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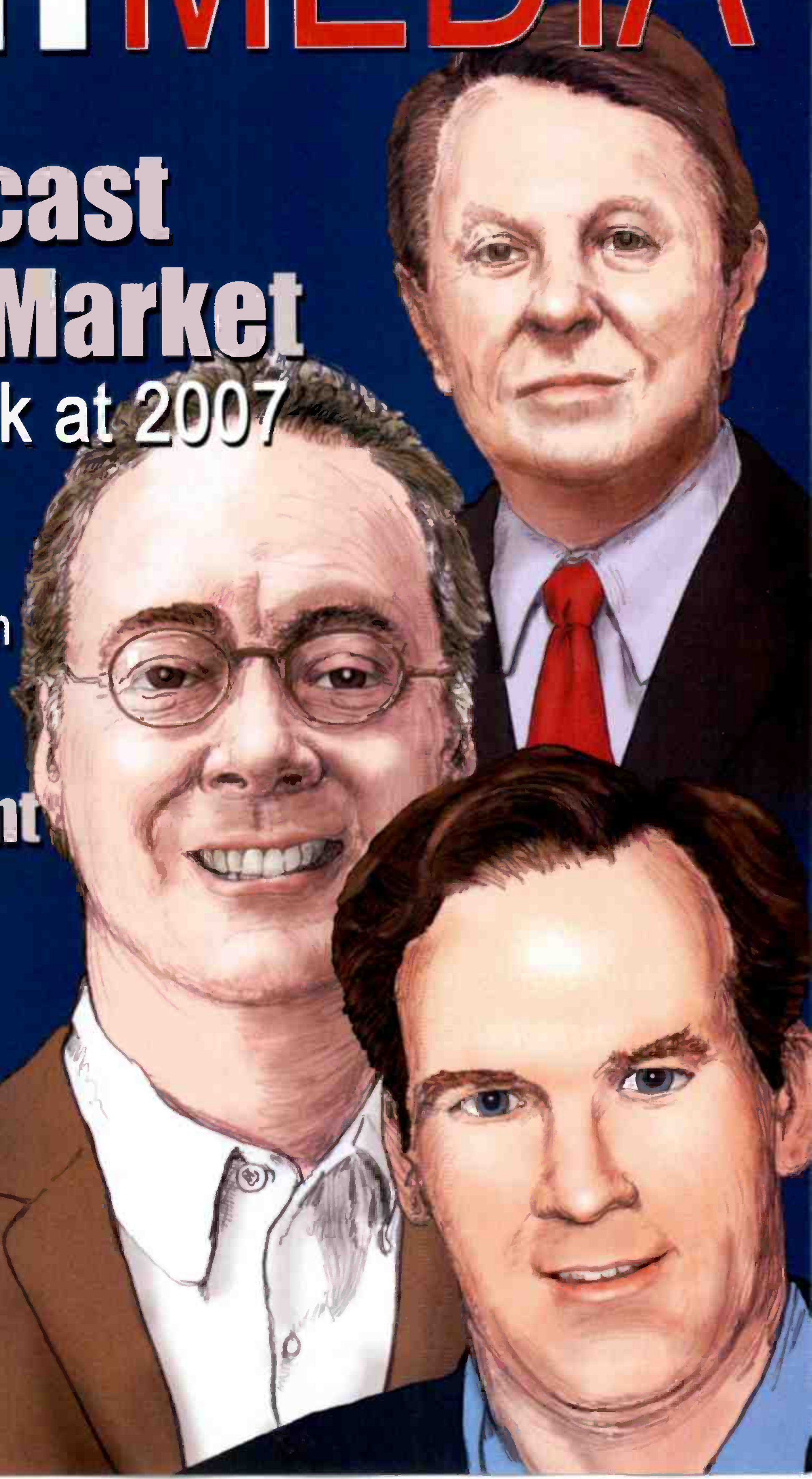

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Senior Editor..........Carl Marcucci
Production Manager..........Michael Whalen
VP Administration..........Cathy Carnegie
Administrative Assistant..........April McLynn
Marketing/Sales Director..........June Barnes

Corporate Office
Radio & Television Business Report
2050 Old Bridge Rd., Suite B-01
Lake Ridge, VA 22192
Main Phone:..........703/492-8191
Editorial Fax:..........703/997-8601
Subscription Phone:..........703/492-8191
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Email Addresses
Publisher:..........JCarnegie@rbr.com
Editorial:..........RadioNews@rbr.com
..........TVNews@rbr.com
Sales:..........JBarnes@rbr.com

Bradenton, FL Office
Jack Messmer
Phone:..........941/792-1631
Fax:..........253/541-0070
Email:..........JMessmer@rbr.com

Columbia, SC Sales Office
June Barnes
Phone:..........803/731-5951
Fax:..........803/731-5982
Email:..........JBarnes@rbr.com

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Cover Art Credit:
Chick Alcorn
9630 Mistletoe Rd.
Tujunga, CA 91042
818-951-5908
chickalcom@aol.com

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Cover Art (top to bottom): George Beasley, Chairman and CEO of Beasley Broadcasting; **John Brooks** of Wells Fargo Foothill; **Steve Healey** of CapitalSource Finance LLC.

DEPARTMENTS

New CRB royalty rates alarm the industry

As expected, the new, ridiculous Copyright Royalty Board copyright licensing fees for streaming radio stations has alarmed Internet broadcasters. NPR took the first step in its plans to pursue all possible action to reverse the decision by Copyright Royalty Board to drastically increase streaming fees. NPR filed a petition for reconsideration with the CRB panel, the first step in this process.

Says **Andi Sporkin**, NPR VP/Communications: "These new rates [are] at least 20 times more than what stations have paid in the past...we are being required to pay an Internet royalty fee that is vastly more expensive than what we pay for over-the-air use of music, although for a fraction of the over-the-air audience."

Kurt Hanson, publisher of the Radio and Internet Newsletter, said the SoundExchange group, which collects these royalty fees, would become a $2.3 billion dollar per year business should the rates the CRB accepted finally become ratified. "When you apply the projected growth rate of Internet radio for the next three years, and also take into account the 2010 royalty rate of .0019 per performance, BetaNews can now project that AOL Radio could owe $146.4 million in royalties in 2010 alone. LaunchCast would owe $113 million, Clear Channel would owe $61.7 million, and Live365.com would owe $42 million. Just the top four streamers would be billed $363 million during the same year that all 14,000 US radio stations combined would be billed $550 billion...an Internet radio music provider is likely to pay in royalties almost ten times the amount for each of its listeners throughout the year, than the terrestrial broadcaster."

SmartMedia observation: If the Copyright Royalty Board doesn't realize these rates are completely unattainable by everyone from the smallest online broadcaster to the largest radio broadcaster to AOL Radio, then the Board must be comprised of morons. No one is stupid enough to operate at a loss. Who are these people and how did they get placed in a position of such reckless authority—we'd like to know.

NTIA details DTV coupon program

The National Telecommunications and Information Administration (or, as some think of it, FCC Lite) has released its game plan for the nobody-left-behind safety net portion of the DTV conversion. US households can apply for digital-to-analog converter box subsidies over a year before the DTV deadline takes affect. The distribution of 990M in coupons will kick off 1/1/08, well in advance of the 2/17/09 lights-out date for analog broadcast of television. Households will be able to get either one or two 40 coupons until the 990M runs out, at which point contingencies begin to kick in. After 990M is reached, Congress can release an additional 510M. The rules will tighten up, however, with applicants required to self-certify that they do not subscribe to an MVPD service. The coupon program will be accessible via Internet, phone or mail, from 1/1/08 through 3/31/09.

NAB President/CEO **David Rehr** said, "The NTIA's rulemaking helps to assure that all Americans will continue to enjoy the full benefits of over-the-air television, consistent with our program launched in late 2005 to work with manufacturers to develop high-quality, low-cost digital-to-analog converter boxes. It is particularly gratifying that the NTIA followed our recommendations regarding converter-box reception specifications and features, including smart antennas and electronic program guides."

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CARL MARCUCCI

News content gathering and delivery in the new media world

We spoke with a few TV station news directors about new forms of content gathering and delivery they're using; how they get the audience involved in news gathering/reporting and if they're retooling their staffs to include videojournalists, sending them out by themselves to cover stories in their community.

Mark Danielson, Executive News Director at Belo's KTVB (NBC) in Boise, says in 10/06, KTVB News Group launched its first WiNG (Wireless Internet News Gathering) Unit. WiNG consists of a WiNG photojournalist, internally dubbed the "Wing Man." He's assigned legacy broadcast equipment (Ford Explorer, Beta SX camera, Tripod and light kit), and is also using a lightweight camera (a small digital video camera that is tapeless - it uses a hard-drive), a Grass Valley LT (laptop Editor), and his vehicle has been wired with broadband connectivity.

A computer-generated image of the WYOU Interactive Studio

"The WiNG unit is designed to be a rapid response vehicle - capable of gathering news and information in the field and uploading it directly to KTVB.com - both video and text to our web site - without returning back to the newsroom. The WiNG Unit is not designed to replace a legacy ENG or SNG vehicle, but rather supplement those broadcasting tools, enabling our staff to get news and information onto the internet efficiently. In some actual cases our WiNG unit works side-by-side our live trucks who are gathering and broadcasting news for television, it allows the legacy crew to do its job for the live newscasts or breaking news coverage, while the WiNG unit is putting new and unique elements to our web site."

Since they have only three live units to cover a large geographic area (most of southern Idaho, northern Nevada, and parts of eastern Oregon), the WiNG unit gives them a competitive edge - the ability to get video and text quickly to the our web site if a live unit is not able to get to the scene.

Danielson explains: "Our 'WiNG Man' can arrive on the scene, shoot video with his digital video camera, plug the camera into our Grass Valley LT via a USB cable, drag the video files to the Grass Valley LT, edit the video, connect to the video servers wirelessly via the broadband connectivity and publish the video and text immediately to KTVB.com - all of this on the scene of a breaking news event inside the car."

All crews in the field are also equipped with a camera phone. "Since we don't have an army of live trucks and satellite trucks that can get pictures to viewers and users immediately the camera phone has helped supplement that. Once KTVB news crews arrive on scene they are trained to click off several still pictures and send back to the newsroom via the cell phone to allow us to get those pictures on air and online fast. The quality is sufficient for broadcast as well as the Internet during a breaking news situation. The camera phone allows us to show people what is happening the moment we arrive on scene," says Danielson.

Chris Manson, VP/News Nexstar Broadcasting Group, says Nexstar is currently rolling out a new generation of websites designed to become "community portals" for their markets: "These sites are much more than simple TV websites. They are centers of commerce, communication and connection for the communities in which we operate.

Our new media platform relies upon RSS, SMS, MMS and Wireless/WiFi to become a homepage of choice for people in Nexstar communities. We hear regularly that people aren't willing to make an appointment at 5, 6 or 10 to watch the news, but they are willing to log on and get caught up on their schedule. Our sites are creating a new era of community involvement. Polls, blogs and community forums give us a much better idea of what's important to the people we serve."

Nexstar formed a partnership with Newsroom Solutions, the originators of NewsTicker and the TickerWire content feed, to create a wire service exclusively for the television newsroom. RNS (The Regional News Service) has extended the techniques it uses in delivering "ticker" data to producing and distributing broadcast-ready stories. Nexstar and RNS have developed a new technology-based approach to newsgathering and dissemination. For example, RNS lets Nexstar stations post stories directly to the RNS wire. "This allows our stations to share stories quickly and easily, without the stories being seen by competing stations in their markets," says Manson. "RNS also uses proprietary software for monitoring the news activities of hundreds of state government agencies, local congressmen, and police and fire departments of interest to our stations."

Getting the audience involved

How do news operations get their audience involved in news gathering/reporting? What gear and techniques are used? As the public gets more involved in gathering content, there is more burden placed on a news organization to verify is authenticity. Camera phones and video cameras are everywhere, there is no news organization that has resources that can match that of the public. Each news organization will need to wrestle with and decide on how they will use this content.

Tracey Rogers, WMC-TV Memphis News Director, has used viewer photos and has included video from viewers: "We are now gathering those photos through email to our newsrooms. It appears our viewers are very savvy about the technology they can use to capture events as they happen and get those photos or video to us. We especially find this helpful in covering severe weather or winter weather events."

Manson says their new media platform emphasizes viewer participation. Forums on each of the sites allow visitors to discuss current news topics of widespread appeal or suggest subjects of their own. Viewer ▸▸

Tracey Rogers, WMC-TV Memphis News Director

supplied video can also be forwarded to the site. "Our stations invite viewers to e-mail photos, breaking news and story ideas. We also invite feedback on hot-button stories. Many stations use this feedback not only on the website but also in traditional newscasts," he says.

In Wilkes-Barre, PA audience involvement has been taken to a new level on one of the country's first completely interactive newscasts. Nexstar's WYOU Interactive newscast integrates live viewer calls into the format of the newscast. Their comments, questions and feedback become one of the most important elements in guiding the broadcast. This direct and immediate viewer participation has created a dynamic and relative news product.

Videojournalists

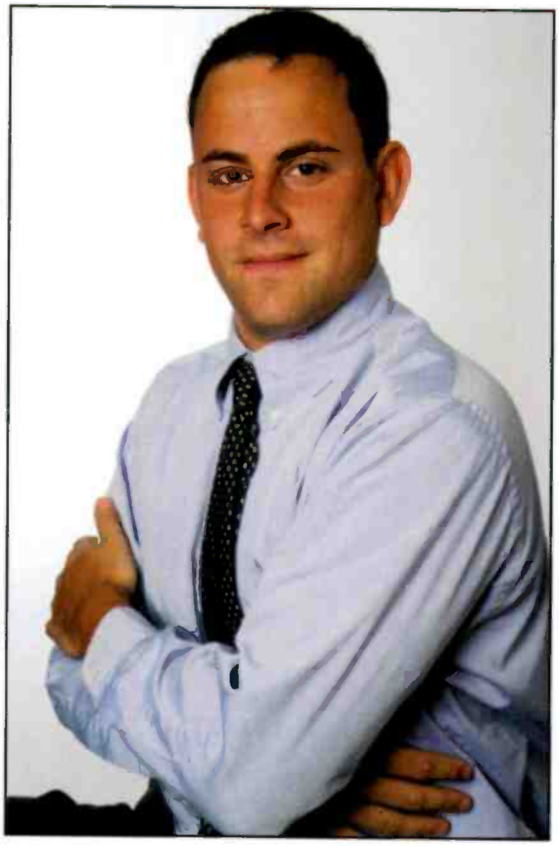
Some newsrooms are retooling their staffs to include video journalists, sending them out by themselves to cover stories in their community. "The traditional way of gathering news and job descriptions will not work in the future," Danielson claimed. "As technology and competition changes the landscape of news, we need to equip our crews and train them to do a variety of tasks. A staff of 'specialists' who are only capable of one thing will put a news organization at a competitive disadvantage. I see a newsroom where photojournalists with various areas of emphasis will emerge. For instance, I can see an anchor who also edits and reports but sparingly shoots. I can see a WING photojournalist with shooting, editing and technology strengths, but he/she might not be appropriate to send on a story requiring depth in writing or live shot stand-ups. Of course everyone will post to the website. In other words, I see a broader-road for photojournalist and each of them with areas of strength and areas of emphasis. This will allow the assignment manager to match the correct human resource to the story coverage needs, and thereby improve newsroom productivity."

Manson says Nexstar has redefined itself as a content generation company and not simply a broadcast television group: "We have made strategic moves to ensure that we are able to move content over a range of media platforms. Many of our stations utilize one-man-bands. This enables us to get more people in the field and cover more stories."

Rogers is considering adding video journalists to her teams. "I just moved from WAFF [Huntsville, AL] to WMC. At WAFF, I added four video journalists. I did this so we could cover more of our DMA both dayside and nightside. Before we added the four video journalists, we only covered the west portion or our DMA and the east portion of our DMA for our 5pm and 6pm newscasts." ■

MICHAEL **BOLOGNA**

The anatomy of on-demand television



In every agency, cable operator, publishing house and brand headquarters, water cooler conversations have turned to the explosion of digital media. From the evolution of digital platforms to the impact on a brand's business, we find ourselves in similar discussions week after week with little progression and a lot of confusion. The press readily writes about each new piece of technology and every advertiser's new media initiative but they often fail to help us separate myth from reality. To make it even more confusing, each person maintains a different view of whether new media is a threat or opportunity with all members of the digital ecosystem struggling to find a niche. CMOs of major brands lean on their ad groups to be innovative and explore new communication tactics. Publishers push content wherever they can, through any and every screen possible while agencies strive to provide clients with a comprehensive evaluation across all platforms to support new strategies for engaging consumers in this advanced digital landscape. One area that has begun to take shape in the industry and holds promise for the future is television-based Video On-Demand.

Depending on the service provider (Cable, Satellite, IPTV), the menu of VOD content and means of distribution can vary by market. Primarily distributed through cable television, current VOD penetration is approaching 30 million households (HH) across 151 DMAs nationwide. This number is expected to jump to 46 million by 2010 as more analog households convert.

To consumers, VOD is a home run. Enabled households have access to a robust library of free content with minimal advertising. To be exact, there are 50+ linear cable networks that support a free VOD tier and over 60 start-up networks in which VOD is their primary or only means of distribution (and revenue). And consumers use it. Recent studies suggest that over 70% of digital households have used VOD within the past 3 months with 20% actively using the service 3+ times per week. That equates to over 150 million free program views in a given month with active households watching over 20 programs. Not surprisingly, more than half of all monthly on-demand traffic comes from Music, Kids, and Men's Lifestyle content.

For marketers, VOD is both rich in opportunity and extremely complex in nature. Agencies and advertisers struggle to navigate through the rules, regulations, processes and terminology of five major MSOs, 115 networks and a list of committees and subcommittees aimed at creating a working business model. But the problem is just that. The perfect model, one that satisfies the appetite of all parties involved, has not yet been refined. VOD, in its current state, lacks standards and consistency making it a challenge for agencies to plan and implement campaigns. Nationally, each VOD network (MTV, CNN, Anime, Exercise TV, etc) has a separate pricing structure, creative guideline, materials deadline and format for reporting data. At the local level, each operator has a successful offering; however, they are not always consistent with one another or with participating national networks. This results in frustrated media buyers who are more likely to think twice before allocating those emerging media budgets to VOD. Wait, emerging media budgets, what's that?

Regardless, this outwardly chaotic industry offers vast opportunity in three areas of utmost importance to the media industry: exclusivity, creativity and accountability. VOD allows advertisers to cherry-pick from an extensive list of relevant programming and exclusively "own" that content over the course of a flight. On a smaller scale and with a significantly smaller price tag, a brand can have the equivalent of Ford's association with Primetime hit series *24*. For example, Paramount Pictures promoted the movie *Heart of Gold*, portraying the life of classic rock artist **Neil Young**, by turning to Concert TV and Music Choice. In partnering with these music-focused networks, Paramount exclusively attached their message to concerts, videos, interviews and performances by Neil Young, Crosby Stills Nash and Young and other classic rock groups of that era. Sears/Craftsman took a similar approach during NASCAR season as a charter sponsor of Octane TV, a new network dedicated to the NASCAR and automotive enthusiast. Despite the absence of demographic verification by Neilsen, in either example one can easily see the perfect marriage of content and brand. Most importantly, each campaign over delivered versus the guarantee deeming it a success.

In today's fragmented marketplace advertisers continue to seek out new ways to shine through the clutter, particularly in the television space. Although VOD doesn't offer the mass reach of national broadcast (and wont for several years) it does present an array of interesting, nontraditional messaging tactics. The absence of standard commercial pods presents advertisers with the opportunity to communicate a message above and beyond those feasible with linear television. Brands can run nine-second spots, ninety-four second spots and a laundry list of in-program integrations and immersive messages that become part of the program and are virtually DVR proof. An excellent example of creative integration was ▸▸

Cingular Wireless's presence on TV Guide's Music/Entertainment VOD tier. As viewers ordered each video, channel host Kimberly Clark promoted the matching ring tone and encouraged viewers to purchase it online or from their handset, similar to the one she held during the promotion. Mattel took a different approach to VOD when promoting their new *Barbie* DVD. They created a ten-minute special feature that ran as stand-alone VOD content in select Comcast markets. Viewers were directed to the entertainment through co-branded navigational units on the Comcast digital platform. Both campaigns performed extremely well in terms of delivered impressions, creativity, and ROI.

Measurement is the one element of VOD that continues to remain top of mind for all parties involved. The transmission of digital video has radically altered the capabilities and speed of data collection. For the first time in a television environment we are able to support campaigns with "actual" metrics through data points collected via the set-top box. Approximately 30 days after the month's end, advertisers receive data that quantifies the value of their respective campaigns. Most VOD campaigns are purchased on a cost per thousand delivered views (CPV) however, a view can and usually does contain multiple messages or impressions. Pending that monthly report, advertisers pay only for delivered views and usually enjoy a slight over-delivery due to a networks inability to flight inventory with 100% accuracy, though this will change. Although current data points do not scratch the surface in terms of what truly exists within that set-top box, we are off to a great start towards bringing the accountability of the internet to television.

In 2005, the AAAA Digital Video Innovation Committee issued the industry's first set of guidelines to identify key data collection and reporting requirements for on-demand media. The latest version contains six key measurement factors along with the request for a quick turnaround and third party involvement. Fulfillment of these criteria along with a consistent implementation structure will certainly help move the needle on the VOD ad spend meter.

Aside from an easier planning process, standard ad units, and better data, what other elements are critical to ensure the growth and survival of video on-demand as an advertising medium? Other than coverage within all 112,374,784 television households, many would argue that Dynamic Ad Insertion is the end solution. Of the 55+ brands actively engaged in VOD advertising, all look forward to a future when they will be able to provide materials the day before, rotate messaging on the fly, geo target, and manage data through a single dashboard customized to their individual needs. Dynamic Ad Insertion will permit all of the above with ease and is currently being tested in select markets with participating operators and networks. MTV and Sunflower Broadband were first to market with Charter Cable immediately following. The larger operators are obviously exploring their own options as well. Another desperately needed component is the complete integration within an agency's traffic and billing system (Donovan, Datatec, etc). On-Demand media must have a home is these systems so that clients get invoiced, publishers get paid, and media teams can accurately account for delivered messages. This is a critical step to close the loop in the VOD ad space.

In 2006, agencies and advertisers spent approximately $50 million in television-based on-demand advertising. With the 2007/2008 up-front approaching, planning teams are beginning to incorporate VOD into the overall strategy and budgeting accordingly. A large portion of the linear VOD inventory will sell in the upfront along with a smaller cut of available nonlinear weight. The bulk of the niche, nonlinear inventory will likely trade in scatter format as it is not completely necessary to purchase all at once. In fact, few will claim it is wise to invest 100% of a client's new media dollars a year in advance. The emerging media space in general, and VOD particularly, is not going away. The technology is here, consumers are using it, and marketers are learning to effectively embrace it. 2006 was a year of experimentation, but 2007 will be the year of evolution both in the technology and the implementation of comprehensive, strategically planned, emerging communication initiatives. ■

Michael Bologna is Mediaedge:cia's Senior Partner, Director Emerging Communications. He can be reached at michael.bologna@mecglobal.com

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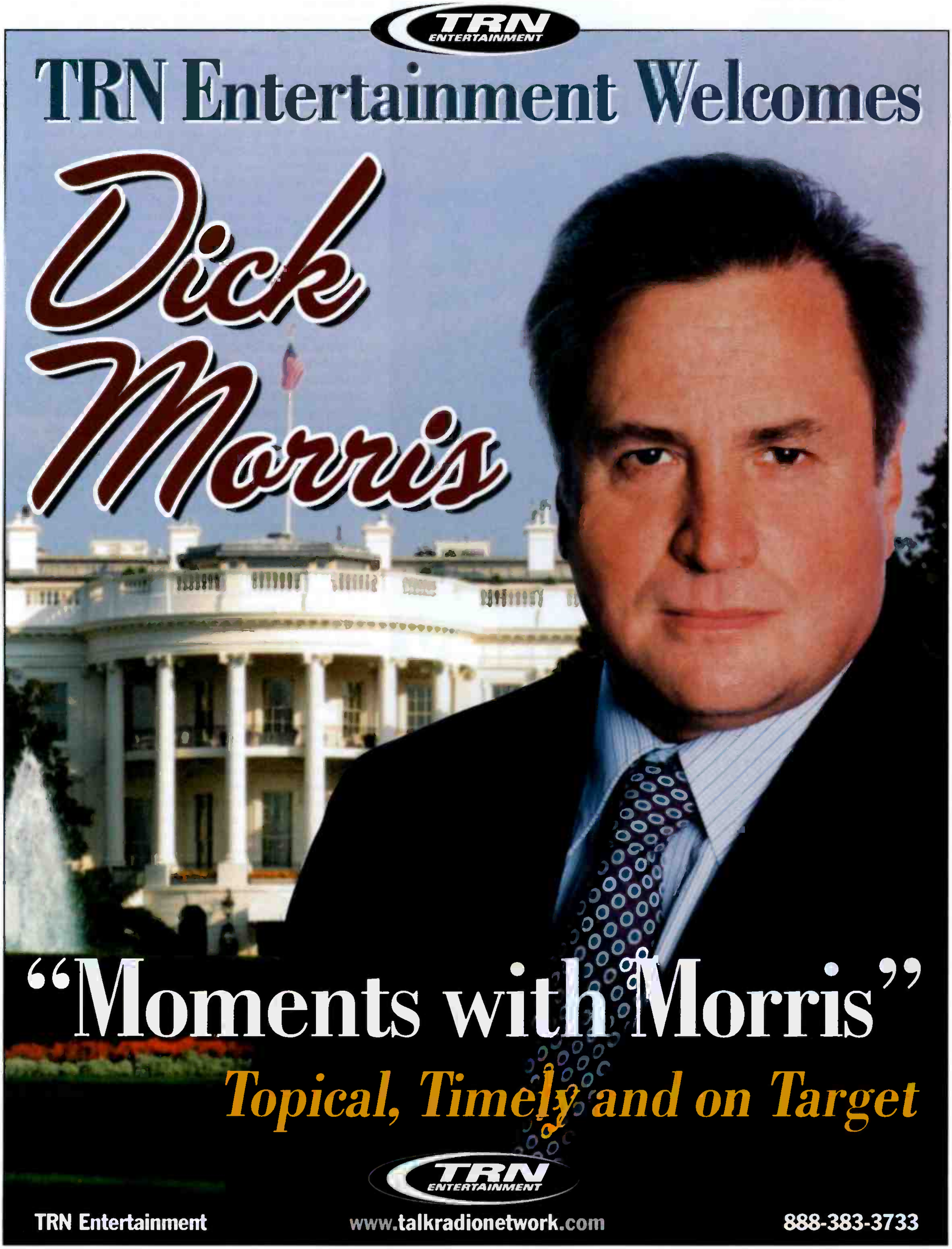
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One on One
George Beasley
Radio vet keeps the faith by moving forward

By Dave Seyler

The roster of radio groups that have gone by the wayside just since the 1992 duopoly rules kicked in is impressive, and in a lot of ways, depressing. Before then, each station had to be treated like gold because it was literally a core piece of the business. At most, it was one of only two local stations and if it was part of a group, that group's size was capped by very restrictive national limits. A radio station could not be treated as a pawn or a tactical asset.

In that environment, the national groups could only operate in a certain number of markets. A lot of smaller groups had a distinct regional focus, and there were a lot of owners who were strictly local.

The vast majority of the 1992 group ownership roster has disappeared, and the executives at the top of the surviving companies often wind up having to explain themselves to Wall Street rather than Main Street.

All of which makes the story of Beasley Broadcast Group even more amazing. How many groups still standing can trace their roots back 45 years to a high school principal who built a small AM daytimer in a small North Carolina town in an unrated portion of the I-95 corridor?

George Beasley was that educator, and he's still an educator today. In these two pages you'll learn, from a roots radio executive, where we've been, where we are, and most importantly, where we're going.

Q. What are the short-term prospects for the radio business in general and Beasley in particular, through the end of the year?
Analysts who cover the radio are projecting a 1.5% decline to a 2% rise in industry revenue in 2007. Our goal is to exceed the growth of the industry. While we haven't issued guidance for the full year, we believe we operate in some of the healthiest radio markets at this time and that we've made appropriate programming and personnel changes in several of our markets that will enable us to achieve this goal. We recorded significant revenue gains in the fourth quarter of 2006 including same station revenue results that exceeded the 3% achieved in the industry in 4Q as reported by the RAB. In the fourth quarter of 2006, our markets were up 3.8% while our revenues in these markets rose 7.0%. We think this is relevant as it demonstrates overall strength in radio in our markets and again highlights our ability to outperform even a healthy marketplace.

Q. We've heard for that last few years that the larger markets having been hurting the most. Beasley, with its unique portfolio, is better positioned than most to comment on this. And your comments are?
We generate about 60% of our revenue from three large markets — Philadelphia, Miami and Las Vegas. We are very competitive and have strong clusters in these important markets. We have been consistently out-performing the Philly market which has been challenging and, based on our focus on programming and sales, we have good upside ahead of us in Las Vegas and Miami, two of the industry's fastest growing markets at this time.

Q. How long do you think it will be before radio gets back to its tradition of steady mid-single digit year-in, year-out revenue growth? Along those lines, do you think Internet sampling by advertisers has had a negative effect on radio revenue?
Again, our goal is to exceed the growth of the industry and our markets and we work actively toward this goal each and every day. While I don't think we can put our finger on a time when radio consistently grows by mid-single digits, I remain very confident in the viability of the medium and the very stable consistent cash flows that well-run stations can deliver. According to a study released in September by Arbitron and research firms Media Monitors and Coleman, radio broadcasters hold more than 92% of their audience during an average commercial break. That's an impressive retention rate considering how easy it is to switch stations. In addition, radio is a business that benefits in a world where more companies are focusing on local, targeted ads. Local is a big buzzword in online search marketing as well as the upstart business of advertising on cell phones.

We recognize that some people are listening to satellite radio or music from their iPods or other devices. But free radio is still the best way for people stuck in rush-hour drives to get updates on local news, weather and traffic and it's the best medium for local advertisers to promote their businesses.

Q. Is there another advertising medium on the horizon that you think may become a competitive factor?
Any of the other forms of advertising could be considered competitive but we are prepared to compete and in some cases — such as through our Beasley Interactive initiative — participate in new forms of advertising that are logical extensions of our core operations. We also continue to look beyond spot ad sales for new non-traditional revenue sources. Operators have been both creative and successful with NTR and this supplemental revenue channel is an important component of our broader strategies to drive revenue growth. ▸▸

Q. Where does Beasley stand on: PPM?
Beasley is a progressive company committed to utilizing the most advanced technologies available to the radio industry to enhance our platform for both listeners and advertisers. For that reason alone, we have been a big supporter of Arbitron's Portable People Meter (PPM) audience measurement services and have agreed to use it in Philadelphia. We feel it provides additional integrity to our ratings results, which we believe will be embraced by our advertising clients. We also feel that in the long run, this critical tool will support the radio industry's growth and enhance this medium's credibility among its valuable advertisers.

Use of the HD?
With an installed base that exceeds 90+% of all US households, radio is, in some respects a mature industry. But this enormous base also presents tremendous opportunities for the industry, particularly in this digital age. HD Radio™ is certainly one path that we are pursuing to attract more listeners and advertisers. And we are also looking inward at our programming and other aspects of operations to ensure that we are leveraging our assets while delivering the best listening experience to our audiences and the strongest platform for our advertisers. With the HD2 channels, the industry has more opportunities than ever to offer niche programming to listeners and we are only in the very early stages of demonstrating our capabilities.

As of now we have 23 stations or 53% of the portfolio converted to HD broadcasting. Listener response has been good and the HD Radio Alliance has been effective in the last year in promoting the benefits of the technology, increasing retail penetration — such as the recent announcement of Wal-Mart being added as a distributor — and ultimately raising consumer adoption. We plan to convert our Coastal Carolina and Fayetteville clusters in 2007, the Augusta cluster in 2008 and the entire group should be done by the end of '08.

Use of radio Internet websites?
Beasley Interactive is positioning the company to compete effectively in an increasingly Internet-centric marketplace. WPOW-FM in Miami has been our company test bed to determine the best means of generating new revenue from these sources and the station derived more than 5% of its total revenue from interactive initiatives in the last quarter. We are now implementing a range of web-based activities, including Internet advertising and sales, streaming content on the Internet, and coordinating sales and programming opportunities. We've identified Interactive Sales Managers for each of our markets and these individuals have been trained to sell new media both on a standalone basis and as part of an up-sell with traditional spot buys, and to establish each station and market's interactive budget. Company-wide interactive sourced revenue accounted for about 1.8% of revenue in the fourth quarter of 2006 and 1.4% for the full year 2006 and we think this should grow to 5% of revenue over the next several years. We now have all of our stations streaming.

The XM/Sirius merger?
It should not occur. Most broadcasters with whom I have spoken feel it represents a true monopoly and should be denied. However, the FCC and the Justice Department will ultimately make that decision.

Q. Where did Beasley get its start 45 years ago and does it still have the same station[s]?
Beasley Broadcast Group was founded in 1961. I was a high school principal at the time and I applied for and secured an FCC license to build WPYB-AM, a daytime-only 500 watt station, in Benson, North Carolina. At the time, I was part of a small group of radio pioneers who were bringing smaller U.S. towns previously unavailable technology.

We sold this first station at a profit re-investing the proceeds into the purchase of WFMC-AM in nearby Goldsboro, which brought a more powerful signal and a larger market. This cycle would repeat itself over the next four decades and would become a cornerstone of the Company's strategy to acquire under-performing radio stations in growth markets.

Beasley does not have any of the same stations it acquired originally in the 60's as a result of the fact that during the 60's and early 70's, we broadened our geographic reach, purchasing stations in Virginia, Kentucky, Georgia, South Carolina, Alabama, Indiana and Ohio. The Company sold its first station, WPYB-AM and purchased WFMC-AM, by leveraging its proven strategy of acquiring stations at reasonable prices, applying its operating prowess to build value, and if the time was right, selling stations to reinvest in larger and more advantageous markets. Over 45 years later, we are the 18th largest radio broadcasting company in the nation when ranked by revenue and now hold 43 stations in eleven large-mid sized markets.

Q. What are the biggest changes to the business since then?
Through the late 1970's and into the 1980's, BBGI continued its disciplined expansion. At one point in the late 80's, we owned KRTH-FM in Los Angeles. After the inception of duopoly, we sold KRTH and used the proceeds to retire debt and buy additional FM's in several of our markets. The growth of FM radio during this period was a major catalyst for both Beasley and for the radio broadcasting industry at-large. During this last decade, the HD Radio boom hit the industry, and since we are a big believer in finding new and innovative ways to strengthen ourselves in the industry, we wholeheartedly embraced HD Radio. Anticipating the dramatic benefits HD Radio technology offered, we were the first to broadcast in HD in Philadelphia and Las Vegas. Additionally, Beasley was also first to publicly demonstrate HD Radio's multicasting capabilities and offers multicasting channels in its Miami, Philadelphia and Las Vegas markets.

Q. Does BBGI have any expansion plans?
We regularly evaluate our portfolio, the market of stations that may be available and the public and private market valuations for stations to determine if there are opportunities to enhance the overall value of BBGI through some type of transaction. Our market focus has and will continue to be on mid and large-sized markets and we remain attracted to these markets as we can operate more efficiently in a market that has significant revenue as opposed to some of the very small radio markets. We don't telegraph our intentions as they relate to any proposed transactions or stations that we are looking for, but we have a 45+ year track record of success in building value by managing our station portfolio and I remain very active on this front.

Q. What do you expect Beasley to look like on its 50th birthday in 2011?
We may want to add an additional cluster or two in top 100 markets over the next five years. However, our focus for now is on the operation of our present portfolio. We expect to get better performances from some of our existing stations and further develop many of our HD channels.

Q. Is there any question I neglected to ask which you'd like to answer, or are there any general comments you'd like to make?
I remain both optimistic and passionate for radio and its growth. We have always adapted to competition for ad dollars as a result of new media and we will continue to do so. Our primary objectives are to operate great radio stations in the public interest and create value for shareholders. ■

As seen in Adweek, Brandweek and Mediaweek; placed by Arbitron on behalf of the radio industry.

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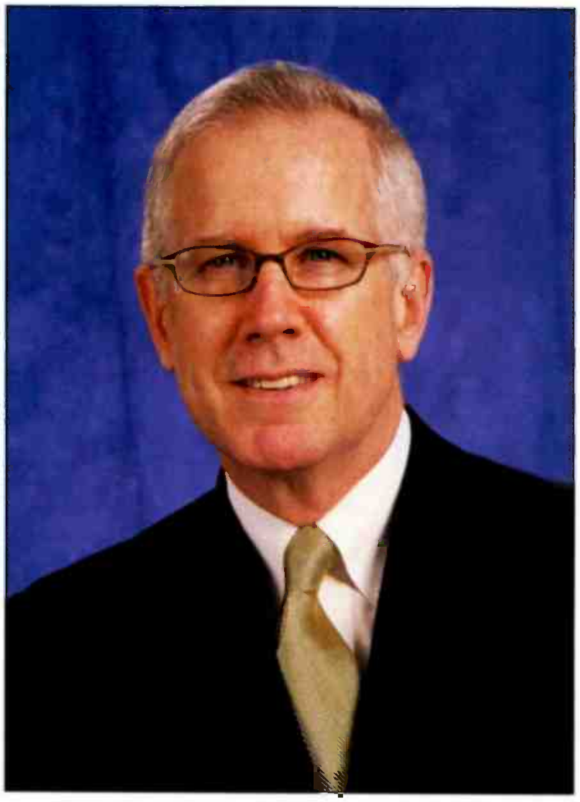
ARBITRON

ePort and the evolution to electronic business practices

For broadcasters, customer service has become Priority One. Today's customers, after all, are so radically empowered by abundant choice and by technology that they ***will*** get high levels of service . . . from someone. To prosper going forward, we know that we need to serve our customers across multiple platforms, giving them the content they want, on the screens they want, whenever they want. On Feb. 18, 2009—now less than two years away—the 1,000-plus local television stations will switch from analog to digital, giving each station the capability to program multiple channels instead of just a single analog channel. That will offer exciting opportunities to sell ads in different ways, including mobile devices, in addition to the website opportunities that many stations are already embracing.

We're also going to need to serve our advertiser/customers with state-of-the-art, electronic, business processes or risk them going elsewhere. It's a matter of survival. But it's also an opportunity.



For those reasons, TVB's Annual Marketing Conference, taking place on April 12 at the Jacob Javits Center in New York City, will contain a strong focus on multiplatform revenue development and eBusiness breakthroughs. Of course, we will take a hard look at the critical automotive and political categories, and we'll premiere an updated template and materials for selling our comparative values advantage over local wired cable. But the changes that are transforming our industry, including technology and measurement, will be front and center, as we unveil further details about TVB ePort.

Marking a major breakthrough in the effort to achieve a paperless process, we announced on Feb. 21 that the broadcast television industry had made a multimillion dollar commitment to build TVB ePort, an eBusiness digital platform that will enable a new wave of open-standard electronic transactions between advertisers, agencies, broadcasters and station reps. This initiative has been spearheaded by TVB Executive Vice President **Abby Auerbach**; initial funding was provided by the National Association of Broadcasters.

The response from the advertising and broadcasting communities to the Feb. 21 announcement has been extraordinary.

The next day, *Television Business Report* (**TVBR**) quoted **Janice Finkel-Greene**, EVP/Local Broadcast, Initiative Media, who was present at the announcement. She said: "I liked it, I'm happy. It's forward-thinking, it makes a leap forward as far as the exchange goes. We wouldn't be locked into a single way of doing business. There are a lot of possibilities here in the way it's going to be structured. I think this is huge and it's really encouraging." And **Kathy Crawford**, MindShare President/Local Broadcast, was also very supportive: "I think it's great. It is a long time in coming and it will allow us to do a lot of things we can't do now. It's terrific and I'm glad the industry has stepped up. I congratulate the NAB, TVB and everyone else who has been involved in this for getting this done. This facilitates the way we do business today and doesn't interfere with the way in which we purchase media today. This gets us out of the paper mode and is a simpler way of doing business."

And the March 5 *Broadcasting & Cable* had **Frank Comerford**, president/general manager of WNBC-TV, delivering the broadcaster's response: "If my salespeople are spending all their time doing paperwork, they can't be out there selling." TVB ePort, he said, will "take all the non-value-added work out of the equation." In the same article, Meredith Broadcasting president **Paul Karpowicz** said, "We want to make sure that local broadcasters have positioned themselves with agencies and rep firms as the place to go."

The bottom line? We're going to build it. And if the above testimony is any indication, we know the buyers and sellers will come. TVB ePort is expected to be operational in the fourth quarter—an ambitious goal, we admit, but the time to dawdle is over

TVB ePort can be a win-win for all parties. It will incur zero costs to customers. Nor does it mean that current system providers will be rendered obsolete. On the contrary, agencies can use their existing systems and get the most out of them with the open architecture offered by TVB ePort. What's the win for broadcasters? To grow our core business, we have to make the process as easy as possible as the customer is increasingly empowered with a vast menu of media choices. Looking beyond Spot TV, new digital platforms will require an evolution to electronic business practices that are faster, smarter, more accountable and more efficient - TVB ePort will support that evolution.

Right now, people are jury-rigging their systems. These new digital businesses can never flourish and develop fully until they are harnessed by robust electronic processes.

But TVB ePort will not include an online-negotiation component. TV is the type of product that needs more hands-on buying and selling, which doesn't lend itself to online negotiation. It's the processing that lends itself to an electronic system. Providing open-standards connectivity between trading partners is about eliminating time-consuming and error-prone re-keying in the selling/buying process. We want to free sellers and buyers to have more time for professional negotiation - this is about automating the backroom process, not online negotiation.

This platform will allow participation by every size player. Think of TVB ePort as a hub through which sellers and buyers can send anything they want to each other. In addition to the standard transactions like orders and invoices, the ePort will make it possible for information like log times, traffic instructions and web orders to pass electronically.

There are important implications for the broadcast community's embrace of our new digital assets. As broadcasters increasingly move into video-on-demand, website advertising, wireless marketing, digital sub-channels, and the like, TVB ePort will help to manage the multiplatform revolution.

John Watkins, president of the ABC National Television Sales, has described the TVB ePort development as a "seminal moment for local television broadcasters." I agree. I think we'll look back on the Feb. 21, 2007 announcement as a moment when local television put in place a mechanism to create value for our customers and support the successful evolution of our business. ■

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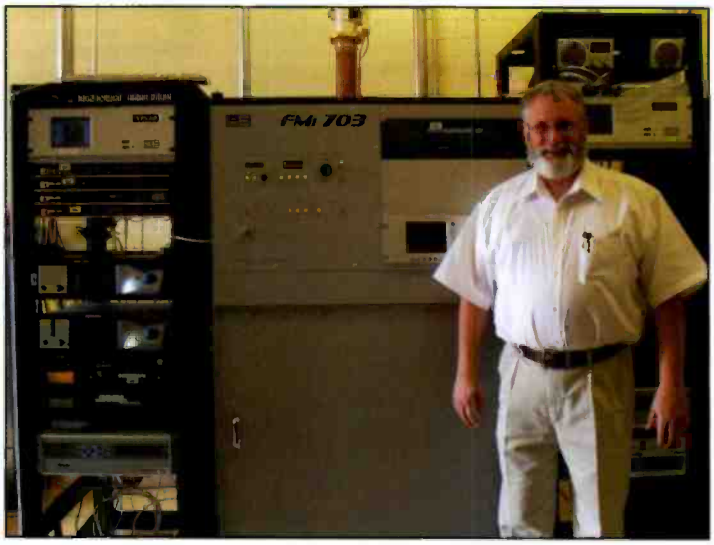
GARY A. SMITH

Getting around the HD Radio link problem

There are three different ways in which HD can be implemented at the transmitter site; separate HD transmitter and antenna, low-level combining and high-level combining. Each of them poses their unique sets of issues. High-level combining is the method of choice for Bonneville in Phoenix. The use of a separate transmitter from the main analog transmitter allows for minimum interruption to the main analog signal, ease of redundancy and a single point of radiation for the combined analog and digital signals. It is also the most expensive because of the need to have two transmitters, a high powered analog transmitter and a separate digital transmitter. A 10 dB combiner is employed and there are resulting losses as power from the transmitters is diverted to the dummy load from both the analog and digital transmitter. With a 30,000 watt TPO analog transmitter, the digital transmitter would need to produce 3,000 watts. Typical losses of 2,700 watts of digital signal into a dummy load and 3,000 watts of analog signal into the dummy load should be expected and that's expensive. 5,700 watts of power is dissipated as heat which increases the need for air conditioning in the building. Altronics builds a load that is designed for outdoor use and has worked well in Phoenix summer temperatures.



In the Phoenix market, we chose the BE FM703i transmitter for both of our FM HD installations. We utilize the AM10A and the AM2.5 for our AM digital. These transmitters have been reliable and work well. The digital encoding system, licensed from iBiquity, with whom the transmitter manufacturers work very closely with, is where the breakdown comes. The desired method of operation is to locate the exciter at the transmitter and locate all of the processing and digital signal generation at the studio. Utilizing a ▸▸

network connection such as a T-1 STL or a MUX card in a radio STL the UDP output of the exporter should provide all of the audio link for the main channel programming, the program associated data (title and artist information) and the multicast channels with their program associated data. The UDP connection does not allow for error checking and retransmission of lost packets. Manufacturer testing of this link assumed a perfect network connection and thus often employed a hard wire instead of a real world STL link. Finding a reliable link that works for the bandwidth required and the absolute necessity for uninterrupted operation across the network connection has proven difficult. The T-1 links that are provided by Intraplex and Mosley were tested and did not prove able to reliably maintain the UDP link. The radio based STL with MUX cards are subject to terrestrial interference, and did not provide a reliable enough network link. Radios and T-1 connections that are great in the analog world, are stretched considerably when adding the need for a perfect UDP connection at the bandwidth utilization required for the full HD data stream.

iBiquity provided the requirements for the network connection. These requirements took into consideration the average bandwidth requirements but did not clearly qualify the peak demand requirements of the HD data stream. The peak demand considerably exceeds the capability of most STL equipment. The target link reliability design goal was 96%. A single packet loss on the UDP connection results in a 1.5 second loss of audio. Since the control of the exciter is also lost, the transmitter may detect the low power result and call for more power from the exciter, resulting in an over power return to air. This can result in transmitter damage. BE has issued a service bulletin to correct this problem on their transmitters. After much trial and error a solution was found based on a compromise between the original design intention of locating all processing and control equipment at the studio, and a split configuration that places the HD Exporter and processing at the transmitter and the importer at the studio. This allows for the multicast channels to be processed and controlled from the studio but the HD main program channel processing and control still must be handled at the transmitter. This also requires the STL to be bi-directional since the connection between the importer and the exporter is TCP/IP.

Each piece of data link needs to be established in its proper order. The exporter must be in communications with the transmitter or the transmitter will not run. After the Exporter is up and talking to the transmitter then the importer may be brought online. Should a failure occur at the transmitter site the importer/ exporter connection does not heal. The importer will need to be restarted. If a PAD software package such as Broadcast Electronics TRE is used then it will have to be started after the importer is fully up and running.

RF interference and separate LANs

Wiring of the networking at the studio and at the transmitter site is critical. The network is a 100 megahertz network and being built in a transmitter site that is running high levels of RF in the 100 megahertz range. Utilizing shielded CAT-6 cable helps prevent interference to the data from the RF environment in which it operates. This may not be necessary in all situations, but for the cost of the cable at the outset it's a good investment and will prevent having to recable the transmitter site. The network switches that are selected need to be adequate to the task in an RF environment. The current school of thought is that a level 3, 1-gbit-managed switch is required at the transmitter and studio to adequately separate network traffic from the HD data stream. In my experience that's overkill. I have used 3-Com unmanaged switches that run at 100 megabit and they have performed admirably, both at the studio and at the transmitter site.

The critical issue is that the business network must not reside on the same LAN as the HD LAN. Any methodology that will separate LANs and minimize external traffic will prove beneficial. I have found that with two 100-megabit switches, one at the transmitter and one at the studio, we are able to handle two HD multicasts—IDI-20's—across two separate T-1s with no problems. We are isolated from the business network yet are able to maintain internet capability and full control of the HD, multicast PAD,RDS, remote control and various com port needs and full VPN connectivity to be able to address issues from home other off-site locations.

What the engineers have done, and can do

The first critical issue is to get the data link to the mountain operating correctly. In markets where it is desirable to produce one full HD data stream and send it to multiple transmitter sites this will be a big problem. Until the exporter system works as it was advertised, those that bought it to solve multiple site delivery needs, are having to make a greater expenditure in equipment to fully populate each individual transmitter site.

We look at San Francisco, for instance, where a transmitter is located in the east bay on Mount Diablo. The main transmitter is located on Beacon Hill in Sausalito. In a perfect world a data stream would be sent to Beacon Hill and then relayed from Beacon Hill to Mount Diablo and fed it directly to the transmitter, but that doesn't work. Now AES/EBU audio is sent to both locations and the digital signal is generated at each individual transmitter site. That's another 40-$50,000 in equipment required, that was not anticipated in the design and budgeting process.

Those who are able to run a split configuration will have much better success.

Getting the info out, company-wide

Bonneville engineers work through our corporate engineer, **Talmage Ball** and email all engineering departments sharing anything that we learn amongst ourselves, so that we have a common pool of knowledge. We also share knowledge with the broadcast community on the BE list server, BEHDR@BBS.BDCAST.COM and on the HD Alliance list server. That's Broadcast Electronics' list server and you can sign up for that at Broadcast Electronics. ■

Based in Phoenix, Gary Smith is Bonneville International's Director of Engineering. He can be reached at gsmith@bonneville.com .

SmartMedia Roundtable: The broadcast financing market in 2007, Part II

In the first part of our second annual look at the current state of the financing market for buyers and owners of radio and television stations, our panelists said the lending market was still competitive and they were ready to step up to the plate to finance station purchases. In Part 2 we begin by looking at how that financing appetite will deal with some rare large market properties about to come on the market.

To take the temperature of the lending market, SmartMedia assembled a panel of experienced broadcast lenders: **John Brooks** of Wells Fargo Foothill, **Robert Malone** of GE Commercial Finance, Global Media & Communications, and **Steve Healey** of CapitalSource Finance LLC. They were questioned by RBR/TVBR's **Jack Messmer** and **Bishop Cheen** of Wachovia Capital Markets, LLC.

Messmer: Because of two huge LBOs (leveraged buy out), we're going to be seeing some very rare properties go on the market in the top 20 markets and even in New York and Los Angeles, primarily from Clear Channel, but also in some cases from Univision. Will the lenders be able to go another turn or turn and a half or anything to finance deals because those are such large high growth markets? Or how are people going to be able to structure these deals to buy some of these more expensive properties that are coming on?

Malone: I think it largely is going to depend on the specific deal that you are talking about, the specific markets as well as the participants in that deal—both the operators and the equity sponsors. It's difficult to generalize across all those properties, but I think in certain instances you'll likely see lenders stretching in support of the deal given the positive characteristics of those top 20 markets and assets.

Healey: I would agree with that view that the larger markets tend to have bigger revenue pots that they compete in and generate revenue from, and therefore would have greater liquidity. Those properties would have greater liquidity, in general more exit opportunities, more long term demand I would say. So I would agree that the lenders would be inclined to stretch in those situations. With several hundred million dollar purchase prices, there is still going to be a material equity check in a transaction like that. That usually helps the other providers of capital find ways to get comfortable.

Brooks: I think that the lenders will certainly be willing to go the extra mile for situations that have some uniqueness about them, whether it's a uniquely skilled management team that deserves another turn or a market that is considered to be beachfront property or a broadcast property that has some kind of a unique and defensible niche. So I think any of those factors would certainly help a lender get comfortable going the extra mile.

Malone: One thing that will be interesting that comes out of all the assets that will be inevitably divested out of some of the larger LBOs that we've talked about will be what effect it has on purchase multiples, given the abundance of inventory that's clearly going to be in the market over the next 12 to 18 months.


John Brooks of Wells Fargo Foothill

Cheen: I think that's going to be fascinating to watch. I will tell you that having watched this over the last 22 odd years, I'm always amazed that as long as the capital flow fundamentals are in place—and they don't have to be totally out of whack, just not dislocated—multiples always seem to stand up. We have only seen one time in the past 25 years where the multiples went into single digits and that was in the famed credit crunch of 1991. There was no mezzanine capital. It is going to be interesting to watch the multiples, because there has been a lot of speculation that there is going to have to be multiple contraction if the inventory just expands like topsy. I'm not so sure the contraction is going to be all that great.

Brooks: I agree with you. I think theoretically, yeah I agree with Robert, if you have more supply of inventory then prices should go down. Yet history has shown that the only thing that seems to materially affect multiples is the availability of debt capital. I think, say, an advertising recession alone, is probably not enough to affect them. Supply of inventory, maybe, but I think as you said, Bishop, it's really the supply of debt financing that is really going to have an effect on multiples.

Malone: Just to be clear, I wasn't suggesting that multiples were going to contract simply because of the increase in inventory. I just was suggesting that it would be interesting to see what effect it has. I would tend to side with Bishop in that they may very well remain stable, which would be a pretty positive commentary on the overall strength of these assets long term, given the increase in inventory.

Cheen: Yeah I agree with you, but we are going to be watching. Maybe this is a good time for my trick question. The five close cousin sectors—radio, television, publishing, domestic cable, wireless telecom. How would you rank these industries in terms of appetite to place debt capital? Is that a fair question?

Malone: I'm happy to address that as we certainly lend to and focus on all of those sectors and me personally all the sectors, with the exception of the wireless telecom. But from my perspective radio-TV, publishing and domestic cable are very similar in terms of possessing attractive characteristics for capital providers, so it's difficult really to distinguish across the three sectors. Radio and TV possibly, are slightly more attractive, but on the margin I would say they are pretty equal.

Brooks: I probably agree pretty much with Robert. We don't lend to wireless telecom and I'm not a real expert on it, but I guess if I was forced to prioritize I guess I do have a sort of personal bias in favor of any kind of licensed media. So that being said, I'd probably put radio and TV ▸▸

first, domestic cable a very, very close second. I like the cable business. I guess the only negative versus radio and TV are the capex requirements and then I'd put publishing a very, very close third. Again I look at all those sectors as being attractive.

Healey: I will say that we lend to all those sectors, including telecom. We feel that they are all very solid businesses, solid industries and I'm not going to rank them. I don't really think that would be productive. I would sort of step back and say that if the public markets are making any comments about any sectors, I would say they are all attracting capital. The New York Times just sold a group of TV stations at a high multiple. Publishing, while you're seeing some variation in publishing with large market daily papers struggling a bit, you're seeing weekly papers and community papers doing very well. And frankly you're seeing people who want to buy those large market dailies. Cable is attracting capital. Telecom is attracting capital, so they are all in pretty good shape so I think it's a hard thing to do to separate them frankly.


Robert Malone of GE Commercial Finance, Global Media & Communications

Messmer: Let me for the benefit of our readers ask each of you to give a capsule view of your sweet spot as far as what you lend to and the kind of dollar amounts that your companies are willing to look at.

Brooks: For Foothill, first of all our debt threshold is $15 million and up. I guess everybody is looking for that dream deal with a world class management team, top tier sponsor, reasonable leverage, great diversification of assets. So I don't think there is anything surprising there. For us, I think we're all looking for the same types of deals with management, asset diversity, markets, good business plans and investor's support being very important factors in what we like and don't like.


Steve Healey of CapitalSource Finance LLC

Healey: I would say for CapitalSource the range of funded debt we're looking at are five to ten million at the low end up to $200 million for sale on the high end. We're capable of providing a full underwriting for several hundred million dollars though, and that capital could include junior debt, whether it's mezzanine or second lien debt. I think that's one distinction of CapitalSource. We'll go a little bit deeper and stretch a little that will hold that last traunch in the transaction. We also have equity to co-invest in the transactions. In terms of pricing we're all competitive. We all have to live in the same market, so we price accordingly. We work with many sponsors and we also work with owner-operator situations.

Malone: Typically our transactions range from $15 million up to several hundred million—and more on occasion. We also have the ability to invest in all stages of the capital structure senior capital, junior capital, second lien and mezzanine as well as equity co-investments as well. We will also work with private equity sponsors and owner-operators.

Messmer: It appears that it's just still incredibly difficult to find financing for deals under $10 million. Is that still the most difficult place in the market and where should people go if they are starting out and they are still down in that lower end of the market for borrowing?

Brooks: Well yeah, you're right. Once again this lower end of the market is being underserved and there are emerging some pockets of financing to fill that void. My expectation is that you'll probably see more activity and more capital formation looking to fill that void. It is a good business in the right home.

Malone: I think that there are, other than the three lenders that you have on the call today, certainly lenders that will look at transactions less than ten million and what I might say is that the ranges are characteristic of typical transactions. Every transaction is unique and there have certainly been cases where GE has financed transactions less than $10 million.

Cheen: With all this higher demand going on and you know, the old adage your price, my terms comes back to haunt you. When you think about it, I'm just wondering what fate awaits traditional lending covenants if the pricing is getting more competitive, my perception is that covenants rather than getting tighter are also getting looser. If so, is that a trend that we're going to continue to see and what might snap that trend back to of a more normalized rigorous set of lending covenants?

Healey: The last part of your questions first Bishop. Certainly what would snap us all back would be a couple of high profile problem situations in the market or a macro economic shock, i.e.: recession or something that would start to reduce revenue growth and you know it filters it away through cash flow and you'll have other problems. To your point, our covenants are a little bit more favorable to the borrower in a hot market, certainly. That's certainly another way that we all have to compete because it's not only the amount of capital but the pricing of the capital, the amortization of the capital and the covenant package. That's a fact of the business and that will ebb and flow like every other part of our business will.

Cheen: Well said. Is there any particular covenant that you've given away in the last two years that you would really, in spite of staying competitive, like to see restored?

Healey: You know I think the basic covenant package is a leverage covenant and some kind of cash flow oriented test, whether it's cash flow to fixed charges or cash flow to interest and a limit on capex. I think you've just got to cover the basic, the key areas of these businesses. I haven't seen a fundamental covenant being eliminated. I think it's more of a question of how much room do you give them, the borrower. ▸▸

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Brooks: I would echo what Steve said. I think the basic covenants have always been there in some form of a leverage covenant and some form of a coverage covenant, and then the other customary things—it is just a matter of degree to which they give you flexibility. Again, I'd go back to a comment I made earlier. I think one of the differences that we're seeing in how covenants are set these days, as compared to how they were set in the past, is the overall growth assumptions, the sensitivities that are done, and, I think, covenants today are set on much lower growth prospects and more rigorous sensitivity now, it seems.

Messmer: Let me ask you a question on the TV side. Are you are attributing any value going forward in business plans yet to retransmission consent payments and/or the value of multicast digital channels? Have those come into play yet or are you not able to figure out yet how much those are really worth?
Brooks: In TV or in radio, I think it's really too early to ascribe much value to any of these factors in terms of—are they worth something as a collateral component or are they worth something as a revenue source? So no, I don't think we really ascribe a whole lot of additional value to any of these things.
Malone: We have not seen any material increase in operators' projections ascribed to retransmission fees or the like, not as of yet.
Cheen: Can I be a dissenting voice here? First of all, all three of the gentlemen echo what I have heard others say and here's what surprises me. In institutional capital formation, I don't care how bullish you are, it is difficult to keep up with structured product finance. Structured product finance is a fancy way of saying asset-backed. Some of you guys may have come up through the ranks and got a tour of duty in asset-backed. Essentially anything that is a contractual income flow—as are the retrans payments, so you can not only see it, you can sustain it and you can predict it—that is the most basic asset-backed. You can back up that lending with an asset that has contractual forward value predictability. So I am a little surprised to hear, with these contractual flows that are emerging, that you lenders right now are looking at it and saying, well I see it, I'm not ready to quite believe it and you haven't proved it to me.
Brooks: Yeah, Bishop, that's a point well taken. I think that once, at least speaking for us, once we start to see a reliable pattern, then yes we can look at it differently. We just haven't seen much yet from the ground level.
Cheen: Well I think that's a fair point. Again it's only a few of the companies in the headlines, such as Sinclair, that is collecting the big headlines because its standoff with Mediacom came first. Most of the companies you talk to, they'll say, yeah, you know, we already have our contracts in place—the next bite of the apple for us is in 2008, 2009 and then they make cooing noises that they think it's going to be great. So granted, I don't think the lenders have seen it yet. I do get the feeling like the genie has come out of the bottle and that this is a real revenue source that is on the point of becoming a solid citizen.
Brooks: I hope so.

Messmer: What concerns each of you as possible problems ahead in either radio or TV or both that you're particularly keeping an eye on?
Healey: I'd say certainly a macro shock like a recession or some situation that would just drag down the revenue line for all these businesses certainly would concern us and would concern investors and lenders alike. Interest rates are certainly a risk for highly leveraged companies and today [1/26/07] the Fed is saying their bias is toward increasing rates, so I think as we run our sensitivities, lenders would certainly stress test these structures for higher interest rates. Then it's in the individual market issues or competitive issues for the particular business that you are evaluating. Do you have format competition? Do you have management turnover? Those are the risks we evaluate on each transaction.
Brooks: There are a couple of things I look at as a matter of trying to determine what factors down the road, again going back to what we talked about before, what factors could be coming down the road that would have a significant adverse effect on multiples. Looking at the business from purely an operating standpoint, and is there operating risk out there that could affect that? I think the broadcasting business has been beat up pretty good over the last few years. They've managed to survive and even if they survive at low single-digit revenue growth rates, I'll take that. That in and of itself doesn't seem to be enough to affect multiples. As Steve mentioned, I'm also worried about interest rates and I think the likelihood is that interest rates will rise, although many, if not most of the leverage deals have some kind of interest rate protection. Then lastly there is just the question of what could happen in the capital markets to affect some kind of a sea change much like we had in the late '80s or early '90s with the banking crisis. Might there be another banking crisis? Might there be something that happens in the hedge fund sector? I don't know.
Malone: Maybe the only thing I would add is certainly any significant volatility or changes just to ad spending would be something to look at, but these guys covered most everything else. ■