy for this country. One of the most distinguishing factors of American society has been the availability of free television. And to suggest that unless one had a wire coming into their house they couldn't get television and a long horizon would be bad public policy in my opinion. And I think all of us ought to be very cautious about that. It does cause you over a longer period of time to consider whether the...the inequity in the cable re-transmission consent policy right now is fair and whether that needs to be revisited. And the fact is that the cable companies have built attractive business franchises without paying for the most popular programming that they have. And I would say that the current retransmission consent law has failed in some ways because it stopped short of forcing some kind of mandatory arbitration to reconcile an unwillingness to pay for most popular programming. So I think in the context if...I think there will be a lot of pressure on Congress that if free television seems to be in a state of demise, as an industry and as a society we're going to have to revisit how we want to create a dynamic where free television can be preserved.

Victor Miller: Let's talk about...let's wind up with some final thoughts. The first one is, in the past, the Federal Communications Commissions has viewed the MSO, the entire multiple system operator in the eighty channels that it has as one voice. As a local TV broadcaster do you agree with this interpretation and how many voices would you suggest are represented by a cable MSO? And…do you want to start it? John?

John Lansing: Well, obviously, multiple voices and growing by the day in terms of the digital build-out of cable services and all the rest of it. I think that mostly speaks to the need for the FCC to recognize that the diversity of voices that exists in local marketplaces from cable, newspaper, Internet, radio, television, pay television, and cable would be, I would think, a motivator to at least look at the marketplace and ask one basic question: is it a level playing field for local broadcasters to compete? And I would say the answer to that question is, no, based on the regulatory restraints. So my final thought, if that's what you're asking, would be to suggest that local broadcasting is worth saving. I, for one, don't believe that it has a Armageddon scenario. I believe local broadcasters would adapt and are adapting to all the changes that are coming along. I can't think of another sector of the media industry that's invested more than local broadcasters have in the digital future of this country. And I think all we're asking for is a chance to have a fair shake.



Victor Miller: Now, here, for example, I just sped ahead to slide twenty-eight. But you can see here's the channels on a representative cable system in Fairfield County; David and I both have the luxury of living in Fairfield County and having Cablevision as our provider.

David Barrett: Luxury?

Victor Miller: Well, Fairfield! Viacom has fourteen different slots on that cable system–about thirteen percent of the channels on that system. And there's Meredith down there with one; LIN with one; Univision with one; Tribune with two…they have a duopoly in the marketplace and they happen to have two slots. So how do you look at this…in terms of the voices and this? You know, the voices…first of all, let's not walk away from the MSO and how many voices there are. How many voices should there be? And then address this reality as well.

Jerry Fritz: It illustrates sort of the historical disconnect of how the government views ownership. Twenty-five years ago you had a highly compartmentalized view of ownership in America of the media. You had the national rule if you had a top fifty policy; regional concentration of control; and all the local rules that were segmented by service. You had duopoly rules and newspaper broadcasting and cable broadcasting cross-ownership rules. And then the attribution rules that sort of undergirded all of those ownership rules. Now, I think what Chairman Powell and Paul Gallant's committee are doing...they're taking a more holistic view of the...of the ownership rules. And they're saying, 'wait a minute, what makes it odd that the regulations won't allow one broadcaster to own two television stations but can't own one television station and a local news channel; or allows a cable system to own fourteen separate...there has to be some common definition of what a voice is and I think what the Chairman and what Paul is doing is trying to take that holistic view to get some consistency of how we define what a voice is. John said it well that these are multiple voices. And what we have to have is a realization that broadcasters have to fit in that mix; that broadcasters should be allowed to fit in that mix and get a duopoly