Radio Business Report™

OBSERVATIONS

Voice Of The Radio Broadcasting Industry®

July 8, 2002 Volume 19, Issue 26

From the Publisher Jim Carnegie:

Damn, it is hard going back to school all over again. Nineteen years ago my wife Cathy and I started **Radio Business Report** with an old typewriter and paper. Now, I'm an **Old Fart** and have my **AARP** membership.

This column is also in the first issue of the ***RBR Daily E-paper***. If it's not already on your computer right now, then get it by filling out the information on **p. 8 of RBR**. **For 40 days**...twice daily for **FREE!!!**

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If I can learn and go back to school anyone can do it. Remember this **Old Fart** has learned... I know how to use E-Mail: Drop me a line: Jcarnegie@RBR.COM.

Stay Well,
Jim Carnegie
Publisher & Editor

Who were the headliners in 2002 so far?

Headliners pushed the radio industry through an eventful half year

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Also from Capitol Hill, **John McCain** (R-AZ) is back at it again, trying to pick the pockets of broadcasters in the name of campaign reform. Guarding broadcasters' backs is the ever vigilant **Eddie Fritts** of the NAB—he beat back last year's similar attempt by Senator **Robert Torricelli** (D-NJ), but this is one job that never seems to be finished. *Continued on page 2*

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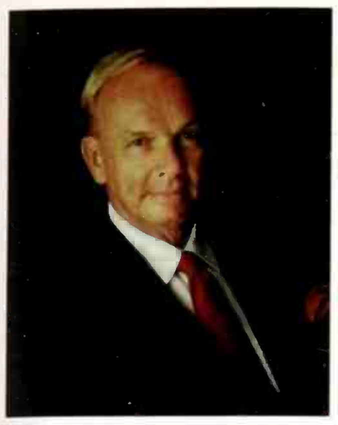
Bud Paxson

FCC delays auction; Paxson won't appeal

In an order issued after-hours (5/24) as the Commission closed for the Memorial Day weekend, the FCC postponed until next January 14 part of the spectrum auction that had been scheduled for June 19. The auction delay affects TV Channels 60-69. However, the auction of Channels 52-59 will still take place June 19 as planned. All four commissioners voted for the delay. However, Commissioner **Kevin Martin** (R) dissented from going ahead with the partial auction on June 19. He wanted the entire thing delayed.

The Commission said the delay would give Congress time to decide what it wants to do. Although the House of Representatives passed a bill which would have forced the FCC to delay the auction indefinitely and study its spectrum management procedures, the legislation faced an uncertain future in the Senate. The Bush Administration had also called for the auction to be put on hold.

Although the FCC is more than two years past the deadline set in law for holding the Channels 60-69 auction, **Bud Paxson** told *TVBR* that Paxson Communications (A:PAX) and the Spectrum Clearing Alliance won't be going to court over the FCC's latest delay. "We're not happy about it, for all the obvious reasons, but the other side of the coin is you've gotta know when to hold 'em and when to fold 'em," he said.

Even if the broadcasters were to go to court and win a writ of mandamus, Paxson said the earliest the auction could probably take place would be around November—nearly as long a delay as the 1/14/03 date the FCC has set for the auction if there's no new law forthcoming from Capitol Hill. "We've taken it away from the FCC and put it back in the hands of Congress," Paxson said of the auction issue. "We'll have to wait and see what the Senate does."

Under the FCC's 5/24 order, the auction of the spectrum now occupied by UHF Channels 52-59 will still take place 6/19, but there's less at stake for TV broadcasters than there would be with the delayed auctions for Channels 60-69. "There can be no band-clearing in that one (52-59)—there's over 300 and some odd stations," Paxson noted. He said the bidders, including some broadcasters who have signed up for the auction, "will sit and wait for years for it to be cleared."

The FCC had said that allowing the Channel 52-59 auction to go forward would benefit some rural areas, which would receive new communications services, but it's unclear whether it will be viable to actually build such scattered telecommunications systems.

Paxson, whose company has 19 analog stations on Channels 60-69, and other members of the Spectrum Clearing Alliance, had hoped to be paid by the winning bidders for that spectrum to clear out their 98 analog stations and 30-some digital allocations.

Univision (N:UNV), with eight stations (but in larger markets than Paxson's 19), stood to be the other big payoff recipient in any spectrum-clearing operation, but many other broadcasters with a station or two in the Channel 60-69 band had teamed up with the two in the Spectrum Clearing Alliance to press for the auction to take place this Summer. But they were opposed by the Cellular Telecommunications and Internet Association (CTIA), which wants to avoid paying anything to the broadcasters by putting off the auction until there's a clear date when the analog stations will have to surrender their licenses under the DTV conversion. "They had a better lobbyist group than we did, that's all," Paxson said of CTIA's successful effort to delay the auction.—JM

TV News Briefs

NBC prepares for anchor shift

The 2004 election will mark the end of the **Tom Brokaw** era at NBC News. GE's (N:GE) NBC unit announced 5/28) that Brokaw will step down as anchor of the "NBC Nightly News" with the 2004 election, turning the chair over the **Brian Williams**.—JM

CBS signs new affiliation deals with Landmark Communications

CBS Television announced 5/22 it has signed new long-term affiliation agreements with Landmark Communications for WTVF Nashville and KLAS-TV Las Vegas. —CM

Broadcasters among spectrum bidders

As **Bud Paxson** noted (see "FCC delays Auction), telephone companies aren't the only ones who've registered as bidders for the Channel 52-59 spectrum auction still on tap for 6/19. Although phone companies are the overwhelming majority of those who've signed up, there are some broadcasters as well. Sinclair Broadcast Group (O:SBGI) and Univision's (N:UNV) Telefutura have registered to bid for every market being auctioned. LIN Television (N:TVL) has registered to bid for 135 licenses.—JM

Comment deadlines set for DTV rulemaking

The FCC has set comment deadlines for the Notice of Proposed Rulemaking (NPRM) on penalties for stations which don't meet DTV conversion deadlines. Comments on the proposed penalties will be due 7/8 and reply comments will be due 7/23.—JM

Add five more DTVs

The NAB announced 5/29 that five more television stations have begun transmitting a digital signal: WHDT-TV West Palm Beach, FL, singly-owned independent: WKRN-TV Nashville, TN Young-owned ABC affiliate; KTWB-TV Seattle, WA, Tribune-owned WB affiliate; WFME-TV New York, NY Family Stations-owned independent; and KRQE-TV Albuquerque, NM, Emmis-owned CBS affiliate.

This brings to 415 the number of stations broadcasting in digital. DTV signals are now being transmitted in 125 markets that include 86.5% of U.S. —CM

Hollywood coming to DC

Actors **Judd Hirsch** and **Joan Van Ark** will be award presenters at the 6/10 National Association of Broadcasters Education Foundation's fourth annual Service to America Summit in Washington, DC. They join previously announced presenters **Mary Hart** from "Entertainment Tonight" and former NYC Mayor **Rudy Giuliani**.—JM

Liberty TV stations to provide free air time to candidates

The Liberty Corporation (N:LC) announced 5/23 that its 15 television stations, all network affiliates, will provide free air time to federal political candidates for the purpose of establishing an open forum to discuss the issues important to the electorate in liberty markets. The stations will provide up to 30 minutes of airtime per week in key dayparts during the 30 days prior to the general election, in the form of interviews, debates, forums, town hall meetings and point-of-view interviews where the viewers have the opportunity to ask the key questions. —CM

Hollings latest to request consolidation investigation

Only days after the news surfaced that Sen. **Russell Feingold** (D-WI) will be introducing a bill to reform industry practices (*RBR*.com 5/24), Senate Commerce Committee Chairman **Ernest Hollings** (D-SC) wrote to FCC Chairman Michael Powell 5/24 asking him to examine if consolidation, especially in the television industry, has made programming less diverse.

From the letter: "The effort to promote diverse voices has been undermined over the last decade by extensive media concentrations and changes to FCC rules governing media outlets." —CM

Cox Communications sued by EEOC

The US Equal Employment Opportunity Commission (EEOC) announced (5/29) that it had filed a lawsuit against Cox Communications (N:COX), accusing the company of creating a "hostile working environment" for Hispanic employees in its Georgetown, TX operation. The lawsuit also charged that the cable company failed to take appropriate corrective action and didn't halt retaliation against employees who filed the EEOC complaint.

Cox Communications is controlled by Cox Enterprises, which also owns TV and newspaper properties and a controlling interest in Cox Radio (N:CXR).—JM

NBC sweeps the sweeps

NBC claimed victory in the May ratings sweeps, which ended last week. "Friends" drew 35M viewers for its episode of the birth of Rachel's baby.

It's the first time the show finished as TV's most popular series. CBS finished second with "CSI: Crime Scene Investigation," also the second most popular show behind "Friends." ABC lost 23% of its audience this season, and Fox also declined, from 9.6M to 9.2M. The top four nets saw ratings decline by 7%.

During the week that ended 5/19, the last full week of the season, NBC averaged 14.5M viewers (9.5 rating, 16 share), CBS averaged 14.1M (8.8, 15), ABC 9.6M (6.1, 10), Fox 8.5M (5.3, 9), WB 4.2M (2.8, 5), UPN 4M (2.6, 4) and Pax TV 1.1M (0.8, 1). —CM

UPN and FOX to switch affiliates in Minneapolis

KMSP UPN 9 and WFTC FOX 29 will switch network affiliations 9/8 to become KMSP FOX 9 and WFTC UPN 29. The announcement was made 5/24 by KMSP and WFTC VP/GM Carol Rueppel: "This change aligns the best of both FOX and UPN with two strong TV stations to provide distinct options for viewers in the Twin Cities, through innovative programming and an on-going commitment to local news and sports programming."

The affiliation switch comes as KMSP and WFTC prepare to combine operations at KMSP's newly-remodeled facilities. —CM

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RADIO NEWS®

RIAA and NAB split on Feingold bill

Sen. **Russ Feingold**'s (D-WI) bill to impose new regulations on the radio and concert industries is getting very different reactions from the record industry's trade organization, RIAA, and that of broadcasters, NAB. Feingold's bill was reported in detail on the cover of *RBR's* 7-1 issue.

"We applaud Senator Feingold for introducing this important legislation. It takes the necessary first step toward ensuring diversity of programming on radio stations by preventing abuse of independent promotion through unprecedented increased radio ownership consolidation," said RIAA Chairman and CEO **Hilary Rosen**. "This radio promotion system needs reforming and this bill provides the road map to getting there."

At NAB, which had previously battled with Feingold over campaign finance reform, the reaction was quite the opposite.

"The 1996 Telecommunications Act has strengthened the ability of radio to better serve listeners, and we strongly dispute claims that radio has grown more homogenous in recent years. Separate studies show that radio format diversity is far greater now than six years ago, and Spanish stations in the U.S. now number more than 600, up from fewer than 400 in 1996," said NAB President and CEO **Eddie Fritts**. "Moreover, through the collective efforts of stations from Boston to Boise, local radio stations generated $7 billion in public service last year. That alone should be reason enough for Congress to let flourish a communications medium that is free, local and reliable."

***RBR* Observation:** Rosen's comments are just beyond belief! Who created the independent record promotion business as the "don't ask, don't tell" cover to protect the record labels from payola investigation? The labels themselves, of course. And who pays the indies to this very day? Again, the labels. If the labels don't like the independent record promotion business, the solution is simple. Stop writing the checks. Why do they need an act of Congress to make them stop spending their money?

Randy: Indie setup is irrational

While Sen. Feingold was attacking Clear Channel on Capitol Hill, *RBR* was asking CCU Radio CEO **Randy Michaels** about his dealings with the record labels as he spoke to the Florida Association of Broadcasters in St. Petersburg.

"Do you think the record companies are getting good value for the money their independent promoters are paying to Clear Channel?" *RBR* Executive Editor **Jack Messmer** asked.

"No," was Randy's short answer, but he went on to elaborate. "The labels are spending tons of money to influence airplay on our stations—and I don't like it. I want to play the records that the listeners want to hear. I don't really care what the labels want me to play. So what I'm doing—as long as they're passing out the money, I'm going to take it. I think the rational response is for them to find more intelligent ways to spend their money, because I don't think they're getting good bang for their buck."

Randy Michaels

Michaels also noted that CCU checks airplay against local audience research to ensure that PDs aren't being corrupted by the indies. As a result, he said, CCU has fired five PDs this year.

In speaking to an audience that was about 50% Clear Channel GMs, Michaels defended consolidation and disputed critics claims that Clear Channel's ownership of 1,200 stations has made all radio sound the same. "If you can get our program directors in Miami, Orlando and Tampa to all agree on anything, you're an awful lot more persuasive than I am," he said.

In Michaels' view, it's a tribute to the importance that people place on radio that there's so much concern about radio consolidation, while there's so little outcry over the growth of Wal-Mart, which he said is "shutting down Main Street" in communities across the country.

"People who just use voice tracking to save money are missing the point," Michaels said of the still relatively new practice of using on-air talent in multiple markets. He insisted that the objective should be to provide each community with the best programming possible, regardless of where the DJ records his bits.

Continued from page 1

Chairman **Michael Powell** (R) is spending the year rewriting the FCC's ownership rules—we aren't expecting to see anything emerge until next year. The FCC's odd couple, **Kevin Martin** (R) and **Michael Copps** (D), have found enough common ground to issue a joint statement now and again—and Copps is never at a loss to complain about consolidation and indecency. Wishing to join them is Democrat **Jonathon Adelstein**, an aide of Sen. **Tom Daschle** (D-SD) who has allegedly been held hostage, first by **Trent Lott** (R-MS) and most recently by McCain.

Radio Advertising Bureau **Gary Fries** continued to preach the gospel that advertisers are under-using radio and that revenues are building back up after last year's recession. With four months of industry revenues reported by RAB, radio was back to flat, so it should be back into positive territory from here on out.

Remember Internet streaming? It's still around, but there's a lot less of it. **Hillary Rosen**, CEO of the RIAA cartel, somehow persuaded the US Copyright Office that Internet radio was the cause of the record industry's woes. With expert lobbying skills, she fought and won the battle to force royalty payments on webcasters. The fees and retroactive fees dating back to 1998 will effectively ruin the webcasting industry, especially the smaller players. Most radio stations have pulled the plug on their Internet streams and it looks like the future of music on the Internet may be firmly controlled by the big record labels—with their Internet sites paying those huge royalty fees to each other—effectively canceling out any real fees.

Long-time radio research guru **Kurt Hanson**, now known for founding and operating RAIN (Radio and Internet Newsletter), fought back against RIAA by organizing a "Day of Silence" 5/1 to protest the fees proposed for Internet streaming. But as the fees stand now, that day of silence may be turning into an eternity of silence for many of those Internet streamers.

Sirius Satellite Radio (O:SIRI), with new CEO **Joseph Clayton** at the helm, finally got its service up and running for listeners and began trying to catch up with XM Satellite Radio (O:XMSR). Clayton replaced Sirius founder **David Margolese**, who stepped down amid a flurry of investor suits and claims that Sirius deliberately misled them on the company's anticipated launch date. Sirius finally moved beyond selected markets and made its nationwide launch 7/1.

Meanwhile, over at XM, CEO **Hugh Panero** was celebrating subscriber numbers that beat what he'd promised Wall Street, if only by a few thousand. As of 7/1, XM said it had 136,500 subscribers—6,500 more than the 130,000 it had projected by the end of Q2.

Of greater concern to many broadcasters, though, were those high-power repeaters that XM (much more so than Sirius) has been building in markets across the country. When the NAB found that XM had filed a patent for local programming insertion, Eddie Fritts went ballistic, accusing XM of making plans to insert local commercials into its nationwide broadcasts. XM denied that it planned any such thing, but suspicions linger.

Two Fox News Channel Talkers added the radio scene to their TV duties—first **Sean Hannity** with ABC Radio Networks and, in a recent and very large launch, **Bill O'Reilly** with Westwood One. Conservative talk remains hotter than ever.

American Urban Radio Networks President **Jay Williams** scored a major alliance with Radio One by syndicating its **Russ Parr** morning show, even after Radio One had embarked on a broader alliance with ABC.

As the first half of 2002 ended, **David Kantor** announced that he's getting back into the network radio business with the upcoming launch of his Independent Network. After deciding to put the project on hold late last year (remember the ad recession?), the former ABC and AMFM Radio Networks President expects a launch in January of next year, with the new ad net to be targeted to station groups which don't own their own network.

Liquor advertising continued to be a growth sector for radio, especially after NBC Television backed out of its brief foray of accepting hard liquor ads. The Distilled Spirits Council of the US (DISCUS), then re-launched a massive lobbying effort that began in '96 to encourage radio and TV stations to accept its members' advertising. DISCUS President **Peter Cressy** led the charge with a booth at NAB2000 in Las Vegas and **Lisa Hawkins** went on *RBR* Radio with an invitation for radio stations to contact the organization if they were willing to carry liquor ads from DISCUS' member companies. "It's tasteful, it's legal and there's a lot of money to be made," Cressy noted.

Yes, the industry is changing, Michaels said, but he insisted that there are still opportunities to develop new talent—the newcomers just might be doing overnights on several stations instead of only one.

"All of us think radio was best when we got into it," Michaels said, recalling his early days of cuing up records and not having to worry about listener research. "We didn't have to fool around with what the listeners wanted to hear—we were the experts, we could play what we thought was good!"

But alas, he noted, "You can't put radio back to where it was."

FCC approves two Clear Channel buys

Two transactions "red-flagged" for market concentration have gotten a go-ahead from the FCC—both with Clear Channel Communications (N"CCU) as the buyer.

In the Texarkana, TX-AR market, the FCC cleared CCU's $1.5M deal to buy KMJI-FM Ashdown, AR from Bunyard Partnership. Although adding a fifth station in the market will increase CCU's share of local radio revenues from 47.1% to 56.8%, based on BIA figures, the Commission decided that the sale met the requirements of its interim policy on market concentration because CCU will have only four of the 12 highest rated stations in the market and the acquisition would not reduce the market to only two owners. In fact, there will still be seven commercial broadcasters in the market.

Approval of the Texarkana deal, however, drew a sharp dissent from Commissioner **Michael Copps** (D), who said 56.8% was too much. "While this market does include stations owned by other individual and group owners, no other owner has even one quarter of the market share of Clear Channel. In a market of this size, this level of concentration is particularly unacceptable," Copps wrote.

The FCC also approved Clear Channel's $2.05M purchase of KNEA-AM & KKEY-FM Jonesboro-Harrisburg, AR from Pollack Broadcasting Company—this time without any objection from Copps. The FCC found that the combo had been operating with negative cash flow for some time and that Pollack tried and failed to find other potential buyers. In fact, the FCC staff determined that the stations would be likely to go off the air unless the CCU purchase is approved. Adding the two to its cluster will give CCU 58.3% of local radio revenues, but leave three competitors—including Pollack, which will still have two stations in the market.

***RBR* Observation:** It looks like we'll be operating under the FCC's interim guidelines for radio transactions for some time yet, since Chairman **Michael Powell** wrapped all of the pending radio and TV ownership proceedings into one big package—to be dealt with all at once early next year. So far, the FCC has only rejected one transaction based on market concentration—another Clear Channel deal in Virginia, which the company is appealing.

Although Commissioner Copps is claiming the path blazed by former Chairman **Bill Kennard** and ex-Commissioner (now US Senate candidate) **Gloria Tristani**—both Democrats—in asserting that the FCC's public interest mandate trumps the ownership limits set by Congress in the 1996 Telecommunications Act, that theory has yet to be tested in court.

But the Commission's three Republicans are treading softly and while those red flags still delay deals, virtually all are eventually winning approval. In truth, it's just not viable to have a bunch of standalones and combos trying to compete in many small markets when they have to go up against a superduopoly player. The FCC wants at least three players everywhere, but that view may not be in line with market realities in many places.

Entravision settles with Interep

When Entravision (N:EVC) started its own rep firm with Lotus last August—the 50/50 joint venture called Lotus/Entravision Reps LLC—it still had a rep contract with Interep (O:IREP). Entravision announced 7/2 that it had settled that contract termination with Interep. As a result, Entravision will take a $1.5M charge on its Q2 financial statement.

Excluding that one-time charge, Entravision said it expects Q2 to come in on the high end of its previous guidance to Wall Street. That had been revenues of $60.5-62M and EBITDA of $18.2-18.7M.

"We continue to see solid momentum across our core business lines. Our television and radio divisions are posting strong ratings and revenue pacings remain well ahead of industry averages," said Entravision CEO **Walter Ulloa**. "In addition, we continue to anticipate a return to revenue growth at our outdoor division in the second half of 2002."

"The cash we received was compensation in full for the amount due us on the contractual buyout—what we were entitled to under the terms of our contract," Interep CEO **Ralph Guild** told *RBR*.

Liberman makes Wall Street debut

Liberman Broadcasting Inc. is the latest Hispanic media company to find a warm welcome on Wall Street. The privately-owned radio and TV company has sold $150M in 10-year senior subordinated notes in a private placement. The offering priced at par with a coupon of 10.125%. The sale was managed by Credit Suisse First Boston and UBS Warburg.

***RBR* Observation:** Liberman's Wall Street welcome would have been even more warm had it not been for the recent downturn for radio stocks. Liberman had been planning to sell $200M in bonds and we hear that the price talk had been in the 9% range. But after Clear Channel (N:CCU) and Radio One (O:ROIA) tumbled on investors' fears—taking other radio stocks down a notch with them—would-be bond buyers became a little less enchanted with media securities. Thus, Liberman had to cut the size of its offering and pay a higher interest rate. The good news, though, is that the offering was priced, not shelved, so Wall Street isn't going totally negative on radio and TV issues.

We look for Liberman to file soon for public trading of its new bonds—and eventually for a stock IPO.

Big City adds director, stays on AMEX

Big City Radio (A:YFM) has found a new member to sit on its Board of Directors. The addition of **Kenneth Horowitz** will give the company three outside directors—enough to staff a three-member audit committee as required by the American Stock Exchange. Horowitz was one of the original founders of Cellular One and owned several Cellular One local market cell phone companies.

Big City said it has been granted an extension to maintain its AMEX listing. However, the company noted that it has to come into compliance with various AMEX requirements by 6/30/2003—a little over a year from now. Big City said it has submitted a business plan to the exchange with quarterly milestones that it is required to meet to keep its stock listed.

***RBR* Observation:** Big City still faces big problems to get its financial house in order, not the least of which is a $9.8M bond interest payment due 9/15. But at least Chairman **Stuart Subotnick** doesn't have to worry about AMEX delisting—at least for a while.

As we noted in the 5/15 issue of *RBR* (p. 6), Big City reduced its red ink in Q1, but still fell short of positive cash flow. Turning the corner to positive cash flow is still the elusive top priority for President and CEO **Charles Fernandez.**

LM makes it five in Charleston

A few days after buying three Charleston, WV stations from Mortenson Broadcasting for $1.5M (*RBR* 7/1, p. 3), **Lynn Martin** filed with the FCC to buy out his partners in two other Charleston stations. That will make it a full-fledged five-station superduopoly.

In the latest deal, Martin is paying $1.91M in cash and notes to buy out the 60% stake in WCOZ-AM & WKLC-FM St. Albans, WV currently owned by **John** and **Barbara Linn.**

***RBR* clarification:** Although Mortenson still owns WZKM-FM Charleston, WV as noted in our previous story, a sale is pending which is expected to close this month. We had previously reported (RBR.com 3/12) that Mortenson was selling WZKM to the Educational Media Foundation for $500K in a deal brokered by John Pierce & Co.

Clear Channel completes tender for Ackerley bonds

Nearly all of The Ackerley Group's $200M in 9% senior notes were tendered to Clear Channel (N:CCU)—$198,934,000 to be exact—and Clear Channel has closed its tender offer. The tender was managed by Salomon Smith Barney.

XM tops 136,500 subscribers

XM Satellite Radio ended the Q2 with more than 136,500 total subscribers, exceeding most Wall Street projections. "With 136,500 subscribers, clearly the sale of XM radios and subscriptions through electronics retail stores have been terrific," said XM President and CEO **Hugh Panero**. "Our focus is now shifting to making XM part of the sale of GM vehicles as well. In preparation for availability at dealers beginning later this summer, XM is now being factory installed in 25 models of GM cars with an aggressive rollout plan encompassing household names such as Buick, Cadillac, Chevrolet, Oldsmobile, Pontiac and GMC, which represents yet another big step forward for XM."

Small Town Radio hires investment banker

Small Town Radio Inc. (O:STWI) is out to find financing for its growing list of station purchases. The company has now hired Cardinal Securities LLC of Atlanta, an investment banking firm, to help the small market radio group with private debt and equity financing.

Small Town Radio announced that it has filed another deal with the FCC—this time to buy WHIK-AM (formerly WSBJ) Static, TN, which is near Cookeville. The price was not immediately disclosed.

Birach Broadcasting signs Salem; launching Radio Disney, upgrading in DC

Sima Birach, GM/Owner of Birach Broadcasting's new WGOP (was brokered WWTL-AM) Washington, tells *RBR* some changes are in order for the DC AM. The station signed an affiliation agreement with the Salem Radio Network 6/28 to air **Mike Gallagher**, **Dennis Prager** and **Michael Medved**. WGOP, licensed to Walkersville, MD, is also in the process of upgrading from 5-kW to 25-kW—hopefully by this fall. The city of license will also change to Poolesville, MD, closer to DC. The tower will relocate to Damascus, MD.

We also hear, but Birach wouldn't confirm, that Radio Disney will launch on the company's 540-AM frequency, to be diplexed on the new WGOP tower, congruent with the WGOP upgrade. Birach is moving his 540-AM licensed to Pocomoke City, MD up to the DC market. The Pocomoke City license will be returned to the FCC.

RBR News Briefs

CRB elects President and Secretary; adds two board members

The Country Radio Broadcasters (CRB) Board of Directors has elected two new officers and two new members of the Board. CRB's new President is **Gary Krantz** of Premiere Radio Networks; **R.J. Curtis** of KZLA-FM LA was named Secretary. **Steve Ennen** of WUSN-FM Chicago and **Charlie Morgan** of WFMS-FM Indianapolis were added as members of the board. Krantz will preside over his first board meeting scheduled as part of the upcoming CRS regional event (CRS Rocky Mountains) in Denver 8/16-8/17.

IBBA honoring AURN next month

American Urban Radio Networks (AURN) will be honored by the International Black Broadcasters Association's News Network of the Year Award at its second annual conference in New Orleans 7/27.

Lightningcast lays off staffers

RBR sources tell us streaming ad-insertion technology provider Lightningcast has laid off (6/20) its entire sales staff, including **Ron Rivlin**, **Bill Jeris**, **Marg Shadid** and **Danny DePercin**; and two engineers.

Randy Hill reassumes MeasureCast CEO job

Randy Hill, current MeasureCast CTO and founder, was the company's first CEO when MeasureCast launched in 2000. Hill steps back into the CEO post, replacing **Ed Hardy**, who leaves to work with radio stations he owns in Washington state and to explore ventures. Hardy, who became CEO 10/00, will continue to work with MeasureCast as a consultant and as a member of the board.

In their view…

Joe Gallagher

Why are we driving listeners away?

At what point do radio operators become concerned that, in general, the product we are creating isn't good enough to stem the audience flow away from our medium? Radio's time spent listening is down to 20 1/2 hours a week from 23 hours per week in 1993. A conversation with your average listener typically unveils complaints far more often than praise. Excessive spot loads, homogenized sound, predictability, and hit song overplay are the ones I hear most from listeners of all ages. The growth of Internet radio (even considering the current CARP nightmare), the wild success, if you will, of Napster and the trading of MP3s, and the reality of people signing up for satellite radio service, are just more signs that there are significant numbers of listeners who are actively seeking compelling programming. Let's face it, with a few exceptions, (broadcast) radio stinks.

While I fully understand and appreciate the economics of this business, supported deregulation and continue to support the concept of consolidation, I don't understand why today's operators don't use their massive scale to inject creativity back into the product. Obviously the first step was to create all the business efficiencies possible, then create comprehensive revenue generating plans, but at what point does the lack of programming compelling enough to grow radio's share of the time spent with it by our listeners become a serious concern? Do we wait until we've lost more listeners, let more of them form new listening habits and then try and win them back? Or do we listen to them and take action now? To me it is economic. Ultimately, with a smaller audience, and stronger competitors, we'll have a much harder time growing. Therefore, it seems to follow that if we want to make more money, we must create a better product overall.

Besides, a serious injection of creativity into our product would go a long way to re-introducing a concept that, by and large, seems to be nowhere in radio today, and that's *fun!* Maybe the size, shape and form of today's operators make the challenge of injecting creativity and fun unachievable. Times are not what they were in the pre-90s, and neither is radio ownership. It may be more difficult to create an environment conducive to creativity in a large corporate culture focused on cash flow than it was when most stations were family or small company owned, but many huge companies in other industries have succeeded in cultivating environments where creativity and fun are nurtured and rewarded. Radio can too.

In my mind, it's time that radio operators focus on the listeners again. It very well may be the best way to improve the bottom line.

Joe Gallagher
Aritaur Communications, Inc.
Tel. 401-841-9484

**Got a viewpoint?
Email it to jcarnegie@rbr.com**

Washington Beat

New beginning for Michael Powell

July 1 marked the beginning of the second term of service at the FCC for Chairman **Michael Powell**. 1997 marked the beginning of his tenure—he was nominated by President **Bill Clinton** in July, confirmed by the Senate in October and sworn into office 11/3/97. On 1/22/01 he was named Chairman by President **George W. Bush**, who later that year nominated Powell for a second term. The Senate again concurred, reseating Powell to a five-year term which expires 6/30/07.

Buckley tries to unbuckle CCU TV JSA

Clear Channel's (N:CCU) acquisition of Ackerley resulted in, among many other things, a six-radio-station, two-television station cluster in the Monterey-Salinas-Santa Cruz market. Clear Channel brought the radio stations to the table, and Ackerley brought the TVs—one owned, KION-TV and the other, Seal Rock Broadcasters' KCBA-TV, related via a time brokerage agreement (TBA)/joint sales agreement (JSA).

FCC approval for the transfer was conditioned on elimination of the TBA/JSA—the Commission determined that Ackerley-CCU (the deal closed 6/14) was programming over 15% of KCBA, making it attributable and over the limit. The Ackerley/CCU relationship with KCBA was ordered to represent less than 15% of the programming schedule on the station.

"Yet Ackerley's response to this order," wrote attorneys for in-market competitor Buckley Broadcasting in an FCC filing, "was not to cease the joint sales efforts, but instead to simply put a new name on the agreement, and continue right on selling all of the broadcast time on KCBA with absolutely no commitment to stay out of the programming of that station."

According to Buckley, under the new agreement struck by Clear Channel and Seal Rock, "KION employees will continue to sell all of the advertising time on KCBA. Seal Rock will continue to have all of its bank debt and other expenses paid by KION's licensee. Seal Rock will continue to receive $45,000 per quarter as an LMA fee. KION will continue to house KCBA and provide it accounting, traffic and administrative services. While Seal Rock will have a new employee who will serve, at least nominally, as KCBA's General Manager, Program Director and Sales Manager all at once, there are no assurances anywhere in the June 12 filing that [KION] will absent itself from any role in the programming of KCBA."

"It is worth noting...that the compensation under the TBA, $45,000 per quarter, has not changed, even thought [KION] is supposedly going from having an economic interest in 100% of the sales to having that interest in only 15% of the sales," writes Buckley. "One would think that the compensation would have been reduced if the economic incentives had truly been changed."

Buckley commented on the Seal Rock employee: "Under normal circumstances it would be incredible to think that a single employee would be capable of filling the positions of General Manager, Sales Manager and Program Director for a full-power commercial television station simultaneously; however, as Seal Rock apparently will not have to worry about the management, sales, or programming of KCBA under its agreement...it is possible for a single person to fill these three roles."

Buckley goes on to note that the new agreement stipulates that Seal Rock is entitled to 85% of all profits generated by the station. However, a new expense—a $600K annual fee payable to Clear Channel for the services noted above—make it unlikely that a profit will ever show up on paper. Buckley writes, "There is no evidence that the value of the services to be provided...are the result of an arms-length agreement establishing a real-world cost of such services. In fact, for $600K one would think that Seal Rock, had it wanted to truly have an independent programming operation, could have hired a full station staff. Instead, it appears as if the party's 'extensive negotiations' over these documents were over how best to replicate the existing arrangements...while looking like they were complying with the terms of the decision [by the FCC to terminate the LMA]."

Citing Miller-Kaplan and BIA statistics, Buckley claims Clear Channel controls 49% of radio revenues in the Monterey market, and—counting both TV stations—47.5% of TV revenues in the market. It wants the FCC to reconsider its decision and rescind approval for the sale of KION to Clear Channel.


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By Jack Messmer and Carl Marcucci

Gurus revisit numbers and forecast growth

Back in the dark days of the advertising recession, *RBR's* panel of forecasters had a wide range of projections on how radio would fare in 2002. **Jack Myers** was looking for radio revenues to drop another 8% on top of 2001's 7% decline. At the other end of the spectrum, **Mark Fratrik** was predicting growth of 5.5%. In between, **Robin Flynn** was looking for a 3% gain, **Jim Duncan** was predicting flat to down 3% and **Bob Coen** was expecting a split for the industry, with local radio up 2.5%, but national (network and spot) down 1%. All five gurus were featured in *RBR's* special forecasting issue, 1/14, p. 8-9.

Now, with the year half over, we went back to find out how much the gurus have changed their outlooks. Here are updates from three of them. Robin Flynn of Kagan World Media was still working on her update as this issue went to press. Universal-McCann Sr. VP and Director of Forecasting Bob Coen, the most closely watched ad industry forecaster, will be making his semi-annual predictions 7/10, so be sure to check it out in ***RBR's new morning e-paper***.

One-time bear Myers is now a bull

Jack Myers concedes that he was overly pessimistic when he made his ad spending forecast for 2002.

Myers revisited his numbers in May *(RBR* 5/20, p. 1) and moved his radio prediction from -4% all the way up to +4%. "Among all media, radio has shown the most impressive resiliency," he said.

Now the publisher of *Jack Myers Report* has boosted his ad spending forecast again, but without as dramatic a move as he announced in May. He has officially ceased to be a bear, though. While he was still predicting in May that total US ad spending would be down 0.4%, he's now looking for a flat year overall.

Myers' growth forecast for radio is staying at 4%. His biggest revision in the latest forecast is for the broadcast TV networks, following the strong upfront season. He's now looking for 1% growth this year, instead of a 2% decline.

Jack Myers' latest forecast

	Yr. 2002 forecast on 12/01	Yr. 2002 forecast on 5/02	Yr. 2002 forecast on 7/02	Projected '02 revenues on 7/02	Yr. 2003 forecast on 5/02	Yr. 2003 forecast on 7/02
Newspapers	-2.0%	-5.0%	-5.0%	$42.1B	-1.0%	-1.0%
Broadcast TV Networks	-4.0%	-2.0%	1.0%	$16.3B	2.5%	6.0%
National/Local Spot TV	-9.5%	4.0%	4.0%	$19.8B	1.0%	3.0%
Broadcast TV Syndication	-12.0%	5.0%	4.0%	$2.7B	3.0%	6.0%
Radio	**-4.0%**	**4.0%**	**4.0%**	**$19.1B**	3.0%	3.0%
Yellow Pages	-3.0%	3.0%	3.0%	$14.0B	-1.0%	0.0%
Consumer Magazines	-7.0%	-6.0%	-5.0%	$15.4B	2.0%	2.0%
Network Cable TV	-6.0%	4.0%	4.0%	$12.6B	9.0%	10.0%
Local/Regional Cable TV	5.0%	3.0%	3.0%	$4.0B	12.0%	12.0%
Online	10.0%	4.0%	4.0%	$4.5B	15.0%	15.0%
Outdoor	-1.0%	1.0%	1.0%	$5.2B	2.0%	2.0%
Total US Media	**-5.7%**	**-0.4%**	**0.0%**	**$155.6B**	**2.2%**	**3.0%**

Source: Jack Myers LLC

Fratrik sits pat with bullish forecast

In January **Mark Fratrik,** Vice President, BIA Financial Network was the most bullish of *RBR's* panel of forecasters. His forecast of 5.5% growth was 2.5 percentage points stronger than the next most optimistic guru. But since then the radio ad market has been improving pretty much every month (except February's drop due to the Olympics canceling usual TV sweeps advertising) and Fratrik is looking more and more like a clairvoyant.

"For 2002 I feel really confident about 5.5%," Fratrik said, noting that other analysts have been moving his direction. He's now forecasting even better growth, 6-6.5%, for next year.

"I think that's still a very strong radio industry. It's obviously still way above inflation, which will be around 2-2.5%. So I think 6-6.5% is a pretty healthy radio industry."

With the ad recession increasingly in the past, Fratrik is expecting a return to normal growth after 2002. "I think radio can maintain that 6-6.5% growth over the next few years," he said.

Fratrik is also optimistic about TV revenues, which he thinks will be up a bit more next year than for this election year. That's because of what he expects to come out of the FCC's review of its ownership rules. "I think there will be some relief on ownership, which will lead to stronger revenue growth on the local level," Fratrik said of 2003 TV revenues.

Mark Fratrik's latest forecast

Medium	2002	2003
Radio	+5.5%	+6-6.5%
TV	+4%	+5%

Source: BIAfn

No revision from Duncan

When contacted by *RBR,* **Jim Duncan** of Duncan's American Radio declined to issue any revision of his flat to -3% prediction. As we noted in the January issue, Duncan had said, "I am somewhat hesitant to make predictions for 2002."

While his company focuses on compiling actual radio ad spending data, Duncan had said his "best guess" was that there would be a decline in 2002. "My prediction is that we will end [2002] with either no revenue growth or a drop of no more than 3%," he said in January.

Reps see recovery continuing for second half

After suffering through a 19% decline in 2001 spending on national spot radio, the radio reps have been enjoying a recovery—and they're expecting it to continue for the rest of this year.

As we reported last issue *(RBR* 7/1, p. 1), national spot was up 2% through April, according to RAB, while local radio ad revenues were flat. And the reps are expecting the rest of this year to be even better.

"I think we're looking for mid-to high single digits growth in both Q3 and Q4, specifically fourth. And that's most obvious for a couple of reasons," said **Steve Shaw**, President of Katz Radio Group. "First of all, after 9/11 business just really tailed off in the end of September and just died in the fourth quarter. It was already down 20% for the year, but when 9/11 came along, it really took the wind out of any resurgence that might have been going on. So Q4 was just so bad last year that measurement against it this year is going to have to look better."

Steve Shaw

Shaw says demand is better, so that's putting pressure on inventory and pricing. "Another reason why you'll see spending go up is that even if we don't sell a whole lot more units, the good thing that's happening out there is pricing has definitely firmed up. I think May was the first real time, even late April, that people couldn't get access in probably 15-18 months. I think that the good news for us, is even if we sell the same number of spots, our billing will be up because rates are slowly starting to come back up—CPPs are getting a little more in line with demand."

Despite TV's strong upfront, Shaw says it remains to be seen whether there will be any trickle-down for spot radio. "It parallels some years and it doesn't others," he noted. "Upfront has not been as good some years and we've had outstanding spot radio growth."

At Interep, Chairman **Ralph Guild** is also optimistic about the second half. "We expect to see very strong single digit growth and the third and fourth quarter are starting to increase right now. So I think were going to have sort of a very steady climb for the balance of the year," he told *RBR*.

"I think inventories are starting to tighten and that usually leads to an increase in pricing. I would say we expect the year to be up in the mid single digits."

Asked to name hot sectors, Guild said, "We expect pharmaceuticals, particularly over the counter pharmaceuticals to really break loose. We've had one person working on that category full time and we're now beginning to see orders come in on a pretty regular basis and good sized ones as well. Everything is doing well-foreign and domestic automobiles, computers, consumer products. Movies are very strong again."

Are there any regional differences? "I was just out in LA and they're doing extremely well. San Francisco is doing well, Philadelphia is strong. Atlanta, Boston and Dallas are looking healthy," he said, diplomatically avoiding any list of the underperformers. Guild says, though, that the period seems to have past when markets 26+ were outpacing the big markets. The big cities are also enjoying good growth in national spot spending now.

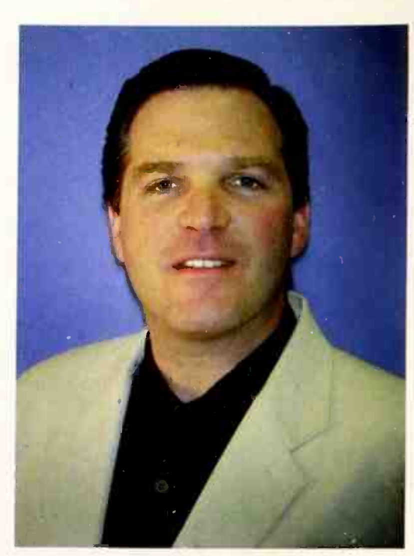
Guild says advertisers are, indeed, buying further out. "It's improving and I think that is caused by the fact that inventories are tight. And there was a period back in May when we were actually having to turn business down, because people had waited too long," he noted. "So that reverberates through the industry and people start giving more lead time."

"National radio will generate high single digit growth in the back half of '02," said **Stu Olds,** CEO of Katz Media Group. "The leading drivers are broad-based category support. In Q3 seven categories are pacing ahead, lead by retail, consumer products, telecom, auto, finance, fast food and beverages. These seven categories represent about 85% of total expenditures...a great base when all are investing more in radio advertising. The increased demand from the broad category support is pushing pricing up versus last year which will further accelerate radio's growth."

Olds also said it's hard to predict what impact the strong TV upfront will have on radio. "What we do know is that the strong network TV upfront signals confidence in the economy, the role advertising plays in expanding products and services, and the willingness of advertisers to pay more on a CPM basis. These are all good signs for advertising," he noted.

"Q3 and Q4 should be a continuation of a marketplace in recovery," agreed **Mike Agovino**, President of Clear Channel Radio Sales. "Industry growth in the mid to high single digits can be expected. September in particular should be strong. Our base all year has been Telco and Automotive and now we'll see Entertainment and Retail pick up, driving industry growth further," he said.

Like the other reps, Agovino is seeing upward pressure on pricing. "CPMs and CPPs have grown significantly throughout the year and the planning cycle is beginning to catch up to them. We'll continue to see them rise as many stations/markets sit here with July virtually gone and August already pressurized," he said. "We are seeing business being placed earlier and earlier as marketers gain a better understanding of the strength building in this market. I believe we'll see a huge increase in annual or upfront buying for '03 as many advertisers were stung with the increased prices in this year scatter."



Mike Agovino

By Jack Messmer

Tough times for radio stocks

Just a few weeks ago radio stocks were still a relatively bright spot in a sick market. No more. As we closed out the first half of 2003, most radio stocks were back to about where they'd begun this year—or worse.

The Radio Index™, calculated daily by *RBR*, peaked at an all-time high of 282.286 on 4/19 and held most of its gains for a few weeks, even as the broader stock market was roiled by one accounting scandal after another. None of those big scandals had any link to the radio industry, except the tiny connection that Adelphia Communications (O:ADLAE), a cable MSO, owned a single radio station.

But radio's Teflon coating disintegrated in June as investors began to flee any business which was judged by EBITDA (earnings before interest, taxes, depreciation and amortization)—although the after-tax cash flow of radio companies gets more attention for professional analysts, and there's not much any slick accountant can do to juice-up ATCF numbers. Meanwhile, SBS (O:SBSA) filed an antitrust lawsuit against Clear Channel (N:CCU) and both stocks took a hit. And then Sen. **Russ Feingold** (D-WI) took his shot with new legislation to tighten up on connections between the radio and concert industries—a bill aimed straight at Clear Channel.

As the biggest radio company and bellwether for the industry, Clear Channel's stock price decline helped drag down other radio stocks as well.

The market concern over accounting practices found its way to radio as well in June, with Radio One (O:ROIA) the target of a *Wall Street Journal* reporter. CEO **Alfred Liggins** took the offensive and called a teleconference with analysts and reporters to answer questions even before the article appeared, but his company's stock had already taken a hit.

As Q2 ended, The Radio Index was back where it had been in February—barely above the year-to-date low of 212.419 set on 2/6. Of the 15 stocks in the index, eight were still ahead for the year—Beasley (O:BBGI), Entravision (N:EVC), Hispanic (N:HSP), Regent (O:ROIA), Saga (A:SGA), Salem (O:SALM), SBS (O:SBSA) and Westwood One (N:WON)—but seven were down—Arbitron (N:ARB), Clear Channel, Cox (N:CXR), Cumulus (O:CMLS), Emmis (O:EMMS), Entercom (N:ETM) and Radio One.

Radio stock performance (first half 2002)

Company	6/28/02 Close	YTD Net Chg	YTD Pct Chg
Arbitron	31.200	-2.950	-8.64%
Beasley	14.750	1.740	13.37%
Big City Radio	1.400	0.300	27.27%
Clear Channel	32.020	-18.890	-37.10%
Cox Radio	24.100	-1.380	-5.42%
Cumulus	13.780	-2.400	-14.83%
Disney	18.900	-1.820	-8.78%
Emmis	21.190	-2.450	-10.36%
Entercom	45.900	-4.100	-8.20%
Entravision	12.250	0.300	2.51%
Fisher	58.720	14.720	33.45%
Gaylord	22.050	-2.550	-10.37%
Hearst-Argyle	22.550	0.990	4.59%
Hispanic Bcg.	26.100	0.600	2.35%
Interep	3.900	-0.800	-17.02%
Jeff-Pilot	47.000	0.730	1.58%
NBG Radio Nets	0.320	-0.670	-67.68%
New York Times	51.500	8.250	19.08%
Radio One, Cl. A	14.870	-3.600	-19.49%
Radio One, Cl. D	14.870	-3.140	-17.43%
Radio Unica	1.480	0.080	5.71%
Regent	7.060	0.310	4.59%
Saga Commun.	22.500	5.940	35.87%
Salem Comm.	24.870	1.870	8.13%
Sirius Sat. Radio	3.770	-7.860	-67.58%
Spanish Bcg.	10.000	0.110	1.11%
Viacom, Cl. A	44.460	0.210	0.47%
Viacom, Cl. B	44.370	0.220	0.50%
Westwood One	33.420	3.370	11.21%
XM Sat. Radio	7.350	-11.010	-59.97%
Major indices			
The Radio Index	227.212	-0.133	-0.06%
Dow Industrials	9243.26	-778.240	-7.77%
Nasdaq comp.	1464.980	-485.420	-24.89%
S&P 500	989.820	-158.260	-13.78%

Radio One trumpets good news

After seeing its stock battered by scrutiny from the *Wall Street Journal* (*RBR* 7/1, p. 1), Radio One (O:ROIA) is trying to get a leg up by proudly announcing that its Q2 results will come in ahead of what it had previously promised investors. Although the company won't be releasing official results until 7/31, Radio One said last week (7/1) that it will "achieve the highest revenue and broadcast cash flow (BCF) in its history and exceed its previously published second quarter guidance."

The guidance, which Radio One now says it will beat, had called for net revenues of $79.5M, broadcast cash flow of $41M and after-tax cash flow of 19 cents per share.

***RBR* Observation:** CEO **Alfred Liggins** deserves credit for moving quickly to blunt the impact of the WSJ's bad press. By striking first, before the story was even published, Liggins was able to force the newspaper to print its story (6/27), rather than have speculation continue about what might be coming. Now it's time to rebuild from the damage—and nothing is better for that than beating The Street's financial expectations.

Radio Business Report OBSERVATIONS

The Radio Index™

The Index began Q3 with a down day, closing 7/1 at 215.440—down 24.56 from a week earlier. Wall Street's jitters aren't going away quickly.