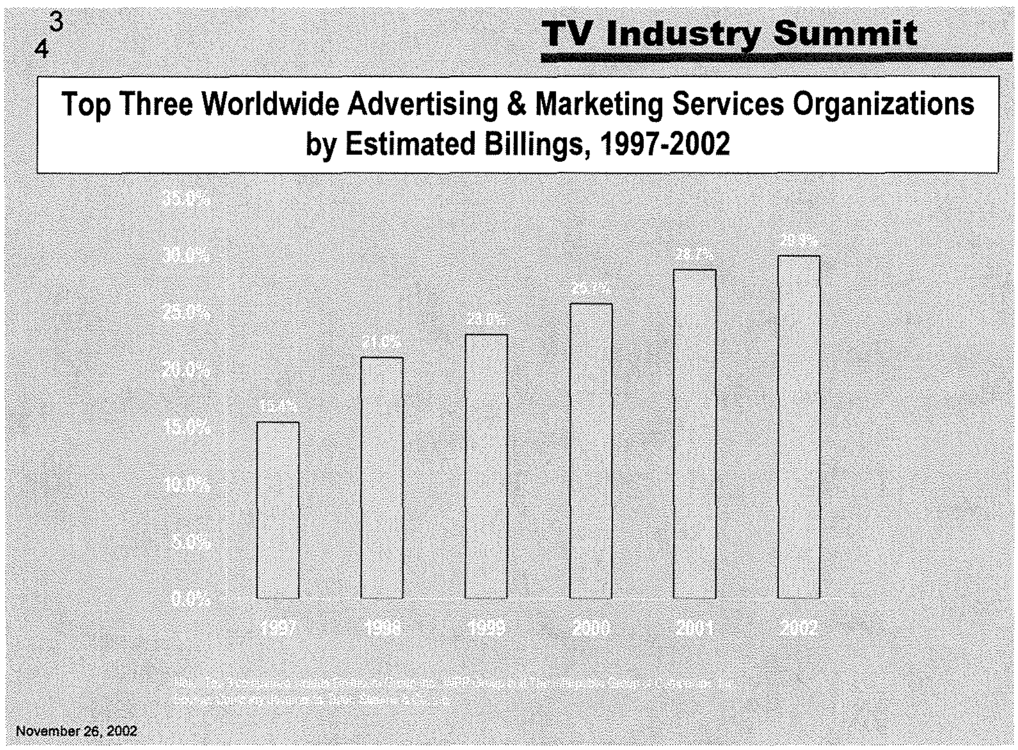
sort of a classic case of a business that, you know, goes back and forth and up and down. And, you know, I'll give you an example, pharmaceuticals five years ago; I think we've grown a hundred and eighty percent in just five years. Foreign cars and the automotive category have grown quite a bit. And every time there's a share war, whether it's in the beverages or retail or any place that, you know, the networks are always the beneficiaries.

Tony Vinciquerra: And cell phones in the last year...cell phone companies in the last year have been...

Randy Falco: Yes, we love share wars.



Victor Miller: Look at...here's...talk about some of the pressures on the network from the edge but here's the top three worldwide advertising and marketing, which, I think, is IPG, WPP and Omnicom. These shares have gone from about fifteen-point-four percent of total worldwide billings to almost thirty percent of worldwide billings. You have a concentration in the ad agency business. How is that affecting your business to the positive or negative? Randy?

Randy Falco: I always answer this question by saying, they didn't do it to help us. So, clearly, they're going to try and affect the price by being smarter about the marketplace, knowing how much is going on in the marketplace. To this point, however, it really hasn't affected us. And I think it really is—it comes down to it's very difficult to execute. There are just so many advertisers. And if you think about it, these buying groups don't really control the strategies of all their clients. So it's difficult for them to really pull off something in a big way; it's also difficult for them to leverage all of their clients against you. If I were Coca-Cola and I had, and I was being represented by somebody I wouldn't think too kindly of them trying to leverage me as one of the big players, and the benefit of that going to one of the small players. I wouldn't be really happy with my buying group if they were trying to do that. So, I think this is really—it's something for us to keep our eye on. It's clearly…as I said, it hasn't been done to help us. But to this point we really haven't seen a big impact on our business.

Tony Vinciquerra: I would agree with that, maybe looking at it from a slightly different perspective. These big agencies, buying services, may represent forty or fifty clients coming to the upfront every year. And every one of those clients wants to make sure they're serviced, in their mind, the best of any of those forty or fifty. And the agency or the buying service is not going to want to, in my mind, be short of inventory when it comes down to that thirty-ninth or fortieth client who expects to be treated with the same weight and respect that the number one or two client is. So, this...consolidation in times of great demand...and, listen, this businesses all supply and demand; there's no other way to describe it. And if there's demand there's going to...that's going to drive pricing.

David Poltrack: I...from the research perspective on this, I think—taking another perspective—I actually think it's a very good thing because I think these...there's a lot of competition among these companies to introduce new media planning tools and new buying tools. And the ones that I've seen so far actually support the dominance of network television. I think we saw that in the upfront. They're also competing with each other, which is...and this is kind of...this is not something I thought I would see but the competition of these big giants with each other...when they get into the upfront market that competition, I think, in this up front market, I think, helped us. I think it worked to our advantage. They're competition amongst themselves.

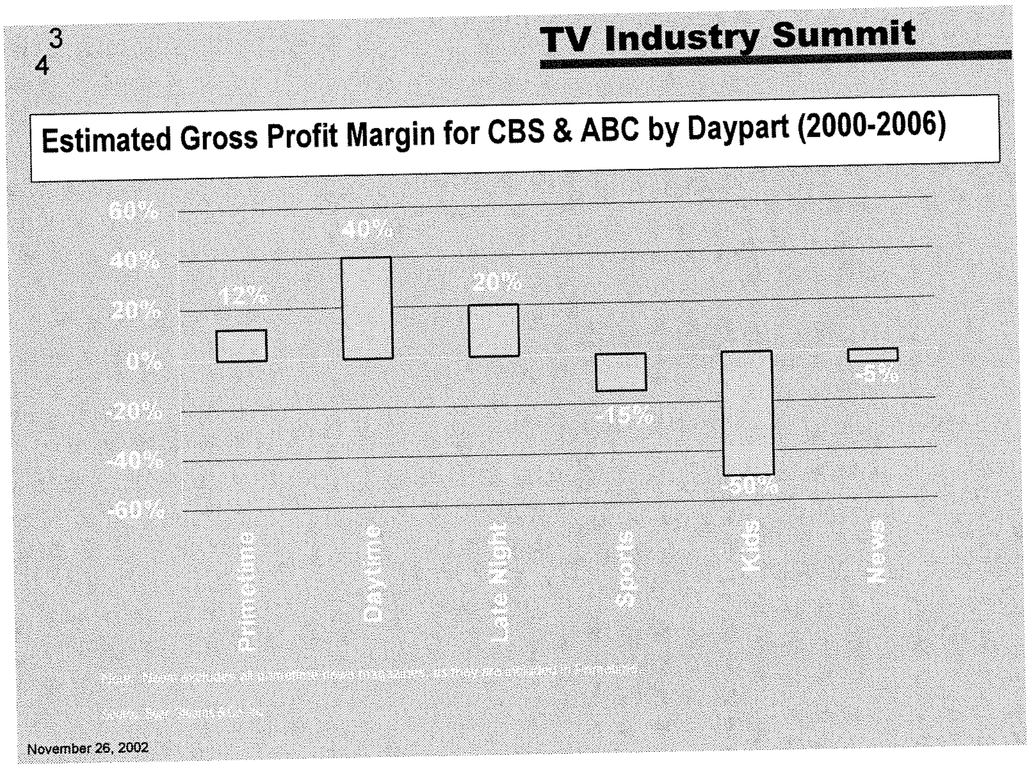
Victor Miller: Ray?

Raymond Katz: As a follow up, looking at this from the other direction, how about consolidation in your companies? Let's take Dave, specifically, in Viacom there's...one of the buzzwords on Wall Street has been for a long time cross-platform sales. And network television is certainly, if not the, one of the engines that drives that. How do you integrate the network buy in CBS and in Viacom?

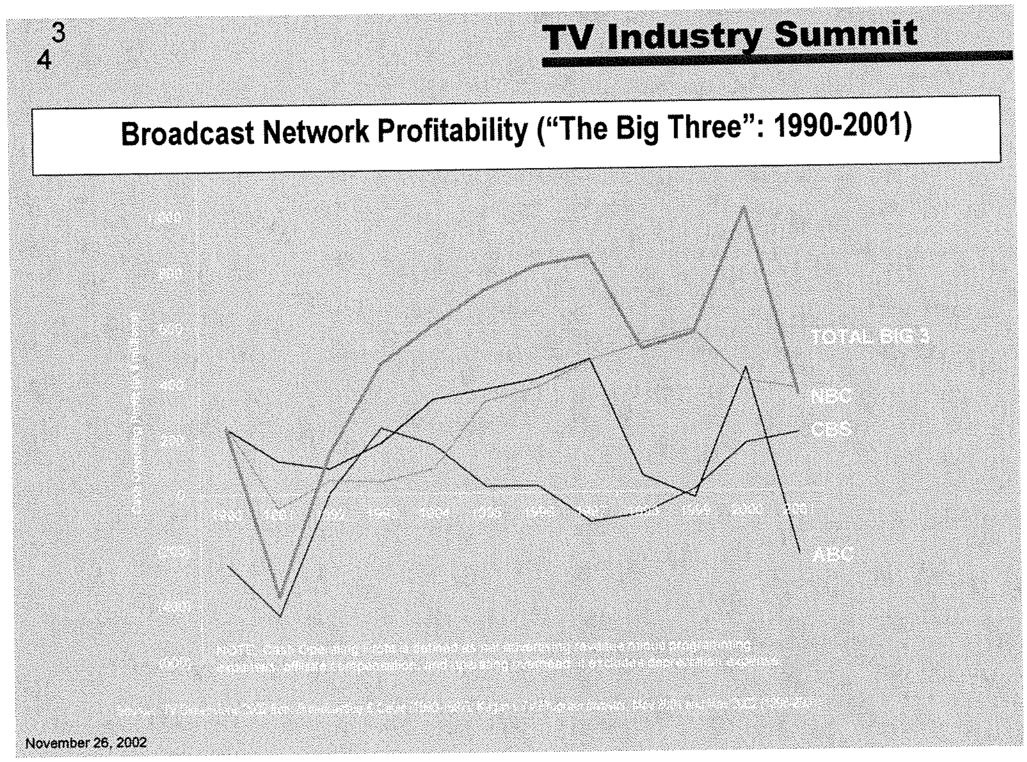
David Poltrack: Well, I think that also comes back to what I was just talking about. The cross-platform selling requires a level of sophistication by the seller and the buyer. And as these big buyers get more sophisticated I think the big sellers with the cross-platform opportunities will have an advantage in being able to work with these sophisticated buyers. But we're still very early on in that program. We have very...Viacom-Plus has been a successful cross-platform operation but I think we're in a learning curve on this right now. And we're just beginning to learn how to manage these assets.

Tony Vinciquerra: I'll go back to my last statement that this business is all supply and demand. In a year where there is more supply than demand you will see a lot of cross-platform deals because companies will try to increase their share using all their assets by discounting. In years where there is more demand than supply, you won't. And...it's almost as simple as that. But, as David says, the sophistication of buyers and seller as they continue to evolve and create integrated marketing campaigns that go right down to the retail level, you'll see some of that also…

Randy Falco: By the way, it's also easier for the sellers to pull this off than it is the buyers.



Victor Miller: Let's talk about profitability. These are our estimates—Ray's estimates, actually—of the CBS and ABC combined just to gives a sense. Prime time at a low double digit, daytime being forties, late night, twenty, all the way down to sports and kids; and news overall losing dollars as a network business.



And then…take a look a the profitability over time…I guess, you know, if you look at 2001 you can see NBC is still quite profitable, CBS has made a remarkable recovery and is making profits at this point. And, last year, the ABC network, of course due to ratings stresses over two years wasn't that pretty a picture. But I guess the question is, what day parts are profitable? Are we right here? Which ones are not looking like they will be profitable in the five year—remember, we're looking five years out; what does this model look like in five years? Where are the stresses on the day parts? And is the broadcast model as it is right now…? Can't grow inventory that much, expanding costs. Is it a profitable business in five years? What does it look like?

Tony Vinciquerra: Thankfully, you left Fox off that chart….

Victor Miller: And what would that look like, Tony?

Tony Vinciquerra: Well, obviously, we lost a lot of money last year, but…

Victor Miller: We could just substitute you for ABC, how about that?

Tony Vinciquerra: Okay, maybe a little bit lower than that, maybe, but, clearly, we have two data parts, prime time and sports. Prime time this year will actually be profitable on the Fox Network—slightly. It's not a business you'd want to own as a…I know you have enough money to go buy a network, Victor, but you wouldn't want to buy a broadcast prime time network. Sports are where we're losing the money. And that is a total reflection of the deals we've made in the past. You know, those are very good businesses…NFL, baseball, and NASCAR are extremely good businesses for the network if you pay the right amount of money for them, and we didn't.

Victor Miller: You paid for those in the 1999, 2000 environment where no one would have expected we'd have a twenty percent correction in 2001.

Tony Vinciquerra: Exactly. In the world of optimism that everyone lives in, we would have expected that every year you would see growth in CPMs and revenues—obviously, that didn't happen. You have one year of negative growth with one of these deals it creates havoc with your business plan.

Victor Miller: And what is your five-year thought on that? Does the network business, as it is right now, on the track it's on, how profitable a business can that be?

Tony Vinciquerra: On the prime time side I think it will improve over time, not dramatically, but it will improve. And on the sports side it will, given the fact that—I noticed in here you said we had a seven hundred and fifty million dollar write down, I think it was more like nine thirty-one [million dollars] or something like this—just to make it clear that we had a nine hundred million dollar write-off, not a seven hundred and fifty million dollar, on sports. Sports side will get closer to profitability but we'll see how that comes about.

Victor Miller: Randy?

Randy Falco: Can you put that slide back up?

Victor Miller: Absolutely.

Randy Falco: I'll just go across it for you. Prime time…NBC is very profitable and I think over the next five years we will continue to be very profitable because of the investment and the kinds of programming that pays for us. I'd also say, parenthetically, that, just like sports a few years ago when we decided to exit that. That's part of why we're actually so profitable now as a network. We're also…in prime time one of the things that we're all going to have to come to grips with is theatrical movies…as a network television offering is probably not going to happen in the future—it's dead. It has too many windows before it gets to the networks and there's very few of them that really work anymore. And I think in order to maintain that profitability going forward we're all going to have to deal with that reality.

Victor Miller: So, that means you're going to have to program, theoretically, another three hours?

Randy Falco: Yes, I mean, we're down to one movie a night. I think CBS is down to one movie a night also. We used to have two, for instance. But just investing in big theatricals is not a business anymore. And I think we're all going to have to come to grips with that. And I think we're also going to have to come to grips with controlling more of our product and being able to share in the aftermarkets as part of that prime time equation. Daytime we touched on, we don't have a lot of hours in daytime. One of the hours we do have is an extension of our Today Show, which is very profitable for us. I would agree, though, that it's a difficult day part only because it's really supported mostly by P&G…to the extent that P&G goes up and down your whole daytime equation can…

SIDE ONE OF TAPE THREE ENDS

Randy Falco: [continuing, in mid-sentence] …Sports, I think, is dead on the networks; that's just my opinion. In deference to everybody up here…

Tony Vinciquerra: –I won't argue with you…

Victor Miller: Now, you have both, Tony. You have that Fox Sports Net so…

Randy Falco: I just think, you know, going forward, it's probably going to go to pay cable. And the NBA deal is probably the first sign of what's…of reality, which is it's all going to go to pay. It will ultimately probably even wind up on the regional side because that's where they're able to get the most money. And maybe ten years from now everybody will come to their senses and, you know, figure out that you can't charge, you know, an eighty year old grandmother in Fairfield County—which is my mother—for ESPN, which she doesn't watch. You know, and, so, to the extent that ESPN can make all of those kind of dollars by not having it a la carte, then they'll be able to afford it and we won't. And that's just a reality. News…is a huge profit maker for NBC; it's one of our top profitable divisions.

Victor Miller: But if you didn't have MSNBC and CNBC would it still be as profitable as a network business?

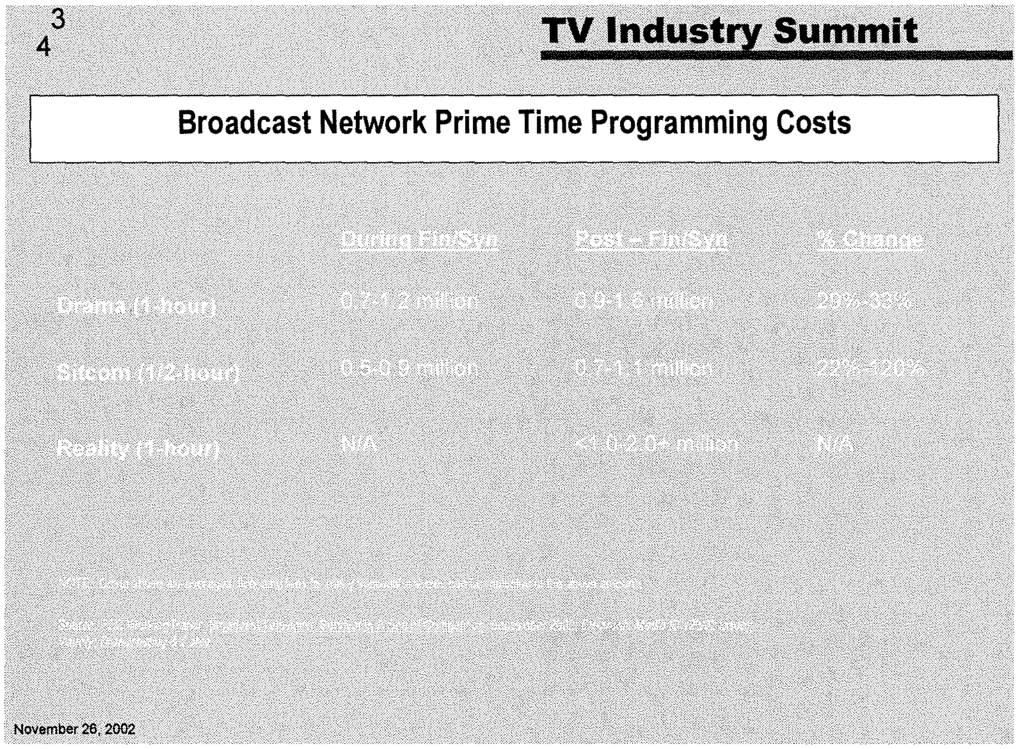
Randy Falco: It would still be as profitable…it would still be as profitable. And the other guys up here have done it. I know CBS leverages a lot into prime time now with Sixty Minutes and Sixty Minutes II. We do the same thing with Dateline [NBC]. That's a big part of the news equation. The Today Show is an enormous profit maker for us; it has fifty percent of the share of the audience and fifty-five percent of all the revenues. We make a ton of money there. It's the ultimate...it's the one thing you can control in network television. It's reality programming and we have it, it's controllable, it grows less than three percent a year in terms of cost; and most of that is attached to talent and you can control that. So, it's a great business to be in.

Victor Miller: David?

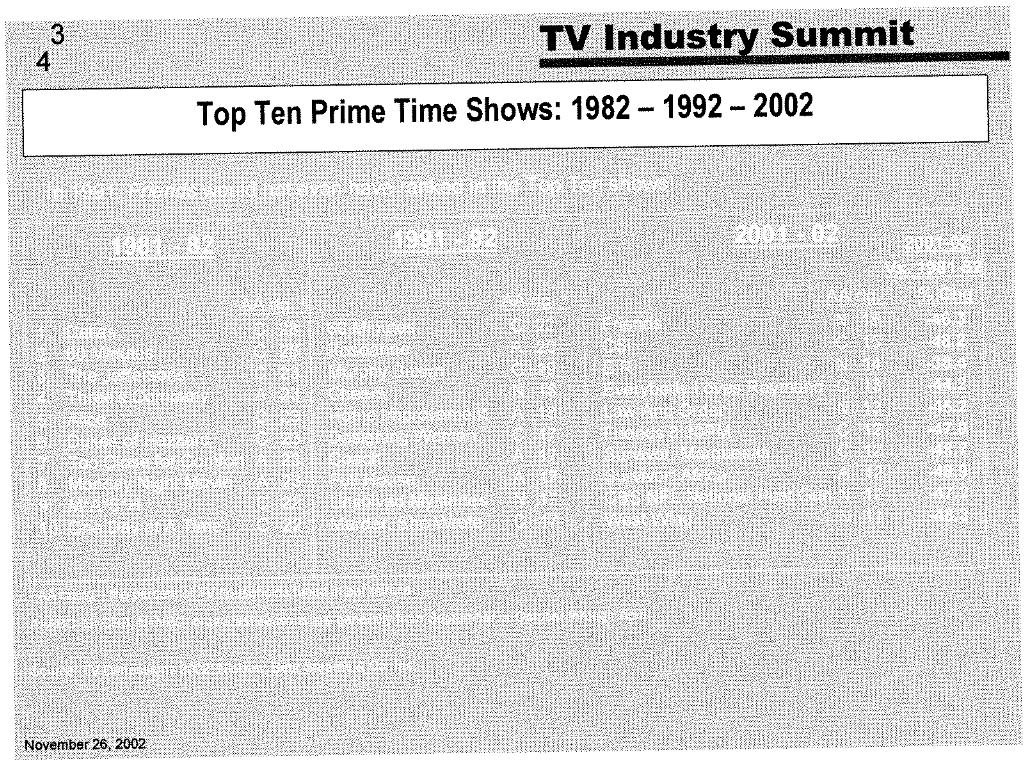
David Poltrack: Basically, I think we're in the same position now. Prime time I definitely think is...obviously that's the key to network television. I think we've made some discoveries with reality television programming and getting out of the theatrical business and things about our programming mix that...that I think we know how to make for a profitable network prime time schedule. I think what happens, though, is sometimes when you get competitively behind you've got to invest yourself back into competition so a network goes....like the situation that perhaps ABC is in now. They're having to spend more money in order to get back competitively. So, there are...there will be periods of profitability back in and out. But I think, generally, the future is right there. Daytime I already talked about; the fact that daytime I think there's some pressure on daytime. I think it will remain profitable. Program ownership is an issue there. We...you know we have the "Young and the Restless", a very strong daytime franchise but we don't own it. And that always is a challenge there. Late night, I agree with Randy, I think late night's a great time period; it's just going to get stronger. The demand for that day part just seems to grow every year relative to the overall television. Sports, well, we have a little different perspective on sports. I think there are areas of sports that you can make money in—golf is a very, so far, I think a profitable sports day part. In terms of the big franchises, NFL football and the franchises like that, if you're only going to look at the network revenue stream, it's hard to rationalize them but when we make a big bid on sports we look at our television, our owned and operated television stations…revenue stream. We're now looking for contribution from our affiliates on the major sports events and we also take into the account the promotional value of sports. And we actually put a monetary figure on the promotional value of sports. And when you do that type of accounting I think there's still room for sports on network television. But there are going to be some tough negotiations coming up in the next round before it…kids, we solved that problem, we gave it to Nickelodeon, what can I tell you? They're doing very nicely, thank you. And when I saw that five percent loss for news I said, 'who's losing money on news?' Sure as hell NBC is not losing it and we're not either. So I think news is—I think you're off on news. I think news is currently a profitable day part and, as Randy said, one that we have a lot of control over and we can amortize over; and I think that's certainly part of the—five years from now it will be an even bigger part of network television.

Victor Miller: How much was your 2001 actual advertising recorded at the networks below 2001's original budget? What was the impact of 2001 in general? Any sense of that?

Randy Falco: I think it was single digits. It was probably in the five to ten percent range.



Victor Miller: Is that fair? Let's look at...the programming expenditures. This is right from the FCC working paper: 'A Broadcast TV Survivor in a Sea of Competition.' It shows the cost of a one-hour drama, sitcom, reality, during Fin-Syn [financial syndication rules were put in place by the Department of Justice and the FCC in the early 1970's to prevent networks from having ownership interests in television shows which the networks aired in primetime] versus post Fin Syn [the financial syndication rules were struck down in 1994]. You can see the change has been to the positive; it's more expensive to put a drama and a sitcom on the air than it was at that point.



But, interestingly, if you look at Nineteen Eight-One, the top ten shows and what rating they pulled. The top ten shows in Ninety-One and Ninety-Two season; then you look at this year…the top rated show is off forty-six percent from what it was twenty years ago. So, the question, I guess, is how do you maintain and what changes have you made to your prime time to adapt to the reality that it's more expensive to program and the audience levels are lower? And I'll just kick that off with Randy if that's okay.

Randy Falco: Well, the first thing I would do here is suggest that you need to index these, right? Because those ratings in Nineteen Eight-One were when there were fifteen channels going into most homes and now there are eighty-nine. So, you're really sort of way-over indexing where you are against all the competition if you take that into account.

Victor Miller: But nonetheless, you're spending a lot more money to reach, theoretically, a smaller rating…

Randy Falco: You're always…listen…you're always going to spend a lot of money for, it's like—you have to look at it like there's a portfolio of shows. And there's, you know, five to six to seven top shows on every network that are going to be expensive; no matter how you look at it. And you've got to invest in that. And I think what you've seen over the past year or two, in particular, is that there's more of an investment now in reality shows. And the reality shows are less expensive and they tend to be easier to deal with. And I think that's the only way to deal with those things. Going forward, there's no question about it, in this kind of a world of great competition and the eroding environment, you're going to have to invest in your top line shows and they're going to be expensive. And you're just going to have to figure out how to make the rest of it work.

Tony Vinciquerra: I would add, Victor, that between Nineteen Eighty-One and 2001 the number of viewers probably has increased fifteen percent-plus. I don't know the exact number, you probably have those there. So…we sell on CPMs, cost per thousand viewers reached. So, a twenty-eight rating at that point was twenty-eight percent of…

Victor Miller: Fewer—much fewer households, right.

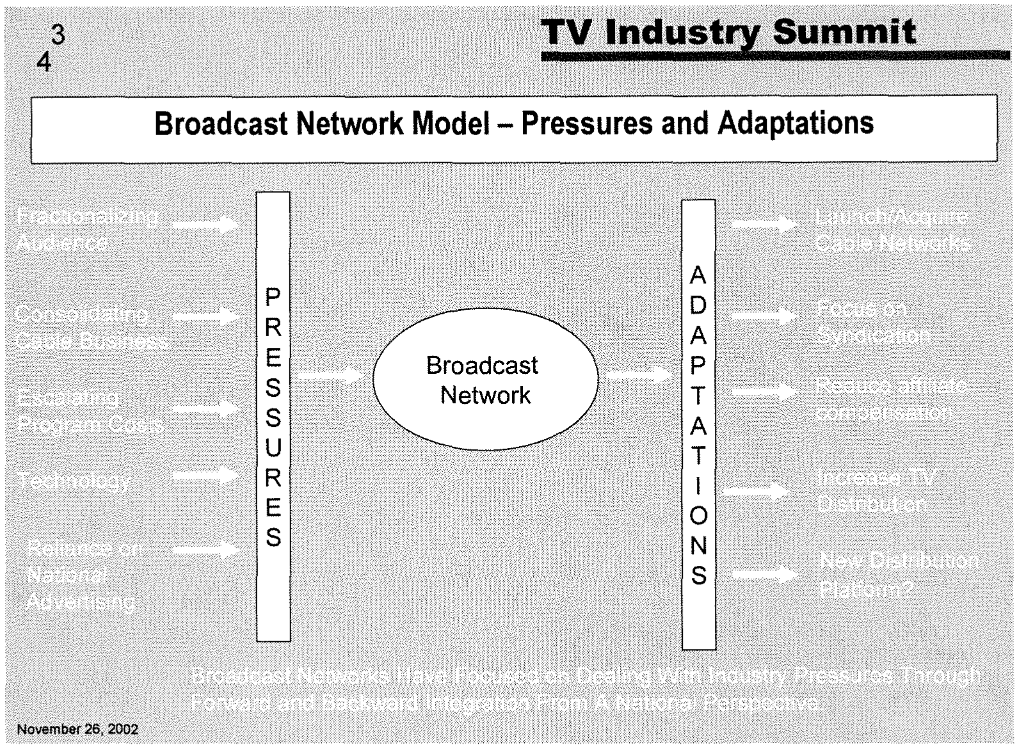
Tony Vinciquerra: Right, so, it's something also to keep firmly in mind there.

David Poltrack: What I was talking about earlier, this top ten…one of the things about network television is that—that allows us to differentiate ourselves is we're the only people in television who basically make…throw a lot of our product away. We make thirty pilots and we put six or seven or eight of them on the air. We then fill twenty-two hours of prime time programming. And we're a hit driven business. I mean, I think everyone here can point to probably three or four shows that generate most of their profits. And that's what the name of the game is. You've got to play in that arena. And, as long as—if we stop doing that and try to cut back just by sheer probability we're going to get less of those hits. And that's what drives our business is hits. And Friends is a bigger hit today than even Dallas was back then, economically, because the fact is not only are there more consumers but, these consumers are worth more money to marketers today—substantially more money to marketers today than they were back then. And they're a valuable resource and that's—we don't have as many of them but they're more valuable than they were then.

Tony Vinciquerra: And, additionally, the platform, the playing field, for advertisers has changed dramatically. The way an advertiser might look at this today is you buy "Friends", you buy the broadcast networks to build reach and then you build frequency by buying the other medium.

Randy Falco: You also average down your price that way.

Tony Vinciquerra: Exactly. And in Nineteen Eight-one there, you know, the number of cable networks was a fraction of what it is today; you have the exact number in chart there somewhere and it was not—you couldn't do that then. Today, you can build a reach by buying Fox Network and the NBC Network and the CBS Network and then fill it in by buying the Fox cable networks and Viacom's networks and everyone else.



Victor Miller: The…let's talk about how you've adapted to the pressures on the model. First of all, let's talk about the station business and Duopoly. Fox and CBS have sought to maximize the size of its distribution base and duopoly reach while NBC generally does not because it's not English language. They've chosen Telemundo as a second network…what's the difference there in the approach? Why are you at thirty-eight percent coverage and why do you think you're only at twenty-four [percent coverage of U.S. TV households] with your owned and operated TV group? Is that…the right balance for you?

Randy Falco: I think it's just that we made the investment in Telemundo. We have six duopolies if you add in the Telemundo stations. But, you know, listen, we believe in it. We think it's a key to the future. And to the extent that we see stations that are affordable and we think have growth potential, we'll be buyers.

Victor Miller: Any comments from either?

David Poltrack: We're as high as we can get. I mean, essentially, we are very...we really believe in the television station business. We think of the...a network to own—the more television stations we own the more...sports franchises are a perfect example. Obviously, as I said, when we do the economic equation one of the things that goes into it is how much money our owned and operated television stations are going to make on a sports franchise? The more owned and operated television stations we have the more money we're going to make on sports franchises...without a big television base, sports will go the way of cable. I think that, essentially, we need to get total value out of those sports franchises or they're going to be moving more and more to the pay sector. And that's one thing that increasing our station base allows us to do. And we think it's vital to our company that we're able to do that.

Tony Vinciquerra: I would agree that, on a national sports basis, the more stations you own the better the economics become. That's true.

Randy Falco: I think it goes to the overall issue, though, of all of us, whether it's at the network level or at the local level—being able to sort of amortize all of this cost that we have...whether it's in news gathering or in programming across more platforms. You asked me before, what's the key going forward, particularly in prime time? The model we have is a very difficult model. We have to buy programming, in some cases, that costs us ten million dollars, all right? An episode...and we get to play it two times. That's a difficult model. HBO gets to play The Sopranos ten times a week. I get to play ER once.

Victor Miller: And then they [AOL Time Warner] put it on DVD and sell it.

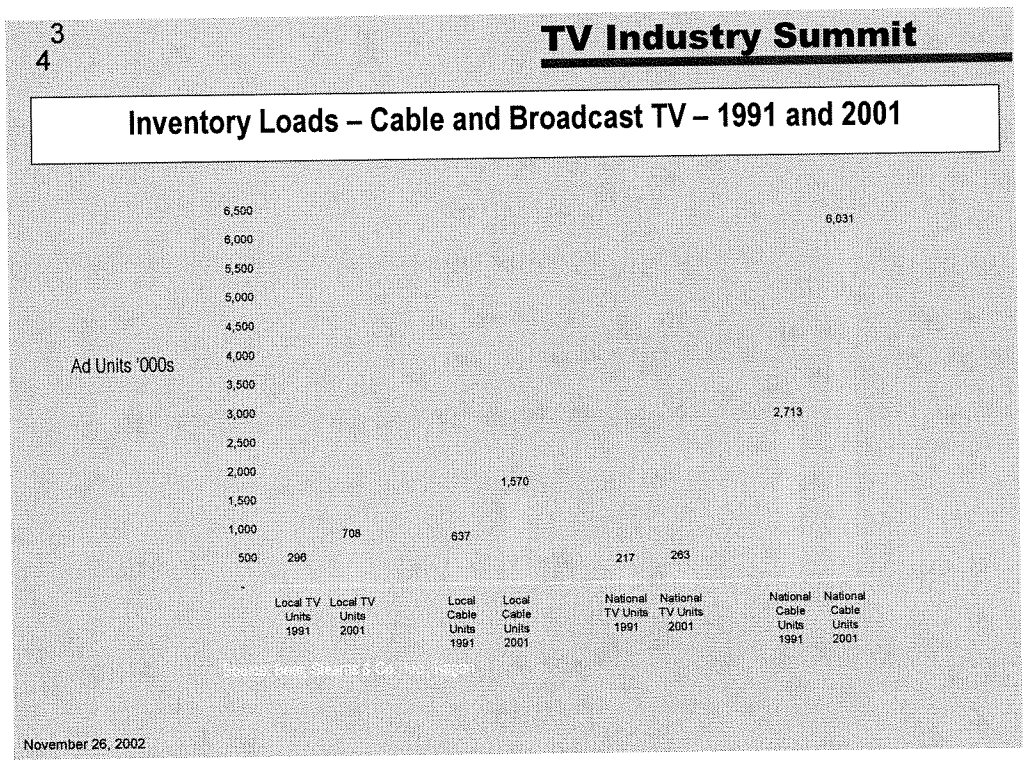
Randy Falco: Right. So, it's...that kind of stuff has to evolve over time. That's why you get into things like Bravo. That's why you get into things like MSNBC and CNBC so you can leverage your news costs. That's why a local station, you know, they're hubbing more on a regional basis because they want to take all of that back room resources that they have and leverage it across as many platforms that they possibly can. And that's the key for all of us going forward, whether at the network level or the local level.

Victor Miller: Let me ask you a question, Randy, specifically. You're now basically supporting the second Spanish language network, which is only a twenty percent share of the marketplace. You have...a nice O and O [owned and operated] station in a lot of your markets. If you wanted to start up another, or own a third channel or essentially a second English language channel, what's the case for a triopoly? Is there a case for a triopoly?

Randy Falco: Well, I think there is. I mean, I think...some of the panels before talked about the arbitrariness of the measurement. You know, why...why couldn't you own three stations in Los Angeles where there are twenty high-powered stations in the marketplace? Why couldn't NBC just hypothetically have, you know, KNBC, KY, which is the Spanish-speaking station in that market, and maybe even a Pax station? And service all three—have three different audiences, and unduplicated audiences. You know, the NBC station is probably going to be slightly younger. The Spanish-speaking station, they are non-duplicated viewers; they do not watch English language television. And it's a large segment of the population that's being underserved right now. And we think that there's great opportunity there. But, also, you could create a Pax station in that...if the cap ever gets lifted. So, there is a case, there's a perfect model for us to be able to, again, leverage ourselves across different platforms in the local market.

Tony Vinciquerra: We think we do have triopolies in a number of markets where we own two TV stations plus a regional sports network. And people may not be aware...the economics of those regional sports networks is a great business. And in many markets you can achieve very high ratings within them—in Seattle or Detroit, you know, where the Mariners will do twelve or fourteen ratings and Detroit, with the Redwings, will do twelve or fourteen ratings of those too. It gives you a third leg of the stool.

Victor Miller: Interesting. Now, historically, the networks used retransmission consent negotiations to negotiate for a new cable channel and help the distribution of ones they already owned.



Should we…we looked at a slide showing the amount—a large amount of cable inventory. So, adding new cable networks going forward may only agitate an already poor situation. Are we reaching a stasis where that may not be the first thing you'd like to do with your retransmission consent and you'd actually consider trying to get paid for your owned and operated stations?

Tony Vinciquerra: What's a stasis point?

Victor Miller: Balance baby!

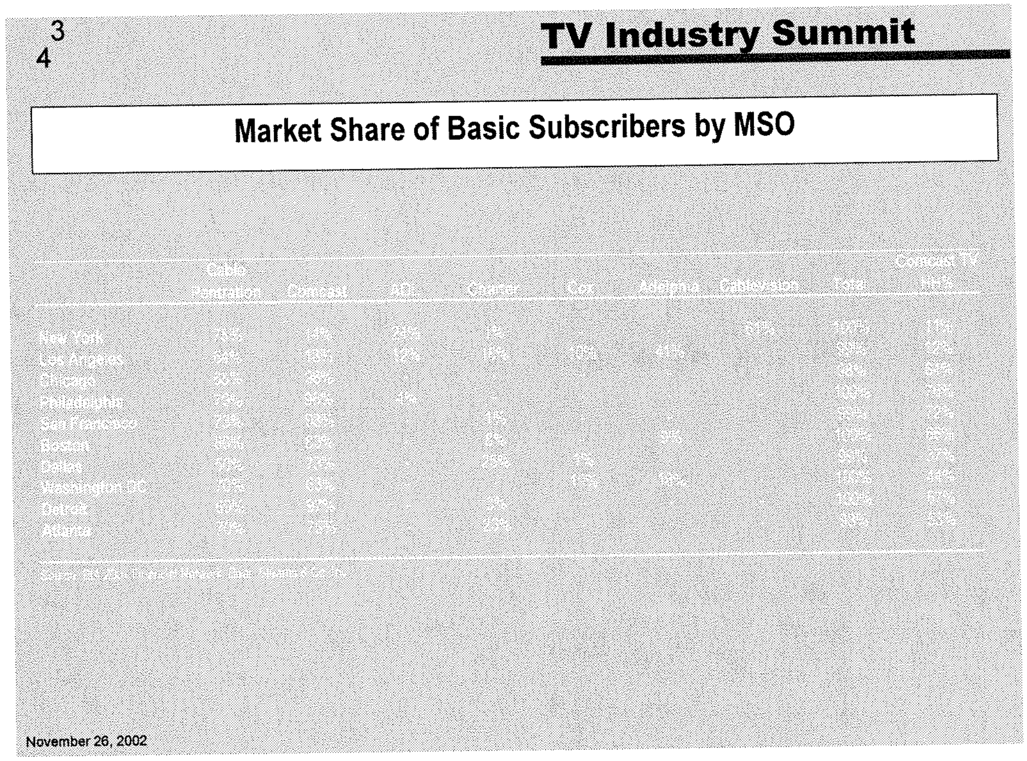
Tony Vinciquerra: I think that is where we are and I think those decisions are being made today. We don't…while we have a number of cable networks, I think if you count them the right way you can get up to about thirty, I think, on the…in the Fox Company owned and partnered. We think there's…there are a couple of ideas, a couple of genres out there that could support very specialized, very specific areas…that could support another cable network, but there's not a lot of them I don't think. So, I don't know that any decisions have been made one way or the other but, certainly, we are at that stasis point.

Victor Miller: Good use of the word, Tony! He learns fast. What about you, Randy?

Randy Falco: I think we feel the same way. I mean, I think we've already established that, just in general, adding another cable network is not going to be very helpful.

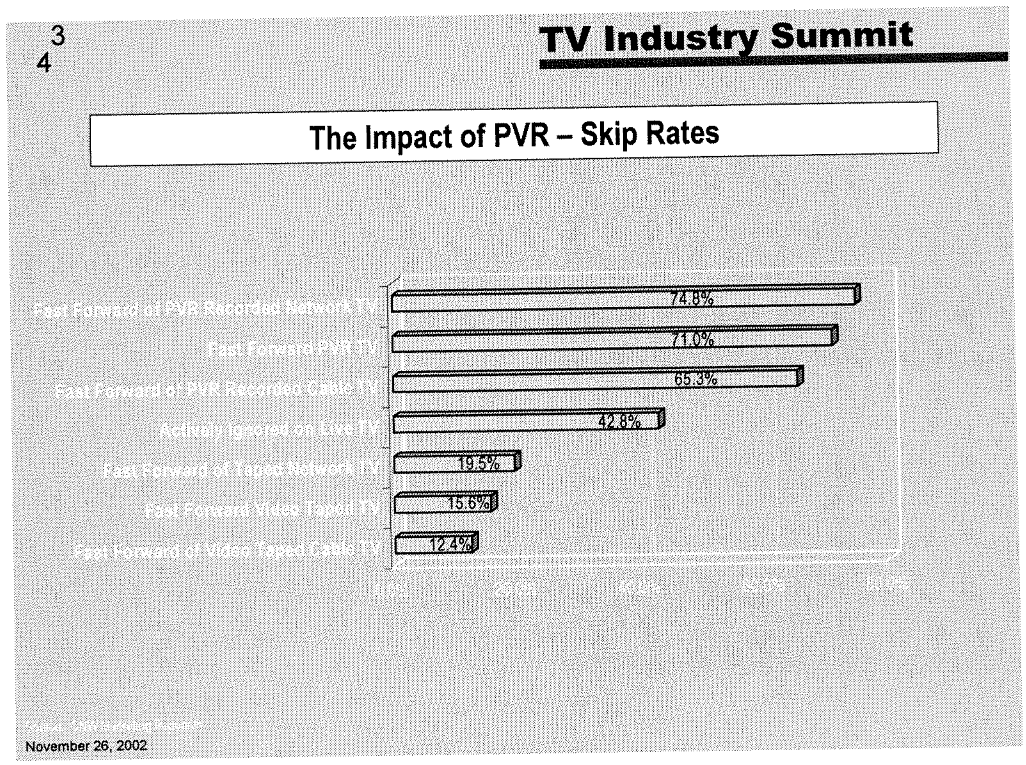
Victor Miller: David? Feel the same?

David Poltrack: I was back there with Jay Kriegel back in the beginning when we thought we were going to get money from the beginning. So, and ABC took the wind out of it. So, yes, I think that's…certainly the goal…and there was a lot of that…was discussed this morning; is that there's competition coming in the cable front; there's competition in the satellite front. You know, I think…we're the most important thing they have, but it's going to work in the television station side. I think we've got to get more of the value of retransmission back to the television station, not to the network but to the television station.



Victor Miller: David, I want to get one more question from you before…our question is going to end about one-thirty but I know you have to leave at one-fifteen, I believe. So, I want to get one more question in…slide fifty here…the famous market share of the MSOs. The difference here, for you is the last time I checked you're in New York, LA, Chicago, Philly, San Francisco, Boston…all these markets…when you're going to be contending with some fairly significantly concentrated, you know, almost single player in a lot of these marketplaces. What is that going to mean for the negotiations you have on both your local stations? And, you know, what you saw with YES Network, with Cablevision, where they said, you know, we're going to leave the Yankees off the air in New York? Guess what? They were never on the air. Is there any lesson to be drawn on that the power that the cable network had—I mean, sorry, the cable MSO had relative to the cable network? And what impact that could have on affiliate fees going forward?

David Poltrack: Certainly, these figures would be alarming to anyone that was in the business. I mean, this is a gatekeeper function, essentially, that these cable operations have. And we have to pass through that gate. And it is, it is of significant concern for us and that's why we would like to see…multiple options. I mean, we've heard a lot this morning and we talked about it a little bit here that the economics of cable television right now are built on the bundling of assets and everyone—everybody getting a subscription fee by tier-ing and tying together the product. And we have been left out of that equation…I think we definitely have to work with these powerful cable operators. The whole way that television is going to be directed. One of the things that they were trying to do, and I don't think it was discussed too much, is this whole idea of the program guide, and the idea of what you see when you turn on your television. And I think that's absolutely one of the most critical things is what you see when you turn on your television. They control what you see when you turn on the television and that worries us and we're going to have to deal with that.



I'd also like to—another comment about something that relates to that. It was mentioned today, PVRs, there was some discussion earlier today about PVRs and the impacts of PVRs. And there was a big article in Electronic Media about PVRs and there was a big article. And I think it was a trade press…I just have to say, when is…are you people going to stop listening to Forrester Research? I mean, come on, guys, these people, right now, according to them, in the beginning of 2002 there were supposed to be two million TIVOs out there. I mean, they haven't been even close to right on any of this. Yet, Electronic Media talks to Josh Burnoff [as if he] is a god who has predicted everything. This guy has never been right—he's way out there.

Victor Miller: How do you feel?

Tony Vinciquerra: You should go back to Nineteen Ninety-Nine and read their research and forecasts.

David Poltrack: I have a PVR; PVRs are going to have a significant impact. We have to deal with it. But, just...all of those statistics you showed...one percent of the people; this is the same percent of the people that have been avoiding commercials all their life. They bought VCRs to avoid commercials; they bought remote controls to avoid commercials. They have a passion about avoiding commercials. So, don't project that one percent onto the population like our friends at Forrester.

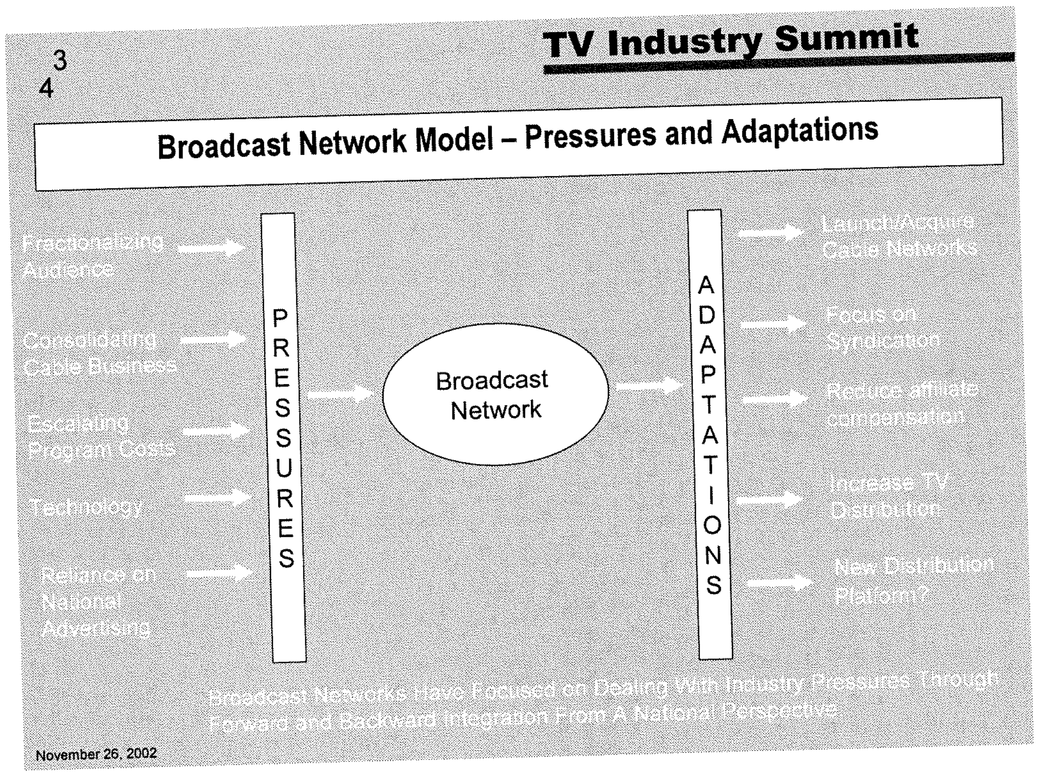
Victor Miller: And a great ending comment there...

Randy Falco: Are you sure you have to go?

Tony Vinciquerra: That was well done, David.

Victor Miller: Thank you, David. Now, back to the reality of the...the MSOs. We're all set with...

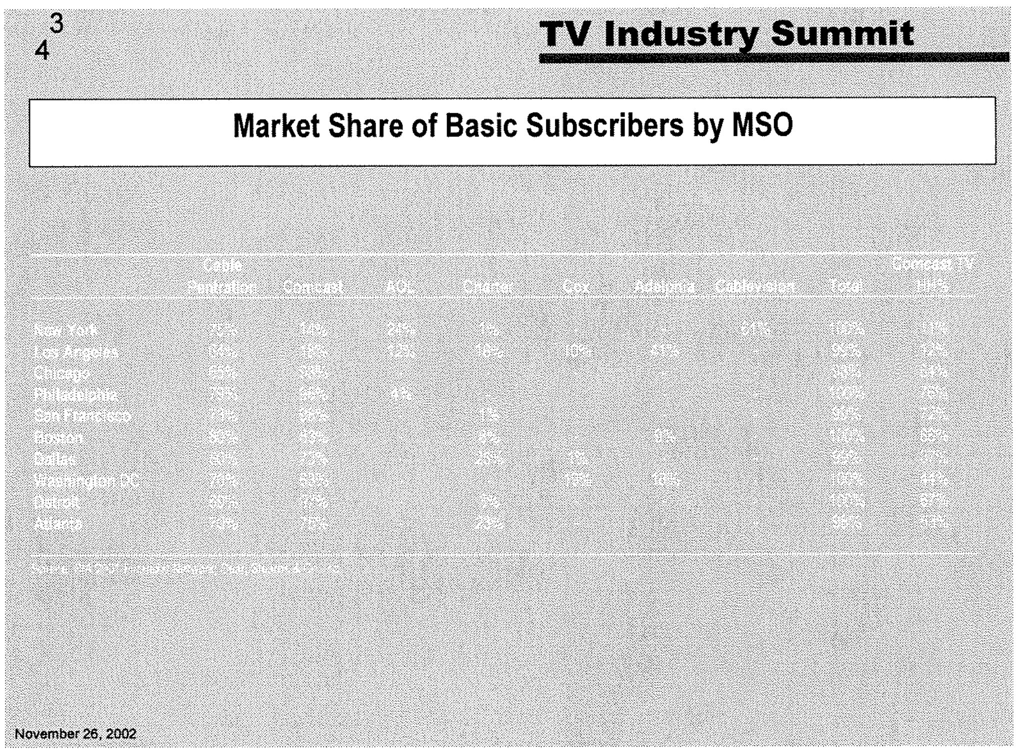
Tony Vinciquerra: I'll take a different tact. I'm not sure that this will play out but it seems to me, again, the same dynamic comes to the fore here that is happening with the very large buying services. The bigger these companies get the more difficult it's going to be to enforce the kinds of things they say 1they're going to enforce. You know, it's going to be very difficult, given monopoly situation in many of these markets that these MSOs will enjoy to enforce what you've described as a kind of a doomsday scenario. I don't…the world doesn't work that way. The world accommodates, the world comes to conclusions, the world comes to balance…to status points over time.



Victor Miller: You are good, man; that's why he has TV for his initials…think about that! Let's look at this, let's look at this. Here's that model we talked about—the pressures on building on the broadcast side. If you look at the launching and acquiring of cable networks, that kind of seems to be running its course. Syndication is running its course. Affiliate compensation, I imagine, is going to be much less of an issue for you going forward so that won't be a big thing for you to look at in five years time. It looks like a lot of the pressures that build here as they run through your model…a lot of the escape hatch is going to be right there [increasing the size of broadcast networks' TV station groups] in the next five years—five years off, let's say. So, cable, you know, cable multiple system operators are allowed to reach forty percent of the US; DBS players are allowed to reach the entire US marketplace footprint. You're currently limited to thirty-five percent reach. But while one cable player can actually exclusively penetrate an entire marketplace, your broadcast network competes heavily for that consumer. Are reach numbers consistent? And am I right about the escape hatch in five years? And what do you think is the right thing to do structurally for the industry?

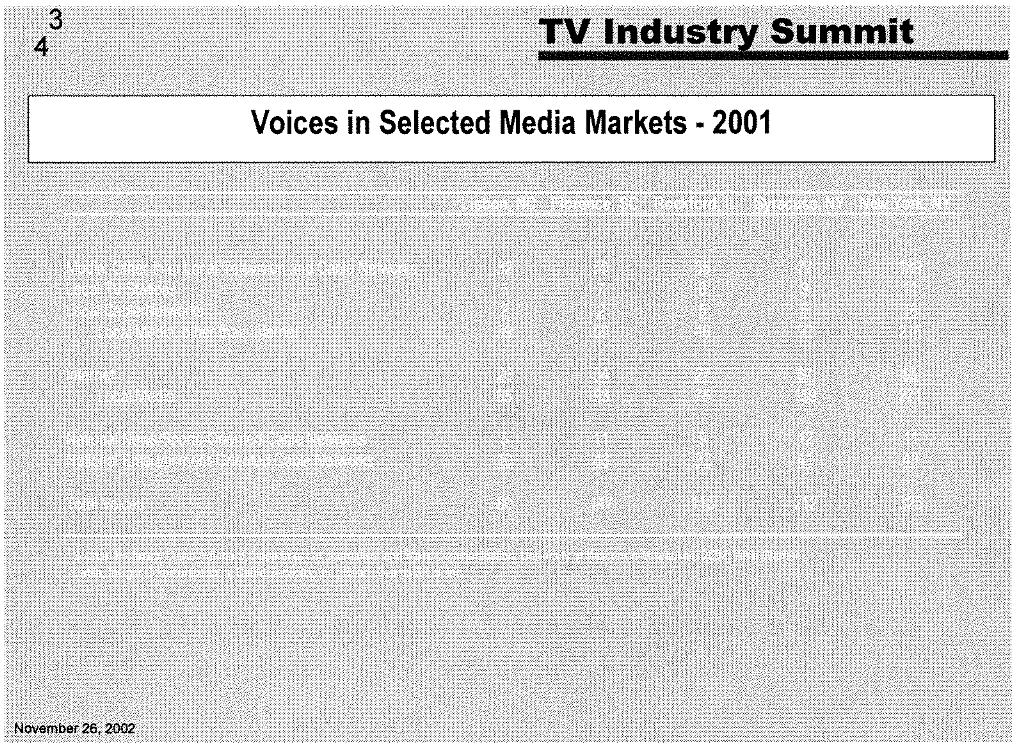
Randy Falco: I think we have to come up with a new measurement system. When we talk about this thirty-five percent cap…um, I'll give you two ways to think about it. If NBC owned a station in every market in the country, a hundred percent, which will never happen—but if they did—we would influence eight percent of the population in prime time—not thirty-five percent…eight percent. And, so, the eight percent that we do have in prime time right now, since we're only in thirty-five percent of the country is influencing three percent of the population. So I don't understand this whole measurement issue, I don't quite get it, that there's a theoretical cap placed on us; that there's an actual cap placed on the cable guys but a theoretical cap placed on us that has nothing to do with anything. We don't influence thirty-five percent of all the viewers in the markets that we have television stations. We only had eight percent of the viewers. So, in order for us to…I mean, I'm not going to sit here and ever…as much as I don't like the chart that you had up there before…

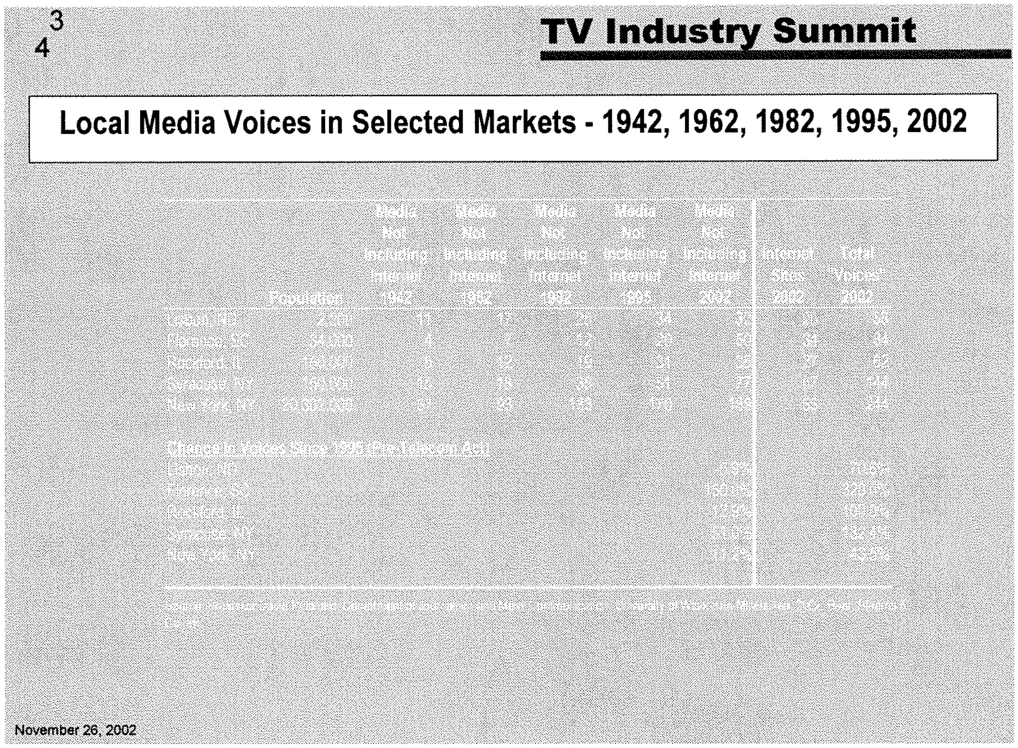
Victor Miller: Which one was that?



Randy Falco: That showed that Comcast, for instance, is in a controlling position in eight out of the top ten markets in the country. I'm not going to argue for a re-regulation [of the cable business] but I am going to argue for a deregulation for our industry. The deregulation that's been around, that's been shrouded in regulation for forty years...you know, in the last forty years we've had the Internet, we've had DTV, we've had cable—these are all explosions in media and, yet, the same caps, the same regulations that existed forty years ago still exists for us while they don't exist for anybody else; they don't exist for cable, they don't exist for radio. I mean, it's crazy. And, so, if you really want to look at structural changes going forward, fine, let these guys...you know, that will get sorted out one way or another. But we cannot even deal with it unless in a market we can have a triopoly...unless I'm allowed to somehow own more than thirty-five percent, and that doesn't mean own thirty-five percent of the country just for NBC; but allow me to have a position so that I can take advantage of my Telemundo investment, that I can take advantage of a Pax investment that I'm not able to take advantage of now because there's a ridiculous arbitrary cap placed on the networks. And I don't buy the whole argument, and I'll say this to my friends in the publishing business who sit up here and argue that there should be—the cross-ownership for newspapers should be eliminated but the caps on the networks should stay in place; and isn't that convenient so that they don't have any competition in the marketplaces that they want to buy stations. But the networks won't be able to compete with them buying those stations. I mean, there's a fundamental principle here if you're in business. If you're in business and you have assets you should want as many people chasing those assets with their dollars as you possibly can. That's the way to maximize the value of your assets, not by going to Washington and crying and moaning and asking for regulation and protection. The free market always figures that out.

Victor Miller: Tony?





Tony Vinciquerra: I think Randy said it very precisely and right on target that if, you know, in the world that you showed earlier where there are so many voices in every market, there is no need for regulation of these assets.

Victor Miller: The question that came from the audience and then we'll turn it back to the…there was a couple of suggestions made on earlier panels, one was the concept of the network giving back some time to allow the local affiliate to program that time with the argument being that, you know, there are certain day parts where you're just—eighty-twenty rule—you just don't make money in some day parts or some show times. And would that be a consideration? And the other one that was suggested, will there ever be fifty-two week original programming? And should they change the whole concept of sweeps, in general?

Randy Falco: I think there has to be a fifty-two week schedule for the networks; it may not be perfect and it may not be a hundred percent new programming. I mean, the networks put on three thousand original hours of programming in a year—thirty-two hundred to be precise, you know, which is about five or six times what any cable network puts on. So, we put a lot of programming out there. But the model does have to evolve, as I say. Where the cable ate our lunch was during the summertime. They rushed all their new programs in the summertime when we were in repeats and we lost a lot of our audience. And we let them do it over a course of five to ten years and we just can't allow that to happen anymore. And, so, we've got to figure out how to pay for that. We can't increase the cost of the network model any more than it already is. And we've got to figure out how do you evolve the summertime into more, sort of, new programming—whether it be scripted or reality...get additional ratings for that and monetize those ratings. And to the extent that you can do that, if we think we can in the third quarter, there's plenty of money out there that you can actually monetize. I think that's what we have to evolve to. In terms of handing back time to the affiliates, the problem is you can never get a consensus from the affiliates as to what times they want back and not back. That's the difficult process.

Tony Vinciquerra: I think you're seeing what Randy described; you had a fifty-two week model of network programming happening as we speak. This past summer was a record number of hours of original programming on near the summers. You know, I agree that over the past, I don't know how many years it is, five, ten, whatever it is, we've trained the viewer not to want to watch network television [during the Summer]. As a consequence, we can't repeat many of our programs. As Randy said, he can run "ER" once. He can actually run it more than once but nobody will watch it a second time because no one would watch many of our programs a second time because we've trained people to do that. One of the things that could help us...someone raised the point earlier that Nielsen needs a competitor; I wholeheartedly agree with that. And if we could get fifty-two week measurement in the local markets, then we wouldn't have to have sweeps. And that would be a great benefit to everyone.

Randy Falco: Network heads, here's your chance.

Victor Miller: Anyone else want to ask a question? There you go...

John Kornreich: A little anecdote, because I've been following broadcasting—I hate to admit it—over thirty years. But I remember going back thirty years ago, I looked at the revenue of the network and, at that time, the networks were operating at break even, just to show you how things don't change. And I would say to myself, boy, they can only get a ten or fifteen percent margin, just think what they could make. And then a guy straightened me out. I know you two guys have heard of this guy—probably very few here have—his name was John Sias of ABC. And he said, 'you're looking at it all wrong. The networks are not in business to make money. We're in business to not be a cash drain and feed programming to our O and Os. You should view it as one gigantic vertically-integrated operation. If the network can cover its capital costs and, therefore, have no cash bleed, that's all you need.' And it seemed...

Randy Falco: John Sias never worked for General Electric!

Tony Vinciquerra: Or Fox!

Victor Miller: And if he was, he'd be fired!

Tony Vinciquerra: I've used this example many times. If you take the Fox O and O [owned and operated TV] group—and if you take Victor's and Ray's numbers for the Fox O and O group and the Fox Network, you put the two of them together, you have a business that generates about four billion dollars of revenue—somewhere in that neighborhood...generating last year, I don't know, what, seven hundred million in cash flow? No, excuse me, it was about—that station group was, like, and you're quoting your number, seven-fifty, you take out the loss of the network, it was about five hundred in profit for that four billion dollars of revenue; that's less than the number of TV station groups have generated on a fraction of that four billion dollars. That's not a great business even if you do integrate it. It's a good business, not a great business. So, it's a struggle to…even if you vertically integrated all those businesses.

Randy Falco: Honestly, though, here's how we think about that—at NBC anyway. There is no way that I will ever accept the principal that it's okay for the network to lose money; because the day you do that you become a very unattractive asset [inaudible]—both in terms of the CEO and his willingness to invest in the business and of shareholders in general. You can't ever accept that principal because the second that you do, you're done because done because you'll break even for the rest of your life.

Tony Vinciquerra: And you become the government.

John Kornreich: You don't buy sports for the network with an eye to the O&O's?

Randy Falco: Well, we look at sports and we always include the O and Os. But the fact of the matter is my friend here just wrote off a billion dollars—close to a billion dollars…

Tony Vinciquerra: Nine hundred and thirty-one million [laughter].

Randy Falco: And I'm sure he needs something to account for the local television stations when he did that.

Tony Vinciquerra: Absolutely.

Randy Falco: But the fact of the matter is it doesn't work and the whole issue of promotion—we stepped out of the NFL and we're still number one in prime time. When everybody told us if you step out of the NFL you're going to lose all that promotion—don't do it—it's crazy.

Victor Miller: Any other questions?

Tony Vinciquerra: Just to put a period on that sentence, there is no way either of our companies expect the networks to continue to lose money. We are…we are motivated every day…every day to return these businesses to be profitable.

Randy Falco: That's a very nice way of putting it.

Victor Miller: Question?

Audience Participant: Just help me a little bit more with this conversation you have with the cable companies about trying to get paid for your content? How do you approach them with that? Do you threaten to pump some of your cable networks down the extra spectrum you have when you move over to digital? Do you just tell them you're going to withhold the channels in certain markets and see how they fare? I mean, just flesh it out a little bit for me because it seems like a huge opportunity for a lot more margin to your bottom line.

Randy Falco: That's true, but we haven't said we're going to do that.

Victor Miller: It's a lot harder to do than the theory. And that's the whole point.

Tony Vinciquerra: There are conversations…I think what I said earlier is there were—that's the conversation happening right now to determine how to do that. But, you know, it may not be the way we go. We have a very big investment in cable businesses and to put those at risk might not be the right way to go.

Victor Miller: Last question, Mr. Jim Beloyianis?

Jim Beloyianis: Thank you. Too bad David's not here. I agree with his statement about PVRs and TIVO or the early adapters are really not projectible. But I would be concerned about what the cable companies, who are going to have the same capabilities of TIVO in their new decoder boxes...they're the gatekeeper. Doesn't that concern you in terms of what could happen with commercial zapping five years from now?

Tony Vinciquerra: I'll take a quick crack at it. You know, it is a concern but it's not in my top ten list of concerns right now. I think that, as David described, certain people will use the PVR to avoid commercials. And someone talked about it earlier, people just wanting to avoid commercials, period, and they've tried for years and years to avoid commercials. And some do, and they do it today. But the fact is there are technological ways to avoid the...to avoid the machine being able to do that. And, if we want to do that we can do that at any given time. So, you know, it's a concern but not a great concern to me.

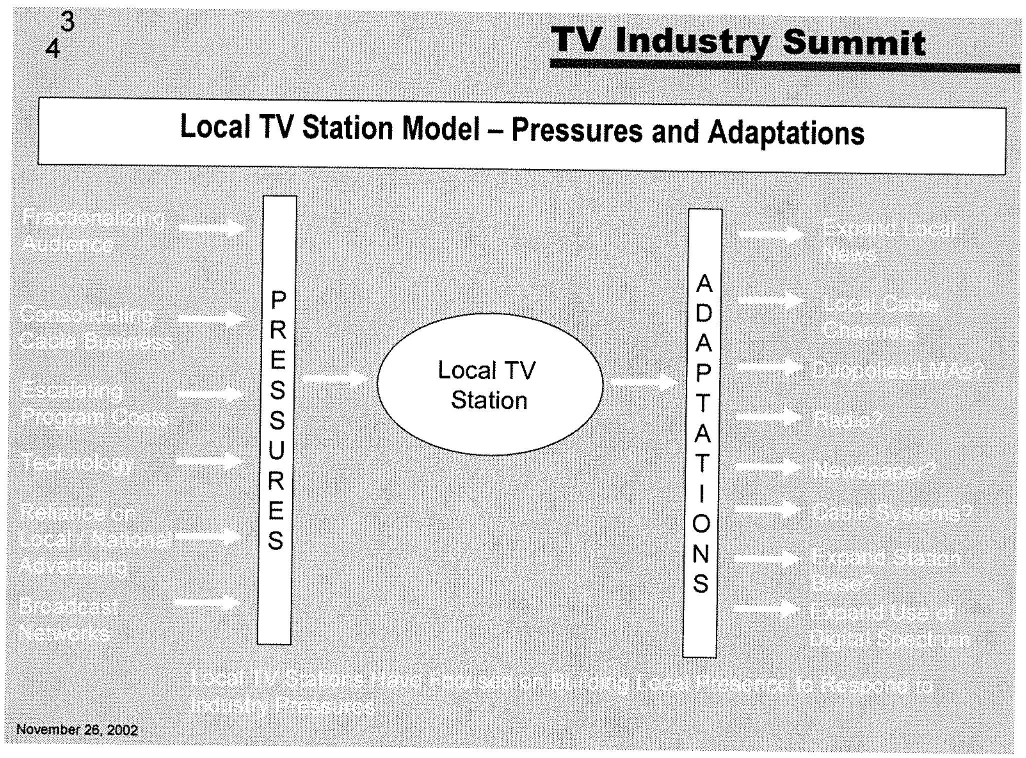
Randy Falco: Yes, we're not whistling past the graveyard on this. I mean, clearly it's a concern but the fact of the matter is, in most of the research that we've done, TV is still a passive medium. You know, a lot of people will sit there and watch the commercials, even if they're taped; two-thirds of them will.

Victor Miller: With that as the final statement. Thanks very much…the next one will be on small market and mid-market television economics and that will start in about seven minutes…

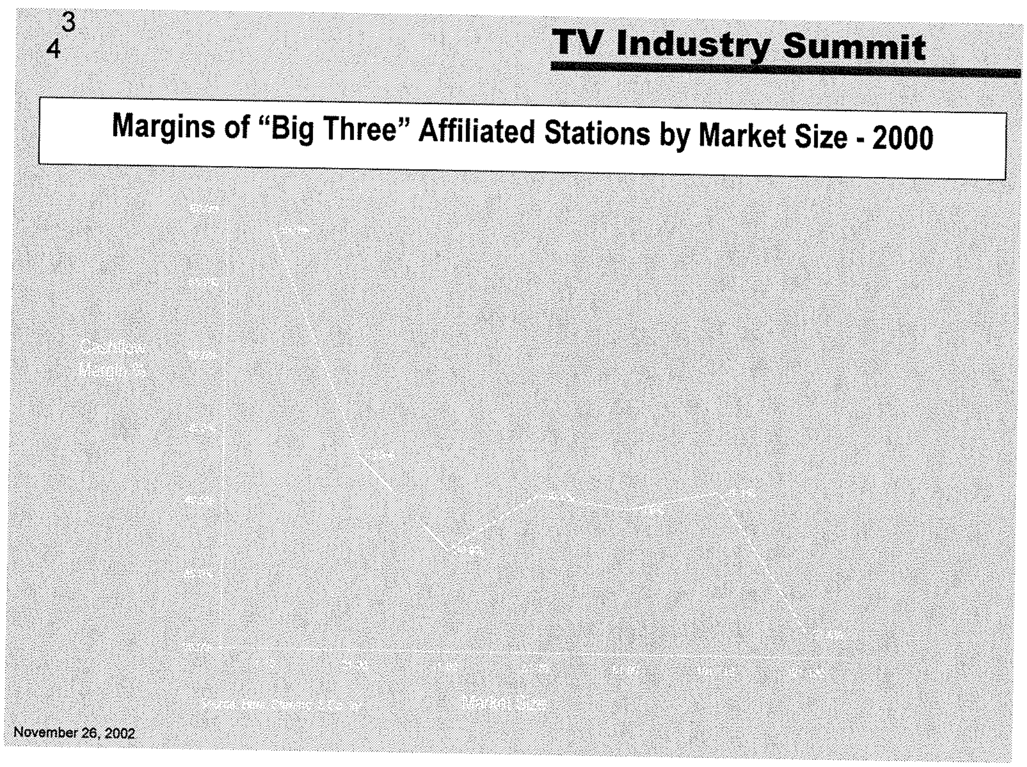
TV Summit –2002
Loews L'Enfant Plaza
Washington DC
Tuesday, November 26, 2002

Panel Five: Small Market TV Economics

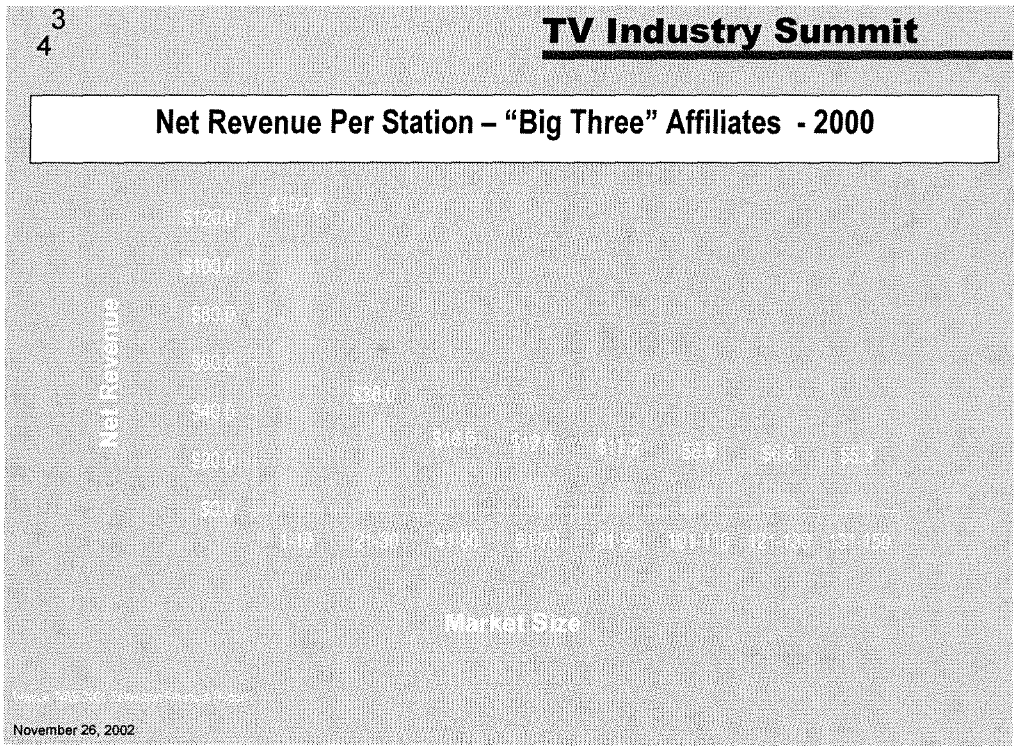
Panelists:
Jim Keelor – President & Chief Executive Officer, Liberty Corp.
Paul McTear – President & Chief Executive Officer, Raycom
Perry Sook – President & Chief Executive Officer, Nexstar
Jim Yager – Chief Operating Officer. Gray Television



Victor Miller: We're going to start the discussion on panel five now, which is…Small Market Television Economics. So, again, same old slide you've seen al day. With local TV the pressures and adaptations. Now we're going to look at how the smaller and mid-size market players are adapting to the exact same pressures we talked about with some of our larger players this morning. To do this, we've got Jim Keeler, president and CEO of Liberty Corp...good morning—I mean, good afternoon. Paul McTear, president and CEO of Raycom; Perry Sook, president and CEO of Nexstar; and Jim Yager, the chief operating officer at Gray Television. Thank you all for joining us.



Let's look at [slide] fifty-three...here is the margins of the big three affiliated stations by market size. This is from the NAB's report they do every year on the financial report for the television business. In 2000, the margins in the top ten big three network affiliates approximated fifty-nine percent; in markets one twenty-one through one-thirty the margins approach thirty-two percent. This panel will focus on the economics of small market broadcasters and we will seek to solve the twenty-seven percent margin disparity riddle between large and small markets.



First of all, let’s look at the average revenue per station. As you can see, in markets one through ten, you have about a hundred and eight million dollars, all the way down to one thirty-one through one-fifty, an average of five-point-three million. Perry, I’d like to start it with you. In general, there are fewer TV stations in the markets in which you operate, which should be a positive. Despite this, the average net revenue per station in your markets is nearly twenty times less than it is in big markets. However, the top ten markets represent nearly thirty percent of all US TV households; and markets one thirty-one through one fifty represent three percent of TV households. So, that means there are ten times more people in the big markets but getting twenty times more average revenue. What is going on in that...what is the lesson here?

Perry Sook: First of all, that says to me that there is an opportunity. I think if you look at the hundred-plus markets or the smaller markets the ownership by ownership group is much more—it's been much more fragmented, much more diverse. I think, first of all, there is a natural bias towards buying larger markets. And when the top thirty markets represent in excess of forty percent of all television households and the bottom third of these markets represent three I think that it's just been easier, historically for a media buyer to start at the top of the list and, you know, stop when you've reached three-quarters of the country, which may well be market eighty to ninety at that point. But I do think there's opportunity in those numbers because I don't think that most family run and small broadcast groups have historically maximized the value of their assets.

Victor Miller: Anybody want to follow up on the panel on that point?

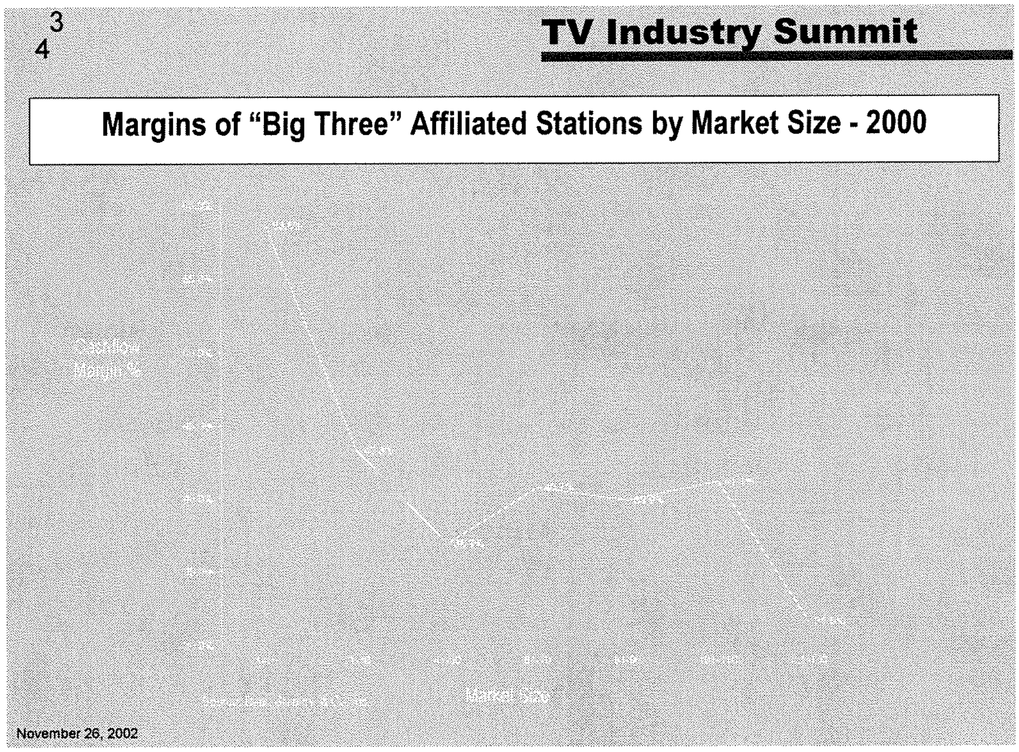
Jim Yager: I will because I think it speaks a great case for small market duopoly. In the top ten markets, where you have these tremendous margins, you have duopoly situations. In the smaller markets, where we have been prohibited, kind of by law, held out of duopoly in any kind of fashion we are struggling. And you have in the hundred and twenty to a hundred and thirtieth market three news entities competing for news product; whereas in the top markets you have a combination of CBS and UPN and you have Fox with a kind of multitude of outlets. So, I think...by the way, a business with a thirty-one-point-six margin is not necessarily a bad business. A lot of people would like to have that but at thirty-one-point-six compared to the fifty-eight-point-six...certainly, I think, speaks a great case for a small market duopoly.

Victor Miller: And, again, keep in mind we're looking at...that was 2000 which was...a banner year so...what does it look like in five years to keep that...?

Jim Yager: I would say that when you see the 2001 numbers, that number will be down; it will be down considerably. But I think it will be in the top markets. I think something has to be done in the small markets to allow us to create duopoly situations.

Victor Miller: Any other follow points?

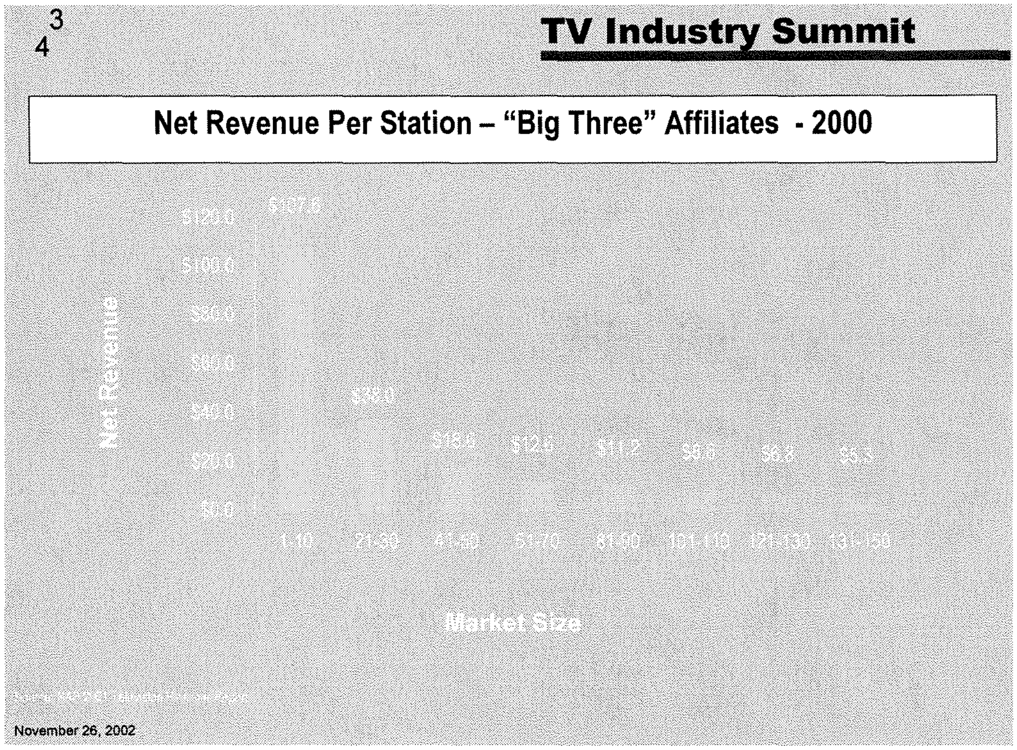
Jim Keelor: First of all, Victor, it is a scaled thing. I mean, New York would get ten thousand dollars for a news spot, we get five hundred, you know, in Lake Charles. So, a lot of small markets aren't even bought by national advertisers. The first thing you ask is how deep is the buy going? You get down the market seventy-five, they may cut it out. So that ratio doesn't surprise me.



What is of more concern to me was the first chart you showed, which showed the erosion of the profit margins. And I think—and, by the way, we have not suffered that kind of profit margin reversal in our company even though we've lost a significant amount of compensation over a period of time. But I think that when you look at 2000 you had several things: you had loss of compensation, you had a disastrous fourth quarter, you had increased cost as you try to compete in the Internet and other platforms…and your network contracts also were more restrictive in terms of the kinds of preemptions, which allowed you to generate more revenue. So, if you look at the track of that margin erosion, I think there are legitimate reasons for it. But I think the really strong stations in the market maintain those margins by effective cost-control, creative selling and so forth and so on. But I agree with Jim that we can only sustain that for a short period of time. And the duopoly model is exactly upside-down. The big markets don't need the help. The small markets do. We are competing in an environment of bits, bytes, and broadband and as the regulators would have it we have a string attached to two tin cans.

Victor Miller: Now, just to your point. You guys…a lot of you have really, really strong local stations. You have very attractive revenue shares. You've been able to buy and/or acquire that type of quality station group. What happens to the third, the forth-ranked station in a mid and small market? Paul, do you want to address that…do you have any of those in your portfolio where it's a smaller market and the station really is not that strong? What's the marketplace in margins like for that station?

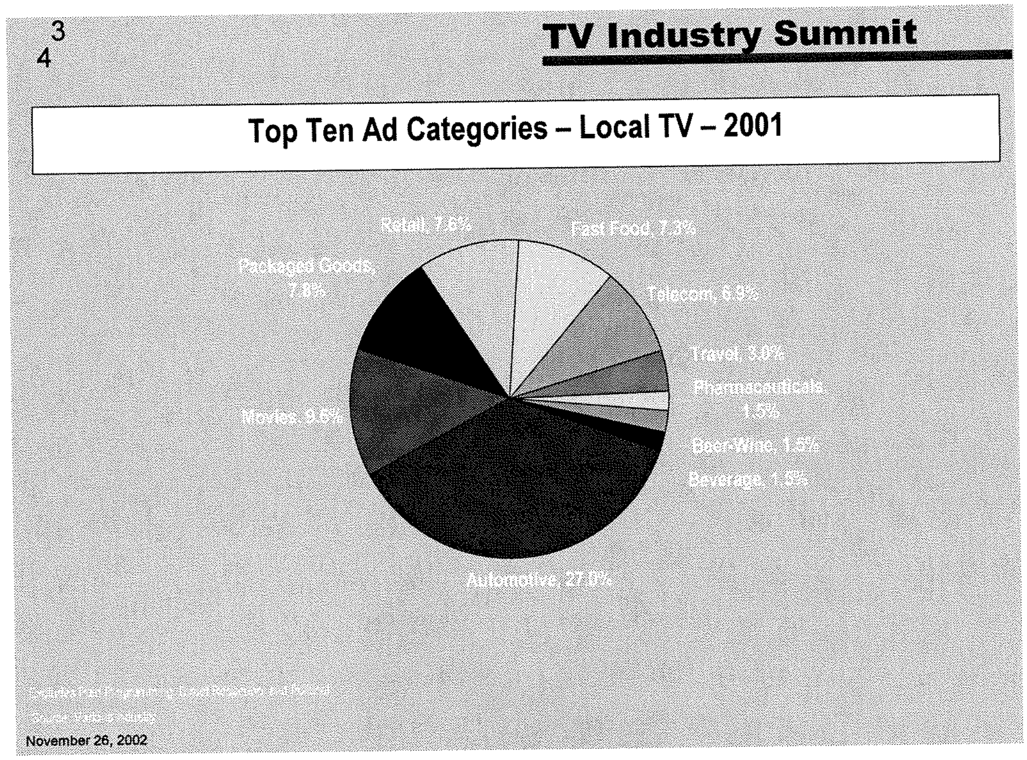
Paul McTear: I'm pleased to say I don't. I have some in markets larger than that, which would make it even more painful! But, you know, I think that, the dilemma that a mid, small market operator faces and to echo a little bit that's been said throughout the day; we participate pretty much in a fixed cost business…that the television business is fixed for the most part. If you want to run your television station a certain way...if you want to bring to your audience a certain quality of news in editorials. There are variables relating to sales and some other aspects but the scalability of cost doesn't change as dramatically as the scalability of a revenue.



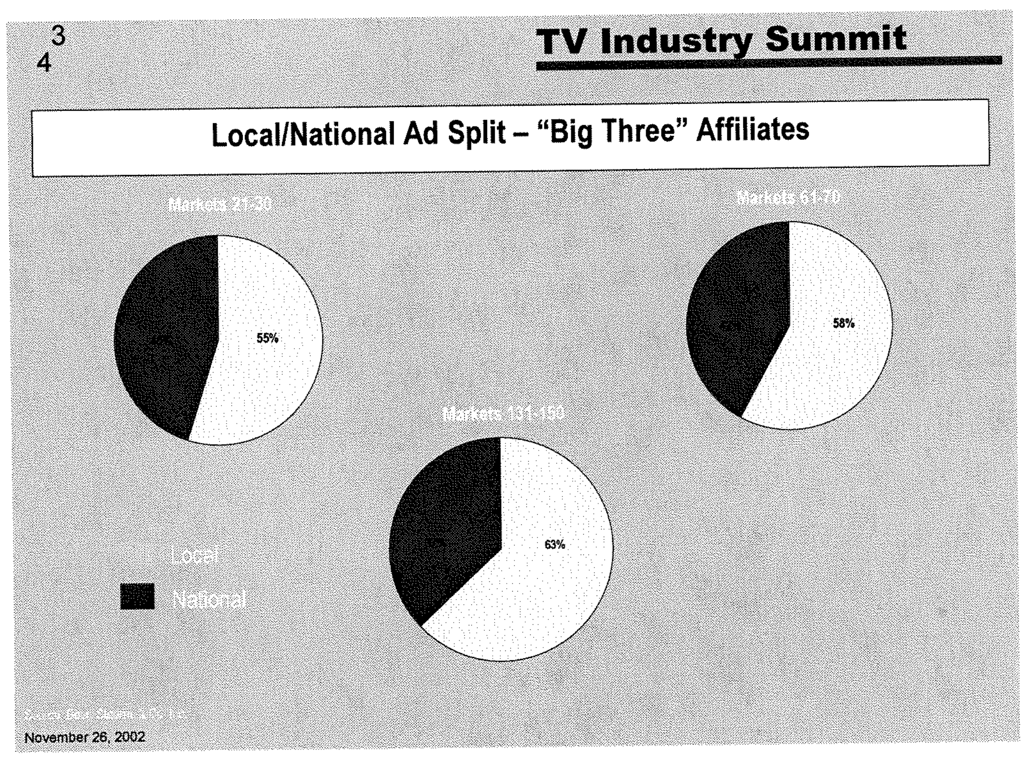
As you see in your chart, you know, revenue of one-oh-seven in the top bar and in the five-point-three million...and, yes, thirty-one percent, as Jim said earlier, is still a good business. Well, let's not forget that's thirty-one percent of five million. That's not thirty-one percent of a hundred million because, over there, I think they're getting close to sixty percent. So that the free cash flow before capital dramatically shifts depending on the commitment you make to what you bring to the marketplace from an editorial standpoint.

Victor Miller: So, your point is that sixty million cash flow for a top ten market [actually closer to $60 million; 58.6% of $107.6 million in net revenue] and it's a million and a half [dollars; 31.6% of $5.3 million in net revenue]; so it's forty times less cash flow. That's what your point is when you look...do the math.

Paul McTear: That's the first point. And the second point, I think to pick up something that Gary [Chapman – CEO of LIN Television] had said earlier when he compared his dilemma of Indianapolis to Fort Wayne where, I think, he said pretty real succinctly that, you know, Indianapolis my recovery on that capital, HDTV is two months...two months worth of cash flow. And in Fort Wayne it was more than two years. And I'm paying as much to put HDTV in market one ninety-eight—in fact, I'm paying more to put HDTV on in market one ninety-eight in Kirksville, Missouri than I did in Cleveland, Ohio. Yet the returns available to me are dramatically different. We'll spend fifty-eight million bucks on DTV over the course of the two or three years worth of installation. So that the interest cost alone costs about three million dollars worth of new operating costs next year, means that I have to produce eight million dollars worth of cash to cover my compliance with the FCC regulation with, at this point, no new sources to offset those uses.

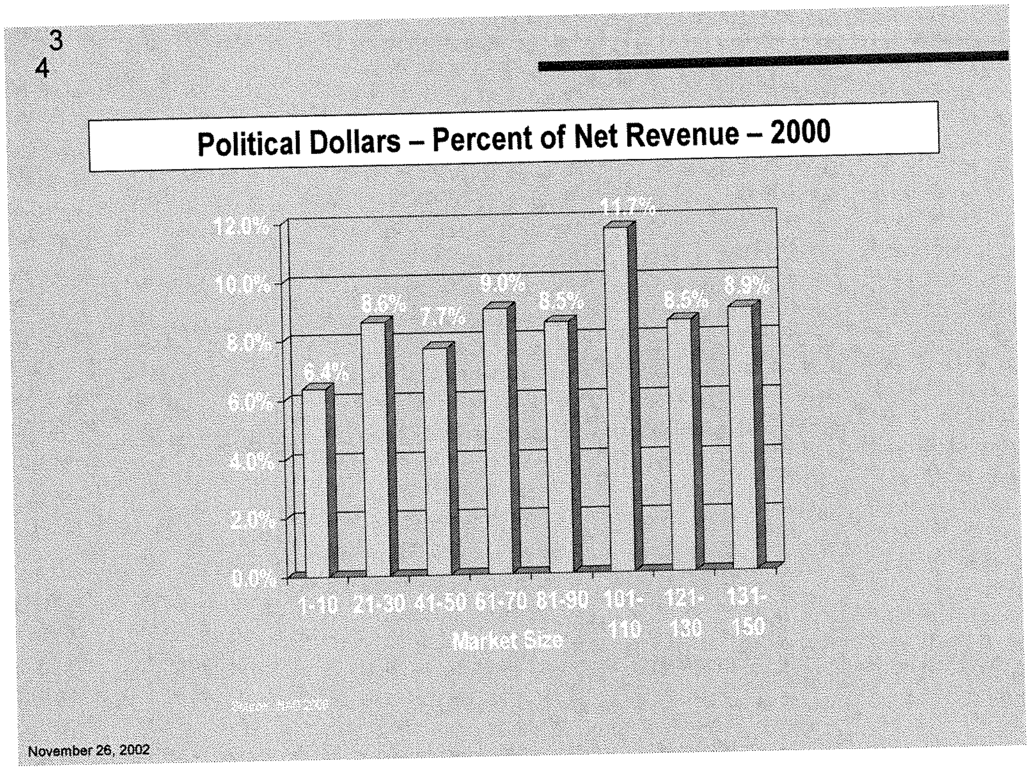


Victor Miller: Let's look at…I just want to skip…we've seen the top ten ad categories.



But I want to slip ahead to slide fifty-six. In markets twenty through thirty-one; fifty-five percent of the business is local, forty-five percent national. When you get into your markets, some of the smaller to mid-size markets, it's more like sixty-three [percent of revenues are derived from local sales]. Does this really go back to what Jim was saying? It's just the number of advertisers that are willing to buy these markets is fewer? Is that accurate?

Jim Keelor: Well, I think they're fewer but I think we have made it a priority for the last ten years to try to get our local share of business in the seventies because for all the reasons mentioned before. It's cost-controllable. These people aren't going to be cyclical with us, they're going to be there every year, unless the politicians come in and blow them away. A national advertiser may roll out a new product and may try for brand identification but the local furniture dealer or the local car dealer...that's his community, he's going to be there, he's got to make his profit—television's the best way for him to do it. So, I mean, that's where our future growth is—not only on the air but on the Internet, which I hope we'll talk about later.



Victor Miller: Let's talk about one revenue stream, aside from the general advertising categories; let's talk about the political dollars. I want to ask Harry and Jim to comment about this. You guys have really done a great job in building your local news franchises. You're in a lot of capital markets and they'll stay capital markets, Jim…

SIDE B OF TAPE THREE ENDS

SIDE A OF TAPE FOUR BEGINS

Victor Miller: [in mid-sentence] …where they represented about six-point-four percent of a typical big threes revenue in market—in market one through ten the numbers get into the, you know, eight and a half to twelve percent range for markets north of seventy—sixty I should say. What…how do you view the political dollars? Is it an enemy?

Is it a friend? Does it confuse what the core business looks like? Talk a little bit about this phenomena.

Jim Yager: Well, we love it in the even years and despise it in odd numbered years [laughter] because…I thought the earlier panel with some of the bigger market operators made the point…clearly. Number one, political is very unpredictable. You really sit down at the beginning of the year and you kind of analyze all your markets—in our case we've had twenty-five separate markets we tried to analyze. And we were right in about fifty percent of them. That is, we thought there would be a good race in Colorado for the Senate seat that was held by Allard and it turned out to be a very, very good race. We thought things would go on in the Midwest in Nebraska and in Kansas. And, quite honestly, we probably grossed as much as my air fare was coming here…on that race. And that was about a six hundred thousand dollar disappointment. So, political is totally unpredictable. Two years ago, in Lansing, Michigan…it was a ballot issue on school vouchers. And the unions got involved, the school district got involved, everybody got involved. And, literally, you could not get a commercial spot on our air for almost a forty-five day period. I think it's good, I think it's part of the process. Look, advertising of politicians has gone back and it's been dirty since George Washington ran for President. They trashed him about his false teeth and everything else back when he became the first President of the United States. So, political advertising is a way of life in this country. And television, and I think it was Gary Chapman [CEO of LIN Television] or was it Kevin [O'Brien – President, Broadcasting Group – Meredith Corp.] made the point we're an effective way for politicians to get an immediate kind of response from the public. I see it there for many years to come.

Victor Miller: Perry, talk about…why do you think the levels, why do you think the political dollars represent more of the revenue stream in these markets? And does that really cause—is that a sign of strength or concern or both? What is it?

Perry Sook: My perspective would be that it's not by market rank, it's by geography. All races are local and, you know, for example, our company has a higher than percentage of the industry contribution from political in the even years, based on the geographical distribution of our stations. When I started in the business we used to think of political revenue as kind of extraordinary income, it was just gravy when it came. It is…a part of our business; it is recurring revenue. We have political revenue every year. We have spikes in the even numbered years. And it is one category of our business that has grown at a compound annual growth rate of double digits, going back to the early Nineties—even farther than that if you want to keep score. So, I don't see it as a negative at all.

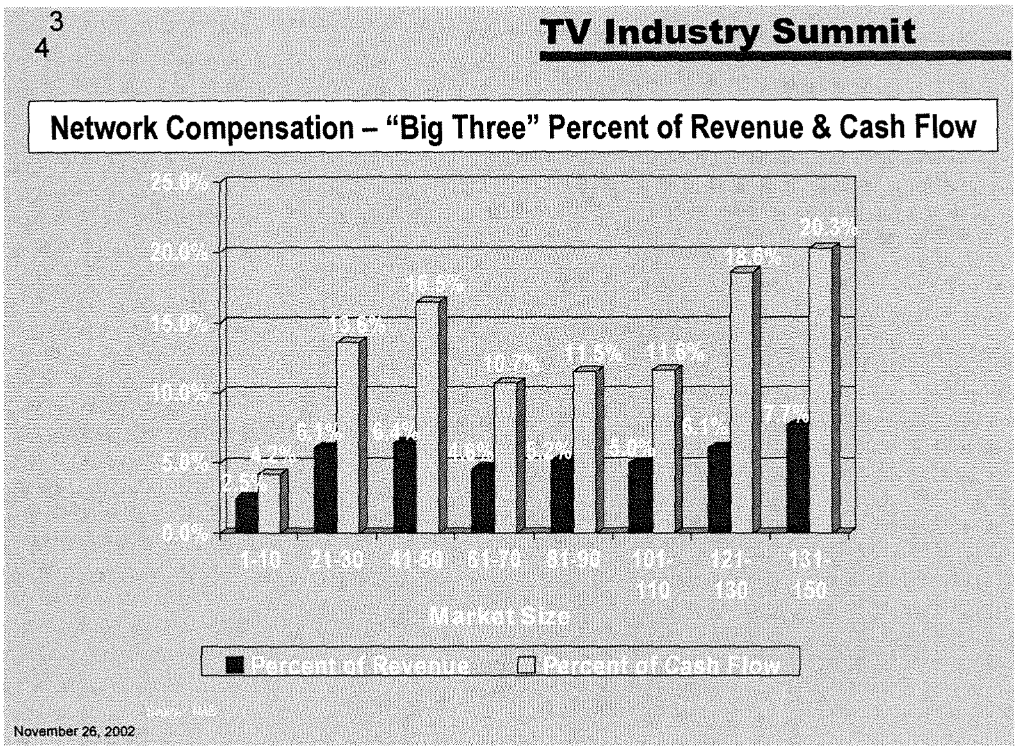
Jim is absolutely right, you don't sell political advertising, you traffic it, basically. And, so, none—no sales person at our company actively solicits political advertising; it's all handled by sales managers and we have developed a system, I think, to maximize our yield on political; therefore, limit the amount of displacement. Having said that, there is still displacement of regular advertising because we're not—like newspapers we can't go up a page when we have more demand. We have a virtual finite set of inventory. But we manage it, we see it as recurring, we look at the individual races that we expect to come up in a given year. When we last had that race, whether it was two years, four years, or six years ago, what were the dynamics? What was the spending pattern? And it is a recurring revenue source for us that we manage like any other revenue source. And its becoming…the money is so huge, you know, it's over a billion dollars this year—all spent on local television. As Jim said, I mean, it's basically direct response advertising. I want to influence the polls tomorrow so I'll put ads on the air today; they have to run. And, if anything, I think it validates the capability of our medium to move product, move the needle, and influence opinion.

Victor Miller: Now, what is this…what kind of tension does this cause in your odd years when you're talking about an eight to twelve percent of your…you know, in terms of how do you budget for that? And…?

Jim Keelor: It makes for some interesting budget discussions with the station managers. I mean, you know that inventory, or eighty percent of it, is going to be filled with something. The question is rate. Those who criticize television broadcasters for gouging political candidates don't seem to understand that it's the candidates themselves and their parties that create the supply and demand in a free market. We've had candidates who called and complained to us because they couldn't get on the air and the reason they couldn't is because their national party had just paid a preemptive rate to bump them off. So, you know, we're the ones who are gouging…

Victor Miller: --That's not a good sign, is it?

Jim Keelor: Yes, that happens a lot. But it doesn't…I mean, you do have to assume that a certain percentage of that inventory will be sold. The real issue is in a down year is the rate pressure will not be there to get the rates at the level that the politicians themselves drive them to during elections.



Victor Miller: Paul, let's talk about network compensation. The…you can see the big three percent of revenue and cash flow. This is, again, from the NAB—National Association of Broadcasters' "Television and Financial Report". Basically, in the top markets, let's say, one through ten, two and a half percent, on average, of the revenue of those stations are…network comp. And if you just said that flows through dollar-for-dollar that may be an incorrect statement? Tell me if I'm wrong looking at it that way. It would be about four-point-two percent of cash flow. Now, get into markets one thirty-one to one-fifty…the percentage of revenue is more like eight percent and the percentage of cash flow is over twenty percent. Talk to us about what's been happening in network compensation...whether our analysis is roughly about right and how the heck you change your model to adapt to this?

Paul McTear: Well, in my experience, I think your model is roughly right. And...you know, as the networks have said publicly, their goal is to zero network compensation. And with this, the little leverage that we middle and small market operators have...our job is to plan to offset the loss of that revenue on a going forward basis. You know, our goal is that we put some money into...in Internet-based business that provides service to all of our web systems because, you know, again, we believe that we have an obligation to bring news and information to our audience no matter where they are—in front of the TV or in the home. Our goal in that was so that maybe, over time, we're able to establish some convergent selling to establish some revenue to offset the network comp in the three to five year time frame, not very ambitious, but I think for us, we're probably looking at about fifteen million bucks as a company in network comp. It's a lot of money and it flows to the bottom line.

Victor Miller: Anybody want...? Please, Perry, jump in.

Perry Sook: I—just a personal observation—I think we spend way, way, way too much time talking about this issue. If I were able to earn twenty-five cents per sub, per month in my universe, from just the top twenty-five MSOs...that would be three and a half times the amount of cash I have for network comp. And, for any network folks in the room, I'd be glad to make that trade tomorrow if we were able to bargain collectively. You know, we have renegotiated and renewed network affiliation agreements with stations that we own and also stations we've purchased. And you do get comp if you have leverage in the marketplace, if there are more networks than there are stations, and you threaten to leave. You can, it's negotiation, but it's not a growing segment of our business. Everybody seems to, you know, look at, you know, how much did we pay to get that programming? Well, how much does the network want to pay for us to distribute their commercials is the way I think. You know, we're…a network affiliation agreement is nothing more than a glorified time brokerage agreement basically, and from my perspective. We only operate in markets fifty to one-fifty and I can tell you that from our company if you look at the dynamics from market sixty-one to seventy, that's about what network compensation means to us. The numbers have gone down…slightly. I don't think in our universe, our company's universe, it probably ever goes to zero but I'd be glad to make a value exchange for a component or the opportunity to participate in a component that would grow. I mean, this is, you know, it's a flat line number. You know, we lost far more from the bottom line last year due to softness in ad sales—a multiple of what would have happened if our network comp went away, you know, tomorrow. We're here, you know, we're all a little shorter than we were a year ago. But it's still…you know, it's not a fatal blow. And I think we spend way too much time talking about, you know, about this tension element.

Jim Yager: And I think it's a little over-exaggerated when it comes to the small to mid size markets. This year as a percent of our total revenue in Gray network comp will be; and we divulged this on the road show [for the company's recent follow-on stock offering], so I'm not telling you anything that's proprietary here…will be two-point-six percent of our total revenue. Now, if, in four years, if network comp goes away, we have not offset that with aggressive local sales campaigns…then I would say we have truly failed. But our local growth has far out-exceeded the kind of loss that two-point-six percent would…I'd be a hell of a lot more worried about losing automotive than losing network comp.

Victor Miller: Well, now, how do you theoretically get paid now for your signal? If that's something you think that you deserve in the local marketplace? You know, how concentrated are the MSOs in your business? What's the impact of the DBS business in your marketplace? Jim, you want to start?

Jim Keelor: Well, I think a lot of us will share the same thing for DBS in that we are in smaller markets with large rural components. And I was looking at the statistics before I left. We're probably, on average, around twenty percent DBS penetration. Interestingly enough, a couple of the cable folks with whom we do have a good relationship told us that during the Ergen's [Charlie Ergen, CEO of Echostar, a direct broadcast satellite operator] little misadventure up here that they actually lost penetration in their competitive markets because they took their took their eye off the ball. Cable watches that very closely. I have calls from two DBS people who want to clear stations local to local. And if they're willing to pay they will get them; if they are not, they will not. And it's important for us to be on DBS. But in our markets we are...we are the must-have station for the most part. And if DBS wants them—and what I can't understand is that DBS could really kill cable if they aggressively came after the top stations in the market and negotiated a fair carries thing and a promotional deal; it would kill cable. Cable's scared to death about it. And that might provide some leverage then for cable, which I think is going to happen as consolidation happens and local stations are becoming more powerful entity over different platforms, they will be able to negotiate a fee for cable but it isn't going to be for a while.