En Banc Hearing
Tuesday, July 29, 2008
Testimony from Ronald Gordon
ZGS Communications

Chairman Martin, Commissioners, thank you very for the opportunity to participate in today's hearing on Overcoming Barriers to Communications Financing. My name is Ronald Gordon, president of ZGS Communications, a Hispanic-owned broadcasting company that owns and operates nine Class A and three full-power television stations. I am also the president of the Independent Spanish Broadcasters Association, and a board member of the Community Broadcasters Association, the trade association for the Class A/LPTV industry.

I'd like to think that ZGS is an excellent example of what can happen when dedication and hard work meet opportunity….a uniquely American story. My partner and I started ZGS as a production company with just $200; - we would rent a camera on weekends and produce stories about the Hispanic community for syndicated television. In 1990 we entered into a contract to buy our first station - an LPTV in Tampa, FL….a deal that almost never happened. We were rejected by at least a dozen banks,- with everything from you're a start-up, what's an LPTV, there's no cash flow, to why would you ever want to do Spanish?

Fortunately, a Hispanic community banker shared our vision and agreed to provide us the capital to buy our first station. Eight months later the station was cash flow positive. Two years later we bought our second LPTV…..and so on, one station at a time.

Three years ago we graduated to our first full-power station in El Paso, TX and earlier this year we acquired a full power station in America's fourth largest market, Philadelphia. Today, we are the largest independent affiliate group of the Telemundo network with almost 200 employees…94% of them minority media professionals, all dedicated to serving and making a difference in our local communities.

The key to our success was our ability to secure cable carriage for our LPTV stations, not only did it provide us a viable business model, but allowed the capital markets to have the confidence to continue investing with ZGS.

Today, it's a much changed television industry, with the traditional model of free over the air television a thing of the past. Almost 90% of American homes receive their television signals via cable or satellite, and without access to cable and satellite distribution, it doesn't matter if you are a full-power, Class A, or an LPTV, you simply don't have a business. In Raleigh, NC we bought and upgraded a Class A facility three years ago…for a variety of reasons we have not been able to secure cable carriage. So today after investing over $1 million we have signal on the air, but we still don't have a business. As you know, this past February the cable operator in Orlando arbitrarily moved our station WTMO from analog where it had been carried for years, to digital carriage, - we lost 30-40% of Hispanic cable homes in the process, our ratings went from highly competitive to hardly showing up, our revenues are down 25% over last year, we have been forced lay off a quarter of our staff, and a vibrant station that was a leader in Spanish local news and local programming is now struggling to make ends meet. It seems that the cable and satellite companies control our destiny, not the FCC and certainly not our hard work. These are the kinds of things that make investors and lenders very nervous.

Having been in the equity and debt markets, I believe that equity players and lenders are willing and ready to participate if they have confidence in a broadcaster's business plan, in management's ability to execute, and if they have sound underlying assets securing their investment. Unfortunately, due to consolidation in both radio and television, the minority and small business broadcast community simply doesn't have access, because of price or availability, to the premium broadcast assets. We are generally left to cobble what we can with the leftovers…a stand alone AM, a TV network affiliate in market 189, or take a chance on Class A or LPTV and pray that you can get cable distribution. From an equity and lenders perspective, our risk profile is dramatically higher, - these stations are not only challenging to operate profitably, - the underlying value of our licenses, a key factor in our ability to access to capital, is simply not there. A Class A station without cable carriage is not worth a bean, - and if it has cable carriage, you don't know for how long. That's a very tough banking proposition.

If we do nothing to make the structural changes necessary for small and minority business to participate and compete, we will continue to loose the few minority broadcasters we have. Ideas like the tax certificate and Chairman Martin's proposal to upgrade Class A stations, which have localism requirement but no corresponding rights, to the television table of allotments are important steps to address some of the inequities that exit. From our experience, I believe the capital markets will respond positively to these type public policy initiatives. With access to better deals, with the incentives to make them happen, with the establishment of a more stable media asset base in the minority community, our risk profile is improved, our ability to compete and grow enhanced, and more importantly, we can realize our goal of serving our local communities.

I hope that in the future we will see more ZGS stories, but it's going to take a determined effort from the FCC, the Congress, and the industry itself to put in place initiatives and policies that promote opportunity and investment in a more diverse media industry. Thank you.