National Association of NAB BROADCASTERS®

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June 14, 2006

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Notice of Ex Parte Communication*, C.S. Docket No. 98-120

Dear Ms. Dortch:

Today Ann Bobeck and the undersigned of NAB, and Paul Karpowicz, President, Meredith Corporation Broadcasting Group, met with Commissioner Adelstein and Rudy Brioché to discuss the cable carriage of local television broadcasters' full digital signals, including multicast programming streams. We stressed the need to prevent cable operators from stripping out portions of local broadcasters' free, over-the-air programming streams. Ensuring the carriage of all free, over-the-air broadcast programming would enable local broadcasters to offer more niche programming and to compete more effectively in a multichannel video marketplace. We emphasized that advertiser supported broadcasting programming must obtain carriage to reach viewers and, thus, to be economically viable. Carriage would also serve the public interest because the viewers would be assured of access to broadcast multicast streams, including local programming. Finally, we discussed cable operators' economic incentive to discriminate against multicast channels, and at the request of Commissioner Adelstein, we enclose copies of two reports concerning the rapid growth of cable's share of the local television advertising market. These articles clearly show the extent to which cable operators and local broadcasters now compete for local ad dollars.

Please direct any questions concerning this matter to the undersigned.

Respectfully submitted,

Jerianne Timmerman

Jerianne Timmerman
Senior Vice President and Deputy General Counsel

Enclosures

cc: The Honorable Jonathan S. Adelstein
Rudy Brioché

ADLINK.

In The News

Interconnects Changed Scene

By Wayne Karrfalt -- Television Week, 5/23/05

If necessity is the mother of invention, the consolidation of local cable ad sales is the result of a well of need.

In the days when cable spot time had to be bought system by system, trying to blanket a market was a nightmare, media executives said. Buying an ad for the New York designated market area 10 years ago meant placing some 75 phone calls. Most national advertisers didn't bother.

Today, interconnects-multiple systems wired together for the purpose of placing ads-are helping cable operators gain parity with local broadcasters. Now the larger cable systems get more than 10 percent of national ad budgets, a dramatic improvement in a relatively short amount of time.

This revenue stream has become one of the true growth segments of the cable industry, even at a time when the overall advertising market is weak."[Consolidation] made cable viable," said Jean Poole, executive VP and chief operating officer of Universal McCann North America. "I'm not a proponent of consolidation per se, but when it comes to local cable, it's the only way to make it a medium we can use."

The consolidation model began to take shape in Los Angeles in the late 1980s, when five L.A. cable operators banded together to attract at least some of the dollars pouring into local TV markets from national advertisers. Now these interconnects have evolved to become the way all of cable's major multiple system operators do business, offering media buyers a one-stop shop in which to place ads across an entire DMA.

In 2003, the year industry leader Comcast Spotlight completed interconnects in 30 markets across the country, the company reported a 17 percent spike in regional and national ad revenue, compared with 1 percent growth for broadcast television. Last year that number ballooned to 25 percent for Comcast and only 7 percent for broadcast, with analysts attributing much of the latter's growth to political ads in a presidential election year.

In the first quarter of 2005 Comcast was up 15 percent over the same period last year.

"These numbers speak of the success of interconnecting markets and the value it brings to advertisers," said Hank Oster, senior VP of Comcast Spotlight, the cable giant's ad sales arm. "This is enormous growth that did not exist before interconnects were in place."

Comcast has been the cable industry's strongest proponent of interconnection since it took the reins of AT&T Broadband to become the nation's largest MSO in 2002. One of its most compelling pitches to investors has been the promise of higher ad revenue. The hiring of Mr. Oster and his boss Charlie Thurston away from Adlink in Los Angeles, the nation's first interconnect, was a linchpin in Comcast's strategy to apply the Adlink model across all of its systems.

The rest of the industry knows a good thing when it sees it. The number of interconnected markets has grown from nine four years ago to 135 today. Those include most of the top 100, which account for 86 percent of America's 73.5 million wired households.

The Cable Advertising Bureau said it expects 150 of the nation's 211 DMAs to be interconnected by the end of 2005.

CAB President Sean Cunningham said the overall consolidation of the industry into just a handful of MSOs has helped speed the process of interconnection, as these companies "got into a rhythm" of hammering out deals that split ad revenue by percentage of subscribers held in a given market. Many markets are still in the process of improving addressability, standardizing channel lineups and adding digital insertion capabilities to provide a uniform experience for advertisers.

"My members continue to work for as much standardization as they can, working on getting the highest percentage of hard-wired subs into the interconnect as possible," Mr. Cunningham said. Consolidation has brought other advances besides sheer reach. The advent of electronic data interchange invoicing allows buyers to close transactions immediately and has been a boon to the cable ad business. More than 95 percent of cable systems offer EDI, whereas half of broadcast stations still send out paper invoices.

Media buyers say interconnects are particularly effective in markets that have rolled out Local People Meters, Nielsen Media Research's new electronic ratings system. LPMs, which will be available in the top seven DMAs in June, help identify individual programs on some of cable's more specialized networks, and interconnects make it possible to easily buy them across multiple DMAs. "We've been able to search for unexpected programs and networks, especially for clients with restrictive network lists that are fussy about which programs they buy," said Janice Finkel Green, senior VP and associate director of local broadcast for Initiative.

Hard-wiring upgraded cable systems also enables advanced segmenting tools such as Adlink's patented Adtag and Adcopy, which will be available in all of Comcast's systems by the end of 2005. Adtag, which allows the last five seconds of a spot to be tagged with different information, and Adcopy, which can be used to deliver different marketing messages across different zones, are helping more sophisticated marketers slice and dice a DMA to target by affluence, ethnicity or past preference.

"These new tools are taking off quickly, and the key is to have the planning and creative resources to pull it off well. Sophisticated marketers are jumping on, because they have such sophisticated data available," said CAB VP of Sales Chuck Thompson.

The Holy Grail of addressability, of course, is video-on-demand, which advertisers already see as the ultimate tool to reach individual households with a variety of marketing messages. Though measurement and tracking tools are still in the early stages of development and the penetration of 28 million homes is less than half of cable's overall reach, excitement over the technology is building.

As cable operators position themselves to compete directly with broadcasters for ad dollars, pricing and inventory remain tricky issues. Cable feels its targeting ability should translate to higher CPMs, but media planners have balked. "In many cases these [interconnected] markets are being pressured to compete with the broadcast pricing model," said Kevin Dowell, senior VP of Insight Media. "The ability to provide targeting helps buffer that, but you've got to be careful."

"For years cable has said it wanted to be treated the same as broadcast, and now buyers and planners are holding us to that," he said. Media planners are also complaining about the lack of inventory on local cable networks, which reserve just two minutes of avails per hour for spot buys. Cox Media VP of Ad Sales Billy Farina is not alone in wanting to oblige them. The hope is that increased demand will help make the case to cable networks for parting with more of the inventory they use to promote their own programming.

"From a consolidation standpoint, maybe operators have more of an opportunity now to bargain with networks," said Maribeth Papuga, senior VP and director of local broadcast for MediaVest USA. "It makes sense to siphon off network spots and try to sell them locally, because there's a demand," she said.

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TODAY'S COMMENTARY Thursday, September 8th 2005

2006 Advertising Spending Forecast

By Jack Myers

Broadcast Nets' Ad Revenues Forecast to Decline 2% in 2006

2006 ad spending is projected to grow 6.1 percent, with growth in 2005 forecast to increase 4.7 percent, according to the *Jack Myers Media Business Report 2006 Marketing and Advertising Spending Forecast* released today at the Television Bureau of Advertising Forecast Conference.

National broadcast television will be the only medium to lose ad revenues next year, with broadcast network television (excluding Hispanic TV) in jeopardy of declining two percent and national broadcast syndication declining one percent. The fastest growing media segments, not surprisingly, will be videogame advertising (40%), online advertising (27%), movie screen advertising (25%), branded entertainment (18%), local/regional cable television (12.8%) and custom publishing (10%).

Online ad spending is projected to total $14 billion in 2006, based on the Myers analysis and should surpass broadcast network spending in 2007.

The 2006 forecasts issued by *Jack Myers Media Business Report* reflect overall stable growth in total marketing communications budgets, which are expected to increase 6% this year and 5.8% in 2006. Advertising's share of the marketing communication spend also will remain fairly steady at 30.1% in 2006, up marginally from 30% last year, but down from 30.4% in 2004. In the early 1990s, advertising's share of marketing communications expenditures reached a low of 22% after peaking in the 1960s and early 1970s at 75% of total corporate marketing spending.

The decline in 2006 broadcast network spending will come on the heels of a 6.5% gain in 2004 and an expected 2.6% increase this year. Broadcast networks are experiencing a steady decline in market share. Total spending on the six broadcast networks will be nearly $17.5 billion next year, 8% of total ad spending. In 2004, the networks represented 8.8% of the ad market and this year 8.6%. In the 1990s, broadcast networks' share of spending was in the double digits. Cable network spending is expected to grow 7% in total volume in 2006 to $17 billion, achieving relative parity with broadcast networks for the first time. Cable spending will be up from $14.7 billion in 2004 and $15.9 billion this year.

The surge of ad spending that cable networks had hoped would follow audiences from broadcast networks does not appear to be materializing however, as advertisers are shifting budgets into online and alternatives such as movie screen ads and branded entertainment (some of which is also invested with networks, but much of which goes to studios and producers). The most dynamic surge in spending growth is driving the online marketplace, which is expanding its share of total ad budgets from a 4.3% share in 2004 to a projected 6.4% share of ad spending in 2006. Online ad spending is projected to total $14 billion in 2006, based on the Myers analysis and should surpass broadcast network spending in 2007.

The 12.8% growth projected for local and regional cable systems reflects the expansion of regional Interconnects by Comcast and Time Warner, the increased simplicity of national cable spot buying, and also the availability of new media applications, such as target audience segmentation, video-on-demand, DVR applications, and interactive advertising.

Consumer magazines will experience a continued resurgence, increasing their growth from 5.8% in 2005 to a projected 7% growth in 2006. However, the large number of new magazine launches continues to spread ad revenues across a wider spectrum of publications, forcing magazines into rate card cutting and eroding margins.

Consumer sales promotion and incentives, heavily influenced by the automotive category, will increase their share of marketing budgets from 18.1% in 2004 to 18.9% next year. As marketers react to years of increased commitments to retail slotting allowances and trade promotion, the share of spending dedicated to trade support will decline slightly from 23.5% in 2005 to 23.3% in 2006. While seemingly insignificant, trade spending grew significantly throughout the 1990s and early part of this decade as Wal-mart, Target and other major retailers gained control over marketers' promotional budgets and forced significant increases in slotting allowances, the funds paid for the right to control retail shelf space.

The *Jack Myers Media Business Report* annual media and marketing spending forecast, with full data reflecting 2004 through 2006, and incorporating 16 media advertising categories and seven marketing communications categories. *Jack Myers Media Business Report* has been issuing annual spending forecasts since 1992 and has gained a reputation for accuracy and unique insights into long-term marketing communications, advertising and media trends. Hispanic market data and forecasts will be published later this year.

Jack Myers Media BusinessReport

Marketing Communications &
Advertising Forecast
2004-2006

UPDATED 9/15/05

ADVERTISING	2004			2005			2006		
	% Growth	$	% Share	% Growth	$	% Share	% Growth	$	% Share
Newspapers	3.5%	46,300	23.3	3.4%	47,874	23.0	2.8%	49,215	22.3
Broadcast Network Television	6.5%	17,398	8.8	2.6%	17,851	8.6	-2.0%	17,494	7.9
Cable Network Television	9.6%	14,659	7.4	8.5%	15,905	7.6	7.0%	17,018	7.7
Broadcast Syndication	4.0%	2,907	1.5	2.5%	2,980	1.4	-1.0%	2,950	1.3
Local & National Spot TV	9.0%	26,511	13.4	-4.0%	25,451	12.2	8.0%	27,487	12.4
Local/Regional Cable TV	11.0%	4,900	2.5	9.0%	5,341	2.6	12.8%	6,025	2.7
Branded Entertainment/Product Placement*	20.0%	3,458	1.7	22.7%	4,245	2.0	16.9%	4,961	2.2
Videogame Advertising	52.0%	120	0.1	67.0%	200	0.1	40.0%	281	0.1
Movie Screen Advertising	23.0%	438	0.2	20.0%	526	0.3	25.0%	657	0.3
Radio	3.0%	20,161	10.2	2.6%	20,686	9.9	3.0%	21,306	9.6
Consumer Magazines	6.0%	12,500	6.3	5.8%	13,225	6.4	7.0%	14,151	6.4
Business-to-Business Magazines	3.5%	8,400	4.2	3.5%	8,694	4.2	3.5%	8,998	4.1
Custom Publishing	9.0%	14,000	7.1	9.0%	15,260	7.3	10.0%	16,786	7.6
Online	30.0%	8,500	4.3	30.0%	11,050	5.3	27.0%	14,034	6.4
Out-of-Home	5.0%	5,663	2.9	4.8%	5,935	2.9	5.0%	6,232	2.8
Yellow Pages-Print	2.6%	12,500	6.3	2.7%	12,838	6.2	3.5%	13,287	6.0
MARKETING COMMUNICATIONS			100%			100%			100%
Total Advertising		$198,417	30.5	4.9%	$208,060	30.2	6.2%	$220,880	30.3
Direct Marketing		$140,000	21.6	6.5%	$149,100	21.6	5.0%	$156,555	21.5
Trade Promotion/Slotting Allowances		$152,600	23.5	6.0%	$161,756	23.5	5.0%	$169,844	23.3
Consumer Sales Promotion/Incentives		$117,700	18.1	8.0%	$127,116	18.4	8.0%	$137,285	18.8
Event Marketing		$12,000	1.8	10.0%	$13,200	1.9	7.0%	$14,124	1.9
Public Relations		$3,500	0.5	10.0%	$3,850	0.6	10.0%	$4,235	0.6
Other		$25,400	3.9	2.0%	$25,908	3.8	2.0%	$26,426	3.6
Total Advertising & Marketing		$649,617	100.0	6.1%	$688,990	100.0	5.9%	$729,349	100.0

*These data were licensed from PQ Media's Product Placement Spending in Media 2005

References: Veronis Suhler Stevenson Communications Industry Forecast 2005; Universal McCann; Zenith Optimedia; MPA, TvB, RAB, CAB.