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August 27, 2008

Via ECFS

Marlene H. Dortch, Secretary
Federal Communications Commission
445 – 12th Street, SW, Room A-325
Washington, DC 20554

Re: Ex Parte Presentation,
WT Docket No. 08-95

Dear Ms. Dortch:

Pursuant to Public Notice DA 08-1481 issued June 25, 2008, Ritter Communications, Inc. and Central Arkansas Rural Cellular Limited Partnership (collectively the "Arkansas Limited Partners") hereby submit for the record in the above-referenced proceeding a copy of the article by Robert Marich in the August 25, 2008 edition of *Broadcasting & Cable* entitled "Private Equity: Buying In to Cash Out". The article provides additional information on private equity investors relevant to points made in the Petition to Deny dated August 11, 2008, and in the Reply to Joint Opposition dated August 26, 2008, filed by the Arkansas Limited Partners in the above-referenced proceeding. Among the information of particular interest in the article, as it relates to the issues raised by the Arkansas Limited Partners in WT Docket No. 08-95, is the point that private equity investors expect an average annual return "over several years" of "15%-25%," and the notation that private equity "has a well-earned reputation for secrecy".

Respectfully submitted,

s/Kenneth E. Hardman
Kenneth E. Hardman

Attorney for Ritter Communications, Inc.
and Central Arkansas Rural Cellular
Limited Partnership

Attachment

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Private Equity: Buying In To Cash Out

Investor money is helping to save the broadcast business, but will the saviors ultimately gut and sell?

By Robert Marich -- Broadcasting & Cable, 8/25/2008

In this story:

During the past year, Oak Hill Capital Partners, a private equity firm, bought eight Fox stations from News Corp. for $1.1 billion. The stations will be under the management of Local TV LLC, which was created in 2007 to operate nine other TV stations Oak Hill bought for $575 million from The New York Times Co.

According to its Website, Oak Hill “has applied creative and flexible solutions to complex problems” in more than 60 transactions since the mid-1980s. One might call the broadcast business—now trading at historic low valuations in the public market on Wall Street—just such a complex problem.

Yet private investment firms such as Oak Hill are often the only buyers willing to look beyond TV's current economic weakness to buy stations. And they are buying in droves.

“Most of what we're seeing from a performance standpoint is cyclical,” says Randy Bongarten, chairman and CEO of Bonten Media Group, which is funded by private equity investor Diamond Castle Holdings. “I have a lot of confidence in the future of TV. If you have a lot of confidence in the future, now is a good time to be buying.”

The arrangement is working out well for grateful stations, which are getting necessary liquidity from such buys. But private equity companies are purely financial investment vehicles that buy all or part of operating companies, typically with an eye to selling within two to seven years. While investors in the stock market aim for 4%-8% as an average annual return over several years, private equity expects 15%-25%.

That lofty return goal is achieved in large part with aggressive cost cutting and pushing hard with everyone from advertisers to program suppliers. Employees of TV stations bought by such investors often chafe when corporate frugality sweeps in, which can include staff layoffs.

In other words, suddenly more-flush stations may soon be left to wonder just what might happen on the road between purchase and profit.

SALES INCREASING

Literally hundreds of TV stations are now owned by private equity funds. Size doesn't matter: Top station groups Ion Media Networks and Univision are owned by private equity outfits, and smaller station groups have been bought as well. The funding partner of Barrington Broadcasting, which operates 21 TV stations, is Pilot Group, the investment vehicle led by ex-AOL and MTV executive Bob Pittman. Boston Ventures owns a controlling interest in Smith Broadcasting, which has six network-affiliated TV stations.

And in the past year, Providence Equity-owned Newport Television bought 51 TV stations from Clear Channel for $1.1 billion.

“There are investors who have been on the sidelines looking from a distance, but now could become interested,” says investment banker Scott Singer, who is managing director at BMO Capital Markets. “And there seems to be an ever-increasing backlog of TV stations for sale.”

Such investors are attracted to industries with steady cash flow, which is a hallmark of broadcasting even with recent erosion. Buying on the cheap during an industry down cycle lays the groundwork to sell at an outside profit, if the sector rebounds.

Private equity is largely unregulated and also has a well-earned reputation for secrecy, which adds to company mystique. “They don't have to worry about a conference call with analysts two months from now where they are second-guessed and then Wall Street crucifies their stock,” says Lou McDermott, VP at TV station broker Kalil & Co.

They also don't have to explain their methods for achieving profits. While stations are not wont to look a gift horse in the mouth, there remains the concern about swift hoof kicks. Employees of purchased stations often complain of cost-cutting, which engenders infamy with workers who have suffered after their companies were taken over. Some broadcasters insist that cost-cutting at private equity-owned stations makes them weak competitors. “We're loving what we're seeing,” gloats one executive for a company not involved with private equity.

Investors respond that they are simply running businesses prudently, and it can be argued their frugality has set a standard across all American industries.

NO MORE EASY MONEY

Private equity has its own set of problems it must overcome to buy TV properties, especially given that an era of easy money from lenders ended a year ago. In the wake of the credit crunch, lenders have become pickier on deals to finance, so private equity outfits bargain hard for low purchase prices.

This is not to say that all private equity investors are in love with the TV station business. “In the longer term, my own view is TV stations will be around forever but we don't want to get caught like investors are now in the newspaper business,” says Communications Equity Associates Chairman and CEO Rick Michaels, who remains on the TV-buying sidelines. Newspaper economics suddenly went into a nosedive after years of slow erosion. For the TV station business, Michaels worries about new-media rivals such as video games, handheld video devices and the Internet.

That competition for audiences and ad dollars has pulled down TV station valuations. Profits are weak, and the multiples that stock analysts use to set trading prices for stocks dropped to a 9 price-to-earnings ratio, from 11 a few years ago.

For years, radio stocks carried higher multiples on Wall Street at around 15, but have plunged. Richard Morgan, media and entertainment reporter for *TheDeal*, says TV valuations are now at a higher number after radio nosedived. Investors are impressed by TV's growing revenue stream from retransmission fees collected from subscription TV platforms.

While private equity companies have a proven track record for extracting huge sums on shrewd investments, there have been some recent stumbles. For example, in 2007 financial investment vehicle Harbinger Capital lost control of Granite Broadcasting in a bankruptcy.

Sam Zell, who according to *Forbes* magazine has amassed a $6 billion personal fortune as a private equity investor, is so far struggling with his 2007 takeover of broadcasting-newspapers conglomerate Tribune Co., which *Business Week* warned earlier this month “is shaping up to be one of the most disastrous [deals] that the media world has ever seen.”

To swing the acquisition, Zell piled on $8 billion in new debt on Tribune and is scrambling to sell assets to raise cash critical to paying down debt in installments. Selloffs so far include real estate and its suburban New York *Newsday* newspaper, and an auction is progressing for Tribune's Chicago Cubs sports business. While those divestitures are planned, Zell has been dismayed at how fast Tribune's remaining newspaper business is deteriorating; the closely held company took a $3.8 billion non-cash writedown on its assets on Aug. 12.

SEVERAL WAYS TO PROCEED

Private equity deals can take several forms. The most obvious is buying TV stations outright in a friendly negotiated deal. Another avenue is to take a partial stake in a broadcaster that is closely held, such as when some members of a family-owned broadcaster want to cash out.

Then there is the unsolicited buyout, which can include buying distressed properties. Silver Point Capital bought debt in Granite at distressed prices and eventually acquired the broadcaster in 2007 out of bankruptcy. News reports suggest Silver Point was recently buying up discounted debt of Young Broadcasting, which is facing its own financial travails.

A budding trend is for private equity owners to negotiate sales of their TV properties to other private equity firms. This is an indication of how ubiquitous private equity ownership is in medium and small markets. Bonten Media's buy of 14-station BlueStone Television in 2007 had Providence Equity as the primary seller.

Private equity buyers often see other ways to squeeze out more value than simply cost-cutting. One is to buy or manage multiple TV stations in the same city, which offers the potential of lowering cost through shared overhead. Another avenue is growth by putting more money in specific operations of acquired TV stations where they see potential for dramatic improvements, such as an ad sales department or local news operation.

“They don't have slash-and-burn attitudes, though they will look at costs closely,” says Mark Fratrik, VP at BIA Financial. “They will invest if they think there will be payoff. If a TV station is good in news, they might invest to buy a satellite TV truck or add another hour of local news.”

Besides being frugal, private equity executives say another bad rap is to call them outsiders, because they usually pre-select experienced media executives to run their TV stations. Of course, incumbent stations managers may be swept away by TV veterans installed by new private equity owners.

It's also common for TV veterans to make permanent alliances with investors and then go bidding for properties. Bonten's Bongarten is a former Emmis Television and General Electric broadcasting executive, and his management team includes other seasoned TV executives.

OTHER PEOPLE'S MONEY

One reason private equity investors are flush with cash today is because they are skilled at using other people's money. Typically, private equity investors fork over just one-quarter of a purchase price of a target company, and then borrow the rest of the money. The borrowing usually consists of two layers of debt: senior debt from mainstream banks, and mezzanine debt that is higher risk, given that it stands after senior debt in bankruptcies. Those two strands of debt require only repayment of principal with interest, so any fat profit that's left over goes to private equity and their management partners.

Spanish-language broadcaster Univision, which is owned by a consortium of private equity investors, is a good example of such strategy. Because it carries publicly traded debt, Univision is a rare closely held company that issues quarterly earnings, which gives a glimpse of how debt gets piled on private equity buyouts.

For the three months ended June 30, Univision—which is posting robust audience ratings and profitability in core operations—incurred a $101 million net loss, but that's attributable to $193.9 million in interest expense stemming from its hefty $10.1 billion in long-term debt. Such bottom-line red ink would horrify Wall Street investors, but Univision's private equity owners are more focused on the core profitability metric of cash flow, which was $220 million positive in the quarter.

Such clever capital structure relying on debt financing from outsiders also increases the view of private equity as flying a little too under the radar. FCC Commissioner Michael Copps regularly criticizes private equity transactions for a lack of transparency.

“Today's transaction involves the transfer of 60 full-service television broadcast licenses to a purchaser [about] which the commission knows precious little,” Copps stated in December 2007 when the FCC approved the sale of the Paxson TV stations to CIG Media, an affiliate of Citadel Investment Group. “We do not know the identity of the investors in this particular fund [series], and we do not know how this fund has treated other companies it has owned in recent years…We don't have anywhere near the information or context necessary to know whether this change in control will harm viewers.”

The same warning might be delivered to stations involved in such purchases. It will take some time before they come to understand whether the phrase “Better the devil you know than the devil you don't" applies.