or a triopoly to have the ability to amortize some of those investments over multiple platforms to compete with these other…other inputs.

Victor Miller: Thank you, Chairman Fritz. And, now, Chairman Barrett, what would you do? We've talked all about…you know, this discussion's been all about the pressures. What…what do you think, structurally, would ensure that five years from now that the business remains as healthy as you characterized it when we started this discussion?

David Barrett: Well, I think the path we're on with the Commission to review all of these regulations and effectively define areas to deregulate will be advantageous for those who are invested in the television business. You know, I think we need a different definition of TV duopoly. I think we need the ability to consider these businesses, local media businesses—whether that includes magazines or newspapers, or radio stations, or multiple TV stations within some reasonable limitations that justice would be satisfied with…is an area of outcome that I think we can begin to get comfortable with. You know, I am always going to struggle over this voice test, because it suggests that each voice is equal and, indeed, that is not the case. So, I would hope—and there's a lot of thought being put into some of the comments that will be filed with the Commission whether we can get away from this notion of voice test all together

because I don't think it will ever be one that we can satisfy ourselves as being equitable across all these different platforms.

Victor Miller: Chris, what about a fundamental point…is media substitutable? Do advertisers just buy television? Because, remember, the Department of Justice reached a conclusion on the radio business that radio is a distinct marketplace and that's why the thirty-five percent revenue share tests were appropriate kind of bench marks for the DOJ. But is it true or not true that people can go buy television or in local newspapers or local cable or…is there just a TV, local TV, marketplace only?

Chris Rohrs: You know, Victor, in my job I look at that from the point of the advertiser…to try to think of it and approach it from that point of view. And, it's interesting when you look at it that way with what's going on in the advertising marketplace right now. There's a phenomenon going on. Some people are commenting on the ad market recovery. There is no ad market recovery; it's a television event that's going on. It's not an across-the-board recovery. Advertisers are clearly looking at their media choices today and are making a very pronounced selection. And I think it's all about the flight to quality or flight to safety. They have no margin for error right now with the investor dollars and it has to work, unlike a few years ago. So, advertisers are clearly differentiating between media

and value in broadcast television. I look at the question from the point of view of the advertiser.

Victor Miller: Good point. John, any last thought before we…we've got ten more minutes after this. We'll ask to see if there are any questions from the house; if not, we'll get a cup of coffee and stretch.

David Barrett: I would only amplify what has been said several times up here this morning, and that is broadcasting is an important function in our communities. I think it's a great business and I think any regulatory relief that we could encounter would give us a second wave in order to deal with all of the changes coming around in the next year or two.

Victor Miller: Any questions from the audience for these gentlemen? Is this live? Can I just hand this out? We're going to do a little Donahue.

Federal Communications Commission Question: You all have talked about the…value of the quality of your product and the dominance that gives you in the market. What is going to happen with that picture when digital comes into play and you all have more…programming streams?

Victor Miller: Can I also…and then I'd like to add to that what happens when broadband comes. So, you know, what do you do with your potential incremental bandwidth and what do you worry about in terms of other people, like the cable guys creating more bandwidth? So, why don't you balance those two angles?

David Barrett: Well, my comment would be that our primary video will transport from the analog to the digital distribution platform and that is, indeed, what defines our brand. The opportunities that are going to be available for us…you know, this past couple of months, if we were in the advanced multi-casting environment, our Baltimore television station would have taken its coverage of the tragic sniper incidents here and probably used that multi-casting opportunity to provide extended coverage. This past summer in Pittsburgh, when there was the miner tragedy, we had this challenge of...do we go back to the network programming or regular programming? Or how do we satisfy the audience interest in expanded coverage of that story? That is an opportunity if we can get over the hump with the cable companies and their willingness or their obligation to have to carry our full, multi-cast signal that provides good service to the community and a good business proposition.

John Lansing: That's actually the issue I was going to tack on, and that is the cable operator as gatekeeper and our ability to really put our digital spectrum to good use, whether it be through a broadband application, whether it be through video-on-demand; whether it be through added services on top of programming; or even high definition TV. And our difficulty is working with cable MSOs and having the wherewithal to create businesses that flow through their

systems. And, as it stands right now, they're not very willing to see that occur.

Jerry Fritz: I'd make three quick points: one, that [inaudible] that we could have some alternate distribution for multi-casting on digital to offset this incredible expense—the three million dollars in capital plus the thirty thousand dollars a month in just powering the transmitter. But, more fundamentally, I think a second or a third or a fourth channel gives us the opportunity to amortize our investment over a multiple platform to the extent that we can get cable to carry the signal and that we can get people to view it. When you have seventy percent penetration of cable and no tuners in the sets and…the host of other problems that attend to DTV conversion; we're looking well into the future for the ability to amortize that investment over multiple streams. I think sort of really in the future…a change in the FCC's ownership rules, along with the conversion to digital, will allow broadcasters to do things like teaming up with newspapers so that you have a separate type of highly targeted niche channel that you can program over…over a DTV multi-cast stream. But, as you know, that would take the Commission to do something with the newspaper broadcast cross-ownership rule, which, as you personally, know, led to the demise of and creation of a monopoly newspaper town here in Washington, DC.

Victor Miller: Any other questions? If not…

John Kornreich: How do we get a handle on how much of political is incremental? I know, Dave, you've been in the forefront of playing down somewhat the incremental importance of political. How do you get a handle on it? And, secondly, any comments on where the political advertising is going over the next couple of years, given some of the restrictions that might be in place?

David Barrett: I guess, John, I'm playing it down a little less now that the volume is so staggering. I said in our October Thirtieth call that this year we estimate that fifty percent of our political revenues are incremental. You know, at least that's a more precise number than I had given in the previous campaigns but that's how we dimension it in the Year 2002. I'm one who believes that there will continue to be political extensive and voluminous political spending in future campaigns. I think money will migrate to state organizations as opposed to residing in some of these federal coffers. And I think it's going to be difficult for anybody in this country to get elected to office if they're not an incumbent without spending extensively on television and I think candidates will continue to do that.

Chris Rohrs: I agree with that. You know, political advertisers are no different than automobile advertisers, retail, movie, in that they have figured out that the way to close the deal is through television. And, so,

that's the prime motivator and will continue to be in place. It's the same way as if you have to launch a movie successfully, you have to sell a SUV in that incredibly crowded environment...you need television. So that will continue to motivate how the funds flow. I think they'll figure out what...the motivation will come from the fact that it works for them.

John Korneich: One other political motivated question. Most of the broadcasters I talk to are feeling very good about late November and December pacings. Is it possible, though, that some of that money was pushed aside in October and the first week in November and is simply now coming back in, in late November and December? And that the underlying trend really isn't as healthy as it appears?

Victor Miller: Chris, go ahead.

Chris Rohrs: Some of that is true, there's always some displacement. But, balancing that, we just released our figures for the third quarter and of the twenty-five categories that we track, twenty-two of them were up in third quarter. So we think it's an across the board strength. There is some displacement that pushes money into November and December but...and, particularly, there's great strength in automotive. There's amazing strength in movies. Retail is very strong. So, I think it's...it appears to be across the board at this point.

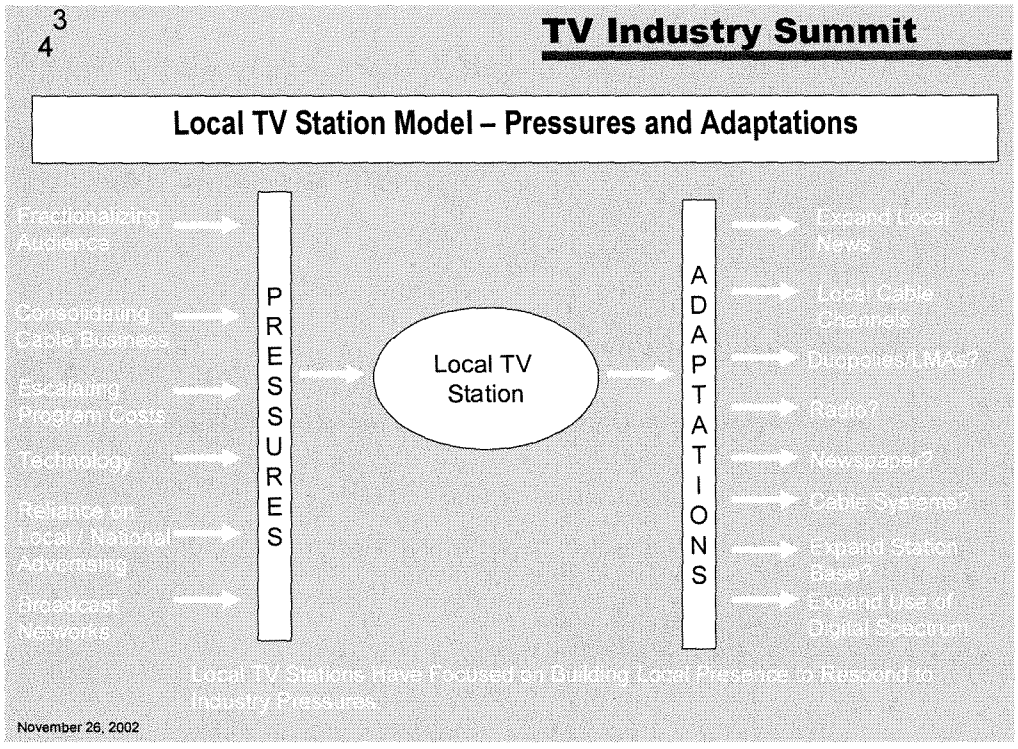
Victor Miller: With that, I think we'll make that the…we can always catch up with them…at nine-fifty we're going to start the next panel—exactly at nine-fifty…thanks.

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

Panel Two: The Economics of Local TV Broadcasting-Revenues and Expenses

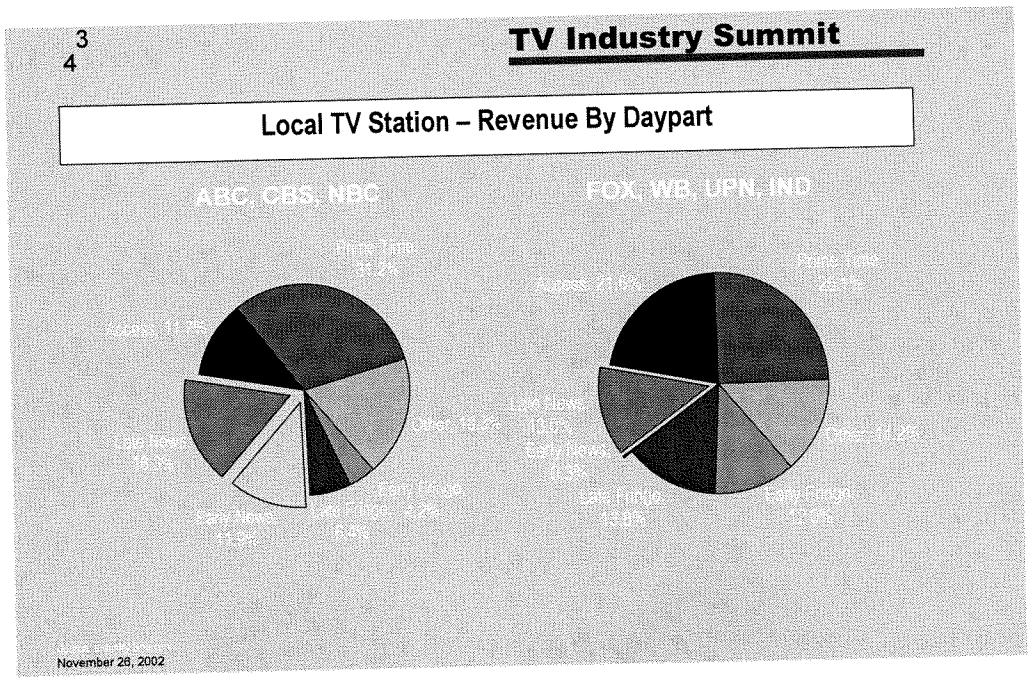
Panelists:
Bruce Baker - Executive Vice President, Cox Broadcasting
Gary Chapman - Chief Executive Officer, LIN TV Corp.
Kevin O'Brien - President, Broadcasting Group, Meredith Corp.
Jeff Smulyan - Chairman, Emmis Communications

Panel Time: 9:50AM– 11AM E.S.T.



Victor Miller: We're going to start with Panel Two. The first panel really focused on some of the pressures that are being exerted on the local television station model. And now what we're going to do is see how some of those pressures are translating into the revenue side of the business, specifically, and we're also going to talk

about the cost side of the business. We're actually going to talk about what the local TV station actually looks like from the revenue and expense side and we'll talk about whether we need changes in terms of second revenue streams. And I have a feeling that Jeff Smulyan may have an opinion on that...we'll see...I'm guessing. For this panel, we have Bruce Baker, who is the Executive Vice President of Cox Television. We have Gary Chapman, the Chief Executive Officer of LIN Television. We have Kevin O'Brien, the President of the Broadcasting Group from Meredith. And we've got Jeff Smulyan, the chairman of Emmis Communications. I appreciate you all being here.



Let's kick it off...here's revenue by day part. We show what a typical ABC, CBS, NBC station looks like. Given that this is about right for the industry; this is slide seventeen, by the way, in your

book. Should you guys have slides? Okay. Which are your most profitable day parts? And which ones are your least profitable day parts out of the day parts we've got up here on our screen and you have in front of you on slide seventeen. Why don't we start with you, Mr. Gary Chapman?

Gary Chapman: Our most profitable day parts actually are news. We have a little more revenue in the news than on this slide...some thirty-eight percent of our total revenue comes through news. And we do about a fifty percent margin before overhead in news. So that would be our most profitable. And of all the time periods, it's really from five to seven in the morning–that two-hour block before the Today Show, CBS Morning News, and Good Morning, America. Now, our least profitable are where we paid too much for programming. That could be Oprah, or that could be seven to eight with Wheel [of Fortune] and Jeopardy. And often times we have; well, just recently purchased a television station and found ourselves in that circumstances where the prior owner paid about twice as much as his revenue. So, basically...

Victor Miller: That's not a good thing.

Gary Chapman: Yes, about two million dollars goes to Roger King and they sell about one million; so that's probably not a good thing.

Victor Miller: Is it pretty consistent news is the most profitable day part? Bruce?

Bruce Baker: I think we have to position on a strong station that prime time is very profitable because the network is paying the cost for that, certainly you can't overlook that. And I would agree with Gary that the morning five to seven is profitable because the news operation is part of your expense base so you do not have to factor a lot of that expense in the morning.

Victor Miller: What we're going to do now is move through these day parts, bit by bit, and we'll start with the news side. And I'll start with you, Kevin. How many hours of local news are you producing now relative to five years ago? It's a question I asked on the last panel, and why are you producing or not producing more news?

Kevin O'Brien: Well, let's see, I'll be giving you kind of a horse shoe's kind of estimate on that because I've only been on the job a year, but I'd say we're up about twenty percent in the amount of hours of news. We're definitely adding more news, especially in the morning. That seems to be the most vibrant time period for increase in viewership in an area where a local station can dominate. Because in the morning people want to know the local weather, the local traffic, what happened in our town overnight? So, we generally have a high rating. News is…news is the one thing that has saved local television and it's the one element and the one bastion of success and exclusivity that we have that's going to keep us dominant as an advertising medium for a very long time. And,

therefore, it has to have a great emphasis. And stations that aren't expanding in local news, adding more news, are going to be held captive to syndicators who seem to be few and far between now. And when they have a hit it's hell to pay to keep it. So I think local news is a very, very good business strategy.

Victor Miller: Let's talk about, since we did spend an extensive amount of time on the news in the last panel, let's talk about the network day parts a little bit. And we'll talk about early and late fringe as well. This is for anybody who'd like to take it. In our last panel we talked about…I'm sorry, have there been any major changes in the inventory load that stations keep relative to the networks during network owned shows over, let's say, the last five years? And how do local stations help the networks' economics and vice versa? Anybody want to start with that? Jeff?

Jeff Smulyan: Well, obviously you have a unique distribution mechanism, which I think people have lost sight of. The fact is the networks need the stations, the stations need the networks; it's been a relationship that makes sense because, you know, all of the television world—it's the terrestrially locally distributed model…really is unique. It's the only model that reaches not only a hundred percent of the country but also has a significant impact in local communities; it's a big differentiating factor -

Victor Miller: Any other comments on that?

Gary Chapman: I think there has been an expansion, obviously, of commercials on the network itself over the last five years. In terms of our representation of that, that has remained pretty constant in terms of the affiliates themselves. Of course, if you're a Fox affiliate you get the privilege of buying back some of that network inventory and if you're CBS you may want to have to pay for some of the football—the same thing would be true for the Fox. So there are contributions by the affiliates for special programs. But the relationship is, again, I think, it relates to the strength of the individual TV stations. If, in fact, you are an NBC station and Tom Brokaw is always number one in ratings you're probably going to have a pretty good relationship with NBC. If you're a CBS affiliate and Dan Rather is always number one in your markets, you're probably going to have a pretty good relationship with the networks. So, obviously, the stronger the station, the stronger the news on the station usually the stronger the relationship.

Victor Miller: Kevin, you started to allude to…when we talked about early and late fringe…you started to allude to syndication and the product we can buy in syndication. If I'm right, in the next NATPE [National Association of Television Programming Executives] we should, in January, particularly over the next couple of years the amount of, like, new "off-net[work]" programs; it doesn't look like there's a lot of programming coming down the pike. And I don't know what

the case is for first-run programming. Can you give us a sense of what the syndication marketplace looks like I terms of station choices coming forward? And why the market is robust or not robust with new programming coming down the line?

Kevin O'Brien: Well, Victor, it seems to go through different phases in syndication. You can go—we can go three to four years without a hit in, let's say, the talk genre. All of the sudden, out of the blue, boom, Dr. Phil. And I predict that in the next year there will be six or seven syndicators coming out with Dr. Phil type of imposters. It'll be a copycat situation. But it's the survival of the fittest and what happens is when the court genre came out there were a hell of a lot of court shows came out and the really good ones survived. And, so, syndication has a way of washing itself out. But I do want…I've been thinking a lot about this panel and the information you Emailed us and I was trying to think, like, what is the real essence of the economics of the local television station as far as these people that are here in the FCC. And when you talk about inventory, I unfortunately—or not unfortunately—but interestingly enough I've been in the trade press a lot lately, which I'm not crazy about. But, anyway, I was about this supposedly adding inventory to my stations. Well, you know, it just kills me that…that local stations…we have no control even though we do control it; even though we are local stations; even though it's our

business and our inventory we are the biggest wimps in American commerce to people that are in this business...because we have allowed syndicators and networks to add inventory almost constantly year after year after year. And nobody says anything about it. "Life Stories"; Paramount came in and, Bruce, went from three and a half to four minutes on a show that wasn't a very good show. The decision was made by NBC to pick up the show. I mean, you have to be from the moon not to know that show wasn't going to work. And they put four minutes in it and then we, you know, we put another banana peel in front of us. And the industry goes and clears it and I send letters out to every single president of every single company and...you know, I sort of was lambasted for it. In other words, I think in our industry we're going to have to face up to the fact that we're going to have to get tough, we're going to have to start protecting our businesses, and stop worrying about what will people think about us. What people think about us among our peers and just do the right thing. Because if you look at...if you look at all the problems that have taken place in our industry, cable not paying local television stations—how the hell did that happen? Major League Baseball and ESPN make a deal where local TV stations cannot televise local baseball games on a Wednesday to Sunday night. And I walked around the halls of Washington complaining about it. I didn't have one fellow

broadcaster help me on that one. Then [broadcast] nets are the syndicators adding inventory willy-nilly—the loss of compensation by networks. You know, I heard someone say that Bob Wright might go to an alternate distribution system—well that's hilarious. I'd love to see Bob Wright going in and meet with the cable MSO and try to get them to take his product without him paying for it. I mean, it's just ridiculous. And I can go on and on. And it's really a situation where I worry about the economics more from the enemy is us rather than I worry about the FCC or any rule-making or anything else. I think we have to start cleaning up our own house first.

Bruce Baker: The only thing I would say to you is that nobody in this room is going to be talking about kids programming as an alternative, because that's basically gone for us except for the FCC friendly stuff. And that business has basically disappeared from local television because it's all on cable now. So that was a time period, an opportunity, and a service that we provided that no longer is available to us. So, when you're asking about what's least profitable? It's gone; it's not only least profitable it's now gone as far as we're concerned. And, for ABC stations, they essentially get no inventory in kids programming with the ABC programs. So you're asking about inventory and what's changed, that's one of

the things that's changed. I'm sorry, I didn't mean to interrupt Jeff. I'm a wimp, I [laughs]

Victor Miller: No, this panel is the no wimp panel.

Kevin O'Brien: We'll see if you renew your ABC affiliation how big a wimp you are.

Jeff Smulyan: We always asked the question at Emmis, what happens if you were dropped in from a parallel universe? I was dropped in from a parallel universe, radio, and I couldn't agree more with what Kevin just said. This is an industry which has given up its significant advantage and allowed other parties to basically stand between us and our customers. And that's true on the station side, that's true on the network side. Victor promised me the phones would start ringing when I got into this…

Victor Miller: Exactly.

Jeff Smulyan: But the reality is, you know, just on, you know, the cable and satellite side, you know, we have people collecting sixty billion dollars a year from our customers that are primarily starting there to listen—to watch us—that it's going to third parties. And that's the heart of all of our problems. That's why the networks want more inventory, that's why they can't afford sports, that's why a syndication product goes out; that's why we're competing for, you know, advertising with people are cross-subsidized; it's the heart

of the whole problem. And we, as an industry, haven't done anything about it.

Victor Miller: Let's talk about…which days parts do you guys think are most at risk? And which are most secure? Has on the local TV stations. So let's focus on which day parts most at risk, least at risk? Gary?

Gary Chapman: Well, I'd say, again, least risk would be what we control with our local news. That's where our HUT [households using television; a measure of how many viewers, on average, are watching television in any give daypart] levels have stayed up, that's where our ratings have less deterioration and fragmentation. Most risk is daytime. I mean, the HUT levels have almost disappeared there; there's no revenue there; it's hard to supply programming and make it work.

Victor Miller: Do you agree, Bruce?

Bruce Baker: No, I think daytime is…going through a transition period right now. And I think the networks and the local stations are going to have some discussions about that as the years unfold. As far as, uh, audience going away from local television, it appears to me that late fringe is kind of an ongoing challenge for us that we're going to have to deal with because we're not effectively programming that in every case. And the size of audience available to us is just not as big as we would like. And, so, it's getting pulled off into cable and we're losing that opportunity there. So that's one that I think we're going to immediately be facing. And it varies by

station. I think it's a real time period where we're seeing some erosion. And I think the challenge for weekends is still there. What happens with weekend daytime is still a challenge depending on the station. And you have networks that program it effectively and then you have programming that isn't effective. And the stations are challenged there.

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TV Industry Summit

Importance of Local News to Local TV Stations

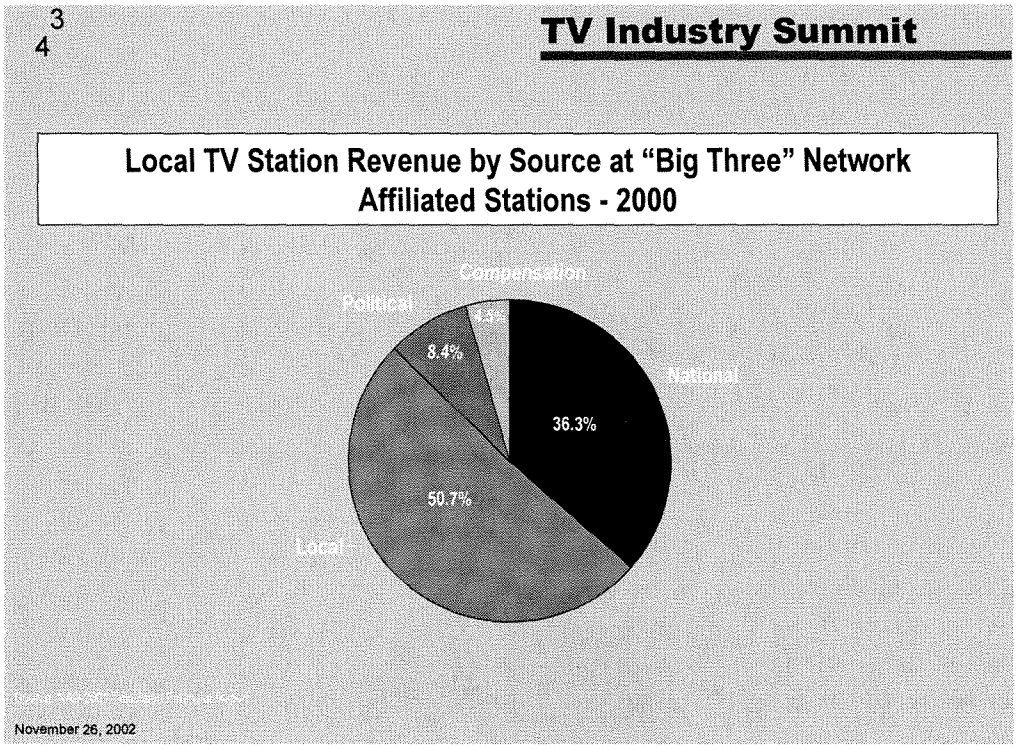
Correlation of Rank in Early News and Revenue – Top 50 Markets

	Early News Rank #1	Early News Rank #2	Early News Rank #3
Number of Markets			
Revenue Rank #1	32	14	5
Revenue Rank #2	12	21	13
Revenue Rank #3	4	12	28
Total Markets	48	47	46
Percent			
Revenue Rank #1	67%	30%	11%
Revenue Rank #2	25%	46%	28%
Revenue Rank #3	8%	26%	61%

November 26, 2002

Victor Miller: I just want to remind…going to Gary Chapman's comment, you saw slides similar to this. Here's this slide eighteen. But just to show you again that the early news and how it sets the tone for the whole station…you can see here's the early news number one rank in the market, number two rank in the market. And instead of looking at the ratings of the whole day we looked at the revenue rank in the marketplace. And you can see that sixty-seven percent

of the time if you're the number one ranked early news in the marketplace you will be number one in revenue for the entire day. If you're ranked number one, number two, ninety-seven percent of the time you'll be the number one revenue generator in the marketplace. So, the news product, which is the controllable element—most controllable element—of the business that you can see that this is why…there's a lot of focus on this business.



Lets let's talk about where the revenue comes from, local, national, compensation, political…you can see the pie here—fifty-one percent local, thirty-six percent national. Let's start with Jeff on this. How do the local stations stay competitive in national advertising? It's the most competitive form of advertising because you've got the cable networks, broadcast networks,

syndicators…they have an up front process, you don't. How do you stay relevant in the national marketplace?

Jeff Smulyan: I think national is very, very difficult. I think the great and significant opportunity that we've seen is an increase in local. I think national, again, you're now competing with, with all of the elements you talked about. You've now got two hundred cable channels cross-subsidized that are able to price more effectively in some people's minds; and it makes it difficult. It doesn't mean that there isn't a place for it. But I think, from our standpoint, the greatest growth opportunity is local…against daily newspapers, which have gotten the lion's share of dollars and probably shouldn't get them based on the fact that they're losing readers in key demographics. So, if you ask me, I mean, you know, the better opportunity would be local, no question.

Victor Miller: Anybody have a follow-up comment to that?

Kevin O'Brien: Yes, I think as the economy gets more and more competitive…as the economy gets to be more erratic, where you have some good months, some good quarters, and some good years and bad years; I think there's actually great news for us as local television stations in the national marketplace because we're so much more an efficient medium than cable, network, or, God forbid, barter cable or barter sales…because you can target certain markets. It always amazed me that United Airlines, which has lost millions of dollars,

continues to spend huge amounts of money on the network when they only have seven or eight major hubs where they do about seventy percent of their business. And they "squander" this money on buying network because the agency in Minneapolis thinks it's cool. You know, I think that's one of our great strengths and it's going to make our local medium more and more impactful for national because people can target certain marketplaces and be way more efficient with their dollars and still get the same environment; in other words, if United Airlines feels good about buying high rated spots, like ER, let them buy the thirty second spot in ER on a local basis; the viewer doesn't know, the viewer doesn't say, 'oh, look, Agnes, these dummies bought the local break in a market.'

Victor Miller: Right. Now, here's a theoretical question—I'll ask Bruce. Do you think we're ever going to have an up front marketplace in the local TV business where the Electronic Data Initiative that the Television Bureau of Advertising is trying to put together to take the paper trail out of the television business and the latency that you get…you're just getting paid on a paper trail business. Once we actually coordinate that is it theoretically possible that we could have an up front process in the local TV business?

Bruce Baker: That's very theoretical. And I challenge…

Victor Miller: Shall we move one then?

Bruce Baker: I'm challenged to think that the local advertisers are going to be able to orchestrate that because I just don't—I think they're too fragmented. I think that really takes a concentration of agencies or businesses to really make that happen. In some of our markets we have more annual business than we have in others and that's because the market's a demand market. Orlando, for instance, sees a lot of placement going into the year versus a market like Pittsburgh, where it's spread out a little bit more. So, I think it's driven by the market more than it is going to be something that's been orchestrated by that.

Victor Miller: Gary, local TV operators often say they target local dollars because national dollars are more unpredictable. You can control the local marketplace. But, on the other hand, you can really view this as a sign of weakness because the local TV stations are having a lot of difficulty competing for national dollars. So, two things: first of all, do you believe that's true? And, secondly, doesn't that make us more reliant on a certain type of advertising—meaning local advertising? It reduces our balance, where we used to be a fifty-fifty business; you can see where we're heading right now. It's certainly not a fifty-fifty. Doesn't that make us more reliant on a segment of that single revenue stream—meaning local?

Gary Chapman: Actually, our business is one-third national and two-thirds local.

Victor miller: And that's why I asked you the question.

Gary Chapman: And one of the reasons why is we made a conscious effort…the problem with the national business, it hasn't really changed too much from when I was a national sales manager in Nineteen Seventy-Two in St. Louis. You know, we're still selling spots and dots and it's very dependent on the ratings…simply the ratings. What we try and do on the local side is get our sales people a way from that way of thinking and try to train them into thinking more as marketing specialists. We do spend a half a million bucks a year with Craig Marshall and Marshall Marketing and do qualitative research. And, so, we design questionnaires with that retailer, and go into the field and, you know, it's our late news viewer, our early news viewer, and it's his customer. And what does his credit card holder think about his business? What about quality of the service? So we like to think that we can partner up with him to solve his marketing problems. So we want to become a solution to his marketing—a marketing solution. In doing so, that changes the relationship with the advertiser. And it also takes you away from that, you know, twenty-three year old spot buyer and into either the owner's office or the manager's office. And you start dealing on a different basis. And he views us as not just, you know, to call up and we're going to do a six weeks spot buy here but more of a partner in his business.

Bruce Baker: This is not a negative that ten to fifteen percent of our business is business that we develop ourselves. This is, frankly, a result of our needing to reach out to these clients, these customers that actually can use television effectively. So, this is a positive. Part of what we all face is that we lose a certain percentage of our client base every year just due to the natural transition of things. So this is a by-product of survival, it's also a by-product of, frankly, now having the opportunity to take the benefits of television out to the marketplace.

Victor Miller: Jeff, follow?

Jeff Smulyan: Yes, this is…you know, these marketing partnerships; this is what made the radio industry the darling of the media world…you know, developing eighty percent of our business local and getting in, you know, past the twenty-three year old media buyers; and building on those relationships. And that's where our growth has been. If you look at our growth in radio, it's all been, you know, local dollars built on those relationships basically with retailers at the expense of daily newspapers.

Victor Miller: I was just about to question to Bruce, actually, that punching bag often is newspapers—there's a big opportunity for local television. The last time I checked you owned one of each in Atlanta. Maybe you can talk about, you know, how you look at the opportunity

against the newspaper business? Anybody else can jump in after that.

Bruce Baker: Well, without entering into some…

Victor Miller: –Inter-company squabble?

Bruce Baker: Yes. I think I would say to you that there are opportunities in newspaper partnerships; the newspaper business is changing quite a bit and they need, frankly, to find partnerships in the marketplace because they're losing a lot of business in classified area et cetera. Their costs are going up in terms of print costs. And, so, I think there's a need they have now to find ways to, frankly, support their business and keep their, their subscriptions up. The problem with that is that it's still a newspaper. And we have the Internet element that's out there, that's in the background, that I think both the newspaper and television are going to fight with or find a partnership with. So I really think that's going to be a bit of a battleground as we get into relationships with newspapers.

Victor Miller: Kevin, do you want to follow up on the newspaper…?

Kevin O'Brien: You know, I had the pleasure of working at Cox for fifteen years and one of the reasons I think they're the best run company in the business is, in that company, if you're in the newspaper division and another guys' in radio and another woman's in television, it's the best person wins. I mean, they do not say, you know, you will back off this account because it's like the P&G of broadcasting.

They might have ten brands in the market but whoever is the best sales person or woman or man that wins that battle—they're the ones that get the white hat at Cox. And I think that's why it's such a great company. But in talking about newspapers, you know, it all comes back to the engineering. I used to sit in the meetings and say—look at the newspaper guy and say, 'God, you must be scared to death because his papers are in these machines, some of them work, and some of them don't. Kids are throwin' them on the lawn.' I mean, that's a tough business. I look at the cable guy or cable woman and say, 'isn't she lucky?' Now, there is a business where you can dominate because you have the wire, you, indeed, are the gatekeeper. And then, of course, television, again, the engineering wins out. It's a ubiquitous medium; it gets into everybody's home. So, I think newspaper is trying like hell to be a better medium. I just think they're strapped by the engineering of it all.

Victor Miller: Let's talk about—Jeff, do you have a follow-up?

Jeff Smulyan: Well, again, nobody loves to read newspapers more than I do. But I just think that if you look at demographics, you know, the younger people that most of our advertisers are looking for aren't reading papers any more; that's just a reality. You know, it may not be the best news for the democracy but the reality is that, you know, eighteen to thirty-four year olds and eighteen to forty-nine

year olds, you know, where most advertisers target and where most of those dollars are allocated, just aren't reading daily newspapers any more.

Victor Miller: Let's talk about the political pie here. In 2000, the average big three player, about eight percent of their revenue is political. Is that about a fair level for this year, a little bit more, a little bit less? Or what?

Bruce Baker: Stronger news stations are going to do better than that.

Victor Miller: Will do better than that in terms of percentage?

Bruce Baker: Right, yes.

Gary Chapman: Also, it depends what market you're in…

Kevin O'Brien: –You have a lot of issue advertising.

Gary Chapman: Some markets have more, some have less.

Victor Miller: Does anybody have…does anybody, going back to John Kornreich's question about…does it make it confusing to figure out what your core business really looks like when you have this heavy political advertising coming in and out of the business?

Gary Chapman: We don't look at it that way. In fact, we kind of look at it that this is kind of a bonus. And you're going to have a race sometime, maybe this year, maybe next year, but we don't…we really don't plan on it, so to speak. We know it's going to be there. Obviously, we want to secure as much of it as we can and because we have a lot of pretty good news stations we're able to do that. But, our

main emphasis, again, will be on the local sector. And if political comes in, fine, and if it doesn't, well, it just doesn't.

Kevin O'Brien: I think having political is a good thing for our industry from the standpoint of management because it forces you to be a better manager. You really have to anticipate it, you have to budget for it correctly. You've got to figure out a really good excuse for the chairman the next year when you're down twelve percent, when you have to talk about your core business being up. I mean, it really forces you to think about—a lot about—your business. And I think it also forces you to see who your friends are and who are not. And you've got to be really careful. We had so much political, as an example, in Saginaw, Michigan, that we had to start blowing out a lot of local accounts because we're under this ridiculous campaign reform act that forces us as a medium—again, we laid down on this one—we have to give the lowest unit charge. I don't think the newspapers really get into that much. And, so, you have to give access, you have to give the lowest unit charge. So, political is a blessing and a curse. But, overall, I'd rather have it than not have it.

Victor Miller: Any concerns with post 2000? You know, with the McCain-Feingold Bill at all? Jeff?

Jeff Smulyan: No, not really. I think because of all the challenges and now it looks like the parties are figuring out ways to just funnel money to

the local committees. The thing I love about political is it says the one category of advertiser that absolutely has to have results on a given day spends all of their money on local television stations. When you absolutely, positively have to have a result you don't go to outdoor, you don't even go to radio; you don't go to newspapers. You spend most of your money in the local television stations. And you know the next day if your product sold.

Victor Miller: The other part of our pie here is the network comp. Are we assuming that this is a level of four and half percent in 2000. Are we assuming that within five years or so that it would be effectively…that little slice will be much smaller than that or completely disappear? Is that a fair statement?

Kevin O'Brien: I think a lot depends upon what happens down in Jacksonville, myself, with the CBS situation there. I think that's a real test market from my way of thinking.

Victor Miller: Go ahead, tell us what happened there?

Kevin O'Brien: Well, I mean, there was a situation where, and I have to stand up and say I think Alan Frank is a great broadcaster and I think what he did was the right thing. He made a business decision that was tough and he decided that he was not going to keep his affiliation if he didn't get the proper respect and attention and compensation from his network. And I don't think CBS was happy about losing his station but I think in a year's time I'd like to see how well CBS

does on the UHF station; ultra-high frequency station, channels 14-69, which generally are able to reach fewer homes over the air given the relatively disadvantaged propagation of its signal relative to VHF stations] there; on how well Alan's station does as a big news V[HF; very-high frequency station; channels 2-13] and then I'd like to calculate how much money the network actually lost on that deal by their network salesmen having to go out and sell significantly lower ratings in a major market. So, I'm not so sure that this compensation is going to get smaller. What troubles me, I think, is that there seems to be a lack of understanding and partnership among the entities and the affiliates and the networks. It just seems to be getting more and more difficult and more contentious as we go along. And, you know, again, there have been lots of examples where networks have gone out and tried to put local stations on a cable system and not have the over the air delivery system and they've been dismal failures. Because, in effect, the Fox network is an example. I see my dear friend Tony [Vinciquerra, President and CEO - Fox Networks Group] here. The Fox Network is a hell of a lot stronger in San Francisco on Channel Two, a huge news operation, than it is...in a station without a news operation. I mean, that can't be lost on Tony or anybody else at Fox. So, the quality and the impact of the station has a hell of a lot to do with the network ratings. So...

Victor Miller: Well, you know, again, part of the reason in our opening statement is that we…we feel it's very, very important at this juncture for the two parties to start finding common ground; and—because when we look at the pressures on the businesses, there are the exact same pressures from both the networks and the affiliate case. Jeff?

Jeff Smulyan: I could not agree more. We are both married to the terrestrial system. It's a system that makes a lot of sense for a lot of different reasons. And I think both parties have problems of the same making. The cost of the network are going up, fragmentation of the national dollars, cost of stations are going up…fragmentation of dollars. And, you know, the problem is the first reaction is always to shoot at your partner. I need more comp, the network, you know, needs to get back more inventory. The reality is that's not the heart of the problem. And it's time we start focusing on what the reason for the challenge to the business model to both sides.

Victor Miller: And I bet we're going to get into that in just a couple of minutes. I can feel it coming, Jeff. Here's a subtle question. Your national rep firms, they sell thirty-four percent of your business? They sell, you know, maybe more for you other guys. When there's a lot of stress in the marketplace like there was in 2001 and they are making adjustments, how does that affect your business? Anybody?

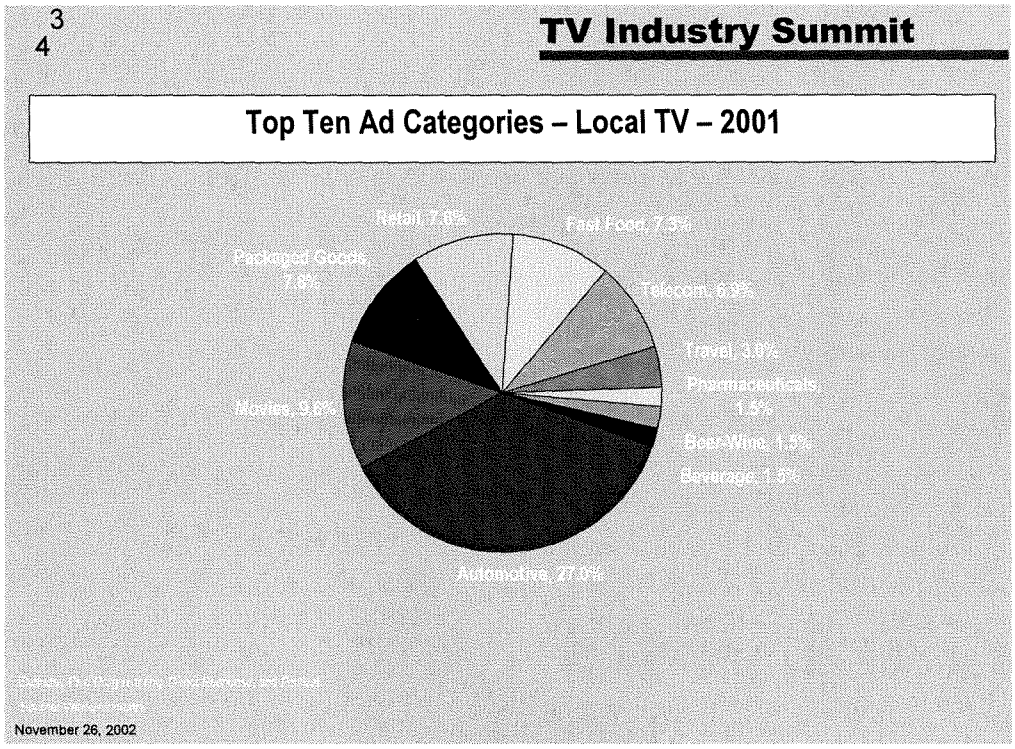
Gary Chapman: Well, obviously, if they're closing offices and if they are…consolidating…fewer people, more stations to a list…it puts

more pressure on the national sales manager to make certain that his avails are out there, that he is, in fact, in the face of the buyer and that he's going to get his fair share. So, it actually puts a little more pressure back on the station to see that they get their entitlement in terms of the revenue sharing…and to share revenue equal to or more to their audience share. Um, obviously, there's got to be some more consolidation because the industry still is doing business kind of like we did thirty years ago. We do need to finish the electronic invoicing. We do need to be able to move it into a more electronic transaction business as we move forward. And that would, of course, increase flexibility, decrease cost at the agency level and at the rep level, and make it a more friendly transaction for the advertiser.

Victor Miller: Let's talk a little bit about…

Bruce Baker: I would add to that, that in '01 the smaller markets felt it in a different way than the larger markets. The larger saw a decline in billings, the smaller markets saw, frankly, important life blood, in terms of billings going away. I would say to you that the stations that are better at local, better at developing local business, are in more control of what their inventory pricing is. But in '01 your cost per points are down on the national business because it's driven by availabilities and…and share of market. So that even in a good market, the guy who's on the lower end of the ratings is

going to have, frankly, a more difficult time than the guy that's at the top of the food chain.



Victor Miller: Let's talk about…here's the top ten ad categories; page twenty of your slides. Automotive, twenty-even percent of the business—anybody concerned about that level? Bruce?

Bruce Baker: Yes, kind of funny. Kevin was with us when we did this. About ten years ago we were real preoccupied with that. And we said, 'we're going to go out there and change this.' So we started a number of initiatives and I think in the three years of our initiative to become less automotive dependent, we became more dependent! If we want to call it a dependency. I just think it's just a relationship that, fortunately, is not going to go away because we provide a very good opportunity for them to reach the marketplace. And, quite

frankly, I think stations are becoming much more sophisticated in building relationships with the individual dealers beyond dealer groups and all of this. So, frankly, I see this as an ongoing positive relationship and it, frankly, comes down from the top because I think it's with the networks as well as with the local stations.

Kevin O'Brien: Their business matches up perfectly with the type of business that we have. The automobile business and the broadcast—local television is a symbiotic relationship that's very powerful and successful because the car dealer, the type of business they have, they have to constantly be moving iron off the floor. They have to constantly be turning over inventory and, most importantly, they have to sell a lot of used cars and they got to get a lot of people to buy a new car so they can get the money on the service side. And the local television works…because of its nature, of its ubiquitous nature, the powerfulness of it, the localism of it, that people react positively to it. And I'm sort of surprised that it's that low. I think in the years ahead…the car dealers I talked to. They're going to buy less and less newspaper and more and more TV because TV works for them. All that newspaper does is bring in the person that's going to buy the Honda for five bucks more no matter what—that's what newspaper does. Television gets the guy that says, 'you know what, honey? I've got to have to have that Escalade. That looks fabulous. I'm going down and buy it. Screw

it, I'm getting, you know, no money down.' So, I think it's wonderful relationship; it's very powerful because we match up well.

Bruce Baker: But, Kevin, don't you think some of the migration of local sports on to cable is going to make us a little vulnerable with some of the automotive business?

Kevin O'Brien: Well, not really, I mean, I see…I personally think that sports are going to start migrating back to local television myself. I mean, I just can't see how a buyer, local or national, can say I'm going to buy the Giants telecasts on the cable system in my market when the cable system in my market when the cable game does about a three rating and the game on over the air would do a twelve. I mean, I think the economics are eventually going to catch up to the sports teams. I don't worry too much about that.

Victor Miller: Well, Jeff used to own a baseball team…

Jeff Smulyan: I don't know much about the economics of baseball and I've proven that!

Victor Miller: That's why you don't own the team anymore.

Kevin O'Brien It's the worst business in the world, I'll tell you that right now…

Jeff Smulyan: That I agree with. But I can tell you one thing; with all due respect, that the sports owners, whether they're getting three ratings or twelve ratings, the reality is they've got a pitcher coming out of the bullpen who wants nine million dollars a year. And whoever pays

him more is going to always win their hearts; that's the first rule of sports. And the reality is the cable guys are paying them more money; which the last time I looked—because, again, gee, they've got a second a revenue stream, they're going to pay more money. Kevin, I would love to see it migrate back—it ain't comin' back; not until we have the same money in our pocket.

Kevin O'Brien: Remember, I was involved with the Giants baseball team for many, many years as the owner representative of Cox. And I can tell you, it is a terrible business. I mean, there is no—it is not a business; it's a fool's business, number one; and, number two [laughter]. I mean, but Jeff, Jeff got burned. I mean, the guys did go into it, they—listen, I wish I could have the money to buy a baseball team, I don't feel that bad for Jeff, you know?

Victor Miller: All right, let's talk about, you know, the two—auto and retail—almost thirty...by the way, the reason you're seeing this number look low is that this is a blend of WB-UPN-Fox and the big three; the big three probably north of thirty and the UPN, WB, and Fox probably around twenty percent auto. Anyway, almost a third of the [local TV] business [comes from] retail and automotive [advertising], maybe even more, for the big three. When you guys see consumer sentiment drop to, you know, a nine year low or whatever it was recently...and you see some of the weakening economic indicators, you would at first blush say, this is a very

vulnerable position for us since this is a third of our revenue. On the other hand, TV business has held together as Chris Rohrs said, surprisingly well; it's really been a TV phenomenon in the recovery. How concerned are you about the indices that you read? And, then, do you think this is a flight to safety? Why has television done better? Or is it just because last year was so Gosh-darned bad; remember, two-year growth rate for the TV business is still down. And we were down twenty percent third quarter last year. As an industry, we were only back sixteen percent this year. So we're still down four percent in two years.

Bruce Baker: But I was much more concerned when all of the brands were consolidating and you didn't have as many competitors. We've gone through a pretty tough period. It's kind of—we kind of missed that in all of what's happened in '01 and what happened to us. We went through that period where we had that consolidation and thy weren't competing with each other as much. That's settled out and now were' getting back to building brands and, frankly, all of a sudden everybody's worried about market share. And that really plays to television and it plays to what we have a strength and what we offer to them…

Victor Miller: And you're seeing that come back in the packaged goods category? Is that…it seems to be very competitive again.

Kevin O'Brien: I think Bruce makes a really—that's exactly right. And I also think if you take out Ninety-eight, Ninety-Nine, and 2000 out of the equation. If you take a look at a bar graph from, Nineteen Eighty-Eight to 2002 and take out those three particular years, the industry had a pretty solid consistent growth. We let ourselves fall in the trap of comparing it to the prior year, the prior two years. From Ninety-Eight to 2000 you had politicians, you had political, and you had this incredible dot-com craze, which really pumped everything way out of proportion. And we let our competitors' medium get into that—oh, television is down. Television has never really been down, it just had just an unbelievable explosion in revenue from categories that nobody expected it to be that it just became an extremely erratic demand curve. And, I think this business is on solid ground. You know, the people that have gotten out of local television—there's lots of times where you have some hot shot MBA guy who comes into McDonald's and says, 'well, we're not going to spend any more money with the local people; we're going to spend it all on network.' Remember that happened about four or five years ago with McDonald's? Well, that was a disaster for McDonald's. Their shares dropped incredibly in every single market. And they're back into local TV stronger than ever; because the television stations are able to offer value-added to an account like McDonald's that the networks could never—or a

cable company can never offer. And I think that's one of the great strengths. Every time somebody ventures away from spot television they end up crawling back to it.

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The Impact of 2001: Margins and Leverage

Company	2000 Margin	2001 Margin	% Cash Flow Decline	Incremental Margin	2000 Leverage	2001 Leverage
Belo	44.3%	39.6%	(23.5)%	72%	3.5x	4.7x
Granite	28.3%	4.8%	(89.5)%	128%	18.6x	NMF
Gray Television	44.0%	38.3%	(23.2)%	87%	5.9x	8.0x
Hearst-Argyle	48.5%	40.8%	(28.1)%	97%	4.2x	4.7x
LIN Television	44.0%	36.0%	(24.0)%	107%	8.1x	10.9x
Sinclair	46.8%	40.1%	(35.1)%	99%	5.1x	7.0x
Young	45.4%	38.4%	(31.1)%	81%	6.9x	9.2x

Note: Hearst-Argyle issued $200m of pref. stock and Young issued $100m of equity in 2001 to lower year end leverage

Source: Company Financial Statements

November 26, 2002

Victor Miller: Let's talk a little bit about the risk of an all-out model and we're going to get into some…I'm going to ask you the first question, Jeff. But, this is slide twenty-one…this…the amazing part about this is if you look at 2000 margins versus 2001 margins and you look at the cash flow and declines that these companies suffered in one year. I mean, when you saw, for example, LIN's pro forma cash flow down twenty-four percent, young down thirty-one, Sinclair down thirty-five, Belo down twenty-three percent…with the shortfall they had on the revenue line. What you'll see there is the incremental margin, which is really my point here, is that

we've kind of wrung the costs out of this business it would appear to a certain extent because every dollar that was lost on the top line…you can see in certain cases, ninety-nine cents of every dollar, a hundred and seven cents of every dollar, one hundred and twenty-eight cents of every dollar. Actually, if you came down to the EBITDA line and you can see the impact that 2001 had on leverage—very significant changes in leverage. So, I guess the question is, what impact did 2001 have on your business? The way you conduct your business? How did your company respond to 2001? And is…is it fair to say that the cost side of the business is kind of played out at this point?

Gary Chapman: Well, in essence, what 2001 was a wake up call. Obviously, the chart shows what happened as we dropped off on the revenue side. What it caused us to do is to say, 'okay, how can we do business smarter and better? And, quite frankly, it led us to putting Parker Vision in, some of our TV stations, robotics in, other stations…clustering. We were now running seven stations out of Indianapolis…five out of Springfield. Reduced head count by ten percent, two hundred people. Reduced programming cost too. So, we attacked basically the expense side with technology…using technology to bring down our cost. So, in essence, what some of the small market television stations, like in Fort Wayne, might look like is, is a news department and a sales department. And the rest

of that master control will be in Indianapolis…the same thing for Lafayette.

Victor Miller: Bruce? What did you see?

Bruce Baker: I think we're dealing with the growing cost of keeping strong news operations in place—it's very important that we do that and that we not sacrifice that. And that, to me, means, for our company, means local news operations. That builds in a challenge for us because that cost base does not look like it's going to go down because you have to have reporters, you have to have editors, et cetera. So that cost is fixed into what you want to do. Then it's a question of how many people you need to put into place to make that happen. Right now, we're going through a period where technology is giving us opportunities to streamline some of the back room operations. We probably have, it looks to me, like another two years to work through some of that opportunity—depending on where some of these companies go. The Parker Vision has—Parker Vision has an answer…to me, it's not there in the total way. And, so, I think we still need some competition there and we need some evolution there.

Victor Miler: Parker Vision, for everyone, is a central casting concept and being able to run the technical engineering side—production side—from one central location for several different stations?

Gary Chapman: No…

Victor Miller: Oh, I'm wrong, whatever I just said…

Gary Chapman: No, that would be more your clustering concept. Parker Vision is technology that really replaces the audio man, the cameraman. You might have one floor person. So you end up with basically three people producing at news. It's a computerized system that replaces people and equipment. And it's not right for every market, obviously. And in other markets you put robotics in, which means…the cameras are robotic…you keep the audio man, maybe even TD and the director. But, I mean, each station is different and there is no one answer for every television station. What's right for Fort Wayne may not be right for Indianapolis. So, obviously, the concept is to create efficiencies. It's just that simple.

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Basic Cable Networks – Affiliate Fees Relative to Average Ratings

Network	May 2002 Primetime Households (000)	Monthly Per Sub Affiliate Fees	30-Apr-02 Subs (mil.)	Annual Affiliate Fees ($ in 000s)	Annual Affiliate Fees Per Household
ESPN	873	$1.45	86.6	1,409,299	$1,051.24
CNN	501	$0.36	86.3	352,478	$652.66
Discovery	821	$0.35	96.3	310,650	$371.18
TNT	1160	$0.36	88.2	318,304	$360.48
FX	742	$0.27	77.4	250,128	$355.90
USA	1,186	$0.37	84.2	187,738	$382.66
MTV	728	$0.35	84.3	301,690	$260.88
Disney Family	1,037	$0.17	84.3	172,184	$270.60
TNN	745	$0.10	38.7	195,396	$281.22
Nickelodeon	1,526	$0.33	86.9	340,164	$223.28
History Channel	847	$0.16	84.0	128,304	$214.26
Learning Channel	581	$0.14	84.0	141,120	$287.22
SciFi	592	$0.12	78.0	112,320	$283.48
ESPN2	912	$0.17	85.7	174,528	$191.40
HGTV	464	$0.16	78.3	150,998	$195.24
Cartoon TV	501	$0.16	77.4	150,840	$171.62
TBS	1,341	$0.10	87.3	210,036	$150.80
Fox News	791	$0.10	70.6	96,948	$126.91
Lifetime	777	$0.14	86.4	143,472	$88.37
TV Land	404	$0.04	73.6	35,328	$71.51
Average		$0.27	82.7		$313.53

Source: Nielsen Media Research, Bear Stearns & Co., Schwab Equity Research

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Victor Miller: Let's talk about…I appreciate, Jeff, you waiting for this moment to talk about this because I know it's near and dear to your heart. This is slide twenty-three. This is the basic cable networks' affiliate fees. And you can see, on average, it's about twenty-seven cents per sub, per month. You have about eighty-two million average subs. And there's the annual affiliate fees that when you add up all of these different numbers the average is about two hundred and sixty five million dollars? That would mean that the annual affiliate fees, per household, are about three hundred thirteen dollars.

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Theoretical Value of Network Affiliate Fees

Here's what happens if we assume that the broadcast networks can get the average affiliate fees per household that the Top 20 cable networks command

Network	May 2002 Primetime Households (000)	Monthly Per Sub Affiliate Fees	30-Apr-02 Subs (mil.)	Annual Affiliate Fees ($ in 000s)	Annual Affiliate Fees Per Household
ABC	5,990	$1.56	88.3	1,652,944	$313.51
CBS	7,123	$2.10	88.1	2,232,216	$313.51
NBC	7,548	$2.23	88.4	2,370,128	$313.51
Fox	4,789	$1.27	88.4	1,344,942	$313.51
Total				7,599,362	

Note:
Assumes 2.5 persons per household, 30-Apr-02 subscriber figures are from Nielsen Media Research, per Fox Broadcasting Company

Source: Nielsen Media Research, Broadcast Video Sales Department, Fox Broadcasting Company

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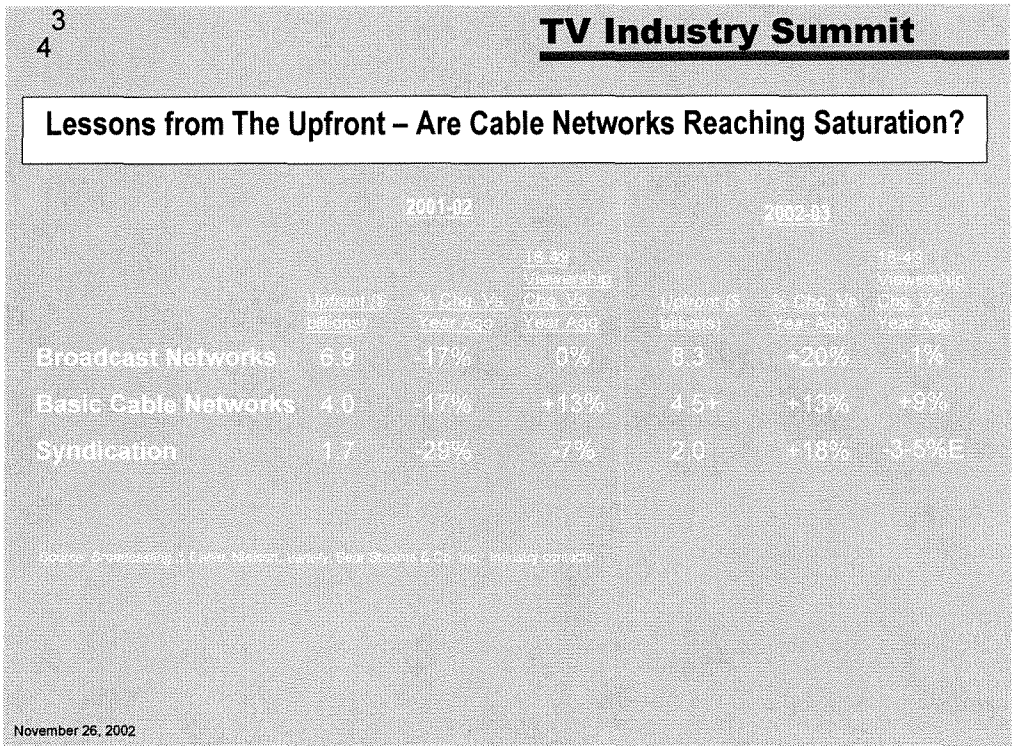
And you look at the theoretical value of a network affiliate on that basis…and what we did is we actually reduced the current May 2002 prime time numbers to look at homes with cable—you know,

cable-only homes. So, we reduced all these numbers because there's less viewership of the networks and cable-only homes. And we said, all right, let's apply based on the rating that there would be the affiliate fee based on the average rating that the other…the cable networks do. We'll assume that you're in eighty-eight million cable homes and DVS homes. That would assume that, on the same basis of three hundred thirteen dollars a year, which would be seven and one-half billion dollars of affiliate fees for the television business. And, right now, we get closer to a goose egg. Tell us about the second revenue stream?

Jeff Smulyan: It's just stark-raving insanity…it really is. There's no other way to say it. We have allowed a cross-subsidization and we have danced around the topic. You know, we talked about the last slide about saving money. We could only save so much and we're all employing technology and an economic down turn forces all of us to wring those costs out. But the reality is we have cross-subsidized everybody on this page and more. You know, the average American pays a third of their cable or satellite bill—by definition of the cable and satellite industry—to programming. So, that's about twenty billion dollars a year that supposedly is going to programming fees. Now, not all of that comes back to programmers—and that's a whole another debate. But the reality is, if the average American is paying a third of their bill, do you

think they realize that Animal Planet is getting eighty percent of that money and CBS is getting none? And the networks got lulled into that by saying, 'well, we get an extra channel. We get an extra channel and it's worth it.' You know, I think the people in the network business would tell you that by getting a second channel and not getting paid for their original networks and their O and Os [the broadcast networks' owned and operated stations], and their affiliate's not getting paid…they made an egregious mistake ten years ago—egregious. This industry made the worst mistake it could ever make. And by getting twenty-five cents for F/X or ESPN or what became MSNBC and not getting paid for their stations was one of the…you know, in an analog world, when there were only thirty channels, everybody said, 'well, gee, I get the thirty-first, isn't that great? And I'll get twenty-five cents for it.' There aren't thirty channels anymore. And God knows that John Malone knew it. There are two hundred and thirty channels. And most of those channels, if they had to exist in a marketplace, couldn't survive. There's nobody watchin' them, folks, but they still get paid.



Victor Miller: Here's a question, just to follow up to Jeff's point. Given the results of the last two up-front markets, which are shown right here in slide 37, it seems as though the cable network business was starting to lag the network business. You can see the broadcast networks last year had about a seventeen percent decline in dollars and were about even in terms of viewership; so it's a seventeen percent disparity. Last year, the broadcast cable networks lost about seventeen percent of their dollars but their audience was actually up thirteen percent. So there's a thirty percent disparity. And the same thing has held true this year…where their viewing was up nine percent [for the cable networks] and cable nets' upfront revenues were only up thirteen percent…networks' viewing down one percent. But the broadcast network upfront was

up twenty percent. Are we at a break-even point, Bruce, where the networks may be saying, 'you know what, that incremental cable channel is just going to agitate an already over-leveraged situation in [advertising] inventory. There's too much cable inventory as it is. Adding another cable network doesn't make a lot of sense. It's about time we looked at getting paid for our O and Os.' And could that be a way that the network affiliates and the O and Os could cooperate?

Bruce Baker: You know, I don't think we should talk about cable by itself. I think we have to bring satellite into this conversation.

Victor Miller: Let's bring them in.

Bruce Baker: I think the opportunity to get paid first is already demonstrated—has already been demonstrated to be in the satellite area. The worst thing that could happen is for there to be a single satellite distributor. As long as there are two competitors there we've got competitors fighting to grow their market and fighting with cable to grow. If we can be a part of that business growing and competing with cable, then cable's going to have to respond to us because then they've got an external competitor and we become a more important commodity. All of us in our markets are aware of the fact that now all of a sudden it's important to have local stations on the satellite system or on the cable system because it's the differentiating characteristic of that service. And if you don't

have it you're missing an important part of your relationship with a potential customer or an existing customer. So, from my perspective, whatever has happened in terms of our cable relationship has happened. I don't know if we can re-trace that by arbitrarily deciding we're going to be tougher with them because stations can't get together in a single market and compete. So, what we've got to do is hope that the people that determine this remember the importance of competition in this area—particularly in satellite; allow that business to compete and compete not only among satellite carrier—the two satellite carriers, but also with cable. And I think the growth of satellite, which, to me, has been pretty significant…the growth of satellite will compete with cable and then our opportunities will grow. But whether or not we can force this to happen outside of that I'm not sure. I don't know if we have an opportunity there.

Kevin O'Brien: You know, the problem with the relationship between local broadcasters and networks in cable is that the cable…the cable landscape was made years and years ago. I don't know where this industry would be if Eddie Fritz and Jim May hadn't come along. Because, before them, there was the cable act—the original Cable Act. I mean, we were asleep at the switch to local broadcasters. And I think that game is over. There's no question that as cable becomes more and more consolidated that they're operating as a

cartel; there is no question when the…when the re-transmission…when the new act [that created retransmission consent or must-carry election rights for local TV stations with cable system operators] was put into effect and we could negotiate with the cable operators, nobody got any money on the local television. Isn't that strange that no one got any money? Even the dominant, like, NBC O and Os [owned and operated stations]? Because, in my opinion, the cable…the cable industry just got together as a cartel and said we're just not going to pay any money as a group.

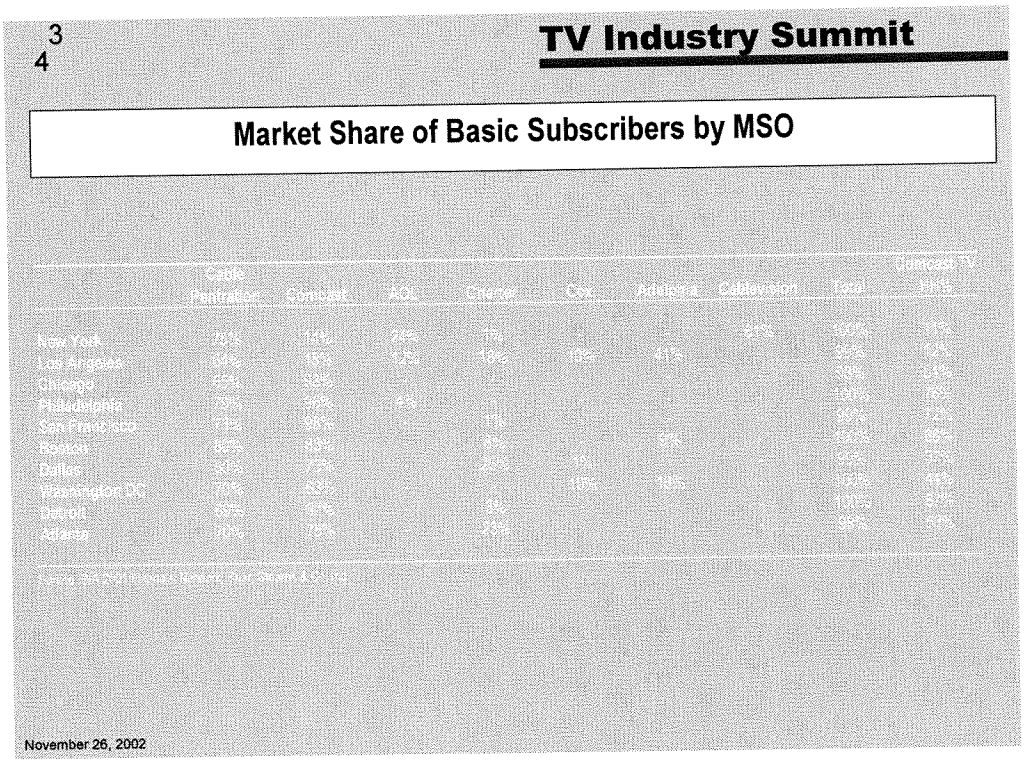
Bruce Baker: For the press in the room, that was Kevin O'Brien that said cartel…I didn't participate in any of that conversation [laughs].

Kevin O'Brien: Bruce, you've always been a wimp so don't worry about it [laughter]. There's the proof of it right there; saying something that's truthful and it is absolutely a fact. A fellow broadcaster criticizes me and makes sure my name's spelled right; that's the basic problem with this industry right there that's going on…

Victor Miler: All right, guys, break it up…[laughter]. Gary and the Jeff…I knew this panel was going to be good.

Gary Chapman: Let me just kind of review what happened ten years ago because, actually, I was joint chairman of the NAB at that time when we did re-trans. And we had a very strong advocate, Jay Kriegel at CBS, who got fired over this; he was the last network to hold out by the

way. And what really happened was the first…the first company to break was ABC. And what they said is, 'okay, let's don't pass for ABC, but we want a buck on ESPN and we want to clear it on sixty million subs. And, uh, little by little, you know…MSNBC got on that way…F/X got on that way…and they got paid because there was a thing called a favored nation. And the cable guy said, 'I can't pay you or I'd have to pay NBC or CBS or your competitors.' And, so, it was real quick for ABC to figure out, okay, we're not going to get paid for ABC, but we're going to get paid for ESPN. And, so, I mean, that's what happened. And, you know, I pulled off WAVY in Norfolk—it was off for seven days; and that was Cox by the way, my friends with Cox. And I pulled off WOOD in Grand Rapids for two years…Cablevision on Kalamazoo…no Super Bowl. And, eventually, we came to an agreement to, quite frankly, they never paid us but they ended up…we created a thing called Local Weather Station, which was kind of like The Weather Channel but local, and we did get paid for that.



Victor Miller: Now, here's a…it's nice and theoretical to talk about a second revenue stream but here's or page fifty of the slides. You know, let's look at Philadelphia, Comcast with ninety-six percent of that marketplace now; Chicago at ninety-eight percent of that marketplace; San Francisco—Kevin, you know a little bit about this market—ninety-eight percent…page fifty of your slides. So, it's nice to talk about that, you know, those theoretical second revenue streams but how does that actually happen? Does it happen?

Jeff Smulyan: Of course it can happen. And I think, you know, the fact is we have loved fighting each other more than, you know, than solving the problem. And of course it can happen. You're not dealing…

Victor Miller: –The fighting is who? The cable or the…?

Jeff Smulyan: –The broadcasters and, you know, affiliates versus other affiliates and networks versus other networks. The reality is nobody has as much power in the American communications systems as the over the air broadcasters. We have the power and, you know, this isn't about killing cable or satellite. You know, I marvel at how much better they manage this process than we did. When Eddie Hartenstein gets up and says, 'you know, now that we can go take local stations…and it'll drive our subscriber base; and it went from ten million to forty million over the next decade because we've solved our problem, we carrier local stations. And, by the way, I'm going to charge people six bucks a month for their four local stations.' And, by the way, local stations? Gee, we really can't pay you guys anything, maybe we'll give you a nickel." I mean, talk about chutzpah. And we've allowed it. You know, one of my people…one of my people sent me a bill from his cable company—they're charging him thirteen bucks for his local TV stations—actually itemized it, which I couldn't believe they would ever do. Talk about their gall. And whose fault is that, theirs or ours? It's ours, we've allowed it.

Victor Miller: Let's talk about…part of the thing that you get as a cable MSO when you do pay this affiliate fee is you do get twenty percent of that cable network's inventory. Is there ever…can you conceive a

model where you get paid but you also give up some of your local inventory…to make it a similar model?

Kevin O'Brien: Yes, but I don't think the broadcasters are looking for the same amount of dollars as a cable network that gets a decent audience and gives inventory. I mean, when you compare our audience to the audience of an HGTV [Home and Garden Television, a cable network], I mean, it's just ludicrous. I mean, there's no comparison to it. I don't think…I'm not looking for the same money that an ESPN would get or a TBS…I'm looking for something reasonable based upon the value that I bring to the cable system. Now, I understand Jeff's frustration because thank god for guys like Jeff Smulyan and…people like that, that come from another medium and come into our business. Mel Karmazin. I mean, they're stunned at what they found when they came into the broadcasting industry. And I can understand their frustration because the radio business—if you can do it in radio, you can do it in anything. And I sense his frustration with television and I know—and look at how successful he's been and how successful Mel's been because they came from a medium that was much tougher. It's a damned shame they weren't with us earlier. And I think there's going to come a day, by the way, where cable is going to start paying broadcasters a reasonable fee…and I think Bruce is absolutely right. I think the satellite influence has had a greater effect on cable than we think.

Bruce Baker: And I think if we could ever find a way to, in each of our local markets, accumulate the broadcasters so that we have the leverage to negotiate, we would have a lot of opportunity there. We just haven't had, so, far or taken the opportunity to find a legal way of doing it and I know there's counsel in the room so I'm not suggesting anything other than the fact that, competitively, you've had to slide up—we're one station in a market, maybe two if you have a duopoly and…

TAPE TWO, SIDE ONE ENDS

TAPE TWO, SIDE TWO BEGINS

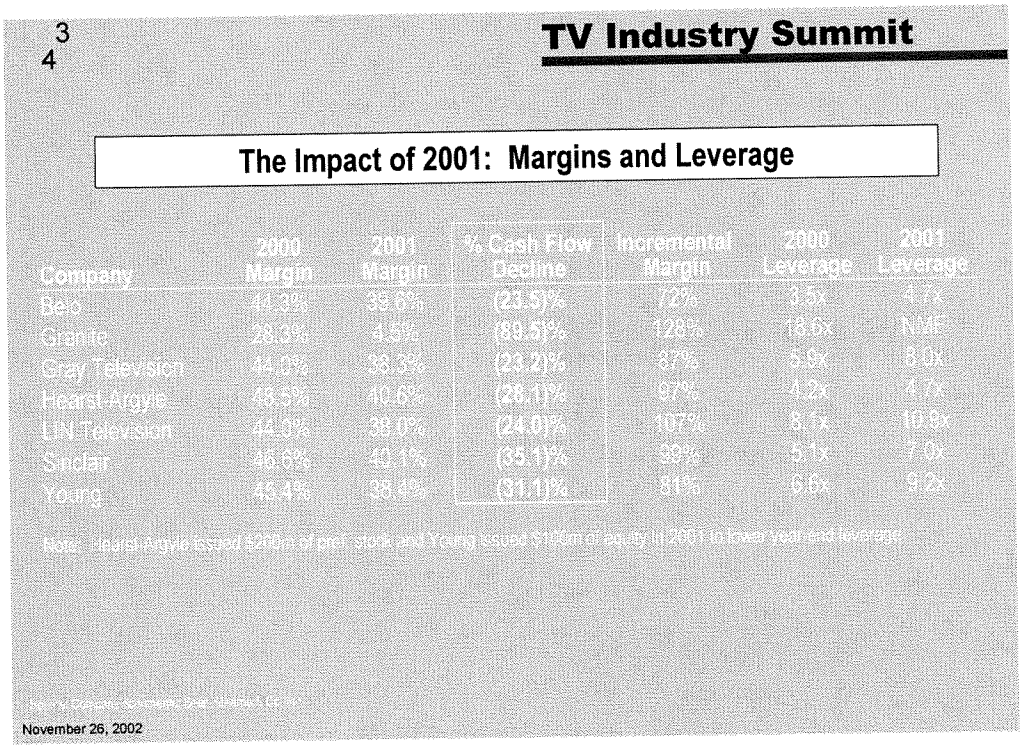
Jeff Smulyan: [continuing, in mid-sentence]…We don't know what to do with it. I would submit that we could probably pool all of our resources and create, you know, many distribution systems that would probably satisfy the needs of most of the American public…pooling spectrum and providing…and marrying with our networks and distributing, you know, distributing, you know, all of the Fox affiliate product, cable product, or the ABC product. And I think that would go a long way and nothing would make me happier than marketing a competitive process…and, you know, using my free must carry that the cable industry, you know, I give; to market a competing product in the marketplace.

Kevin O'Brien: Now, see, Victor, you see, look at this slide…think of the absurdity of this. One company owns ninety-nine percent of eighty percent

of the viewership in the marketplace. The only way this is going to change is that beautiful L-word called leverage; that's why they don't pay us; and we try to get paid and don't because they have all the leverage. When the de-reg comes in and these ridiculous duopoly rules are done away and these arbitrary voice rules are done away. And Jeff Smulyan owns three stations in, let's say, Portland, Oregon, that's when this model is going to shift dramatically.

Jeff Smulyan: Kevin, I've got to say something. You want to talk about leverage…the American Broadcasting Company, with two stations in New York City and Houston brought entire…brought all of Time Warner Cable to its knees with two stations in two markets. We have the leverage, we don't use it. The leverage is there; it's whether it's at the FCC or in Congress or with the American public. We have it, we have never used it.

Victor Miller: If the industry suffered another fifteen percent decline like we saw in 2001 what could your company do to adapt?



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TV Industry Summit

The Impact of 2001: Margins and Leverage

Company	2000 Margin	2001 Margin	% Cash Flow Decline	Incremental Margin	2000 Leverage	2001 Leverage
Belo	44.3%	35.6%	(23.5)%	72%	3.5x	4.7x
Granite	28.3%	4.5%	(89.5)%	128%	18.6x	NME
Gray Television	44.0%	38.3%	(23.2)%	87%	5.9x	8.0x
Hearst-Argyle	45.5%	40.6%	(28.1)%	97%	4.2x	4.7x
LIN Television	44.3%	38.0%	(24.0)%	107%	6.1x	10.9x
Sinclair	46.6%	40.1%	(35.1)%	99%	5.1x	7.0x
Young	45.4%	35.4%	(31.1)%	81%	6.6x	9.2x

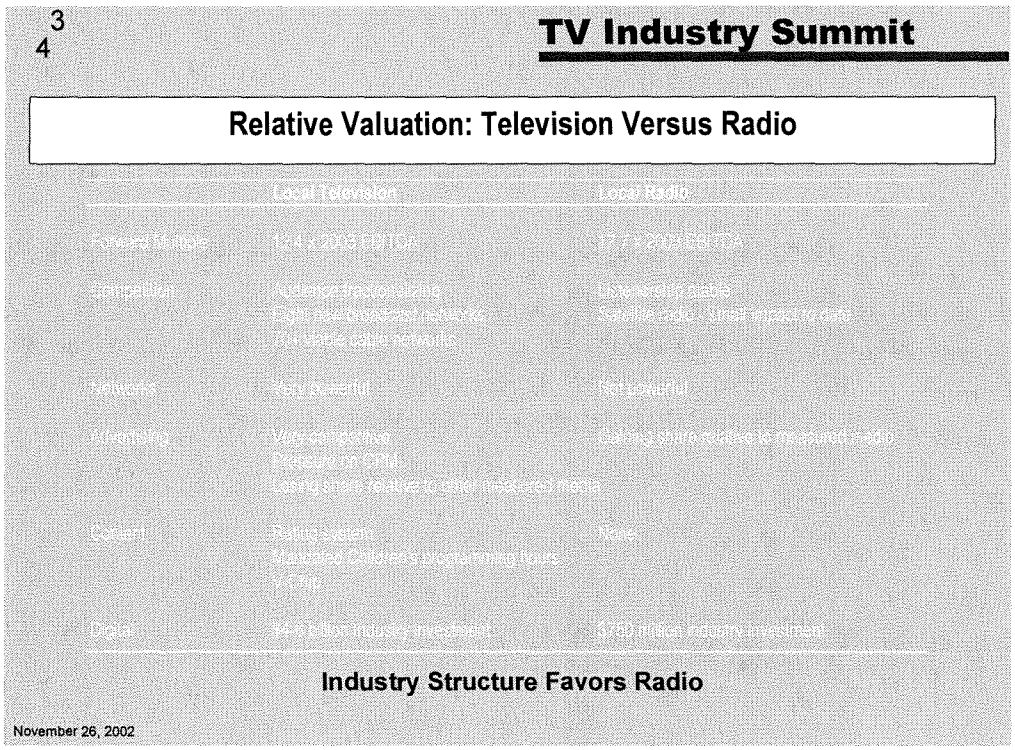
Note: Hearst-Argyle issued $200m of pref. stock and Young issued $100m of equity in 2001 to lower year-end leverage

Source: Company Reports, Schedule Data, Merrill Lynch

November 26, 2002

Kevin O'Brien: You know, I want to get into this 2001. If you take a look at that slide when you had it up there where you had the decline from 2000 to 2001. If you took out the dot-com business and political out of 2000 and you realize that in 2001 you had 9/11, none of the loss of inventory in 9/11…the loss of inventory but the hundreds of millions of dollars that we had to spend to cover 9/11…that decline would not be anywhere near as dramatic as that is. I don't want people to think that that's an example of our industry getting weaker. I think if you eliminated 9/11…because 2001, as I remember, going into the fourth quarter…I felt pretty good about the fourth quarter. I thought the fourth quarter might bail us out of 2001. I think the problem here is the dot-com business in 2000, political, and then the 9/11 hit in 2001; that's a very bad brew. I

think if you—if that slide was Nineteen Ninety-Eight or Nineteen Ninety-Seven and 2001 I think the margins would be a lot closer.



Victor Miller: Jeff, you do both of these businesses, radio and TV—I put this up earlier…local radio trading at a forward multiple of seventeen point seven times, local TV at twelve-point-four. What's the difference?

Jeff Smulyan: The difference is…the simple difference is that the perception of investors is that radio is a model that will continue to take share and continue to grow. The perception of investors is that they don't have faith that we're going to grow in TV. What's amazing to me is there is no more powerful medium in the United States or anywhere in the world than the local TV business. We have got to recognize that. We sell products and we reach people every day.

And the challenge is we've got to…you know, the other problem is you've got somebody collecting sixty billion dollars of fees standing between you and your audience; that's a little bit of a problem. It's going to be a hundred million dollars in four years. When somebody collects a hundred billion dollars an stands between you and your customers, they're not going to allocate it to you…you know, they don't and they haven't…and they won't.

Victor Miller: If you could…just to wrap up. If you could, Gary, make any structural changes that you'd like to see in the TV business, given all that we've talked about in this session, revenue expense side…we weren't able to get into as much to the expense side as I had hoped but, given that, what do you think would, you know, again, five years out, went looking at what the business looks like in five years…you know, what do you think is necessary from the structural standpoint?

Gary Chapman: It's the ownership; it's all about the ownership. In terms of—let me give you an example—we did digital in Fort Wayne that cost three million bucks. We did digital in Indianapolis, it was about three million dollars. And that is about two month's cash flow in Indianapolis and two years cash flow in Fort Wayne. Obviously, we need a change in the ownership structure. There's only four stations in Fort Wayne. But the need to be able to consolidate there is even greater because of…of the revenue, the lower revenue in

the market. So, obviously, we have to have ownership rules that allow us to be able to combine, get greater penetration, and cluster the same way cable has been able to do that.

Victor Miller: Any other…?

Bruce Baker: I think we've got to look for way to become more diverse in our revenue base, whether it's branching into Internet and using that, whether it's duopoly, opportunities in our market, LMA opportunities or what have you. Even though a lot of that is advertising dependent we've got to branch out in that area and grow Internet opportunity for those of us that can see that opportunity. And, hopefully, the satellite revenue will grow, and that will stay competitive, and cable will end up paying us. And I think we need to do whatever we can competitively to help that along and foster that competition in our marketplace.

Kevin O'Brien: I'd like to see a significant competitive Nielsen; I'd like to have another research company giving us data. It makes me very nervous to have one…and I don't like what's going on in Boston. I'd love to have a good, solid company as a competitor to Nielsen.

Gary Chapman: Actually, monopolies are great…if it's yours!

Victor Miller: Well said.

Jeff Smulyan: You know, we can't consolidate enough to match the one slide, where you're going to have, basically, three or four companies controlling, you know, eighty million homes as either cable or

satellite providers. And the reality is if you can eliminate the network cap all together and let the networks own a hundred percent of the affiliates. And if you don't change the structure of this system you have a problem. I am so optimistic, that's why we got into this business. I'm either the dumbest human being who ever lived or somebody who believes that we're getting to a point where we are going to start using our power to make reasonable relationships with the American public and cable and satellite.

Victor Miller: Questions from anybody? Mr. Ostroff?

Nat Ostroff: Thank you, Nat Ostroff from Sinclair [Broadcast Group]. The comments that have been made are very powerful and very stimulating and I'm curious how the panel would react to the proposal that, while we may have given away our analog signals to cable and cable wants to move their customers to the digital tier, we're going to be transmitting digital signals. How can we avoid making the same mistake and giving away our digital signals to cable? Why not withhold those until we can be paid for them?

Gary Chapman: Well, the reality is…as you know, we have a foot in two boats. Most of our companies have made major expenditures in digital. I don't know, we've got, I think, fifty-three million dollars…probably ninety-five percent built-out and probably a power bill of a million and a half bucks on digital. And no advertisers…no advertisers. And, obviously, we need to be able to

get our signal to the American public. And there are two gatekeepers there. One, is there's not enough sets out there. In the American public, very few sets have been sold; very few sets have been made. And the other, as you know, is simply that cable is the gatekeeper and we have not been able to do that. Somehow, we need to...we need to, one, improve the standard, as you know. I think that's one of our major issues as an industry is the standard does have to be improved. Two, we have to be able to get through the gatekeeper. Three, we have to be able to get penetration of sets in the American household. We, as an industry, I think have done our part. Unfortunately, the other industries that must participate in making this forced march work have not been as diligent. And they have to be moved along. If we can get paid in the process that's fine but the truth of the matter is we need to get these other three things accomplished or our business is in jeopardy.

Victor Miller: Any other questions?

Kevin O'Brien: Yes, I also think, by the way...I think one of the great things for us is that people like you, Mr. Ostroff, and people like David Smith have been the standard bearers, have been the leaders in protecting this industry on digital. I wish we had more people like you and David Smith in this industry because—actually I think David has taken grief for his stand on the digital methodology and the delivery. And I just wish there were more people that would honor

David Smith for what he has done rather than criticize him and say, well, he's at the same table again.

Jeff Smulyan: One other comment. Yes, you know, we gave the analog signal away for free. We have a saying in Indiana, never shoot yourself in the foot when you can point the gun at your head. So, now, if we can give away all of our digital spectrum for free, you know, why not? Let's perpetuate a disaster with more disaster.

Nat Ostroff: I just had a follow up on that. The point that Gary Chapman made about the fact that we have no revenue from our digital signal is painfully, painfully true. However, it could be turned around and used as an asset in this sense. Since we have no revenue from that process we have nothing to lose by withholding it from cable until they're willing to pay us for it.

Victor Miller: And that will be the final comment. We'll see you guys at eleven fifteen. Sorry, we're about fifteen minutes behind schedule but we'll see you at eleven fifteen…thanks.

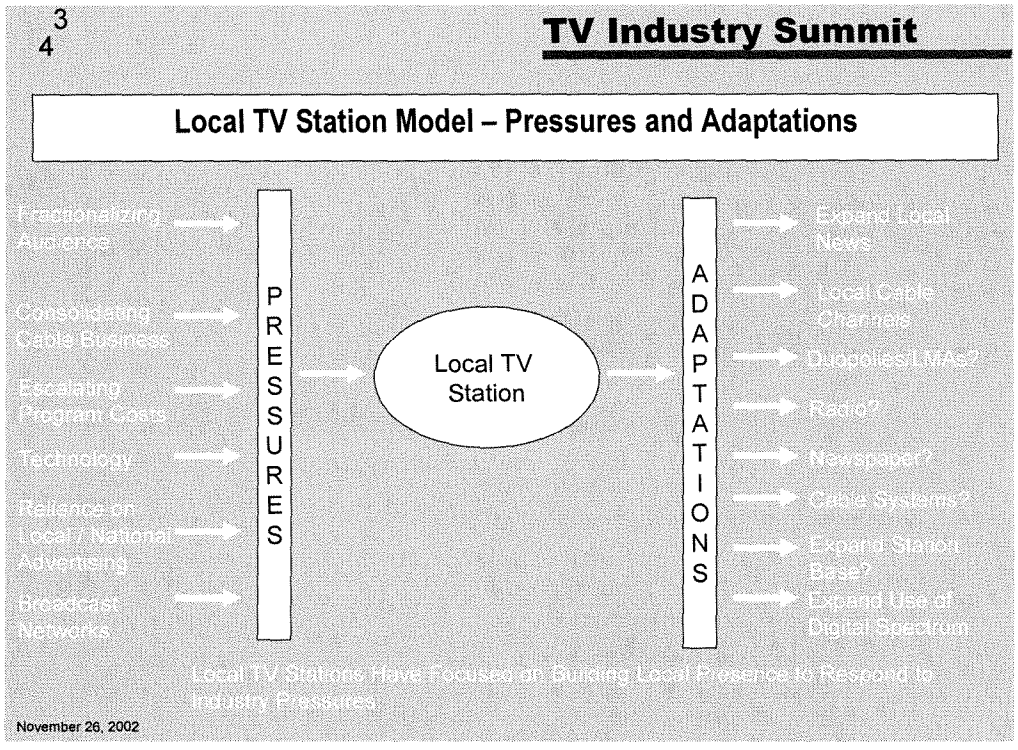
TV Summit –2002
Loews L'Enfant Plaza
Washington DC
Tuesday, November 26, 2002

Panel Three: Duopoly and Cross-Ownership

Panelists:
Robert Decherd – Chief Executive Officer – Belo
David Smith – Chief Executive Officer – Sinclair Broadcast Group
Shaun Sheehan – Vice President, Washington - Tribune
Walter Ulloa – Chief Executive Officer – Entravision

Panel Time: 11:15AM-12:30 AM E.S.T.

Victor Miller: All right, as you can see, the first panel…the first panel we talked about the pressures building on the economic model of the local television station. The second panel really dealt with the economic model itself, talking about the revenue and expenses of the business as they are right now.



And now we're moving to the adaptation side of the discussion, where we're going to talk about duopoly and cross-ownership of media. And to help us do that, we have Robert Decherd, the CEO of Belo; David Smith, the CEO of Sinclair Broadcast Group; Shaun Sheehan, the VP, Washington for Tribune; and Walter Ulloa, the CEO of Entravision. Robert Decherd just wants to let everybody know at twelve fifteen he's actually going to be leaving the building like Elvis did, you know? And it's not because he's going to be really upset about what we're talking about or anything like that. But if we run late, he's just going to streak out of here, so don't worry about it.

Robert Decherd: I'm walking out…I'm not streaking!