

Radio Business Report™

Voice Of The Radio Broadcasting Industry®

Volume 19, Issue 6

February 18, 2002

Bush picks Daschle aide Adelstein for Commission seat

It is perhaps good news for Americans in general that President **George W. Bush** has announced his intention to nominate **Jonathon S. Adelstein** for the open Democratic seat at the Federal Communications Commission. Adelstein comes at the recommendation of his boss, Senate Majority Leader **Tom Daschle** (D-SD).

The nomination must come as somewhat of a relief to Democratic Commissioner **Michael Copps**, who has been on his own since the departure of Gloria Tristani last September.

The 39-year old Adelstein has worked in the Senate for 14 years, the last six of which have been spent with Daschle. Like Daschle, he is a native of South Dakota.

Said Daschle, "I am pleased the President agrees that Jonathon's expertise in telecommunications issues, and his commitment to seeing rural America share in the telecommunications revolution, make him an ideal candidate for FCC Commissioner. I was honored to recommend Jonathon for this prestigious post and look forward to working with him to ensure that rural communities in South Dakota, and across the country, are well-served when it comes to meeting their telecommunications needs."



Jonathon S. Adelstein

NAB President/CEO **Eddie Fritts** spoke in favor of Adelstein when his nomination was first suggested by Daschle last November (*RBR* 11/26/01), saying, "NAB strongly supports the nomination of Jonathon Adelstein to the Federal Communications Commission. Jonathon's commitment to public service and his firm grasp of broadcasting and telecommunications issues will serve him well at the Commission. We expect a speedy confirmation and look forward to working with Jonathon at the FCC."

RBR observation: Why is this good for Americans besides Michael Copps? At the time the nomination was announced, *RBR* opined that it would go through very smoothly, given the warm post-9/11 working relationship between the President and the Majority Leader. Then came the rancorous difference of opinion on the economy. Bush's nomination of Adelstein indicates that any rift between the two is not unbridgeable.

TVBR observation: Since "The Odd Couple" has been out of production for years, "The President and the Majority Leader" would be a great title for a network sitcom.—DS



RBR Profiler

Saga's Greg Urbiel details the spark behind the sound

Page 6



Marilyn Dennis, Paul Silverman and Joseph Iannelli

Big advertisers open to radio

With advertising budgets tight in the current recession, big advertisers told RAB2002 that radio has an opportunity to open new doors.

Long a relatively light user of radio, although it's one of the nation's biggest advertisers, Procter & Gamble (N:PG) appears to be more open than ever to using radio to promote its vast array of consumer brands.

"Our brands have to make some tough choices now. Budgets are smaller," **Joseph Iannelli**, who heads P&G's advertising department, told a session of the Orlando gathering. That, he said, represents an opportunity for radio to play a bigger role in the advertising of various P&G brands, based on value. But, he added, the brand managers have to be sold on what radio can deliver for them. In particular, he suggested that brand managers would be interested in seeing how radio can extend their reach and allow them to run longer flights than TV alone and still stay within their budgets.

Whatever concerns big advertisers used to have about radio consolidation, there were none evident in the RAB session. "People go to other media if radio prices get out of hand," said **Paul Silverman** of Pharmacia Corp. (N:PHA). He noted that big groups can offer a bigger platform—and therefore more options—to large advertisers.

While the big advertisers liked the idea, at least in theory, of cross-platform media deals, they noted that such deals are very complicated and could be difficult to execute because they involve so many different people with different responsibilities at both the advertiser (and/or agency) and the multi-platform media company. Iannelli noted that P&G has done such a deal with Viacom's (N:VIA) Viacom Plus (*RBR* 6/4/01, p. 1).

"It was a very difficult negotiation," he said, but added, "It was a good agreement for both sides."

The growing US Hispanic market continues to be an area of focus for more and more national advertisers. **Marilyn Dennis** of Wendy's International (N:WEN) said her company is doing national campaigns in Spanish for the first time this year, but added that some local franchise groups have been targeting Hispanics for the past four years.

More RAB2002 coverage on pages five and seven.—JM

RAB
2002
Orlando Feb. 7-10

RBR was at RAB2002.
Here's how we saw it.
Page 5

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Voice Of The Radio Broadcasting Industry™

NEXT WEEK

THE 4TH INSTALLMENT
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conversation about the
upcoming TV deals

RADIO NEWS

Broadcasters dodge campaign reform bullet 2

Although sweeping campaign contribution reforms were passed by the House, the Senate's Torricelli amendment bit the dust.

Liquor ads: CCU turns on the barlight 2

KWOD squad: Judge edits out Chapter 11 2

WW1 hit with \$150K jury judgement 2

RBR PROFILER

Saga Part 3: Engineering—to BE or not to be? 6

MEDIA MARKETS AND MONEY

RAB attendees hear Cramer disclaimer 7

Premiere's "Smart Money" host talked about 9/11, Enron, and stocks—but steered clear of recommending his own to the crowd.

E-deal? Emmis sells FMs to Entercom, Entravision 7

Karmazin's karma points to modest gains for radio 7

WW1: Revenue down but cash flow up 7

2001 final tally: down 7%

Compared to many other months of 2001, December wasn't that bad. RAB reports that total radio revenues were down 6%, with local off 3% and national down 15%. That improved the full year decline, which had been tracking toward -8%, to a loss of 7% from 2001.

Total radio revenues for 2001 were \$18.36B, compared to the record of \$19.82B in 2000. Local sales ended the year down 4% to \$14.55B, national spot dropped 19% to \$2.90B and network revenues declined 9% to \$910M.

"Compared to other media, that is a remarkable feat," RAB President **Gary Fries** declared as he delivered the -7% result to RAB2002 attendees in Orlando. "You people should be very proud that you accomplished that."

More RAB2002 coverage on p.5.—JM

RBR observation: Looking ahead, there are a number of indications that the worst of the recession may be over. Fries, and several group heads, are predicting that January revenues may actually go into the plus column, although just barely. Trouble is plugged into February, however—the broadcast networks, which usually spend buckets of money to push their programming during the Nielsen ratings sweeps, are sitting on the sidelines this time around. They have no interest in wasting their cash when they expect the lion's share of the TV audience to go to NBC's Olympics coverage regardless of how much they advertise. The real interesting month could be March—when many mainstream economists think the recession may in fact disappear.—DS

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Torricelli torn out of House reform measure

The House of Representatives passed the Shays-Meehan Campaign Reform bill after a marathon session 2/13 and on into 2/14. The bill, sponsored by **Christopher Shays** (R-CT) and **Marty Meehan** (D-MA) was passed by a 241-189 vote. The bill received support from 41 Republicans, while 12 Democrats swam against the stream and voted against it. The votes of two independent House members were split.

A part of the bill which had broadcasters up in arms—provisions which would redefine the way in which lowest-unit-rate is handled—was tossed out via an amendment offered by **Gene Green** (D-TX). The Torricelli amendment, which is part of the Senate's related McCain-Feingold Campaign Reform bill, would have required that political ads be sold at the least expensive rate sold in a given time period going back 12 months, and would have made the ads non-preemptible. The death of the amendment received widespread report, passing by a 327-101 margin.

"We're deeply appreciative of the strong bipartisan vote stripping the Torricelli amendment from campaign reform legislation that would have done serious damage to local broadcasters," said NAB President/CEO **Eddie Fritts**, whose organization lobbied for the action. "We look forward to following this debate as it moves forward."

The next step is to bring the House bill in line with the Senate version. President **George W. Bush** has indicated that he would sign a measure similar to the two which are now on the table when it gets to his desk.—DS

Clear Channel accepting liquor ads

With no fanfare, radio's biggest group, Clear Channel (N:CCU), has begun accepting liquor ads on some of its stations.

"There is no blanket ban on alcohol as long as the ads aren't targeted to minors and the other demographic criteria are met," Clear Channel spokesperson **Pam Taylor** told RBR. She also said the company encourages inclusion of a "don't drink and drive" tag line for liquor ads.

Taylor said the company's policy regarding whether to air liquor ads on Clear Channel's radio stations is based on audience demographics, tastefulness and such.

The policy is much the same for Clear Channel's TV stations. Its NBC affiliates have been airing the network's liquor ads and all liquor ad sales must be cleared by TV Division president **William Moll**. "So far, no spots have been requested or approved, except for the NBC network spots," he told RBR.

RBR observation: We became aware of the policy change at Clear Channel while in Orlando for RAB2002. We heard ads for Kahlua and Southern Comfort Saturday evening (2/9) on WTKS-

FM. The spots were very well done and, to the average member of the public, probably didn't seem any different than the ads for beer and wine that have run since the early days of radio. Also note that one of RBR publisher **Jim Carnegie's** predictions came true even faster than he expected (see The Publisher's Perspective, p.5).—JM

KWOD battle heading back to state court

There's no word on a court date yet, but Entercom (N:ETM) appears to be closer to claiming possession of KWOD-FM Sacramento after Federal Bankruptcy Judge **Jane Dickson McKeag** threw out the Chapter 11 petition that had been filed by KWOD licensee Royce International (RBR 1/4, p. 4, 2/4, p. 12 & 2/11, p. 7).

"Having considered the moving, opposing and reply papers, the record in the case and arguments of counsel, the Court finds that debtor and debtor in possession Royce International Broadcasting Corporation filed this case in bad faith," Judge McKeag ruled. She did not, however, grant a request from Royce's former attorneys that the company be ordered to pay those former attorneys additional cash as a penalty for the bad faith filing. Royce's former attorneys have sued the broadcaster for unpaid legal bills.

Entercom, which won a state court ruling that it has a valid contract from 1996 to buy KWOD for \$25M, will now go back to court to seek damages from Royce, which is owned by veteran broadcaster **Ed Stolz**. Entercom is seeking damages of \$7-10M, which would reduce its purchase price for KWOD to \$15-18M (RBR 2/11, p.7). The damage portion of the state court trial had been put on hold by Royce's unsuccessful attempt to seek the bankruptcy court's protection from creditors.—JM

Juneau jury nails WW1 for a cool \$150K

A Juneau, AK jury ordered Westwood One (N:WON) to pay \$150K in punitive damages from the **Tom Leykis** emotional distress case (RBR.com 2/7), where the Westwood Talker was sued for "post-traumatic stress" by Juneau, AK listener **Karen Carpenter** (RBR.com 1/29). She was insulted and her fax number was revealed on the air.

The jury awarded Carpenter nothing for her emotional loss and \$5K for economic losses and medical expenses. Alaska Superior Court Judge **Patricia Collins** ruled after the verdict that punitive damages against Leykis were unwarranted.

The jury met 2/7 and decided to fine WW1 for deliberately concealing or destroying the tape of the show where Leykis targeted Carpenter.

A Westwood One spokesperson told RBR, "We are happy that the jury upheld the right to free speech, however we are disappointed with the spoilation ver-

Washington Beat

The gripes of wrath: FCC complaints, Q4 2001

Radio & television stations attracted 128 citizen complaints during the final three months of 2001. That would seem to imply that the public airwaves are not quite the gutter that some make them out to be. And by this very limited barometer, it seemed that the industry was cleaning up its act as the quarter progressed: November complaints totaled less than half the number received in October, and December dropped even lower. The complete broadcast chart by category is listed below.

Cable companies were the target of only 16 complaints. Wireless telecom drew 2,423, while wired telecom led the way with 7,186. Complaints about billing and rates made up well over half the total for both.—DS

Broadcast programming complaints received by the FCC: Q4 2001

	Oct	Nov	Dec	Total
General criticism	12	8	17	37
Obscenity/indecency	36	24	11	71
Religious	4	0	0	4
Other	16	0	0	16
Total	68	32	28	128

Pirates get a new lease on life

The US Court of Appeals for the District of Columbia has struck down a lifetime ban on former radio pirates being in the lineup of directors for LPFM stations. The ban had been imposed by Congress last summer and was being enforced by the FCC.

One such individual, **Greg Ruggerio**, challenged the rule, and won by a two-to-one vote of the Court's judges. Judges **Tatel** and **Rogers** were the majority, with Judge **Henderson** dissenting.

In a nutshell, the Court found that individuals who had committed radio piracy were singled out. "As a result," the Court wrote, "civil wrongdoers, felons, and even inveterate regulatory violators other than pirates, retain the opportunity to demonstrate that notwithstanding their offenses, they can reliably operate microbroadcast stations in the public interest."

RBR observation: We think the ban on radio pirates was to assure that pirates—those who had already entered the microradio business illegally—would not be able to enter the new legal service. However, only noncommercial organizations were considered for LPFM licenses. Individual applications were not accepted, which right off the bat nipped the pirate-to-legit transformation in the bud. Further sanctions really aren't all that important.—DS

dict. There was no factual basis to support such a finding...and we are reviewing our other options."—CM

Maxagrid celebrates 20 years with giveaway

To celebrate its 20th anniversary, yield management systems provider Maxagrid has announced a plan to give Maxagrid Mobile, which runs on the Palm OS, to all clients for free. Starting 2/15, stations will be able to download the software directly from the Maxagrid website. "Broadcast professionals using PDA's can now take their pricing forecasts with them anywhere," said **Alec Drake**, Maxagrid GM. "This major enhancement to our legacy system, is a wonderful way to say thank you and add even more value for our clients." —CM

Shreveport report finally on the streets

Arbitron has already gotten the belated Fall 2001 numbers for Shreveport into the hands of Maximi\$er and Media Professional subscribers via Arbitron Data Express. The report went out 2/11. Client CDs, Maximi\$er CDs and

Media Professional CDs mailed that day, and the printed book will go into the mail 2/21.

The delay was caused when Arbitron learned that some diaries had been filled out and returned by individuals who were not Arbitron's intended recipients. Arbitron had to make sure that all diaries used for the report were appropriate. It has also taken steps to assure the on-going integrity of the survey.—DS

GMA/Salem team up for "In God We Trust"

The Gospel Music Association (GMA) has been taping a one-hour radio special, "In God We Trust," to be distributed nationally by Salem Communications' (O:SALM) Salem Radio Network the weekend of 2/23. The radio special will be hosted by **Michael W. Smith** and feature a host of Christian artists, including the world premiere of a new single, "In God We Trust," recorded by a choir of more than 50 artists.

The program will direct listeners to a website, www.gospelmusic.org, where they can donate to charities who are assisting 9/11 victims. Also, a banner that has been signed by all of

the participating artists is being auctioned on eBay, with proceeds going to the **Todd M. Beamer** Foundation. Beamer was the passenger who said "Let's roll," as he and others went off to take back their airliner from the terrorists who'd hijacked it and were believed to be taking it toward the White House or US Capitol. Instead, the plane crashed in a remote area of Pennsylvania.—JM

Dallas pirate playin' the Oldies

The *Dallas Morning News* reports Dallas has a new pirate at 102.5 MHz, airing a mix of rock 'n' roll from the '50s-'70s, along with a bunch of old radio spots. No live voices ever appear, and no station ID ever airs. It's unclear how long the station has been broadcasting, but the FCC tells the paper it's aware of the broadcasts and is investigating.—CM

Howard Stern drops \$100K at Vegas casino

Howard Stern was at the Hard Rock Hotel & Casino in Las Vegas 2/6 with a \$100K bankroll, wagering it all on one hand of Blackjack. He chose three loyal listeners to accompany him and, if he wins, one of the three will receive the winnings. The hand was a loser, but the contestant was given \$5K by the casino as a consolation prize. The contest was run in conjunction with GoldenPalace.com, an Internet casino that has fronted the money for the bet and advertises on Stern's show regularly.—CM

Arbitron, Edison Media Research unveil latest study

80M consumers, representing 35% of Americans aged 12+, have watched or listened to streaming media online, according to the latest study by Arbitron and Edison Media Research, "Internet VIII: Advertising vs. Subscription—Which Streaming Model Will Win?"

Two years ago, only 24% of Americans said that they had ever used Internet audio or video. According to the study, four in 10 audio "streamies" said they would agree to pay a small fee for any of the following features: commercial-free content, audio of the highest quality (no pausing or "buffering") and content they couldn't find elsewhere.—CM

Peninsula hunkers down for fight with FCC

Dave Becker is digging trenches and preparing for a possibly prolonged battle with the FCC. At issue are four radio stations and a host of translators in Alaska. The FCC has revoked the license of seven translators already, and is in the process of revoking four more plus all four of the full-powered stations licensed to Becker's group, Peninsula Communications (*RBR* 2/11, p.2). Becker has also been hit with a \$140K fine.

According to newspaper *Peninsula Clarion's Kenai Peninsula Online*, Becker claims that the FCC rulings have no basis in law. He is already appealing the first revocation at the US Court of Appeals, DC Circuit, and says he will pursue the matter all the way to the Supreme Court if necessary.—DS

News Briefs



NABOB honoring Cathy Hughes

The National Association of Black-Owned Broadcasters (NABOB) is presenting its Lifetime Achievement Award to the Radio One founder/Chairperson **Cathy Hughes** for its 18th annual Communications Awards Dinner 3/8 in DC. **Leontyne Price** will also receive a Lifetime Achievement Award, **Janet Jackson** will get the Pioneer of the Year, **The Isley Brothers** will get the Pioneer in Music Award and **Bo Diddley** will get the Pioneer in Entertainment Award. The dinner, is being held at the Marriott Wardman Park Hotel. Hughes is also receiving The Broadcasters' Foundation Golden Mike Award in NY 2/25 at The Plaza Hotel.—CM

Sirius kicks off

Sirius Satellite Radio (O:SIRI) began the first phase (2/14) of its national rollout in four markets: Denver, Houston, Phoenix and Jackson, MS. ABC News anchor **Sam Donaldson** was the first voice heard on Sirius; **Al Jarreau**, who inspired the new Sirius musical signature, introduced a special musical overture performed by the National Symphony Orchestra, conducted by **Leonard Slatkin**.—CM

Bill Maher to radio?

ABC-TV's "Politically Incorrect" host **Bill Maher** says in this week's *TV Guide* he's thinking about switching to talk radio if his TV show is cancelled. He says he's already had meetings with syndicators. If Maher enters the talk arena, he'll be a rare left-leaning personality in a medium packed with conservative Talkers.—CM

XM pairs with DIRECTV

Satellite dish television channel provider DIRECTV has struck a deal with XM Satellite Radio (O:XMSR) described as a "joint marketing agreement designed to help drive XM subscriber growth by giving DIRECTV satellite television customers value-added offers for XM." No specifics were announced.—DS



FM-10S

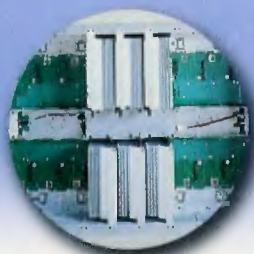
Our FM-10S is cool but,...



FM-20S

our FM-20S is way cool!

HOT-PLUGGABLE IPA/PAs



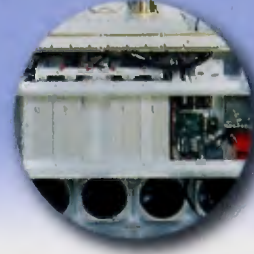
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Is inventory packaging getting out of control?

A big issue coming up in network radio lately is packaging. Sellers representing premier independent vehicles (delivering prime shows, markets and stations) with a higher CPP are questioning how they can compete in a marketplace that is more and more able to package prime inventory with lower-tiered product and inventory to drive down CPP. Now, there's nothing new about packaging, but some are saying it seems to be getting out of control. Is it helping or hurting the marketplace?

One independent seller explains: "If you were buying a radio network, the idea you'd like is if I sold you one announcement, you'd like one announcement on each of my stations in all of the markets. You're not thinking that you're going to get one announcement in NY (and it ends up being suburban NYC) and 10 announcements in Des Moines. It's not the way network radio used to be looked upon. You used to have maybe 95% good stuff and 5% junk. Now it's like 60-40. What's happening is ABC, Westwood and Premiere all have some premier (high rated, quality programming) products. And internally, they're pricing the good stuff (like morning drive) high and then they have junk (late night, weekend and low-rated dayparts, low-rated syndicated and satellite networks) that they package and mix the two together. They go to the advertiser and say, 'Here's your CPP.' The marketplace is \$3K, they bring it in at \$3K, but the good stuff they internally price it, say at \$7K. That's how the big guys sell the medium, and then we sell our medium without any packaging vehicles and we're out there selling it at a very high CPP."

Another seller says he loses a lot of business for that reason. "We all have been able to survive because many advertisers have said, 'Fine, I'll pay this for the premium, and I'll do my own packaging.' And we got enough money to survive. Now, with this downturn in the market, what's happening is there's all these mid-range syndicators out there packaging without much of what you would call major market inventory, lots of C and D market inventory. They may package 600-700 radio stations that are comprised of maybe eight or nine different programs together. You may be getting an hour long show in one market and another show that's vignettes in another. It can be News-Talk to Country to controversial programming, all over the map. The formats are not consistent."

We asked a few buyers to address the issue. Is there a trend here? "I recognize the trend for more inexpensive, lower-tier programming or programs in the mix. But, it's the buyers' responsibility in a 'softer marketplace' to make sure that mix is at an acceptable level," **Matthew Warnecke**, MediaCom's Director of Network Radio Services, National Broad-



Matthew Warnecke

cast, tells *RBR*. "If everybody's competing for the same smaller pie, and you have the ability to walk from a deal, then you still have the ability to walk from the deal. A softer marketplace is a harder thing for a buyer to manage. Now when everything's expensive, you have to do it, do it fast and get it over with. But when the marketplace is negotiable, it really proves the mettle of a buyer, because you've got twice as many people who are going to make it on the buy, every single negotiation. And so you've got to be clear on what your objectives are, what you're asking for and keep going until you get exactly what you want, or until somebody walks from you. And then you know you've done your job. Their job isn't necessarily to do exactly what I'm trying to do, but to sell their inventory. The trick is to convince them that my objectives are their objectives."

"I give my suppliers certain ramifications to go on and they come back with different things like value added options. And from that, I make up my own mix—I want this but I don't want that," said one network radio negotiator. "It only bothers me when it's not right for the demo. If I have a demo that's teens 12-17, teens 12-17 are not listening to Country, so I don't appreciate having Country on my buy. If you're going to put things on the buy, package it with things that make sense. Not things that you're putting on there just so you can get money from the buy. I don't like that and I don't like seeing that. Sometimes you'll find that some will put things on there and you wonder why."

Does it matter that some of the markets and products that end up on the buy are less than desirable? "I only buy network radio, so I buy nationally. It's not that I don't care what markets I'm airing in, but I prefer that when I send out my avail with my demo and the weeks, that you give me something back with things that make sense. So I don't have to sit there weeding out and going back and forth," she added. "We have research systems that we can look up and find out what the affiliates are for a certain lineup, but I just find sometimes that there's too much of the 0.1 ratings. Maybe a little more quality would be better. I do see some junk in there and we have to weed it out. You buy with the best interest of the client. You don't want to over package and not sell what you really want, or you don't end up buying what you really need. It can be a little excessive. I don't have time to put a line through everything that's inappropriate."

"Sometimes it can get very confusing trying to figure out what the sellers have put together," another buyer told us.

Consolidation, a soft marketplace, or both?

The buyers all agree, a soft marketplace is harder on higher, standalone CPP vehicles. The bigger networks hold the cards when it comes to pricing and flexibility. Packaging is the facilitator. Says **Natalie Swed Stone**, Managing Partner/Director of National Radio Services, OMD USA: "A larger entity with various offerings and more flexibility for cross-pricing is faring better perhaps than a smaller entity with higher priced fare, that stands alone, and doesn't have any way to appear more cost efficient. I can see that as becoming an issue in this marketplace. If you're a large company, you have more latitude, it's just that simple. And that's why they consolidated. That was the whole purpose on the sell-



Natalie Swed Stone

ing side—to be able to negotiate, to leverage, to be more flexible, and to package. I think the effects of consolidation are being felt this year, perhaps for the first time."

"In a strong market, it is always a negotiation for more of the best. And conversely, in



Reyn Leutz

markets like this, everyone is looking for a mix upgrade in terms of either programming or time period. And I will say that in a flat market, we are willing to pay an increase for a better mix. But we don't want to trash our mix just so that we can show a flat CPM. You

can always cheapen the mix to bring the cost down, and it is tempting, but why do it?" says **Reyn Leutz**, SVP, Director of Radio Negotiations, Mindshare USA.

"Even if they suggest a package that you may not be crazy about, it's not the buyers' obligation to buy it in its current form. That's what we do—we negotiate. So maybe you're negotiating rather than for price. One you get to that number, maybe you're negotiating for program mixes," explains Warnecke. "And it seems to me in a soft marketplace, that's where you negotiate. Everybody is going to price efficiently because that's what's happening in the marketplace. The trick will be to get the best programming for the least amount of money. Anybody can buy cheap stuff. I think there's just less money being spent in the overall marketplace, maybe just a little bit less. And networks need to show prices against all of their programming and not just their best."

Will it change?

So the question is will the network negotiators allow the smaller targeted networks to package like the big guys, only with other independents, in order to generate low CPP's? Complained the one seller: "They come up with very low cost inventory, maybe \$1K a point. And a lot of these people buy it. It's forcing the big guys to package, it's forcing alliances to be created everywhere. Right now, all I'm doing is talking to people for alliances. However, the buyers won't let me package with those people. They say, 'You can't package. You've got to stay pure.' If I was owned

by, say, United Stations, they would package me. Well, staying pure really, really hurts us: 'We want you to stay pure but we won't pay your CPP.'"

Pure? It may be a long haul to create a package that will please the buyers. Some buyers find the niche programming and prime inventory needs to stay that way, at least until something of similar, but less expensive caliber can be attached. Says Leutz: "Some suppliers have nothing to package in order to bring down the overall price and that's fine with us. There's a reason why we pay what we do for The Wall Street Journal Radio Network, The Concert Music Network, **Lou Dobbs**, and **Delilah**, to name a few."

It looks like success for standalone prime vehicles may depend on packaging—somehow, some way—or selling as early as possible. In any market, the boutique shops will hurt more than the Wal-Marts in a tough economy when the consumer has a choice. The trick may be to get in before there are plenty of other choices out there. Says Swed Stone: "If you stand alone, you're completely visible, and vulnerable. And it either works or it doesn't. The only solution is that it has to be sold early, before the negotiations start. For niche properties, it's important to sell through in advance to ensure your place."

TV clutter up, says AAAA's

At the American Association of Advertising Agencies (AAAA's) 9th annual Media Conference & Trade Show in Orlando, the annual TV Commercial Monitoring Report was unveiled. The study, done by the AAAAs and the Association of National Advertisers said ad clutter for TV networks in 2001 reached an all-time high in early morning, daytime and local news; and was up in all dayparts except Primetime.

Early morning daypart clutter was up to 18:02 minutes per hour, from 17:44 the year before; daytime was up to 20:57, from 20:03; local news was up to 17:10 from 17:05. Primetime was down to 16:08 from 16:17.



Gary Fries

Could 13 be lucky?

Keep your fingers crossed. There have been indications already from a few groups that January 2002 equaled or beat January 2001 and RAB President **Gary Fries** said it looks like January could finish with a positive number. If so, that would end the industry's string of down months at 13 (which had followed a string of 99 up months) and make radio the first major medium to pull out of the ad recession.

After reporting that December results (see p. 1) pulled 2001 up to a finish of -7%, Fries told delegates to RAB2002 in Orlando, "Compared to other media, that is a remarkable feat. You people

should be very proud that you accomplished that."

In his annual State of the Industry address, Fries urged radio salespeople to go out and build up the industry "one advertiser at a time." Despite the tough economy, Fries said adversity provides opportunities for improvement. "We can be better and this is an opportunity for us to get better."

In the aftermath of 9/11, Fries said members of the public are more loyal to businesses that commit to causes. He suggested that radio sales people need to "learn how to mine" cause marketing.

"Your advertisers need help, they need leadership, they need to understand the change," Fries said of the changes which have come to the nation in the past year. "It is very easy to do your job in good times," he noted, but now we're in tough times. "That's where we find out who the real leaders are."

While January may well have been an up month, Fries warned in a news conference that February will be tougher. One big category is all but missing, with TV stations holding back on their normal February sweeps advertising while NBC claims big primetime audiences with its Winter Olympics coverage.

Fries received questions about liquor advertising in his press conference, although there's been little fallout in Washington since NBC became the first TV network to accept the business and brought back focus to an ad sector that's been slowly growing for radio in recent years. Fries predicted that liquor advertising will equal beer—currently a \$100M category for radio—but he didn't offer a timeline.

He explained that the challenge distillers face is building brand awareness with 20-somethings—a demo that's hard to reach with TV or magazines (and forget about newspapers!). Fries said the liquor companies need a marketing solution to move young drinkers away from cheap, generic brands to name brand spirits.—JM

Hero pilot tells broadcasters to be prepared

"You're never ready when a disaster happens, but you can be prepared," retired United Airlines Captain **Al Haynes** told RAB2002 in a spellbinding keynote address. Aided by audio and video tapes and still photos from the events of 7/19/89, Haynes explained how repeated training for emergencies made it possible for him and his flight crew to crash-land a badly crippled airliner and save 184 of the 296 people onboard.

"There is no such thing as a worst-case scenario," Haynes said of the need to prepare for disasters. He noted how lucky it had been that emergency services in Sioux City, IA had drilled with a simulated crash of an aircraft larger than any that their airport could accommodate. Just a few months later, he brought down a DC-10 that had those emergency crews dealing with even more crash survivors than in their worst-case scenario.

Haynes was critical of autocratic managers in any type of industry, saying that all businesses today are too complicated for one person to make all of the decisions. "Today we solve our problems as a team," he said. Although Haynes was the captain of Flight 232, he noted that the cockpit tape recording never had him barking orders. Rather, he said, every member of the cockpit crew discussed each problem that arose and each person's contribution of ideas was welcomed.—JM



Capt. Al Haynes

Nuts & bolts front & center

"The pessimists stayed home. The optimists are here in this room," attendees heard from RAB2002 Chairperson **Joan Gerberding**, President of Nassau Media Partners. The Orlando gathering drew 1,400 people—down from last year's 2,200 but in line with expectations after 9/11 and the national recession.

RBR staffers observed that nuts and bolts sessions appeared to be the big draws at RAB2002. The GMs, GSMs and other sales professionals in attendance were most interested in taking home practical information that they can put into immediate use for their sales staffs to bring in new sales. Some sessions by sales consultants were jammed to capacity, while more theoretical sessions had chairs to spare.

"I know a lot of you had to do some real selling within your group to even be here," said Katz Media Group CEO **Stu Olds** as he welcomed the audience at a session on national sales.

As reported in advance of the Orlando gathering (RBR 2/11, p. 1), Olds and Interep (O:IREP) CEO **Ralph Guild** are expecting stronger support for pricing this year as the economy improves.

"It's always been amazing to me, as long as I've been in this business, that every other station in every other market is always the whore," Olds laughed as he answered an audience member's question about rate-cutting.

"The point of the matter is that it is a supply and demand business," he said. "We saw the rates in 1996, '97, '98, '99 and 2000 go right off the charts because people couldn't get on radio stations. They were sold out." Now, after a year of being a buyer's market, the good news is that inventory in some markets is tightening up, which will help pricing for radio.—JM



Consultants Pam Lontos, Bart Horton and Jeffrey Myers let potential clients pick their brains for free.

The Publisher's Perspective



RBR Publisher **Jim Carnegie** and Vice President/Administration **Cathy Carnegie** used their Orlando visit to interview potential new hires.

It had been nine years since I personally attended the RAB's Sales/Management conference. The last time was 1993. It opened with *Radio Business Report's* once infamous "Private Breakfast Panel," and on that hot seat was RAB President/CEO **Gary Fries**, NAB President/CEO **Eddie Fritts**, Star Media Group President **Bill Steding**, and Veronis, Suhler & Assoc. President **John Suhler**.

As I'm sure you recall, radio's latest boom was just beginning. This panel of gurus was forecasting growth for radio—but also giving words of caution, since the communications medium had just come out of the recession of 1991. Their overall tone: don't be overly confident. Prepare for the future. Slogans like "Radio Is Red Hot" are nice, but when all is said and done, radio is a business.

"Magical." That was the buzz word at RAB2002 at Disney World. Radio executives came from around the world. Yes, overseas operators were present in force, which demonstrates they too have a desire to learn and master the business aspects of radio.

But again, the real buzz word was—and is—"business." Where is it? When will it return? On that topic, things may be starting to loosen up just a bit. Fries said January might be the first up month in more than a year, but he warned that rebuilding radio revenues won't be easy. "We're going to have to do it ourselves, one advertiser at a time." He further cautioned, "If you knew how to sell radio ten years ago, you do not know how to sell it today."

Some observations:

Leadership was a hot topic. Leadership does come from Mr. Fries. I sat down with him one on one. I saw it in his eyes—determination and a pure passion for radio. Then I looked into the eyes of some of the attendees—the eyes of the deer caught in the headlights.

Sales training was a hot topic throughout 2001. What happened? Instead of having salespeople like I met frequently in Orlando who wonder when business will recover—we need well-trained pros who will lead us to recovery. Radio must invest in its sales efforts, not go for quick-fix belt-tightening measures just to pretty up this quarter's investor report. I said it before, and I'll say it again—you cannot save your way to prosperity.

Like it or not, leadership is coming from the megagroups (whose top execs, for the most part, were not in attendance) and Wall Street. In the megagroup HQs, there is one drum beating loud, clear and relentless. The drum beat being pounded out is "bottom line."

RAB was once a hot spot, where radio's top business talents got together. It would be nice if the industry's leaders could take a break from their war dance and help groups like the RAB and NAB build the industry that puts bread on their tables.

Liquor advertising was a hot topic. It was asked, how much can radio expect and when will it happen? Fries predicted off the top of his head that it would equal beer advertising—which amounts to about \$100M. As to when, I polished off my own crystal ball. "Liquor ads will happen when the megagroups need the revenue to increase their bottom lines," I said. See how easy that was?

Here's our own bottom line. There will always be ups and downs in revenue—that's how business cycles work. Radio's best prospect for sustained growth continues to be increasing its share of the total media pie—taking it from newspapers, cable and other media. How do we do that? The Beatles said it best: "Come Together."

Perhaps you'll take my advice and I'll see you at the next important radio/TV gathering.

Jim Carnegie
Publisher
jcarnegie@rbr.com

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Greg Urbiel: managing and maintaining Saga's technical infrastructure

Saga Communications Director of Engineering **Greg Urbiel** reflects well Saga CEO **Ed Christian's** (*RBR 2/4*, p.9) equipment philosophies, choosing one primary vendor for the whole group where possible. In Saga's case, it's Broadcast Electronics (BE) for transmitters. "Ed has cultivated a few of these relationships over quite a long period of time. With consolidations and personnel changes in the vendor world, I try to grow the old relationships and build some new ones. Each vendor needs to continually pass muster with the cost, trust and quality triangle. Not any one business supplies the proverbial 'one stop shop' for everything we require. In the realm of AM and FM broadcast transmitters, we are now focused on Broadcast Electronics as our primary vendor," Urbiel tells *RBR*. "An efficiency with cost, the development of trust and quality of product are the obvious bases for choosing a primary vendor for any one of our broadcast needs. The ability to pick up the phone and speak directly



Greg Urbiel, Saga Communications Director of Engineering

and candidly to someone with whom you feel a level of working kinship approaching that of 'family' regarding either a problem or a price quotation is priceless. We expect a creative and swift solution for the problem and a fair, competitive price proposal."

Regarding audio storage and delivery systems, in addition to BE, Urbiel has ENCO, Scott Studios, Computer Concepts and Prophet Systems working at stations in the company: "I encourage a healthy relationship with each of these companies' sales and technical staffs. Our

group knowledge and experience tends to be richer—and more opinionated!—by virtue of the diversity. In terms of interoperability, I have been rather vocal with my encouragement for the development by these system manufacturers to speak XML (Extensible Markup Language) outside of their own box, and for the standardization and adherence to the broadcast Cart Chunk protocol within audio .WAV files. These are some of the means for interoperability between diverse system platforms."

For audio processing, Saga is a big believer in the Orban 8200 and 8400 and the Omnia 6. The choice of processor is dictated

by market competition, says Urbiel, "We tend to fight fire with fire here. We find the right box. We tweak. We win."

Saga's latest equipment purchases include transmitters for Tennessee and Massachusetts, audio storage and delivery systems with "lots and lots" of linear audio storage space, ERI STL towers, transmitters for Washington and Wisconsin, Comrex Vectors and Matrixes, audio processors for a dozen markets, and Telos Zephyrs and transmitters for Virginia.

What's the replacement philosophy? "We replace critical equipment when we see a dividend in reliability, competitive advantage or cost-efficiency coming our way. We try to take advantage of any new technology using the same criteria. We have put up a few towers; we've invested a lot in terms of new antennas, specifically in the acquisitions. We've picked up some pieces where we could improve operational activity economically," explains Urbiel.

Urbiel's management structure

"I try to manage the engineers much like Ed manages the GMs. They are responsible for their own plants," Urbiel says. "We are the come-to when they identify and determine their needs. The typical process consists of keeping an open communication line to all of my guys, being very mindful of some projects that they're facing, offering help, doing whatever is necessary to facilitate their jobs. Most of them have very intense jobs with a lot of them having consolidated plants where they're dealing with three-to-six radio stations. They are—and have to be—very good at what they do. A lot of extremely good knowledge out there that we try and share around. If somebody's got a problem that I can't answer, we just put it to the group."

In all the markets there is a CE and then, usually, depending on market size, there may also be an adjunct IT person or assistant. That's formalized in some areas and not in others. That person is a component of how Saga recruits new engineers—begin with part-timers or interns and see if they have the desire and ability to learn the ropes to make a career out of it with the company. "As much as possible we try to maintain a mentoring system if the local CE has the luxury of having part time help to assist," Urbiel explains. "We try and take them under the wing—there's no better way to learn the business than to go through that mentoring, apprenticeship, process. I had the true good fortune of working for an engineering visionary, **Tony Masiello** (who now heads XM Satellite's engineering for studios and programming) while at CBS. That experience could not be bought. To be honest with you, the way the industry has transformed itself over the past few years, there are so few opportunities to do that. We here at Saga try and make it a viable career and make the perception and worth of the engineer important."

IBOC implementation

What Greg is most excited about in implementing IBOC DAB at the stations is the idea of the improved audio quality for the AMs. On the FM side, however, he feels IBOC's promise is more about the data capacity than sound: "My personal opinion, in terms of audio quality, the incremental improvement in audio quality FM IBOC brings to table is probably not worth the trouble of implementation. However, I need to temper that by saying IBOC brings more than an just an improvement in audio quality to the FM signal. It brings along a data carrying capacity that's unmatched on the analog side of things. It also has the great potential for making program reception bullet-proof within the limits of the station's allocation."

A coordinated effort from all sides is paramount to making future IBOC data services effective and a draw to the consumer. "How we as broadcasters decide to use that data carrying capacity will probably determine the ultimate success of IBOC. What I envision needing to happen—and I think this is probably the feeling of the receiver manufacturers and the car manufacturers—is there's got to be a cohesive plan to implement the data delivery," Urbiel states. "The way that we format and deliver our data has to be coordinated in a nationwide manner. The protocols used by the broadcasters and the receivers to grab local weather and traffic information, the things you would like to see available. Everybody's got to do it kind of the same way, otherwise it's not going to work."

Current Saga projects

Saga will be completely consolidated when its five Clarksville, TN stations are brought together in one facility (WCVQ-FM, WDXN-AM WJMR-AM, WZZP-FM and WVVR-FM). In the final stages of construction, the project (*RBR 2/4*, p.9) is at a point where salespeople and a lot of the office staffers have been able to move in. Because it's a brand new building, Saga has decided to go with a digital backbone approach from Houston-based Logitek Systems. "Usually you're trying to modify or improve something that already exists. Here, when we came through we decided to blow the place up and start from scratch. Because it's a brand new plant with the five stations under one roof we were able to take advantage of some of the newer concepts with technology these days. We're trading a hardware complexity for a software solution that can be exercised, modified and fine-tuned without having to pull new wire, without having to pull apart infrastructure. This is the future of radio and it is so exciting to be able to do this, and you only get to do it when you start from scratch. This is a fun project for me," Urbiel said.



The new Clarksville building

While the concept of control surfaces talking back to audio engines in a master control room isn't brand new, it's the first such execution of the idea at Saga. The 9/11 tragedy reinforced the idea—redundancy and flexibility to deal with the unknown. Urbiel gives the details: "The audio engines and the digital sound storage and delivery system talk to each other. Audio never leaves the digital domain; audio never actually leaves

master control. All the manipulation for making it a radio station happens through configuration processes in software. If we decide to change or tweak a format, add another program, or deal with the unknown, deal with something like 9/11, this plant has the capability—through very simple mechanisms of having every possible audio input and output available either singularly or commensurately available to any other board input or transmitter STL. And it's basically done with a touch of a button on a screen. One station's studio can even become the other station's studio in the event of a disaster. We have a level of redundancy built into the system so that any one particular piece of equipment will not take us down."



Let the wiring begin...

The audio source distribution system in Clarksville is BE, and the telco interface is a mix and match of Comrex and Telos equipment. For audio processors, "we're pretty much an Omnia site for the FMs and we have the Orban 9200s doing duty on the two AM stations," he says.

And of course, as mentioned in the 2/4 Saga Profiler, the company bought 12 new transmitters last year. Half of them went to Clarksville. "**J.C. Morrow** is the local CE in Clarksville. There's no other CE that I know of who's gotten so many brand new transmitters

in a span of such a short amount of time. And it's hard. Each one of those sites is up on a mountain. Each one of them has their own complexities," Urbiel says.

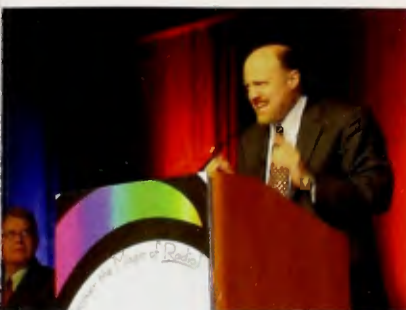
Another consolidation project is taking place in Saga's Des Moines, Iowa facilities—this time it's for the broadcast transmission facility for FMs KIOA, KSTZ and KAZR. "We will get out from under having the terms of leases being dictated by other people and putting ourselves in control of our own destiny. We're bringing three FM signals under one roof with a brand new tower. And we're improving those signal as well. When we take on a project, ideally it's not always just an economic solution, it's not always just a technical solution. It's when you have that magic where you get more than just the sum of the pieces that make the whole. The Iowa project will save us a tremendous amount of money. It's significant monetarily, it's significant technically, it's significant regarding peace of mind and our control of our own property."

Spending...and saving...money

For Saga's capital expenditure budget development, Urbiel first reviews the needs of each local market's CE and GM. "I confer with either or both of these people regarding questions of completeness of detail, obtainment of appropriate cost proposals and determination of need. Suggestions for additions or deletions are usually proffered at this time. I try to insure that adequate background understanding of each technical item exists so that the general manager, when meeting face to face with Ed, **Sam Bush**, our CFO and **Warren Lada**, our SVP of Operations, at the Corporate review, can feel comfortable arguing the merits of proposals."

Once funds are approved, to save money along the way, Urbiel says the policy is to first try to do project work in-house, as much as possible. "When we're looking at an acquisition or existing situation and trying to make a signal improvement or something similar, if we can do the preliminary work in-house and if there's time to do it in-house, Ed purchases the software and the tools that can crank some of this stuff out. And when it gets more complex, we have a group of extremely knowledgeable people we can call on outside of the company. When we need to use them, we do. I have to say, it's very rare to be able to work for a guy who's truly a real broadcaster. It's such a pleasure not working for the accounting department. Ed's a pleasure to work for, it's good to do real radio."

Urbiel's experience is rooted in Detroit, Saga's HQ city (Grosse Pointe), but the resume goes well beyond. Highlights include CE for Detroit's WWJ-AM, WKRK-FM, WCAR-AM/FM (now WDFN and WMXD) and WWWV-FM; Special Projects Engineer for ABC Radio; Director of Technical Operations, Midwest, for CBS Radio; Participated in the MPEG subjective testing of perceptual coders; Led the US delegation of the (now) ITU in selecting perceptual coding algorithm standards; Member of the EIA Digital Audio Radio Subcommittee; Member of the lab team of USADR's FM-1 system; Member of the USADR mobile testing team; Worked with NASA and Jet Propulsion Lab on the Ka band Advanced Communication Technology Satellite; Vice-Chairman of the Southeast Michigan Operational Area Emergency Broadcast Coordinating Committee (he helped developed the local plan).



Jim Cramer

Market guru sees tough time for investors

"What a mess we are in!" said **Jim Cramer**, multi-media stock market guru (including Premiere's "Smart Money"), as he gave RAB2002 his views on the current market. "There are heroes in business and there are huns."

But with the nation reeling

from a recession, 9/11 and the Enron fallout, Cramer said the country has changed in a good way because people are more concerned about the things that really matter—family, community and honesty.

With inflation almost non-existent and interest rates so low, Cramer said the stock market has almost nowhere to go but up—but that doesn't mean that all stocks are good investments. "This is a tough economy and a difficult stock market for your listeners and I love it," he said.

Note pads came out as Cramer gave the RAB crowd his 10 favorite stocks for 2002. Only one media stock made the list—Viacom (N:VIA & VIAB)—and just barely, in 10th place. (Cramer noted that he couldn't ethically give a thumbs up or down to his radio syndicator's parent company, Clear Channel [N:CCU].)

"Viacom is a great franchise," Cramer said, noting that he disagreed with analysts such as Merrill Lynch's **Jessica Reif Cohen**, who think that the stock will tank if **Mel Karmazin** leaves. "Do I want Mel to leave—no—unless he goes to Disney (N:DIS), and then I want to buy Disney," Cramer quipped.

When an audience member asked about satellite radio, Cramer said he considers XM (O:XMSR) to be superior to Sirius (O:SIRI) as an investment because XM has better distribution through its automaker partners. Even so, he's leery of both stocks because the companies aren't in control of their own destiny—they're dependent on the auto companies for gaining market penetration.

"It could be a huge win. It could be a huge loser," he said of the satellite radio business.

Denver double-dealing helps Emmis de-leverage

Having been outbid for Tribune's (N:TRB) three Denver stations by Entercom (N:ETM), Emmis (O:EMMS) is exiting the market by selling off its two FMs. Entercom is getting Hot AC KALC for \$88M and Entercom is paying \$47.5M for Alternative KXPK, which it will flip to the Mexican Regional format now on KMXA-AM.

Emmis is taking a haircut on these sales, having purchased KALC for \$98.8M and KXPK along with a Phoenix FM for \$108M, but the \$135.5M take will help the company clean up its balance sheet and reduce its leverage. Emmis had warned last October that it was in danger of falling out of compliance with the ratio covenants for its senior debt by 11/30/01—but when that date came it reached an agreement with its bankers that gives Emmis some breathing room—through November of this year.

Even so, Robertson Stephens analyst **James Marsh** expects to see Emmis shed some more assets. Post-closing on the Denver deals, he pegs Emmis' EBITDA at eight times total debt and it needs to get down to six times by December, when the covenants kick back in.

RBR observation: While Emmis is cutting its debt with these dual deals, it won't see much cash flow disappear from its quarterly reports. Emmis said the two Denver stations are expected to yield only \$3.5M in broadcast cash flow this year, so the overall multiple for these two sales is 38 times. Obviously, the buyers are looking at these as stick deals, not from the point of view of cash flow multiples.

Mel sees 3-4% growth year for radio

Viacom (N:VIA & VIAB) reported 2/12 that Q4 revenues were down 5% to \$6B and EBITDA dropped 12% to \$1.3B. Infinity, including radio and outdoor, saw revenues drop 12% to \$939M and EBITDA dropped 21% to \$385M. Even so, Viacom President **Mel Karmazin** noted that Infinity Radio produced cash flow margins in excess of 50% and he said that both radio and outdoor are well positioned once the economy takes off.

In his quarterly conference call, Karmazin offered his forecast for the radio industry: "We're forecasting that Infinity and radio for 2002, the way we see it, will probably finish up 3-4%," he told Wall Street analysts. "What we are seeing in the first quarter is great sequential improvement from the fourth quarter to where January was a pretty good month for us, almost to the point where we felt like we had seen some signs that maybe we can signal that this thing has totally turned around. February, because of the Olympics, radio has lost its largest category, which are the people who advertise for the February sweeps—and many of them abrogating that position to NBC because of the Olympics—and, unfortunately, March hasn't broken yet. We estimate that between now and the end of March we will still be writing about 40% of the business—so we're a little bit cautious to give you any more information because there still is a lot to be done, but certainly we are seeing some really good signs."

Westwood One revenues down, free cash flow up

Cost-cutting and elimination of traffic inventory comp payments to many large market Clear Channel (N:CCU) stations helped Westwood One (N:WON) post a 2% increase in Q4 free cash flow to a record \$31.9M (29 cents per share), although net revenues declined 12% to \$136.7M and operating cash flow was off 6% to \$51.5M.

"Going into 2002, while the economy and advertising environment are still not strong, we are seeing some signs of improvement, even though orders continue to be placed very close to their desired air dates," said CEO **Joel Hollander**. He also noted that the company is pleased with ad sales for the current Winter Olympics airing from Salt Lake City.

Hollander indicated that Q1 ad sales are pacing flat with a year ago, both in terms of pricing and actual dollars. Exec. VP **Shane Coppola**, who heads WW1's Shadow/Metro operation, also reported that local and regional revenues are also pacing flat with Q1 of 2001. In both cases, of course, that's an improvement from Q4.

Accounting worries hit radio

It had to happen in the current Enron-charged environment, even though radio is a mature industry and there's plenty of history on how to report and evaluate broadcast cash flow and after-tax cash flow—the primary Wall Street metrics for radio and TV stocks.

Lehman Bros. analyst **Bill Meyers** said he'd heard rumors about possible accounting irregularities at Clear Channel (N:CCU), so he took a closer look.

"As an acquisition driven company, we believe CCU has fallen victim to balance sheet concerns overhanging consolidation accounting. Moreover, questions have surfaced with regard to capital spending and real free cash flow," the analyst noted. "We have re-examined the last three years of acquisitions, largely reconciled free cash flow and reviewed the non-recurring capex [capital expenditures]. We believe accounting concerns are overblown and expect increased transparency through FASB 142 reporting to assuage investors."

Meyers said he expects Clear Channel to report Q4 results in line with its previous guidance and he reiterated his "Strong Buy" on the stock.

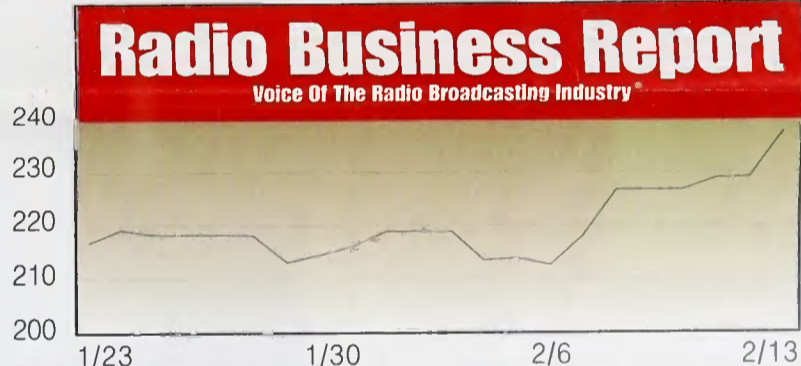
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Brokers see gap narrowing between TV sellers and buyers

Is it a buyer's market or a seller's market?

"I think it can be both. It really depends on the expectations of both," said **Brian Byrnes**, who joined Media Venture Partners as a Chicago-based broker last October after a 30-year career in television management and consulting. The challenge right now is bridging the gap between seller expectations that in some cases have carried over from the recent go-go years and the reality of what buyers can pay and find financing for.

"If somebody still thinks that we're living in a 15-17 times cash flow world, as a seller, they're kidding themselves," Byrnes told *TVBR*. "If they think they're at 7-8 times, or even six times, as a buyer, they're also kidding themselves. In the middle there somewhere there are some very solid buyers and some pretty good sellers."

"I think we've got a significant gap in expectations—a gap between willingness and expectations," agreed **Elliot Evers**, who heads MVP's San Francisco office. "People on the sell side, if they're not being forced to sell, have an abiding belief in the business and a desire to maximize their price. On the buyer's side, there's still a strong core belief in the business, but the banks are so scared of the industry that it makes it really tough to get conventional financing."

Even so, the two brokers say there's still lots of interest every time a new TV property comes onto the market.

"The KNTV deal is a good example of that," Evers said of NBC's recent \$230M buy of San Francisco's Channel 11. "Or the KCAL deal or the Telemundo deal [also to NBC for \$2.7B]," he added.

"You hear people crying all day long about how the television business has all these problems—and the television business does have a lot of problems—but look at the deals. The deals are a powerful endorsement for the industry," said Evers.

"When you stand back and look at a television station in today's environment, sure business is off and things aren't as rosy, but when you say that the operating margin has slipped to 25% or 22%—show me another business where you get those kinds of margins," Byrnes added. "The business is changing, it's more competitive than it's ever been, but it's the same for every other business."

While it may have been possible in the past to just turn on the transmitter and pick up the money, TV is becoming a more entrepreneurial and management-intensive business. That doesn't mean, however, that the financial players are selling out.

"There's a fairly substantial list of financial players wanting to get in," Evers said. "There's \$100-150B of pledged but unspent private equity in the venture capital community. Most of those guys had a terrible experience in telecom and we get calls literally every week." And he adds, "Television feels a lot like radio did in 1996."

There is an obstacle—price.

"They all want a price point that isn't there," Evers said. "They all want to pay seven times cash flow. There are no deals at seven times cash flow."

Lately, the MVP brokers say most of their TV sales have been sticks, rather than deals based on a cash flow multiple.

"We're seeing big-time Spanish plays," Evers said of the recent activity in TV station trading. "Univision wants to be doubled in every market where they own anything and Telemundo is hard on their heels. That's a major driver out there right now for non-performing stations. Frankly, not unlike radio."—JM

Sinclair Q4 down double-digits

Sinclair Broadcast Group (O:SBGI) reported 2/13 that net broadcast revenues from continuing operations fell 15.8% in Q4 to \$168M. Broadcast cash flow was off 29.3% to \$71.5M—better than the company's guidance to Wall Street to expect a drop of 38-40%. After-tax cash flow fell 63% to 20 cents per share, but Sinclair noted that still beat the Thompson Financial/First Call analysts' consensus of 17 cents.

"2001 will go down in history for many different reasons," said CEO **David Smith**. "For broadcasters, it was a year marred by economic recession, terrorist acts and increased competition for national advertising dollars that translated into the worst advertising spending declines in over 50 years." To counter that, Smith said Sinclair's sales force has been focusing on local business and the company has been very cost-conscious.

"Excluding political advertising revenues, our local markets are pacing up approximately 5% in the first quarter versus last year," Smith said of the current quarter. "Although national advertising revenues continue to be down, we are seeing certain advertising categories beginning to re-emerge, particularly those in the auto, telecom and movie sectors. We also are expecting to benefit from the inflow of political advertising dollars, and advertising revenues generated during the Olympics and Super Bowl."—JM

Hearst-Argyle Q4 also down

Q4 net revenues for Hearst-Argyle Television (N:HTV) dropped 15% to \$172M and broadcast cash flow was off 31% to \$74M. After-tax cash flow dropped 27% to \$39.2M, or 43 cents per share.

"Certainly the year 2001 proved to be unimaginably challenging in every respect," said CEO **David Barrett**. "From a business point of view the impact of a weak economy and a more pronounced negative advertising environment led to weak operating results at our TV stations and well below the very strong, record level of performance that was achieved in 2000."

What about the current quarter?

"While we are unable to accurately predict the end of the recession, we are modestly encouraged by early indications that the broader economy may be stabilizing," said CFO **Harry Hawks**. "Such encouragement, plus solid advertising performance with the Salt Lake City Olympics, leads us to anticipate a return to growth in revenues and cash flow for the first quarter. Based upon the best information available to us today, we anticipate our GAAP net revenues in the first quarter to be up between 2% and 4%, and our broadcast cash flow to be up between 5% and 7% from the \$148.3M and \$54.5M, respectively, reported in the first quarter of 2001."—JM



Brian Byrnes



Elliot Evers

Viacom buys second LA TV for \$650M

VHF-VHF TV duopolies are extremely rare, but the Los Angeles market is getting its second. Viacom (N:VIA) last week (2/13) announced a \$650M deal to buy KCAL-TV from Young Broadcasting (O:YBTVA).

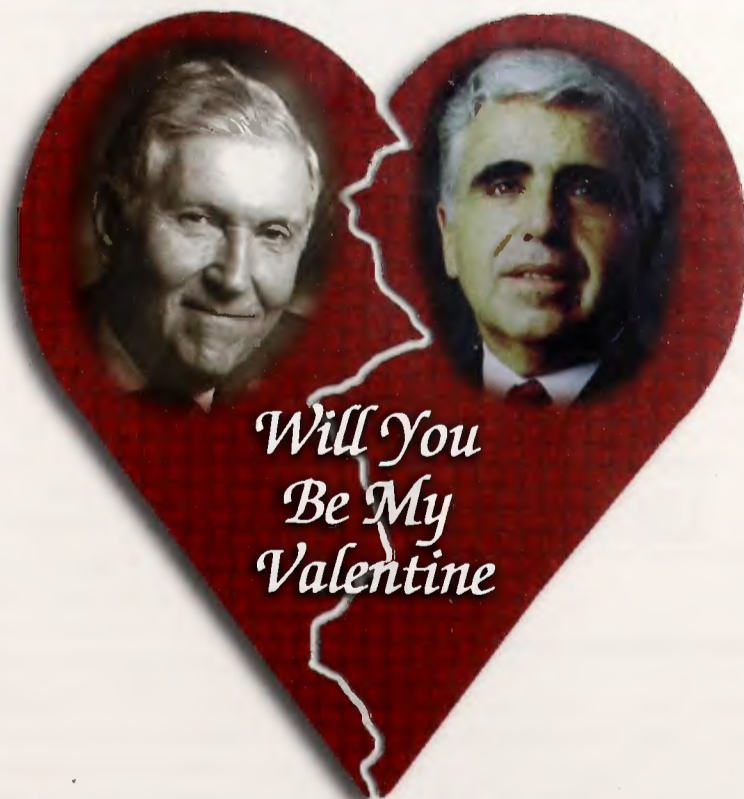
If you want to calculate the broadcast cash flow multiple on this big TV sale, you'll first have to decide which perspective you want to use. Seller Young Broadcasting CEO **Vincent Young** is calling it 32 times 2001 cash flow of \$20M. However, Young says in a more normal year he would expect KCAL (Ch. 9, Ind.) to have \$30-35M in cash flow. Buyer Viacom (N:VIA) is taking that number and then adding in synergies and cost savings from combining KCAL with its KCBS-TV (Ch. 2, CBS) for President **Mel Karmazin** to peg the multiple at 12 times first year post-closing cash flow—implying an additional \$19M in cash flow from combining the two operations.

News Corp. (N:NWS) already has two VHF stations in LA, but one of them could be in for a change as a result of this deal. KTTV (Ch. 11) is its Fox O&O, but KCOP (Ch. 13), which it acquired from Chris-Craft, is a UPN affiliate. It's widely expected that Viacom will move its UPN network to its own signal, once it closes on KCAL.

In a Wall Street conference call, Karmazin expressed confidence that a second VHF station in LA will give the company the biggest share of LA's \$1.6B TV market—along with opportunities to sell both stations in combination with Infinity's radio and outdoor properties. He didn't indicate what radio station Viacom might divest to make room for the additional TV, but the logical choice is KFWB-AM.

"The phone call finally came," Young told Wall Street analysts, referring to his repeated assurances that his company's business strategy would lead to profitable asset sales (or an eventual sale of the entire company). "People thought we were stupid," he said of Young Broadcasting's belief that it could pay Disney (N:DIS) a rich \$368M for KCAL in 1996, cut \$20M in overhead and continue to operate a successful independent station. Now the gamble has paid off, so Young can focus on his remaining biggest challenge—building up newly independent KRON-TV (Ch. 4) San Francisco, which he bought last year for a record \$830M.

TVBR observation: What's a top 10 market VHF worth? Even in this advertising recession, there seems to be no top-end limit for cash flow multiples. These are rare, beachfront properties and both Viacom and NBC have proven themselves to be willing to pay big bucks for them.—JM



Valentine kisses at Viacom

"Mel and I are totally in sync," Viacom (N:VIA) CEO **Sumner Redstone** insisted in the company's quarterly conference call a day before Valentine's Day, as he sought to dispell worries about an executive suite rift with President **Mel Karmazin** that has put pressure on the company's stock price. "Mel and I are getting along great and you should feel great about your investment in Viacom."

Viacom's financial results are on page 7.