



# Radio & Television Business Report

June 2005

Voice of the Broadcasting Industry

Volume 22, Issue 6



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\$8.00 USA \$12.50 Canada-Foreign

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## Emmis bombshell: TV group for sale, buying stock

What's Emmis got to sell? And is radio a maybe? Emmis has talked for five years about splitting its radio and TV units into separate companies, but the better part of valor is to exit the TV business. One option is a management buyout, but we don't think that will happen. The buyer will be a long term 15-year player.

**RBR observation & outlook:** Wall Street's valuation of his company has been a source of constant frustration for years even before it became an issue for other companies like Viacom and Clear Channel. Being a pure play radio group (with a small magazine subsidiary) may finally win Emmis respect for its cash flow. But maybe not. Then what will Smulyan do? There's a perception that if you want to run with the big dogs in New York, LA and Chicago, you have to be one of the big dogs or risk begin eaten. We can say with near certainty that the entire Emmis TV group will not end up with a single new owner. Radio division: Hey if you were NBC and want to get back what you wish you had once upon a time called the three biggest radio markets in the country: NYC, LA, and Chicago—write out the check no matter what the price. ☑ 05/11/05 RBR #93



Ralph Guild

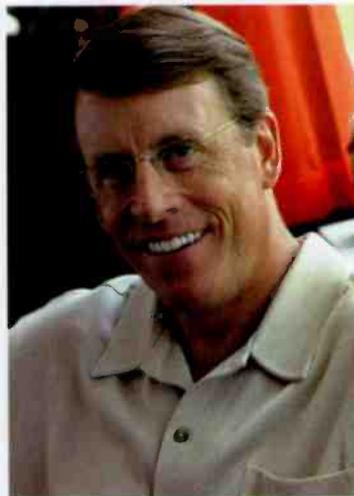
## Interrep's future debated

First we have Oaktree Capital Management, which already owns over 2% of the stock of Interrep and owns more of the radio rep firm's public bonds, but it wants more—it wants control of the company and the ouster of founder and CEO **Ralph Guild**. Then the double whammy—Cumulus Media CEO **Lew Dickey** raised the issue Wall Street analysts are now asking other radio groups about: whether they are

dissatisfied with national sales representation by Interrep and what's going to happen to the company. In short, the Radio One executives said Katz was outperforming Interrep, although the latter had shown some improvement in Q1. Then others rose to Interrep's defense.

**RBR observation & outlook:** Ralph Guild has learned the hard way the downside of being a public company. With its stock price in the tank, it's not surprising that a vulture capital firm is making a play for Interrep. Guild and his upper management have to rethink an entire business strategy and put together a solid business plan that brings

the firm into the 21st century. Interrep will have to think in terms of 2010 and beyond *now* or the outlook for 2010 will not be pretty. The world is moving fast, and so is Interrep's top competitor Clear Channel/Katz, which is a bigger animal with more resources and a huge guaranteed in-house client list. Time to plan your work and work the plan as never before. ☑ 04/18/05 RBR #76



Dennis Donlin

## GM picks Starcom MediaVest's GM Planworks for 3.2B in spend

The move covers Dealer Association advertising as well (\$600 million in advertising). Buying functions will move from Universal McCann's GM Mediaworks to

the Planworks umbrella officially 10/1 (then, all a part of Starcom), with no name change expected. **Dennis Donlin** at GM Planworks is now in charge.

**RBR observation:** The word, ladies and gentlemen, is "aggressive." This is GM ad chief **Mark LaNeve's** plan being put into motion. Zinio users: See what Donlin told us: ☑ 05/12/05 RBR #94

## Again - Disney may sell radio

Making the rumor rounds Disney CEO-to-be **Bob Iger** may be interested in selling the ABC Radio group.

**RBR observation & outlook:** OK, This rumor seems to pop up about once each year. The only thing that might give it more credence this time is the changing of the guard at Disney. With Iger taking over, he's looking at what sort of company he wants to be running going forward. The question is whether this is a great time to sell. With stock prices so low for the public companies, they can't pay a premium price for beachfront properties—at least nothing *this* big. That would greatly limit the pool of potential bidders. Then of course you have the Roy and Stanley show to contend with. They have been the thorn in the side and a source of unwanted headlines. If progress is to be stalled it will be because of these two Rock'm Sock'm Robots. Nevertheless, you'll see more of the Roy & Stanley show over the next few months—and maybe a TV sitcom from ABC. It'll give ABC more bang for its buck—cost-saving utilization of internal talent and the comedy and reality categories rolled into one.

☑ 05/12/05 RBR #94

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## Boardroom war at Univision

Actually, the war has now moved out of the boardroom, since Televisa CEO **Emilio Azcarraga Jean** has resigned from the Univision board of directors. At the same time, Televisa, Mexico's largest TV company, sued Univision for \$1.5 million, claiming it had been shortchanged royalties for the "Premio Lo Nuestro" music awards show.

**TVBR observation & outlook:** If you think this is about \$1.5 million, think again. Univision paid over \$100 million in program royalties to Televisa last year, so a disagreement about \$1.5 million could be easily settled between Azcarraga and Univision CEO **Jerry Perenchio**—if they wanted to settle it. What's really going on is that Azcarraga wants to expand his media empire into the United States—and if Perenchio won't let him buy a controlling stake in Univision, he'll have to start his own US company (and apply for American citizenship). Azcarraga is still young (37), but he doesn't want to wait until 2017 when Univision's contract for exclusive US rights to Televisa programming runs out. If the Mexican mogul can win this fight over royalties from one show, he may figure he can use that as leverage to unwind the overall deal well before 2017.

## Moonves joins fight for retransmission cash



Les Moonves

The big cable MSOs may figure they can outlast **Perry Sook** and Nexstar. But what about **Les Moonves**? With Viacom preparing to split in two, CBS and UPN will no longer be joined at the hip with MTV Networks, so there's no way to deal on the cable side and pretend that retransmission of the Viacom O&Os is still "free." Moonves told analysts he wants cash: "As we go forward, post split, we think in the next three to five years it could be worth tens

of millions of dollars for the CBS network."

**TVBR observation & outlook:** Don't look now, but owning cable television systems might not be such a cash cow over the next few years. If the MSOs refuse to pay for retransmission consent when lots and lots of contracts come up for renewal next year, folks all across the nation could become ex-subscribers and overwhelm local installers for EchoStar and DirecTV as they did when cable companies dropped Nexstar's network affiliate stations in the Joplin, MO, Shreveport, LA and Abilene and San Angelo, TX markets. The last time we checked, CBS had O&Os in somewhat larger markets.

## Paxson and NBC: the unhappy marriage that just won't end



Dean Goodman

The latest developments in this long-running soap opera have NBC Universal winning a Delaware Chancery Court ruling that set the dividend rate on its Paxson convertible preferred stock at 28.3% annually (considerably higher than the 16.2% rate that Paxson had put in place last September), NBC Uni complaining publicly that Paxson "intends to abandon network programming and rely primarily on infomercials, direct response advertising and paid programming as revenue sources," then filing an arbitration claim that Paxson was breaching its contracts with NBC and its O&O stations. Paxson President **Dean Goodman** wouldn't address all of NBC's claims, but he did tell TVBR that his company won't be going all-infomercial—"Just the Pax Network is no longer going to exist as we know it." Look for a mixture of bartered programming and reruns of shows from Paxson's library.

**TVBR observation & outlook:** Several would-be buyers have approached Paxson about buying the company. The problem is, while they have big plans for the nationwide broadcast/cable platform, most of them don't actually have the \$2 billion plus lined up that they will need to cash out NBC Uni, **Bud Paxson** and other shareholders. In the meantime, while NBC complains that management is throwing away the value of the Pax network, it's not clear that it really has any value. Just what is a 0.4 HH Nielsen rating worth, anyway? Goodman is now focused on cutting costs and stemming the flow of red ink—whether NBC Uni likes it or not.

## On tap in Washington

The FCC and Congress will be chipping away at a very full agenda during the remainder of 2005. On tap is furthering the DTV transition, tackling the remanded FCC ownership regulatory proceeding (which will be going on at the Commission and also possibly at the Supreme Court), and rewriting the Telecommunications Act—and this one could potentially involve any or all aspects of the other proceedings. There will also be numerous small side shows, such as the flap over VNRs. There is a lot going on inside the Beltway, so keep your eyes peeled and—as is always a good idea where Washington is concerned—watch your wallet!

By Carl Marcucci / cmarcucci@rbr.com

## What does EDI invoicing mean to you? Are you satisfied with your rep firm's progress to help with national sales using EDI?



**Les Hollander,**  
SVP/Regional Manager,  
Infinity Broadcasting:

Many of our customers have spoken up and requested EDI. While many of our stations have EDI capabilities, challenges still exist related to a third party universal platform. Much of the heavy lifting has been done and we are optimistic that our stations and customers will have compatible software soon. This will facilitate smoother transactions and result in more accountability for stations and faster payment from clients.

### **Joe Barlek,**

Senior Vice President Controller, Susquehanna Radio:

All of our stations are participating in Interep's RadioExchange program. The percentage of national billing done through electronic invoicing varies by market. In our largest markets, we are billing between 55% and 65% of our national business through RadioExchange. The RadioExchange process is not difficult, but there is manual effort involved, which adds time to our billing process. Consequently, we continually encounter manual entry errors each month, which creates angst within our billing departments. Even though RadioExchange adds a step to our billing process, we have made the commitment to the process because it permits our rep firm to confirm the order prior to sending the file to our client's agency. While we have not yet seen a significant reduction in the number of days' receivables outstanding across the group due to EDI, we do believe that the investment we make now will reap returns once a majority of the radio industry utilizes electronic invoicing.

About 27% of our total billing (local and national) is done electronically. For our larger markets the percentage of total billing is closer to 40%-45%.

Our biggest disappointment thus far with electronic invoicing is that agencies still require us to send paper copies of the invoices. This is contrary to our hopes of going completely paperless. I am not sure why agencies still require the paper, but if in the long run it gets the industry moving more fully into EDI and eventually paperless, it's worth the short-term expense.

### **Milt McConnell,**

CRMC, VP/Market Manager, Citadel Albuquerque:

It's very critical for our industry in terms of being able to gauge ROI, using EDI. And there's been a very valiant attempt by Katz to do this thing. And currently we're simply uploading text files, but there are some glitches that are happening when

it comes to tax issues and also as it relates to trade accounts. And once those are ironed out, then I think we're going to be in very good shape.

I know that Citadel, as a company, will be rolling out, along with Wicks, a pretty integrated system in transitioning this by Q3.



**Trey Fabacher,**  
Station Manager,  
WCCO-TV Minneapolis (CBS):

I have been involved with EDI as a board member for Encoda Systems for many years. EDI to me spells future, and we need to get there as soon as possible. There are so many benefits we will get from EDI. Stations will receive payments for invoices quicker,

spot television will be easier and more efficient to buy for clients and agencies, but the biggest benefit to me is the lack of discrepancies. Television account executives spend so much time communicating program changes, spot shifts, preemptions, etc. These are very important parts of business. But once the buy is over and the client is invoiced, many times our paperwork still does not match what the client has recorded after all that correspondence. When EDI is in full play, a discrepancy becomes a thing of the past. Every change that is made in our traffic system is electronically sent and reflected in the system at the client/agency. When the station electronically sends an invoice for payment, they will always match because they will be one in the same. Therefore, our reps will have more time on their hands to sell and to service our clients with creative ideas on moving the client's product.



**Nancy Leichter,**  
GM/Market Manager,  
Mapleton's Radio Central Coast  
San Luis Obispo, CA:

The only place I have EDI functionality is with dMarc. It's unbelievable, because I forget about it and all of a sudden I get a check. So it's pretty cool. And I think eventually, with Marketron, we should be able to do electronic invoicing. I know a lot of clients are asking about it, but as far

as I know, we don't have any plans to do it right away. And as far as the rep firm, I haven't heard anything about that at all.

### **Howard Meagle, GM, WMC-TV Memphis (NBC):**

We support and use EDI where possible as does our rep. Unfortunately, the list of clients using this invoicing method is a short one. The real hurdle for all concerned is to agree on a universal platform. Until then the widespread benefits of EDI cannot be fully realized.

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## Considerations and Consequences of a "Going Private" Transaction

By Gregg P. Skall and Ross H. Parr\*

### The problem

As the public marketplace for broadcasting pure-play stocks reaches maturity, and public investors become sophisticated in broadcast economics, it is becoming increasingly difficult to maintain the type of growth that continues to impress Wall Street analysts. Over the past couple of years, growth in broadcasting stocks has slowed enormously.<sup>1</sup> Some large investor groups are looking to "pare down" their broadcast holdings and several large broadcasters are bolstering their stock price with huge stock buy-back programs.<sup>2</sup> Radio revenue is not growing as fast as the analysts would like<sup>3</sup> and radio groups are running out of strategies to feed Wall Street's expectations of ever-increasing profits. Costs have been cut as much as sanity will allow, maximum economies of scale have been reached and spot inventory has been expanded to the breaking point, particularly for traditional radio groups who are facing competition from satellite radio providers. Clear Channel's "less is more" campaign seems to have hit a resounding note.

As the industry moves toward the second half of 2005, there is an increasing "buzz" that broadcasting companies – and the radio sector in particular – must look for new options. Some believe that the creation of more cohesive station groupings, achieved by selling off clusters of stations that do not fit the basic group strategy, is the answer. Others, however, believe that a better way to enfranchise broadcasters to serve their audience is to "go private."

### What does it mean to "go private"?

Generally, a company is said to be "going private" when a buyout group, usually management of a public company or a third-party affiliate, cashes out enough shares to allow the company to deregister its stock with the Securities and Exchange Commission (the "SEC") and delist the stock from the company's stock exchange. For purposes of this article, we will assume generally that a "going private" transaction would take the form of a management buyout, or "MBO," in which corporate management initiates the buyout with financing supplied by an LBO (leveraged buyout) fund or similar investor. Private equity funds that know the broadcasting space are now "chasing" good deals and seeking out retired management for new investments. There is plenty of money available from funds that understand the business and have reasonable expectations.<sup>4</sup> The public market may have been useful for financing the creation of large station groups following the change in ownership limits occasioned by the Telecommunications Act of 1996, but the time may never be better to get out of the public market and replace that capital with funding that will respect the rational, restrained growth that is so important to broadcasting in the current competitive climate.

### Some reasons to go private

A private company may be better positioned to operate in an already highly competitive industry faced with new modes of competition and to compete in the face of a steady increase in FCC-authorized stations and a splintering audience base. For many radio and television sta-

tions, the challenge is how to keep their market and audience share rather than how to further grow profits. The challenge of meeting well reasoned loan covenants designed to pay back debt with reasonable interest, instead of providing new profit to unrelated investors, should be a welcome respite to broadcasters suffering the criticism of sacrificing audience service to increased dollars.

Importantly, going private also enables a company to shed the ever-growing regulatory burdens of being public. Public status was always a reporting and record keeping burden, but the Sarbanes-Oxley Act of 2002 ("SOX") substantially increased the costs of being public. Today, public company broadcasters are really in the public securities business, serving the shareholder and market professional, and have far less time for broadcasting and serving the audience. SOX requirements have prompted a number of companies in other industries to go private or at least seriously consider the option.<sup>5</sup>

### Among the many new requirements under SOX are the following:

- Companies must establish and maintain review procedures for "internal control over financial reporting" – perhaps the most costly aspect of SOX. One recent survey estimated that the annual costs of compliance with this provision alone averaged more than \$4 million per company<sup>6</sup>;
- The chief executive officer and chief financial officer must certify that the company's periodic reports are not materially misleading and that internal control over financial reporting is adequate (with potential personal liability);
- Company loans to directors or executive officers are prohibited;
- Periodic and beneficial ownership reporting has been accelerated;
- New reporting rules limit disclosure of non-GAAP financial measures and require enhanced disclosure of off-balance sheet arrangements;
- Companies must maintain procedures for audit committee pre-approval of audit and non-audit services, as well as "whistleblower" guidelines; and
- Companies must establish a code of ethics and ensure that the audit committee includes an "audit committee financial expert" (or explain why they have not done so).

Shortly following the adoption of SOX, the New York Stock Exchange, Nasdaq and the American Stock Exchange revised their listing standards to establish numerous corporate governance requirements and restrictions, including rules that make it more difficult for a director to be deemed "independent." The recent corporate scandals that precipitated SOX have also contributed to a significant increase in the cost of acquiring and maintaining director and officer liability insurance – and made it more difficult to find and retain qualified directors to serve on the board (particularly after the recent WorldCom and Enron settlements, in which directors incurred personal liability amounting to millions of dollars).

Besides the enhanced regulatory concerns and expenses facing public companies, many smaller public broadcasters have been unable to

fully realize the advantages of being a public company. Although some public companies benefit greatly from the increased access to capital, the stock of some broadcasters never sold for much more than the initial offering price and in some cases, less. Even successful offerings do not always attract a large institutional shareholder base and broad analyst coverage. The capital markets are effectively closed for many small companies that are "in the orphanage" – Wall Street slang for companies whose stock is so thinly traded that they are unable to attract the analyst coverage necessary to enable them to raise capital and fuel continued growth.

## An overview of the going private process

For some companies, the challenges of broadcasting in the new competitive era that has emerged in the 21<sup>st</sup> century, coupled with the regulatory burdens and costs flowing from the Sarbanes-Oxley Act of 2002, simply make it impractical for these companies to continue their public existence. By exiting the public securities market, these companies believe that they can recover the value of a business that is undervalued in the public market,<sup>7</sup> reduce (or even eliminate) the quarterly pressure to "meet earnings," operate with more confidentiality and less public scrutiny and perhaps even recognize certain tax benefits that are not typically available to a public company. As noted earlier, a private company may be better able to survive in an already highly competitive industry that is faced with new modes of competition, a steady increase in FCC-authorized stations and a splintering audience base.

The decision to go private, however, cannot – and should not – be made in haste. The board of directors has fiduciary duties of loyalty, care and good faith to both the company and its shareholders, and a decision to go private can backfire if it is not made with appropriate consideration of all relevant factors. Further, simply because a company believes it is too expensive or burdensome to continue as a public company does not mean that it will thrive as a private company. Problems stemming from a company's inefficient operations, inconsistent cash flow, slim margins, or a weak advertiser base will not be miraculously resolved simply because a struggling public company becomes private.<sup>8</sup>

A going private transaction can be accomplished in one of several ways, such as by a tender offer, a cash-out merger (or a combination of the two), or a sale of assets. A true going private transaction is always done for cash. Regardless of the type of going private transaction or the identity of the buyout group, the company must adhere to a number of important detailed substantive, procedural and regulatory requirements.

We mentioned above the importance of working through and resolving the directors' fiduciary duties early on in the process, which requires a focus on both substantive and procedural factors. One of these factors will, in most cases, include the appointment of a special committee of disinterested, independent members of the board of directors to ensure that the going private transaction is fair to the company and the public shareholders and that the buyout group pays a fair price for the company. It is the responsibility of the special committee to ensure that fair dealing and "arms'-length" negotiations occur, even (and especially) if the special committee is dealing with members of management.

Since the special committee (or, in the absence of the special committee, the independent directors) will ultimately be responsible for making a careful and informed decision about whether to engage in a going private transaction, it is important that they fully understand the issues surrounding the valuation of the company and the terms, conditions and pricing structure of the proposed transaction. This cannot be stressed enough, since part of the company's public disclosure requirements will consist of a detailed description of all steps that were taken to ensure that the interests of minority shareholders were protected and that the price paid for the shares was fair. The involvement of the special committee is critical in helping the company establish fairness and the semblance of arms'-length negotiations.

Even if the directors or the special committee determines that an

MBO is in the company's best interests, it is important that the management group carefully weigh the pros and cons of the transaction before engaging in a going private transaction. A going private transaction is not a quick process, requires a great deal of intellectual and financial capital and will be heavily scrutinized by both the SEC and the plaintiffs' bar (which will not hesitate to file a lawsuit if it appears that the MBO is not in the best interests of the shareholders or is procedurally deficient). The members of the buyout group should have the same strategic objectives and should be in agreement on the means to achieve them in order to maximize the perceived benefits of exiting the public marketplace. In addition, there are numerous conflicts of interest that arise in an MBO because the interests of the management buyout group and the company are not aligned. The company (specifically, the independent directors or special committee on behalf of the company) must endeavor to get the best price possible for the company's shares, while the management buyout group has an interest in paying as little as possible for those shares to complete the going private transaction. Since the members of management that comprise the buyout group will likely remain employed by the company during the going private transaction, it is important that they (and the board) recognize at the outset the difficulties that such a situation can create. It is therefore critical that the members of management who wish to conduct an MBO request and obtain authority from the independent directors or special committee prior to pursuing the going private transaction.

Next Month: REGULATORY AND OTHER CONSIDERATIONS

\* Mr. Skall is a member, and Mr. Parr is an associate, in the law firm Womble Carlyle Sandridge & Rice, PLLC.

<sup>1</sup> See Radio Business Report Daily Epaper, "Marsh sees still lower radio stocks," Vol. 21, Issue 202 (Oct. 15, 2004) ("While radio stocks bump around near 52-week lows, we still see downside for the average radio stock from here, especially as we near 2006," was the dire warning from S.G. Cowen analyst James Marsh in his latest missive to investors.").

<sup>2</sup> See Radio Business Report Daily Epaper, "Entercom wants to buy back more stock," Vol. 22, Issue 55 (Mar. 18, 2005) ("With radio stocks still beaten-up on Wall Street, Entercom is the latest company to say that if investors don't want to pay a good price for its stock, the company will just buy it back.").

<sup>3</sup> See Radio Business Report Daily Epaper, "Wobbly ad revenues worry Westerfield," Vol. 22, Issue 11 (Jan. 17, 2005) ("After hearing 'fresh evidence' of unsteady ad pricing trends from ad buyers, Harris Nesbitt analyst Lee Westerfield has lowered his Q1 and full year 2005 forecast for the broadcast companies that he tracks.").

<sup>4</sup> See Radio Business Report Daily Epaper, "Venture capital money is again chasing radio deals," Vol. 20, Issue 249 (Dec. 23, 2003) ("Interest rates may be at 40 year lows and stock market returns rebounding from negative numbers, but while venture capital companies are actively looking for radio deals, VC investors still expect big returns on their capital.").

<sup>5</sup> See Lee Berton, "U.S. Companies Consider Going Private to Skirt Law," Bloomberg.com (July 20, 2004) ("Small public companies facing the higher costs of complying with the Sarbanes-Oxley law of 2002 are considering going private faster at a time when education is needed, not more regulation, to fight corporate fraud.").

<sup>6</sup> See Press Release, Financial Executives International, "Sarbanes-Oxley Compliance Costs Exceed Estimates" (Mar. 21, 2005) ("Companies' total costs for year one Section 404 [internal control over financial reporting] compliance averaged \$4.36 million, up 39 percent from the \$3.14 million they expected to pay, based on FEI's earlier July 2004 cost survey.").

<sup>7</sup> See Radio Business Report Daily Epaper, "Cox Enterprises to buy back cable stake for 8.3 billion," Vol. 21, Issue 205 (Oct. 20, 2004) ("Cox Enterprises, Inc. is moving to take Cox Communications private, buying out public shareholders for 8.3 billion dollars.").

<sup>8</sup> See Radio Business Report Daily Epaper, "2004: Tough year for radio stocks," Vol. 22, Issue 2 (Jan. 4, 2005) ("RBR's Radio Index fell 20% for the year and virtually all pure-play radio stocks finished 2004 down from where they began the year."). See also Television Business Report Daily Epaper, "2004: Tough year for TV stocks," Vol. 22, Issue 2 (Jan. 4, 2005) ("Investors are always trying to look ahead, so most TV stocks fell in 2004 as Wall Street anticipated slower growth in the future. Of the 35 TV stocks in TVBR's daily chart, only 11 were up for the year and not one of them was a pure-play TV group owner.").

## The network landscape

By Jonathan Prince, Creator/Executive Producer, American Dreams

When I look at the network landscape - some shows, after they're gone, have left a mark, a footprint in the snow. Others, from the moment they were cancelled leave almost no evidence that they ever aired... And sometimes it's hard to understand why. The show I hope which leaves a footprint today is "American Dreams." And I do understand why it has a loyal, passionate, educated and affluent fan base. I understand why the critics have embraced it. I understand why advertisers flock to it. I also understand why we continue to struggle to stay on the air.

I created "American Dreams" because I wanted to tell a story about two families, black and white, that fight to stay together during the difficult times of the 1960's. I wanted to create a show that today's families, also facing difficult times, could watch together. A show that'd get your son off his X-box and your daughter away from text messaging, that might pull your spouse from whatever's on TiVo and you from Netflix. A show you might actually watch together... on television... as a family. And, maybe you'd even talk about it when it was over.

For three years we've produced a network show of the highest quality. A show that provokes discussion about an unjust war and the way it divided our country. A show about the promises of the feminist revolution, promises made in the fight for Civil Rights, promises of the acceptance of gay rights, and promises to the idealistic youth of this country—and the fact that those promises have not been kept. A show that provides a safe place to discuss sex and birth control and abortion and drug use—all the issues of the 60's that are more relevant today than ever before.

I hope we're leaving those footprints in the snow.

But, as I said, it's a struggle, this show. It's a struggle when networks are offering Housewives so Desperate they're getting Extreme Makeovers in hopes of becoming a Swan. It's a struggle when sex sells and violence sells, but family values are ridiculed as the agenda of the political right.

It's a struggle when we, the content providers, try to feed audiences the sex and violence we're convinced they want by offering cable-style programming on broadcast television. And yet, because there is a public trust that we have earned over the years as broadcast programmers—in every action we take out of cable envy, we betray that trust.

"American Dreams" has not betrayed this trust. Not by playing it safe—we've had teenagers swearing, smoking cigarettes and pot, drinking, and losing their virginity. We've done abortion, birth control, the right to die, extra-marital affairs, and an interracial relationship. And through it all, the show was actually granted the seal of approval by the PTC and never been fined by the FCC. I'd like to think this is because we've dealt with these issues responsibly.

Yet the question remains, how are we on "American Dreams" and we who provide broadcast content, going to survive this ongoing struggle?

Let me suggest that the FCC and the PTC offer some of their own solutions. Find ways to reward shows that promote the family values that they find so integral to the broadcast experience. Find

ways to reward the advertisers who buy 30-second spots and the networks who air them. Find ways to help us use their resources to pull in more viewers. Find ways that have actual financial impact—rather than giving out yet another wooden plaque of congratulations.

And we content providers—who rail against the government's desire to control content on broadcast television—must begin to show some restraint and do a little self-policing.

We need to find new advertiser models that make sense as TIVO and VOD threaten to make the 30-second spot decreasingly valuable. We can do that by integrating advertising into storylines—seamlessly—rather than merely putting a Doritos bag in the hands of a hungry Survivor or a Coke in front of an American Idol judge.

We have to fight the new, desperate ways of creating water-cooler buzz with sex and violence and language and go back to buzz earned thanks to incisive content or original characters or wit or depth of storytelling.

Because in addition to wanting more viewers and more ad dollars, what we really want is to make a difference.

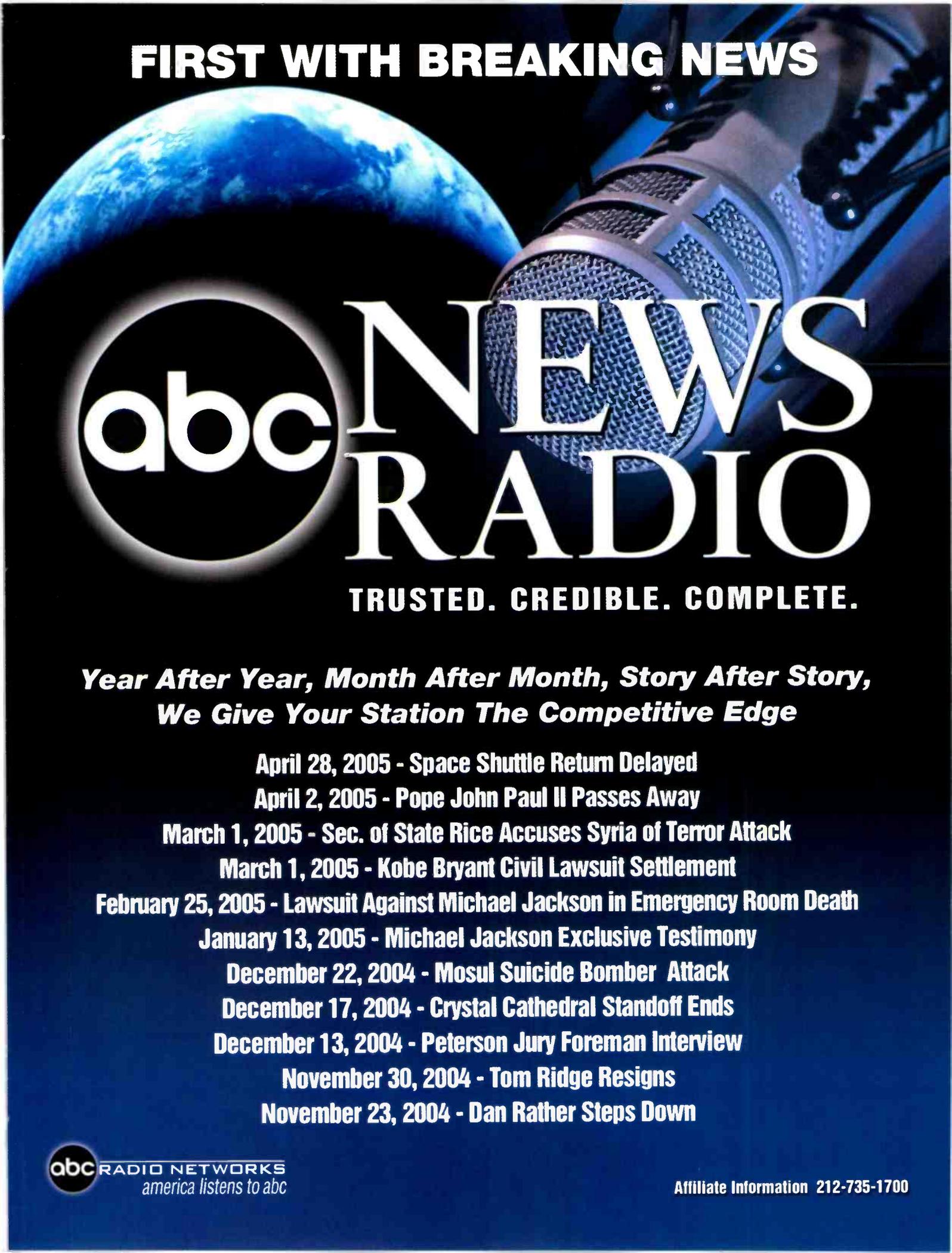
What we want is to know is that people are watching. And not merely watching, but talking about it. The most rewarding part of my experience on "American Dreams" is listening to the stories I hear from our fans who tell us that they watch the show as a family. Hearing that sons are leaving their X-Box and daughters have stopped text messaging. And that for one hour, a family sits together and watches a show about other families. And then they talk. To each other.

There is hope in this struggle. Hope that networks will fight for quality and work with advertisers to keep family programming on the air. And for me, the hope is to create television shows that have such an emotional impact on the audiences, that it leaves a footprint. A deep footprint in the snow behind us after we're gone.



Jonathan Prince

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**December 22, 2004 - Mosul Suicide Bomber Attack**

**December 17, 2004 - Crystal Cathedral Standoff Ends**

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## EDI - Are we there?

By: Kathy Crawford, MindShare President/Local Broadcast

Lest you should all think that our work is done in the world of EDI, think again. We have only just begun. Order transfer is the focus now of the entire electronic world. The 4As, the TVB, you name it are working fast and furiously to get this done. And, we need your support.

Some of you don't understand why you don't get paid faster since you are sending invoices electronically. We have changed the process by having the invoice go into the system instantly and by not incurring keying errors. But your electronic invoices must have our (the agency's) client, product and estimate numbers (CPE's) to be recognized by our billing system. Without our codes, electronic invoices are handled just like paper and have to be manually input. What we haven't changed is the myriad discrepancies that occur outside the keying errors. These errors are on both sides of the equation. They are anything that relates to the change in the order that does not match the invoice. If we don't reduce or eliminate those, no one gets paid, including the station and the agency.

### How do we change them?

Let us start with the station side. We can't continue to make changes to an order and not tell anyone. "Preemptions" that are done without approval (and make goods scheduled without approval) only create discreps. And,

running the schedule in programming that was on the hit list will be discrepant as well. What we really need is "day after" transfer from the log's exact times right into our stewardship program (such as Donovan). This means a new traffic system on the station side. (However, many of the stations are currently up for renewal on their systems.) We could virtually eliminate discrepant invoices if we had the transfer, and, in fact, eliminate the invoice altogether since it creates its own by the transfer of the exact times.

On the agency side, the buyer must be encouraged to complete the notifications of changes by entering them into the system in a timely manner. On the other hand, if we had a fully electronic relationship, the makegoods or changes that come to us electronically could/should automatically populate our buy if approved and the invoice would "automatch". This is the ideal scenario. There are quite obvious changes that have to be made to the way we do business. One of those changes, for example, is that we must all call the program name the same one. We cannot have the



Kathy Crawford

salesperson call it Law and Order and the buyer call it L&O. We must standardize the naming conventions. We have to standardize the data that is used to identify the order such as the client codes, product codes and estimate numbers being the same in both systems. There is so much that we must work on and none of us can do this alone. We need to work together to get this done.

And, if we can work together, we can speed up the entire process which, in turn, speeds up the station payment. Do we have your commitment?

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**RadioExchange** saves time and resources by eliminating the need for re-keying and reducing errors. As a result, it allows our sellers to focus more time on face-to-face, creative sales opportunities.



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## If we build it, they will come.

Interep is committed to leading the industry in the continuing development of a fully-integrated EDI technology, serving the changing needs of our clients and our customers.

EDI is an important component in Radio's journey to **10x10** – a 10% share of ad dollars for radio by 2010. Stay tuned.



## EDI issues: progress and solutions

EDI (Electronic Data Interchange) is an acronym for any business system in any industry that exchanges contracts and billing electronically. Such has been in place in automotive for years, for example. EDI represents the seamless coordination, integration, and exchange of data and information (advertising and programming). EDI is being fueled by the SEC's Sarbanes-Oxley legislation as well as increased market pressure from competing digital advertising mediums, specifically the Internet. EDI made its debut into broadcasting in the late 80's, but has grown slowly over the years. This relatively slow progress was mainly due to the varied vendors and software that existed within stations, national sales reps and agencies. But the sea change is in sight, as you'll read.

As agencies attest, going about the billing and reconciliation process via paper shuffling is basically operating in the stone age. A campaign just plain costs more adding the human data entry component to the equation. EDI is an important piece of the accountability puzzle as well. It increases speed, accuracy and reliability of data transfer, not to mention cost savings through error-reduction and automation of clerical activity. Consider the basic life cycle of a spot TV buy, for example, a single order (not including revisions and missed spots) is keyed five times, says the TVB. It is hardly a surprise that most agencies find 70 to 80% of all spot TV invoices discrepant. As well, somewhere between 8 and 10% of ad dollars have been lost yearly lost to discrepancies, many of which would have and will be avoided with EDI.

Currently the TVB, along with traffic and billing software vendors, are working to create and promote standards in technology in order to bridge the issues of disparate systems trying to communicate with each other on the national level. Opening up the myriad of software platforms to each other to arrive at a standard has been a bit of a hurdle. Arriving at standards for keying and entries is an issue as well (see MindShare President/Local Broadcast **Kathy Crawford's** take on that, page 12).

EDI for broadcasting consists mainly of two entities; EC (Electronic Contracting); with local and national versions (or

Electronic Ordering as dubbed in the radio biz—see below), and EI (Electronic Invoicing); also with local and national versions. Local EC exists between the station's sales/proposal system and the traffic system. Many stations have some version of this in place whereby once proposals are accepted by the local buyer, the order is electronically sent over into some file in the traffic system for approval and scheduling. National EC exists between the national sales rep's sales system and the station's traffic system. Once the national rep has an order(s) for a client station, they may electronically send this order to a file in the client's traffic system.

Beforehand, national orders were faxed and had to be copied by hand to an order form and then input into the respective traffic system. In the cable network world, sales are frequently handled by an in house sales force.

It's not always easy to implement, but worth it. On the TV side for EC, LIN TV's WISH-TV Indianapolis National Sales Assistant **Nancy Lavelly** tells RBR/TVBR their system, via VCI, was implemented over a year ago. "This has lessened entry error and discreps considerably, because we would have to go in and do each line of an order ourselves. Our VCI system reads it right from the rep order—the dates, the amounts, etc."

In getting a system such as VCI in place, it's not going to be turnkey. "You have to build it, Lavelly says. "Each advertiser and agency on the rep side has a code for it. You have to go into name and address in VCI and add the four digit Perty letter code, for example. As it went along, what we didn't have, we would build it. Once you add it, however, it's in there forever. So it was a continual process for a while. You had to build it by each time you did it and if it didn't read it, you would add the code. And then all of the other stations in the LIN hub followed suit. So we sure helped the others. We were the instigators."

### Radio is close, real close

On the radio side, both the Katz Media Group (especially with CC Radio stations) and Interep are rolling out electronic invoicing with their radio and agency clients and working in conjunction with the agency community to electronically transfer those invoices from stations to agencies. How is EDI implemented at the station level? It starts with digital and IP (internet protocol) systems. Each sub-system within a radio station must

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Jim Mazzarella

seamlessly communicate with each other, without compromising security or data integrity. These internal sub-systems must also seamlessly communicate with external systems, enabling efficient and automated workflow.

Interrep's RadioExchange system has some 550 radio stations who upload invoices electronically. Stations are using it to match affidavits to orders and for generating electronic invoices. Agencies are using it to post avails and to deliver orders to Interrep electronically. RadioExchange takes the affidavit from a station's traffic system and then converts it to whatever software the agency uses. Interrep wants it to be compatible with the top three traffic and billing systems—Donovan Data Systems, Strata and Encoda, however, Interrep is currently transitioning its own systems over from Donovan to RadioExchange. The full transition should be completed in June for spot under the moniker "ModSpot." Network was done in April. **Jim Mazzarella**, Interrep CIO, tells us the reporting capabilities are tremendous. "It empowers the sales teams to better support their clients and customers by allowing them to drill into the data, down to whatever level they deem necessary—even down to the contract or advertiser level, as well as the immediacy of the data."

Currently, only Initiative Media does Electronic Ordering as well as electronic invoicing, but no stations are doing both. Katz's and Interrep's jointly-developed "11" system handles ordering. "This is the first fully-integrated electronic ordering system that allows us to take the orders directly from the agencies into our order management systems," says Mazzarella, who was previously CIO at Interpublic for six years. "while providing full capabilities to submit, confirm, revise, etc., to embody the full workflow between the agency and the rep."

The goal is to make everything electronic, from avails to orders to invoicing, including closing the entire loop—having electronic functionality at the radio stations as well. 82 other agencies are processing invoices electronically, including Carat, Zenith Media, MindShare, OMD, PHD, Mediaedge:cia, Dailey, GSB&M, Universal McCann/LCI, Lowe, Starcom MediaVest, Mediacom, MPG, JL Media and Horizon.

RadioExchange goes far beyond EDI to introduce enhanced process management for all parties to the radio transaction. Station clients will be able to see at a glance the list of expected invoices for a given month. This feature helps stations in issuing complete billing when they perform month-end billing. Matching functionality analyzes station invoices to ensure they reach the agencies with correct codes which might otherwise result in an invoice getting kicked out of the electronic cycle at the agency, requiring manual intervention and delaying payment.

For interoperability, which would work with both RadioExchange, Katz's order management system (CC Radio uses its own MediaStar system) and the agencies, Katz and Interrep settled on a system called RadioInvoices.com. They are working more collaboratively on the agency side because they both service them on the same buys, however, they don't service the same stations. RadioInvoices is really a common hub that was put in place by Interrep and Katz to drive all the electronic invoicing through it, so that there are fewer "pick-up points" for the agencies to worry about.

DMarc Broadcasting is also using EDI for some of its networks. As a leading digital systems and automation vendor (Scott Studios and Maestro digital automation systems and services) with over 4,600 station clients, dMarc is committing the resources and leveraging its system deployment to drive the implementation of end-to-end EDI standards and processes. "We are focused on EDI solutions to solve these legacy problems (ROI, back-office support, accountability), and increase radio's overall competitiveness against new and emerging

# why vci?

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Ryan Steelberg

digital media platforms," **Ryan Steelberg**, President, dMarc Broadcasting, tells RBR/TVBR.

Mazzarella agrees, some might argue that radio has been a bit slow to respond on EDI. "However, in the year that I've been CIO at Interep I have seen clear evidence and actions that the radio industry realizes how important EDI is to its future and is responding in a big way. One word of caution, for all media

looking to implement EDI solutions; a common flaw with many solutions that have been put on the table thus far is that they would potentially look to displace other players in

the mix. I think the right strategy would be to figure out who your critical partners are and bridge into those partners. For example, on the agency side, Donovan is a critical partner to us. We need to make sure we can interact with the systems the agencies are using so that we can drop invoices and pick up orders. And Strata is a critical partner because we use View and SalesPro to generate those schedules, which ultimately generate the avails and orders. And on the station side, it's the traffic system vendors."

Adds **Joanna Valentine**, VP/West Coast Operations, Interep: "We have been using EI for our unwired network and also with some of our spot agencies for the past several months through our internally developed system. Many of our station groups are on board with electronic invoicing—Entercom, Susquehanna, Cumulus to name a few. Our station groups and agencies have been clamoring for this for some time and we are very pleased to be able to meet this important need."



Jean Pool

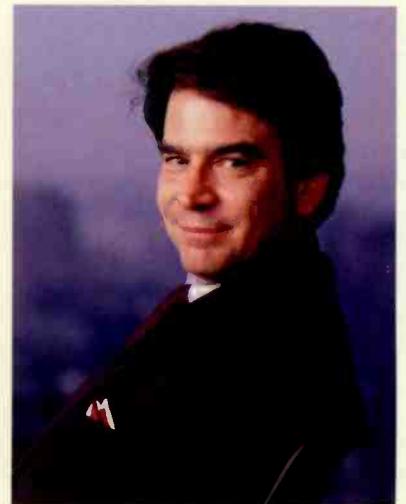
## Cable needs some help, too

NCC (Spotcable.com), or National Cable Communications, is a national cable organization set up to automate the buys and invoicing for national cable. It is now servicing a fair number of the cable orders that take place in the industry. However, some say it's not rolled out enough. When asked if cable is going to continue to grab more share from broadcast in this upfront, **Jean Pool**, EVP/Director of North American Operations Universal McCann had this to say: "Yes, I believe they will get a bigger share. But they would get a much bigger share if they moved into the 21st Century with EDI trading."

"I agree, cable EDI is terrible. It's a very high priority and I've talked to [Cabletelevision Ad Bureau CEO] Sean Cunningham about it and cable is moving rapidly to solve it," **David Verklin**, Carat Americas CEO, tells us. He adds, referring to all television buying, "Network TV and spot TV billing is

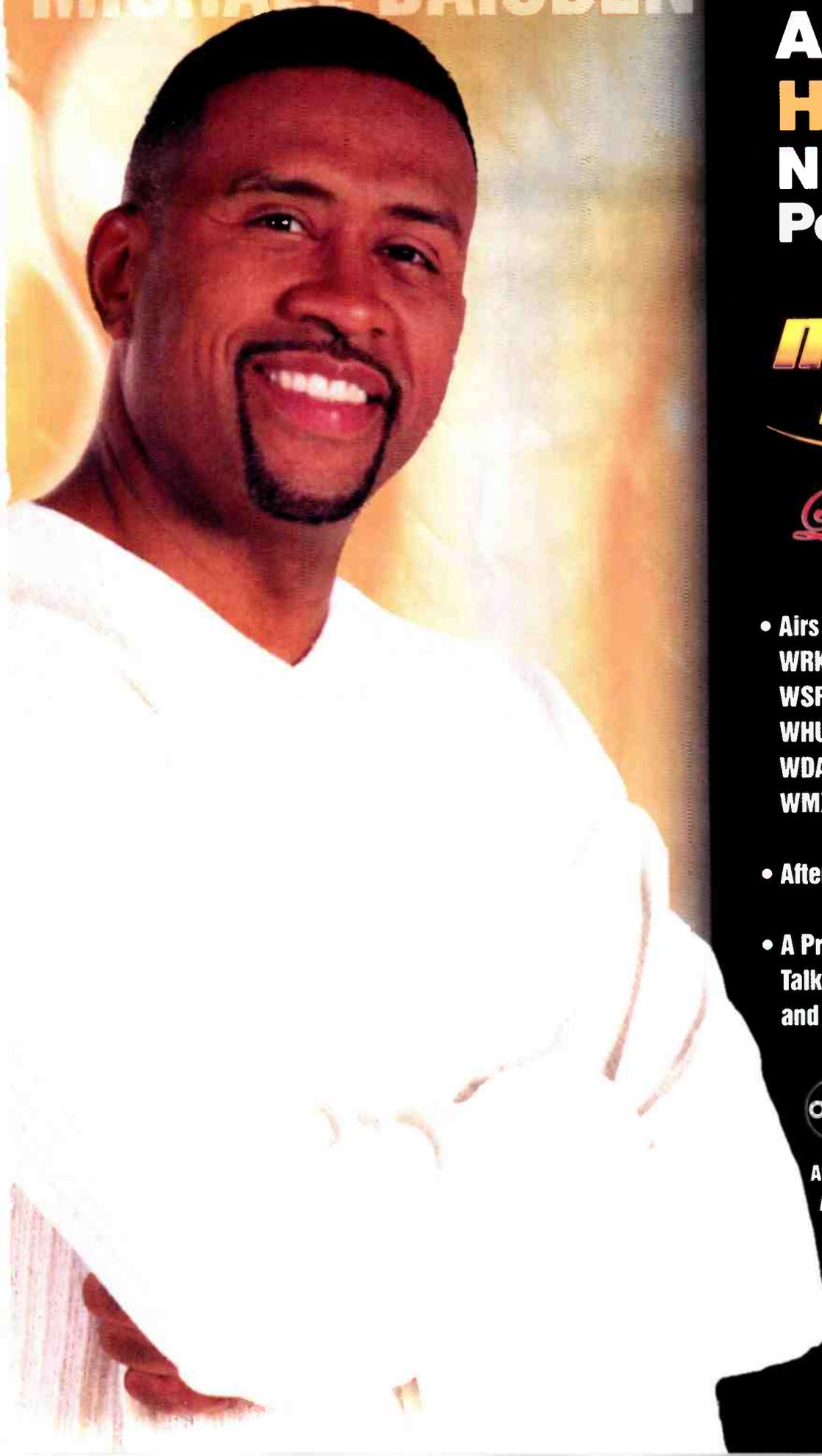
pretty electronic, almost 90%. The EDI on the billing side is actually not that bad. The make goods situation and preemptions, however, are still done manually and it's a nightmare. The buying process is still people faxing in avails and it's a nightmare. And reconciliation is a nightmare. Indeed, if there is to be an electronic marketplace, the person that will decide whether that happens will be **Michael Donovan** of Donovan Data Systems [DDS]. He's got a 90% market share, we all use his system. Michael bought Media Ocean and Michael has every intention to create an electronic marketplace and he will. We're probably two to three years away from an end-to-end EDI market."

While Donovan keeps working on its solution, however, other companies are out there as well providing their own solutions. For local EC, for example, "VCI provides this interface with all major sales/proposal TV vendors," says **Skip Sawyer**, VCI Sales Manager. "Recently VCI and One Domain, Inc. have introduced a vastly improved version of this electronic connection featuring an integrated service whereby the sales-side and the traffic-side appear seamless to the user. For example, the user may query the traffic-side to see if time is actually available for the dayparts he/she may be preparing to propose to a buyer. For many of the cable networks VCI has created, with Invision, Inc., an integrated feature between our traffic product and Invision's sales/proposal system."



David Verklin

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# One on One

By Carl Marcucci / cmarucci@rbr.com



## Open door policy: ABC Radio Networks' Jim Robinson

There's an enormous buzz of energy and optimism at ABC Radio Networks these days under new ABCRN President Jim Robinson—who told RBR/TVBR his management style is “people first.” People at all levels of the company are invited to pick up the phone, walk into his office or email him and they will get a response. They know who the president is and if they have an idea they can communicate it with him. We met with Jim recently and learned a lot about good management and motivated employees. Here we ask Jim about that and where he's taking ABCRN.

Robinson joined ABC Radio's WRQX-FM DC in 1990 as GM and subsequently became GM in 1993. He took on wider responsibilities in 1997, also becoming GM of sister station WJZW-FM. Robinson also spent several years as owner of Image Management, Inc., an entrepreneurial venture that produced television commercials, cable TV business programs and other film and video presentations. Robinson began his broadcasting career at WDCA-TV DC in its sales service, production and film departments.

## Tell us about your management style.

I make a point every day to walk the halls and talk with people in all areas of the company. We have a remarkable staff of over 600 employees who I'll know more day by day as I visit with people at all levels. It's part of my job to get through those levels and make everyone understand that it is individuals that have contributed and created that product. It is never done by the talent alone, even when we have such enormous talent in-house. It takes a lot of people to affiliate **Sean Hannity** at nearly 500 stations and a lot of people to produce ABC News Radio into the dominant market leader it is.

I will try to get the staff to know me, because I'm about people—you don't have anything without your people. I ask them what they want to do, what do you want your life to become? Who do you want to be? It's just who I am.

Through my life I have had the good fortune to have worked around many great people who have helped me get places that I wouldn't have otherwise, without somebody recognizing me and trying to help me along. Presumably I was making a contribution, but I can't thank those people, other than to say Thank You. So I always feel my charge is to help others as people in my past have helped me. My policy is that you need to be the first source for self-improvement, but if you make that effort and you share with me your ambitions and intentions, I will be the horse to carry you where you need to be. For the hard-working people on my staff, I make sure I sponsor them, present them and make sure they get credit for their work, that I engage them in activities that will help them know what they need to get ahead. I have a respect and appreciation for every single role. I cannot get us to where we want to go without all of us working to get it done.

## What is the outlook for ABCRN?

I see so many opportunities for growth. When you look at the quality of content that we have, it doesn't get any better. ABC News Radio, **Paul Harvey**, **Sean Hannity**, **Tom Joyner**, **Bob Kingsley**, Satellite Sisters, **Doug Banks**, etc. I see this as a great foundation to build upon.

## Tell us about what led to getting this new job.

It's funny, when this job came open, I had been with the stations for 15 years and it had been a while since I had to do a formal presentation on myself. So there I was, a guy who really doesn't like to be the center of attention all of a sudden composing, “Why me?” So I thought about my roots and what brought me here.

My broadcast career began 40 years ago when I was 10. My dad, when he came back from WWII and the Philippines, was working at a gas station. He wandered around a bit looking for what to do. He wound up peddling films in syndication to television stations that were popping up around the country. And at some point several years later he bought some film rights and started a distribution company. He sold that and made \$600,000 when I was in third grade—a lot of money for the time. They were going to retire, but everything got lost in the stock market. He started over

at United Artists and finished up as Chairman of the television division. I used to like to spend time with just him and I'd ask about his day. He would describe how things are done in the business. I started to know all the big players in my youth. It was a view to a world that I didn't know I would work in one day, at all. He was also the boss, and I learned his manner, how he dealt with people and situations.

### **What are you doing in this challenging and technologically-evolving marketplace to remain competitive?**

People ask about the whole satellite thing and what's the state of radio and what are the challenges. And I think my dad's stories gave me a view that's vital to today's references. It's not unlike some of the things I might witness in the marketplace today. He'd tell me of a crisis. I remember him saying, "I've got this big problem. There's this station WTBS, they're calling themselves Superstation. It's causing a crisis for people in the Carolinas and Florida, and there's one popping up in Chicago called WGN. Cable's coming on and it's going to kill TV. TV operators are operating in a crisis thinking mode."

We've heard that each of these new platforms over the years is going to cannibalize or destroy the other. Cable will destroy the movie theatres, videotape will ruin television and the Superstations will wreak havoc. I think that as operators (and I've been in the terrestrial business for 30 years), we have a view from a field that has not had a lot of challenge from that type of perspective.

I don't think that the advent of FM following AM was a crisis—it was an opportunity. It was a challenge to AM, "What will we do?" Even the coming of tape was a circumstance that required tape players being inserted in car radios.

The progressive dissemination of new technology to support alternate platforms takes time. Today it takes less time. Today there are new platforms coming faster and faster, but if you take the experience I mentioned with television operators, radio people have never been through that. And as an operator up to fairly recently, I feel we need to be less of an ostrich about it and less afraid of it. We've got to get closer to it and experience it. If you're a terrestrial operator, you need to go get a satellite radio and listen to it to understand what it is. You know, my wife surprised me with an iPod at Christmas. I thought it was cool, but I have not yet put one song on it. Maybe that's because I'm 50, but that's part of my observation on this—don't believe everybody has an iPod hanging out of their ear and don't believe everybody will be using iPods a year after they get them.

What people have to do, and I'm in pursuit of this at ABC, is consider those new competitive forces, but understand them instead of fearing them. It's an opportunity for self-analysis. I think you see the evolution of formatics like in Jack FM. What I find most interesting about that is the evolved formatic approach to it. It's not enough to say that the library can be bigger—it needs to be more compelling. It's not that radio was bad before. People play popular songs because they're popular. It's not that complicated. But I think there comes a moment where there is a lot of over-testing. Even at the stations I would say, "If we're going to play 250 songs out of the 500 we test, why don't we ever play #268?" And the answer would be, "We want to play the top-tested songs." I think today there's a new view to that, that we would play it to make it more engaging, to make it more of a surprise, a more exciting experience. Today is a good time for us to look at that.

At the end of the day, there is no stopping the advancement of new technology and alternate platform delivery. It is not up to me, or terrestrial operators or Sony or Apple. It's up to the consumer. And they will look to make choices where they can, when they can as new technology and content are brought to market.

### **What are your plans regarding HD Radio's side channel(s) option for broadcasters?**

I think if you were to ask satellite operators and WiFi operators, you would find they think the opportunity is a threat back against those alternate platforms. Again, we're in the midst of this storm without really considering what the issues are. We're afraid of HD as well. I know that doesn't apply to everybody, but you could talk to some number of terrestrial operators who see HD as a threat also. While HD gets rolled out, you won't necessarily expand the universe in total listening and come but you shouldn't underestimate the opportunity to provide compelling content on the side channels. Our obvious objective at the networks is primarily to serve terrestrial operators and we are working hard and fast at continuing to develop additional content for HD side channels, which we are fully prepared to do today and are adding to continuously. Some things I can't share quite yet, but announcements are coming.

### **Tell us about your foray into Hispanic programming with the upcoming Hispanic Advantage Network with Spanish Broadcasting System. What's demand shaping up to be?**

It's our ambition to significantly expand the product offering of ABC Radio Networks. I think of us as being "America's Broadcasting Company," and this naturally follows that direction, that we should be serving a multicultural platform. Nobody wonders if the demand for it is great, we know that the morning shows are extremely successful. El Cucuy is especially fast to roll out. As for the Hispanic Advantage Network, the reach on it is more than significant. This is not a testing of the waters, this is a full breakout. And our multicultural efforts will continue, with [EVP/GM] **Darryl Brown** leading the way. By the way, **Michael Baisden** is a smash, out-of-the-park hit. I think we've got him in 21 markets already in only 60 days including 5 of the top 10. Fresh off the press is the signing of WMXD in Detroit.

### **What is your take on the state of network radio?**

I think network radio is facing change and change is opportunity. Radio is experiencing a great phase of self analysis focused on program content and we are in the business of developing compelling content. In addition to our expanding inventory of general market programming, we are thrilled about our Hispanic programming lineup, which already reaches over 70% of the country and 13 of the top 15 Hispanic Markets. The other incredible opportunity we're ready for is the coming explosion of High Definition channels. Our opportunity and daily mission continues to be producing better listener experiences and improved advertising effectiveness.

### **What will you do to elevate or ensure ABC's position in the marketplace?**

Network radio has been historically successful by having a strong talent, a single person, in a category. I see us more having a broad spectrum of talent, in Talk, News, Music (and new formats that we're working on). And when I look at Hispanic, we have three morning shows, not one. There are cultural aspects that encourage and require us to do that. Same with Urban. We have Tom Joyner, Michael Baisden and Doug Banks.

There are a lot of markets, different applications, and now with side channels, there's really a lot of compelling quality content for all of those opportunities. I'd like to have a fuller spectrum and multiple offerings in a category. Because you can only have one Tom Joyner affiliate in a market, but there are other Urban-targeted formats. It's not fighting against one another—both of them can survive.

## HD Radio - The industry's chance to fix itself or The Industry's chance to blow it - again!

By radio exec anonymous and Carl Marcucci

**Caution** - This article may not be good for your ego. Especially if you're managing a radio cluster. HD Radio is all the radio broadcasters rage. The magic bullet that allows us to compete with satellite, i-Pods, broadband, downloading, and a myriad of other devices all designed to take listening away from our live and local radio stations serving the communities with pride for eons.

With apologies to the engineers who have developed this technology and the masses of talented people who understand how it works, here's one take on it.

Depending on who you believe, we will be able to offer up to an additional 5 channels of audio, data, or "stuff" that will be of digital quality from each of our FM stations per market. So in a market like Los Angeles, (with 75 FM signals scattered throughout Southern California) that means an additional 375 channels of audio with a signal strength equal to our current FM station. (For the moment, let's forget about the AM stations, that's another whole bag of worms.) At last, digital audio with the quality of CD's or better. All delivered within our current analog signal using the same tower we have now. Great!

Except for a small but significant issue—WE HATE CHANGE! We stink at rolling out new technology. Quadraphonic? People meters? AM-Stereo? Even FM had to be mandated by the government to provide programming different from our AM stations of the 60's. We're not so good at working together. Has anyone noticed that there are NO HD radios out there? How do we get them into the marketplace? Why will people want to spend the money to buy them? Are we all prepared to devote massive amounts of air time to get people to STOP listening to our AM & FM stations and go to HD? Can we all agree to do this? Our history as an industry suggests we won't. There will always be a lone ranger or two in the industry that will take an opposite point of view. They WON'T want listeners to leave 100 year old broadcast stations to go HD. This will slow the growth of adaptation to the HD band.

However, at least it looks like a quiet industry consortium is getting together to choose a multicasting standard for HD Radio. Entercom CEO **David Field** recently said in his Q1 conference call there will be news on that front by the end of the year.

On the first commercial station to add a multicast channel (WUSN-FM Chicago's "Chicago's Future Country"), Infinity CEO **Joel Hollander** tells us, "We're trying to move ahead, we're continually looking for new ways to serve our existing listeners and to draw younger people to the radio dial through some of these new technology advances."

That's great, but here's a big reason some of us may struggle with HD—we will try to put the same programming on HD that is currently on AM & FM. The same music, commercials, DJ's & marketing that drive (or don't drive) AM & FM will be shoved at consumers in market after market. If this happens, HD will be a non-starter.

We must start to employ out of the box thinking to attract the very people that will embrace the new band. Then they will buy HD. If there is a mere digital Classic Rock version of your current Classic Rock station (with loads of commercials and silly DJ's) why would consumers want to go there?

(Would someone like to get young men back to radio for a change?)

Do we have the creative thinking to avoid the mistake of our TV brethren? Hmmm, let's see! Did the traditional Networks grow cable? Who developed MTV, CNN, ESPN, HBO, PPV? The Networks? Nah! It was people who were everything the networks were not!

The networks were into protection. They didn't want anything developed that will take audience from their affiliates. We in radio are capable of the same thing. What to do? (here's the part you're not going to like). Major companies should create a separate HD Radio Division. NOT attached to the AM & FM Radio division.

The HD Radio division should create brands that are NOT part of the current AM/FM band. (check out online independent streamers, i-Pod bloggers, and pirate programmers for inspiration).

The HD Radio Division should NOT generate revenue in a traditional way. (That's what we do!) In other words, no screaming car dealers or penis pump ads.

The HD Radio Division should employ mainly people who are NOT a part of the traditional AM & FM programming industry. (otherwise, "Jack" stations will have many brothers and sisters.) If there is innovative, breakthrough, challenging programming, then positioned and branded properly, and with marketing that gives people a real reason to buy these new radios, the band will grow, and grow fast.

We May NOT be capable of doing it. We may need different thinking. We may need a different generation. We may need help! Are we ready to admit that?

Check here,

( ) Yes, I'm ready for new thinking.

( ) What! Are you crazy! We can't afford that. Were using the same overworked staff we have now! If a GM, PD, Sales Manager can run this cluster, they sure can run a few little digital stations. Look, it's just a matter of hooking up one of those i-Pod things to the transmitter and.....

### NPR to offer five music services for supplemental channels

This summer, NPR will begin offering five programmed music formats to HD Radio multicasting stations: classical, jazz, electronica, triple-A and folk. Other program offerings NPR is developing for stations with new channels include a news and information service and formats that would serve culturally diverse audiences. 24 NPR member stations will begin multicasting in 2005. NPR has also established a Multicast Receiver Team, comprised of seven NPR member stations: WOSU-FM, Columbus; WUSF-FM, Tampa; WFAE, Charlotte; WNYC New York Public Radio; Chicago Public Radio; Northern Indiana Public Radio; and Colorado Public Radio. The team is holding detailed conversations with selected receiver manufacturers, aimed at a nationwide multicast receiver initiative for public radio listeners.



# COMING TO

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WELCOMES  
CLEAR CHANNEL  
LOS ANGELES



# A MARKET



# NEAR YOU



# VERY SOON

## Kevin Magee on Fox News Radio's new five-minute newscast



Kevin Magee

As Fox News Radio just launched its much-publicized "Five Minute Newscast," premiering on CC Radio stations and other groups across the nation, we thought we'd ask the new man in charge, SVP **Kevin Magee**, a bit about that new product, as well as where he's steering the ship. Magee was promoted to SVP of Fox News Radio last December. He's responsible for all radio expansion, including programming and new business in the radio division. Prior to his current role, Magee was VP/News Programming for Fox News Channel. Additionally, he is the Chair-

man of the Fox News Programming Council, which coordinates programming between radio and television.

### **Tell us how you'll be helping to manage the continuing convergence of Fox News products between radio, TV and online.**

Well we have a gigantic advantage over our competitors in that we have a 24-hour, seven day a week newsgathering operation already here with reporters all over the globe. Every big story gets reporters and there's a constant feed of news information and audio. That gives us an advantage that I don't think my friends at ABC and CBS have.

### **What are your ideas for Fox News Radio's future?**

I think the future looks very bright for us at a time when it doesn't look very bright for everybody in this business. I think that helps us enormously. The product has been very well received. The fact of the matter is the real market for radio news these days is in Talk radio stations and we have found, most program directors have found, that their audience really welcomes Fox News. I think that's a terrific thing for us and we just have to be careful not to squander that advantage.

### **Are you ever going to steal away Bill O'Reilly from Westwood?**

Well here's our situation. We own the rights to **Bill O'Reilly's** radio show. Because of the way life works it makes more sense for Westwood to continue to license him from us and market him—they run the business part of that. We have extended that deal now through the end of the year, at least, and if it continues to make sense for all three parties; that would be Bill O'Reilly, Westwood One and us, we'll continue it. If we can find a better way, we'll do that.

### **What can you tell us about a potential new host?**

I can't tell you a thing—then it wouldn't be potential anymore! However, I expect more product this year, yes. It's another great advantage that we have a wonderful pool of talent already in this building. And not just that but because we're sort of the new kid in town and the hot ticket, there are an awful lot of people who would like to do business with us outside of this building. We are looking for more product to sell but we go about it in a business-like manner in that we're sure we can make money off of it before we jump in, rather than jumping in first. Ready, fire, aim doesn't work for us here.

### **Tell us about the viability and punch of your new five minute newscast. How is it being received?**

Potential affiliates and affiliates have been very, very receptive. Our voices have faces. A lot of the people you see who deliver the news on the Fox News Channel will also be working for Fox News Radio and we're going to use that cross-pollination as a wonderful selling point. Talk radio listeners and others already are familiar with these people, trust these people and have been welcoming them into their homes for the past eight years or so. It's a seamless transformation over to radio. We joke that your cable TV—the cable—doesn't stretch that far in your car so you need Fox News Radio, but that's not too far from the truth.

### **Aside from the personalities being recognized, how would you put it against the existing newscasts that are out there? How is it better as far as content and creativity?**

For starters we are taking the Fair and Balanced mantra from TV to radio with us. We believe that there is an open field of people who believe that the existing radio news has been too left-leaning and too biased. We are going to do our best to change that.

### **How do you think getting Clear Channel Radio as a client for the five-minute newscast will affect the radio news industry?**

It instantly made us the big dog, and that never hurts. Clear Channel is a very big operator in our business and to be able to work with them gives us instant credibility. The deal goes into effect June 1<sup>st</sup> but because the Clear Channel stations will finish out their deals with ABC and because they vary, it will occur over the course of the summer, probably August 1<sup>st</sup>.

### **Is there anything unique, different or better about your inventory structure for the five-minute newscast?**

I'm not going to go into money and the deals between the two of us, but those stations that have existing deals with ABC and CBS have been very pleased to hear what our offers are.

### **What advice did former Fox News Radio chief Jack Abernethy give before he left?**

"Don't mess it up." Jack worked very hard to get this into the wonderful position it's in. It was a wonderful job to inherit from Jack after the hard work that he put in on it.

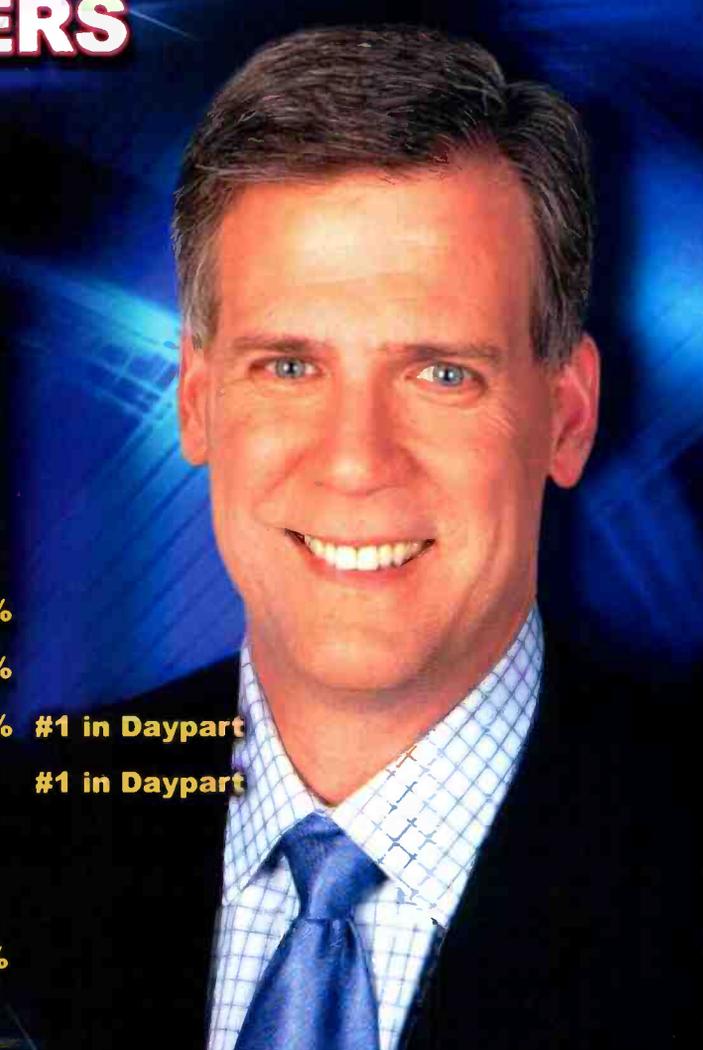
# TONY SNOW DELIVERS!

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### P 25-54 Ratings Surge

		Summer 2004	Fall 2004		
WLS-AM	Chicago	0.9	1.5	+67%	
KLIF-AM	Dallas	1.1	1.8	+64%	
KPRC-AM	Houston	2.3	3.1	+35%	
KVI-AM	Seattle	0.9	2.3	+156%	
KFTK-FM	St. Louis	2.0	4.4	+120%	
KXL-AM	Portland	2.7	6.0	+122%	#1 in Daypart
KFMB-AM	San Diego	2.6	3.4	+34%	#1 in Daypart
KCMO-AM	Kansas City	3.0	3.6	+20%	
KFAQ-AM	Tulsa	2.7	4.3	+59%	
KWKY-AM	Des Moines	0.2	1.1	+450%	

Source: Arbitron AQH Share, Persons 25-54, Summer to Fall 2004



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-Dennis Kelly, Program Director, KVI Seattle

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-Jeff Allen, Program Director, KFTK St. Louis

"Tony's been great for KXL! Fall Book put Snow at #1 Adults 25-54, #1 Men 25-54, #1 Adults 18+, and #1 Men 18+."  
-James Derby, Program Director, KXL Portland

"Tony's got the big names, the big guests and the power of FOX. That's a winning combination!"  
-Jeff Hillery, Program Director, KLIF Dallas



**YOU CAN HEAR THE DIFFERENCE**

## Why spend the money for HD Radio?

by Norman Philips

The concept for an in band on channel (IBOC) solution for U.S radio was thought of fifteen years ago. It's finally rolling out and being supported by many large groups as well as small stations. The NRSC formally adopted the iBiquity HD Radio format as the digital radio standard for the United States at its meeting in Las Vegas. HD Radio transmitters are now being installed as fast as the manufacturers can deliver them due to the demand. A year ago an HD transmitter could be delivered in two weeks now its at least two months.

The decision to install HD Radio is not inexpensive so why should stations spend the money? The costs range from \$30,000 to more than \$200,000 depending on power level and current vintage of transmission equipment. There are multiple ways to implement HD Radio. Low level, where the digital and analog signals are combined in the transmitter. High level and split level, where the two transmitter signals are combined externally. Separate/dual input antennas, where the low powered digital signal is fed to a separate antenna input. There are significant long term savings in power bills using this method. Proper planning up front can save money in operational costs for years.

Susquehanna Radio Corp started HD rollout in late 2002 to offer the listeners a better digital audio signal that is virtually free from multipath noise. Driving tests after installing HD Radio in the multipath laden San Francisco and Cincinnati markets were very impressive. The original iBiquity format has main channel audio on both analog and digital except the digital audio frequency range is the same as a CD (20 kHz) instead of cutting off at 15 kHz. The digital signal does not have the



Norman Philips

analog pre emphasis curve (75 ms) that can cause a harshness on high frequencies. In its basic form the HD Radio picks up the digital signal and will blend to the analog if there is a problem with both of the mirrored digital signals. There is an eight second delay that now exists in both analog and digital receivers to allow the radio to analyze the signals. That delay causes issues with live remotes and helicopter traffic reports. This is no different that the issues caused by profanity delays that many stations installed last year to help keep out of trouble with the FCC.

The audio codec used in HD Radio is newer and more robust than the ones used in satellite radio. This improved codec has allowed the 96 Kilobits of digital information to be split into multiple data streams allowing new uses for the signal. You now have a choice as to how your station uses the 96 kilobits of digital information.

The NPR concept of "Tomorrow Radio" that allows multiple audio channels is now being tested in several markets with good results. A single FM station might have its current analog audio and the digital stream could carry one to four additional audio channels of lesser quality. These are potential revenue streams for stations and supplemental audio choices for the listeners. Kenwood has been heavily involved in the design and testing of the multi-channel radios for NPR. The NRSC is involved in standardization of how the radios will seek the additional formats.

5.1 surround sound was the hot topic at the recent NAB in Las Vegas as five different formats were demonstrated as viable options for use in HD Radios. This is another use for the digital stream that can use up to 16 kilobits of the information available.

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Not only was multi-channel audio demonstrated but there was traffic information mapping being broadcast on a local station and displayed on a DVD type receiver. Many stations have jumped on the RDS bandwagon for artist/title info. The Program Associated Data (PAD) on HD Radio is much better than RDS. Much more information is available as part of the digital stream. This feature makes the Satellite radio look dull in comparison. It is indeed an exciting time for radio.

The delay in HD Radio technology allowed satellite radio to get a three year head start on radio and that has hurt us from the promotional side. Satellite Radio is heavily promoted by their major investors Ford, GM, Honda, Daimler/Chrysler, Hyundai and others. Radio has been getting out-advertised for four years by satellite radio. iBiquity now has a PR department to help promote HD Radio. Some stations are beginning to promote the HD Radio signal with station ID's and other spots. Station website information promoting HD Radio with links to allow purchase of receivers is a great idea. The web site is also a great place to use spot replacement to use those avails in the promotion of HD Radio for your own station. It helps keep clutter off the main channel but gets out the advantages of HD Radio. If you are in a bad multipath area you can put a comparison of HD vs. analog on the site for listeners to hear the difference HD makes. Record the same bad stretch of road in both HD and analog and allow a listener to switch between the two recordings to hear the advantage of no pops, ticks, and swish. They won't hear that advantage in a static display of HD Radio in their favorite audio store.

The buzz we all hear about is satellite radio, iPod, digital streaming, and a myriad of other audio choices for the public. Yes the competition is there and only going to get worse. HD Radio will give terrestrial radio the means to compete with a digital stream that can reach the masses soon. I say soon because the radios are just now starting to be delivered. They are more available on Internet sites than in stores. They should start arriving as OEM in 2007 car models. If radio does not create a demand for HD Radio in the stores then who will? The audio quality and features available in HD Radio are exciting and should move terrestrial radio nicely into the digital era for years to come. We have an educational and promotional challenge ahead of us for our listeners. We need to install HD radio and promote it or terrestrial radio might become a thing of the past in ten years.

Norman Philips is VP/Director of Engineering, Susquehanna Radio Corp.

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By Jack Messmer / jmessmer@rbr.com

## M&A heats up in 2005

After a dearth of activity for several years, it looks like the mergers & acquisitions arena is heating up in 2005. Actually, the biggest part of M&A so far this year is de-merger, rather than merger. Both Viacom and Clear Channel have announced plans to split their companies into multiple pieces. The straight-forward acquisition deal will be Susquehanna Media, whose founding family has put it on the auction block. A few weeks later, Emmis said it was taking bids for its TV group so it can focus on radio. There are even hints that Disney may want to sell the ABC Radio group. And adding to the excitement is a battle for control of Interop. What else will we see as the year goes on?

### Viacom: Splitting, maybe spinning

After years of complaining that his stock is undervalued, **Sumner Redstone** has decided to give The Street two ways to make him mad. By the time you read this, Viacom's board of directors will likely have voted on a plan to split the company in two. Although the separation will be legally complicated, deciding what goes where is pretty easy. Current Co-President/COO **Les Moonves** will be running a new company made up of the divisions he heads now—CBS & UPN Television, Infinity radio, Viacom Outdoor and all of the O&O stations—and **Tom Freston** will head another with the units that currently report to him—MTV Networks, Paramount Studios, etc.

In announcing the planned break-up, Redstone clearly indicated that he thinks the hot stock will be Freston's company. "The separation could highlight high-growth businesses, such as our MTV Networks, which would be operated by Tom Freston, and could give us added flexibility to pursue internal growth and to enhance these operations through the creation of an attractive high-multiple currency that could be used for accretive acquisitions. Additionally, we believe the separation is likely to allow us to deliver greater value to our shareholders through a company operated by Les Moonves that would combine our leading CBS broadcast television businesses with our growing outdoor business and our high free cash flow operations, such as radio. This group of assets would also have the potential to participate in a program of stock buybacks and increased dividends," Redstone said.

Here's a look at how the split would look.

Cable/movie studio, etc. division		
Segment	Revenues (\$M)	Operating income (\$M)
Cable networks	6,578.90	2,525.10
Entertainment	4,055.60	264.4
Total	10,634.50	2,789.50
Broadcast/outdoor division		
Television	8,504.60	1,557.80
Radio	2,096.10	876.5
Outdoor	1,880.20	275.5
Total	12,480.90	2,709.80

Source: Viacom announcement of 2/24/05, adjusted for one-time charges

**RBR/TVBR observation:** So what's happened to previously announced plans to divest most of Infinity Radio's non-top 20 markets? Brokers and would-be buyers tell us that Infinity was seriously soliciting bids for several of its markets, then suddenly stopped the process and stopped returning phone calls. Very strange. It appears that folks at corporate headquarters are busy with other things as the parent company prepares to cleave itself in two. The only thing certain now on the divestiture front is that Infinity must sell its two San Jose FMs so it can acquire KEAR-FM, a full-signal San Francisco station, from Family Stations.

### Clear Channel: Split and IPO

The \$4.4 billion acquisition of SFX Entertainment back in 2000 was the first big move by **Mark Mays** and **Randall Mays** to put their own mark on Clear Channel Communications. It has proven to be a colossal disaster. Now shareholders will see at least \$2.4 billion of that investment vanish into thin air (it's already long gone, actually) as Clear Channel Entertainment is spun off into a separate company to free Clear Channel Communications of its financial, legal and public relations drag on the company.

This is, in fact, just what RBR/TVBR suggested in March (3/3/05 RBR #58) after CC Entertainment lost a 90 million bucks court case: "Clear Channel would do well to take a page from Sumner Redstone's playbook and spin CC Entertainment off into a separate public company. That would be a clean and efficient way to get rid of a bad investment in a lousy business."

By the end of April, Clear Channel announced that CC Entertainment would be 100% spun-off to shareholders as a separate stock and the new board will have a majority not overlapping with Clear Channel. And that's just one part of a corporate and financial restructuring that's supposed to again make Clear Channel the Wall Street darling it once was. Clear Channel Outdoor will get its own stock, with the parent company retaining 90% ownership and selling 10% to the public in an IPO. That's intended to get the markets to give full value to the outdoor assets, while the parent company is still valued primarily on the basis of its radio operations—which, we would note, are supposed to get back into favor as a result of the Less is More initiative to cut clutter and raise ad rates.

Once the spin-off and IPO take place—which is expected by the end of this year—Clear Channel will dip into its growing pile of free cash flow and make a special one-time dividend distribution of \$3.00 per share to its shareholders. The company is also increasing its regular quarterly dividend from \$0.50 to \$0.75 per year.

Clear Channel Communications, Q1 2005 (\$ in thousands)			
Revenues by unit	Q1 2005	Q1 2004	Change
Radio	\$773,592	\$832,944	-7%
Outdoor	\$578,959	\$521,593	11%
Entertainment	\$424,514	\$513,958	-17%
Other (incl. TV & Katz)	\$138,706	\$132,361	5%
Entire company	\$1,884,940	\$1,969,566	-4%
Operating cash flow	Q1 2005	Q1 2004	Change
Radio	\$262,385	\$311,616	-16%
Outdoor	\$122,600	\$108,855	13%
Entertainment	\$1,017	\$22,110	-95%
Other (incl. TV & Katz)	\$19,226	\$18,267	5%
Entire company	\$405,198	\$469,848	-14%

Source: RBR/TVBR calculations from Clear Channel's 4/29 earnings release

**RBR/TVBR observation:** What went wrong? Well, first of all, these two young MBAs thought they knew enough to sit at the negotiating table with **Bob Sillerman** and not get taken for chumps. We have to wonder why **Lowry Mays** let that happen. Surely he knew better. Sillerman told the boys a great tale about how consolidation would improve scale and leverage and increase margins in the concert promotion business—not that it had happened yet, since SFX had just finished making all of the necessary acquisitions. Not only that, but you'd get tremendous synergies from having radio stations in markets all over the country (as Clear Channel did) to cross-promote with the big-name touring artists. We now know that rather than getting a boost

from being tied to CC Entertainment (the re-named SFX), Clear Channel's radio stations got lots of bad PR for allegedly trying to keep the big name acts off of competing stations. Plus, the concert company got hit with some high-profile lawsuits for allegedly trying to drive competitors out of business (one resulting in that \$90 million judgment). There were even congressional investigations. And rather than size improving margins, the big name acts saw deep pockets at Clear Channel and began demanding bigger paychecks for touring, which squeezed margins. Maybe it's time for an MBA refresher course.

## Susquehanna: Selling everything

Group heads and brokers are drooling after estate planning by the founding family led Susquehanna Pfaltzgraff Co. Chairman **Louis J. Appell Jr.** to hire the investment bankers at UBS and put the entire company up for sale. We don't have a clue who will be bidding for The Pfaltzgraff Co., the nation's oldest pottery maker, but expect spirited bidding for the two parts of Susquehanna Media—its radio group and cable TV systems.

**RBR/TVBR observation:** Our analysis finds that Cox Radio is the best fit, with Entercom a close second, if the Appell family wants to do a stock-swap to avoid a hefty tax bite. But both Cox CEO **Bob Neil** and Entercom CEO **David Field** have said they won't overpay just to win this rare prize. Meanwhile, there's plenty of private equity money looking for a deal like these to capture a primo platform to launch a major, new radio company. Also, if NBC or Fox have any thoughts of adding a radio O&O group, this is the chance they've been waiting for (and then they could enlarge it by persuading Emmis to sell its radio group as well). As for pricing, it looks to us like UBS can start the bidding for the radio package at about \$1.2 billion and cable around \$600 million. Here's the Susquehanna shopping list:

CALLS	Format	Revenue-Station '04
San Francisco (#4)		
KNBR-AM	Sports	30,000,000
KFOG-FM	AAA	25,300,000
KSAN-FM	Clsc Rock	10,200,000
KTCT-AM	Sports	3,000,000
Dallas-Ft. Worth (#5)		
KPLX-FM	Country	26,800,000
KTCK-AM	Sprts/Talk	23,000,000
KLIF-AM	Talk	6,100,000
KTDK-FM	Sprts/Talk	0
KKLF-AM	Sprts/Talk	0
KDBN-FM	Clsc Rock	6,000,000
Houston (#7)		
KRBE-FM	CHR	22,000,000
Atlanta (#11)		
WNNX-FM	Altve/NwRck	16,000,000
WWWQ-FM	CHR	10,000,000
Cincinnati (#27)		
WRRM-FM	AC/SftRk	10,000,000
WMOJ-FM	R&B Oldies	7,800,000
WYGY-FM	Country	4,000,000
Kansas City (#29)		
KCMO-AM	Talk	2,400,000
KCMO-FM	Oldies	5,700,000
KCJK-FM	80&90/ClHts	3,700,000
KCFX-FM	Clsc Rock	10,000,000
KFFG-FM	AOR	900,000
Indianapolis (#41)		
WJJK-FM	Adult Hits	6,000,000
WFMS-FM	Country	15,000,000
WISG-FM	ChrsContemp	1,800,000
York (#103)		
WSOX-FM	Oldies	3,300,000
WSBA-AM	News/Talk	2,400,000
WGLD-AM	Chrst/Talk	0
WARM-FM	AC	5,500,000
Source: BIAfn Media Access Pro		

Cable TV: Systems serving 230,000 customers in York, PA; Williamsport, PA; Brunswick, ME; Rankin County, MS; Olney, IL; Duquoin, IL; Shelbyville, IN; Lawrenceburg, IN; and Carmel, NY.

## Disney: Is ABC Radio for sale?

First it was a rumor that made the New York Post, then Disney CEO-to-be **Bob Iger** gave it credence by refusing to say it the company's quarterly conference call that ABC Radio won't be sold. But given Disney's tendency to buy and hold—and almost never sell anything—the betting is that this rumor will pass and ABC Radio will stay right where it is.

**RBR/TVBR observation:** Note to Bob Iger—if you want to sell ABC Radio for the price tag of around a billion dollars mentioned in the Post story, please call us first. Even we struggling journalists could come up with financing, and quick, to do that deal. Even though multiples aren't what they were a few years back, we still see the ABC Radio stations bringing \$2.1-2.5 billion (maybe more, as many of these are beachfront radio properties) and the ABC Radio Networks, if they're included, another half billion or so.

## Interop: Under attack

The national spot radio business has been the pits for a couple of years and no one is felling that more than Interop, which has seen its stock price plunge from its late 1999 IPO at \$12 to below \$1 for nearly a year now (and most recently around 50 cents). That financial distress left Interop open to attack by a Wall Street vulture and, indeed, it was targeted by Oaktree Capital Management, a \$28 billion firm that specializes in turning a quick buck by investing in troubled companies and pressuring them to get their finances back in order. Oaktree is now the biggest holder of Interop's \$100 million in public bonds (purchased at a deep discount) and about 2% of its stock. But CEO **Ralph Guild** and the employee stock plan hold voting control, so Oaktree's options are limited so long as Interop doesn't default on its bond payments. Things got worse, though, when Interop came in for criticism during the quarterly conference calls of a couple of major clients—Cumulus Media and Radio One. So, Guild and Interop Co-President/COO **George Pinc** have been working to counteract the bad PR, reassure clients that business is improving (the company says it's actually outpacing Katz, not lagging), and fend off the vulture.

**RBR/TVBR observation:** The folks at Oaktree deny that their intentions are "hostile," but rather that they're seeking seeking an outcome which will be good for investors, clients and employees. Of course, they also want to cash out at a sizeable profit. It might be easier for Ralph Guild to recapitalize the company if he didn't have to deal with an aggressive bondholder, but he'd still have to fix the balance sheet at Interop. Now he's working with Allen & Co. to do that and is feeling even more pressure to come up with a solution sooner, not later. But besides the financial question, there are also calls from some client groups, as well as Oaktree, for Guild, who's 76, to put a succession plan in place and let everyone know who's going to be setting the agenda for the next era at Interop.

## Emmis: Selling TV

Like **Sumner Redstone** at Viacom, Emmis CEO **Jeff Smulyan** has long been frustrated with how Wall Street values his company's stock. For about five years he had been talking about splitting Emmis TV off into a separate public company so that the radio and TV operations can be valued separately. But last month he surprised everyone by deciding instead to put the TV division up for sale, saying that both radio and TV face challenges and the Emmis management team needs to focus on radio.

**RBR/TVBR observation:** Emmis Television **Randy Bongarten** is out looking for financial backing for a management buyout, but he'll likely face spirited bidding from other potential buyers. Journal Communications CEO **Steve Smith** had already approached Smulyan about his interest in buying the TV group and went public with that desire just hours after the group was put on the block. For Journal, the attraction is matching up Emmis' TV stations with Journal's radio operations in Omaha, Wichita, and Tulsa. We expect the price tag to be around \$1.2 billion.

CALLS	Channel	Affiliation	Market Name	Mrkt Rank	Revenue-Station '04
KOIN-TV	6	CBS	Portland, OR	24	36,000,000
WVUE-TV	8	FOX	New Orleans, LA	43	19,500,000
KRQE-TV	13	CBS	Albuquerque-Santa Fe, NM	47	24,000,000
WSAZ-TV	3	NBC	Charleston-Huntington, WV	62	33,000,000
WBPG-TV	55	WB	Mobile, AL-Pensacola, FL	63	2,050,000
WALA-TV	10	FOX	Mobile, AL-Pensacola, FL	63	18,000,000
KSNW-TV	3	NBC	Wichita - Hutchinson, KS	66	15,500,000
WFTX-TV	36	FOX	Ft. Myers-Naples, FL	68	18,500,000
WLUK-TV	11	FOX	Green Bay-Appleton, WI	69	16,000,000
KGMB-TV	9	CBS	Honolulu, HI	71	13,500,000
KHON-TV	2	FOX	Honolulu, HI	71	19,500,000
KGUN-TV	9	ABC	Tucson, AZ	72	16,500,000
KMTV-TV	3	CBS	Omaha, NE	76	13,950,000
KSNT-TV	27	NBC	Topeka, KS	137	6,700,000
WTHI-TV	10	CBS	Terre Haute, IN	149	10,100,000

Source: BIAfn Media Access Pro

## Q1 2005 on the low side of average

by Dave Seyler / dseyler@rbr.com

Dealmaking in the first quarter of 2005 has been steady and unspectacular, with an underscore on the steady part. There have been 50 plus or minus two deals in each of the first three months (48, 50 and 52), but the value of those deals has been in steady decline (\$366.1M, \$340.7M, \$179.3M). That last total is due in part to the utter lack of television deals in the month of March, but it also reflects a heavy weighting in that month to stations beyond the reaches of Nielsen, Arbitron and Eastlan. By all accounts, this is about to change—rumblings about significant station groups being shopped around are everywhere, some of which are rumors and many of which are confirmed plans. If even a couple groups go to market, look for 2005 trading to blow away the 2004 total of \$2.14B.

### Station trading

Quarter	Deals	AMs	FMs	TVs	Value
Q1 2004	157	111	145	30	\$1,722,661,542
Q2 2004	152	81	146	21	\$871,000,951
Q3 2004	128	79	110	18	\$702,216,273
Q4 2004	135	98	113	12	\$1,463,560,802
Q1 2005	150	95	129	13	\$886,057,995

### Small markets still host most of the action

A steady stream of large market deals continues to trickle though the FCC—and although some of the deals have been notable, mostly we're talking niche AMs or rimshot FM's moving from one owner to another. The action remains in the hinterlands, where new groups are establishing themselves and others are finally getting around to consolidating. On the TV side, we're seeing a number of assignment and assumption deals—an original buyer, looking to double up in a relatively small market, gives up waiting for new TV duopoly rules, gets someone to take its place at the altar, then strikes an LMA with the new bride.

### Quarterly station trading by market size

Quarter	Total Stns	Mkts 1-50	Mkts 51-100	Mkts >100	Unrated Mkts
Q1 2004	286	50	19	114	104
Q2 2004	248	40	26	55	127
Q3 2004	207	30	14	80	83
Q4 2004	223	43	23	96	60
Q1 2005	237	54	26	82	75

### Sticker shock? Doesn't look like it

A few big properties moved toward the end of 2004—in particular, there was a big \$350M swap between Emmis and Bonneville, involving the Chicago and Phoenix. Nothing like that showed up in the first part of 2005, bringing total value in line with the other three quarters of 2004—total value topped half a billion bucks. If

Susquehanna actually goes on the market as threatened, or ABC goes on the market as rumored, watch for the value column to skyrocket.

### Radio only transactions

Quarter	Deals	Stns	Value
Q1 2004	146	256	\$543,789,543
Q2 2004	131	227	\$577,437,979
Q3 2004	115	189	\$511,266,273
Q4 2004	124	211	\$1,028,360,802
Q1 2005	139	224	\$519,007,995

### TV market continues in depression mode

The environment for buying and selling television stations remains in limbo along with the rules and regulations governing television ownership. If the FCC rules as proposed go through, trading is going to explode. And if the NAB gets its way and the rules are further liberalized to allow more small market duopolies, then the explosion is going to be even bigger.

### TV only transactions

Quarter	Deals	Stns	Value
Q1 2004	11	30	\$1,182,672,000
Q2 2004	21	22	\$331,062,972
Q3 2004	13	18	\$190,950,000
Q4 2004	10	12	\$435,200,000
Q1 2005	9	13	\$367,050,000

### Looking ahead at Q2

We took a sneak peek at deals filed in April, and we can say that it will be an increase over what went down in March. Still no great shakes, though, especially if you take out a couple of key transactions. One was the 95M deal sending KEAR-FM San Francisco from Family Stations to Viacom—essentially the other half of the earlier San Francisco deal involving the two companies, in which KFRC-AM was sold the other way. That deal, one of the few of any substance filed in March, went for 35M. Another deal was the stock-based merger of Waitt Radio and NewRadio Group. Spread out over four separate contracts, it involved almost 60 stations, with an estimated value of about 67M.

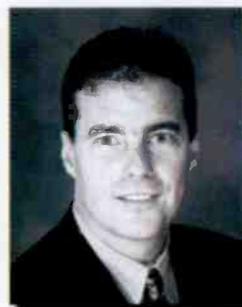
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# RBR TVBR

## Radio & Television Business Report

June, 2005  
Volume 22, Issue 6

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Managing Director .....Carl Marcucci

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Radio & Television Business Report is published monthly by Radio Business Report, Inc. Publishers of RBR/TVBR Daily Morning E-Papers, RBR/TVBR Afternoon Media Mix, rbr.com, Mbrtv and the Information Services Group database.

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## Q1 results: Who were the winners?

Spanish broadcasting was the place to be in the first quarter of 2005, as the public groups targeting Hispanic Americans grew revenues at a pace far eclipsing their general market brethren.

Univision beat expectations in both broadcast mediums, with radio revenues up 11% to \$71.5 million and TV even stronger, up 13% to \$294.2 million. The company is now pushing the idea that it's no longer a niche, but should be viewed on the same footing with ABC, CBS, Fox and NBC. "This quarter, on three out of every four nights, the Univision Network delivered a larger Adult 18-34 audience than one or more of the 'Big 4' English-language networks among both Hispanics and non-Hispanics in primetime," said Univision President and COO **Ray Rodriguez**.

As the biggest affiliate besides Univision's O&O group, Entravision also capitalized on the Spanish TV giant's strong ratings. Its TV revenues were up 12% in Q1 to \$30.8 million. Radio didn't make it to couple digits, but its 8% improvement to \$19.8 million was still well ahead of the 2% gain that the Radio Advertising Bureau reported for the entire radio industry.

Another double-digit gainer was Spanish Broadcasting System. "Hispanic America cannot be ignored," said SBS CEO **Raul Alarcon**. Just as Univision is pressing for parity with the English TV net-

works, Alarcon's big goal is ad spending parity with English radio stations. But even if his revenues don't yet equal his stations' ratings share, Alarcon had plenty to be proud of in Q1. Revenues were up 21% to \$35.3 million, with SBS's biggest markets—Los Angeles, New York and Miami—leading the charge.



Raul Alarcon

Besides Spanish radio and TV, another big gainer in Q1 was another ethnic niche player. Radio One, whose radio group is primarily focused on African-American audiences, saw revenues rise 11% to \$77 million, beating the company's twice-increased guidance to The Street. After a slow start in January, COO **Mary Catherine Sneed** told analysts that "the floodgates opened" in February.

Not that ethnic players were the only winners in Q1. Beasley Broadcast Group saw revenues shoot

up 10% to \$28.6 million for the quarter. CFO **Caroline Beasley** said about half of that gain came in one market—Philadelphia, where revenues were up 43% after a management shake-up. Also strong were Las Vegas and Ft. Myers, FL.

Meanwhile, most other groups reported their Q1 figures in the low single digits—that's up for radio and down for TV, where even groups with strong gains in local sales weren't able to counteract the lack of political advertising this year.

**RBR/TVBR observation:** No wonder everyone is trying to figure out how to grab a piece of the red-hot Hispanic media market. Viacom has partnered with SBS to go



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Spanish on some Infinity Radio stations and Clear Channel has gotten more aggressive about flipping to Spanish formats in markets with significant Hispanic populations. The biggest move, of course, was NBC's purchase of Telemundo. It's an uphill battle to close the ratings gap with Univision, but NBC Universal has made it clear that it is in for the long haul after paying nearly \$2 billion to acquire the #2 player in the US Spanish TV marketplace.

### Q1 reviewed: The big loser

Q1 was the first full quarter for Clear Channel Radio's Less is More (LIM) initiative to reduce spot loads and clutter, so Wall Street analysts were expecting radio revenues to be down. Even so, they were expecting a drop of 5-6%, based on the company's guidance issued in February. But the actual drop for Q1 was a drop of 7% to \$773.6 million. CEO **Mark Mays** explained that the previous pacing number had not included barter, which was down sharply. After all, LIM is about putting upward pressure on rates, not filling limited inventory with barter, which is some of the cheapest business on any station.



Mark Mays

But while Clear Channel reported negative numbers for Q1, with total revenues down 4% to \$1.88 billion, Mays managed to upstage that poor showing with a big announcement—plans to spin-off Clear Channel

Entertainment to shareholders, create a new public stock and sell 10% of Clear Channel Outdoor in an IPO, increase the company's quarterly dividend by 50% and pay a one-time dividend of \$3 per share to shareholders.

**RBR/TVBR observation:** Don't quit now. The pain of LIM will decrease each quarter, so Q1 should be the low water mark. As he reported the dismal Q1 numbers, Mays said Q2 was pacing down 4.3% not including barter and 5.5% when barter is included. What analysts wanted to know was where is the light at the end of the tunnel? Mays and CC Radio CEO **John Hogan** were unable to project when LIM would stop being a drag on revenues and the radio group would again post year-over-year gains, but they insisted that nothing is going to deter them from their chosen path. This is a long-term play to fix some problems that had been developing for quite some time. The rest of radio is cheering for LIM to succeed and many other groups are implementing at least pieces of what Clear Channel is doing. After all, if the 900-pound gorilla holds out for higher rates, everyone else will also benefit.

RBR & TVBR June 2005

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