Media Ownership Workshop on the
Financial Conditions of the Broadcast Industry
Panel 2
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Opening Remarks:

- The broadcast industry-- both radio and television-- have been facing the most difficult times economically over the past few years that they have ever experienced.

- I have been involved with broadcast transactions as a media broker since 1984 and as a small market radio owner for the past dozen years. I have experienced difficult times where the industry suffered from high interest rates, recession and a lack of capital due to changes in banking regulations regarding highly leveraged transactions. I have seen capital ebb and flow to both industries.

- I have seen many radio stations in the past struggle to be viable after the FCC allowed them to be “dropped into a market” via the 80-90 doctrine even if those markets were not economically strong enough to sustain these additional stations. In my opinion, had it not been for the 1996 Telecommunications Act, many of these stations would not have survived.

- I have seen television stations adapt to a new reality where networks no longer pay them compensation and in fact expected stations to contribute to the network bottom line.

- I have seen television stations take on hundreds of thousands if not millions in debt for the purpose of converting to digital based on government mandate. It has certainly benefited the consumer in a profound way, however, the financial viability of doing so for the television industry is still in its infancy.

- I have seen small market television stations strive to be able to continue strong local news operations and community involvement only to be unable to achieve those results due to economic realities.

- But in my 25 years in this industry I have never seen such a rapid decrease in revenues and asset values as we have experienced in the past few years.

- Television and radio revenues in most markets are down by double digits, in some cases 20-30% or more. Even for smaller market radio, which relies more heavily on local revenues which were not hit as hard by the recession, decreases in revenues neared 10% in the past years.

- The reduction of advertising revenue has impacted all players in radio and television sparing no one. Certainly companies with what seemed to be acceptable levels of debt just a few years ago are now too often highly levered as cash flow has decreased. This is true of smaller market broadcasters as well as large market and it is true of publicly traded companies as well as privately owned broadcasters.

- It is important to emphasize that the devastating decreases in advertising revenue over the past two years were a result of the economic crisis of the US economy overall. The severe decrease in revenues were due to systemic failures in the US economy and the severe economic recession affected almost every aspect of our economy including the automotive industry, housing, retail, services, banking and the list goes on and on.

- The devastating decreases in advertising are not due to actions taken by broadcasters. They are not due to a lack of interest in the mediums by consumers; they are not due to past consolidation; and they are not related to a company's ownership structure or debt levels.

- It is important to remember that many radio and TV companies carry debt and that is a reality of our industries. It is not just the largest companies—small market owners have debt also. It is important to note that much of the industry debt is not related to the "buying sprees" we hear about resulting from large group consolidation. Using debt for acquisitions is normal and does not mean broadcasters are being irresponsible. Whether for large or small transactions, for one station or for groups of stations, virtually every transaction that I have been a part of in 25 years, has involved invested equity capital but also some debt.

- But the industries' debt is not solely related to acquisitions. Owners borrowed in the past few years for many reasons including facility improvements such as HD radio and the conversion to digital in the case of TV. Many radio and TV companies had debt levels that were 50 to 60%, or less, of their fair market value a year or so ago. These are very modest debt levels that are considered normal to low for our industry. Yet even these fiscally conservative and responsible owners are struggling today to meet debt service and are having to negotiate with their lenders to survive. It is not a fair assessment to say that the industries brought this on themselves by taking on too much debt. In some cases it has certainly exacerbated the problem, but had revenues not decreased so significantly and rapidly even the more highly levered owners would be in a different place today. As I have heard one analyst state—"even the really great operators did not see this one coming!"

- The vast majority of radio and television owners are committed to their communities and strive to provide programming that is relevant and locally-focused. However, to compensate for the lack of revenue, radio and TV operators have had to let personnel go, and have been forced to cut back on services just like many other business owners across the United States.

- I believe that we have hit bottom and that advertising revenues will begin to slowly rebound in 2010. However, I believe that growth will be slow and perhaps fitful.

- Because many broadcast stations, publicly owned and private are struggling economically, are in default with their lenders, and have lost significant fair market value, capital sources have virtually abandoned the radio and TV industries. This has affected small market operators as well as large market and also affects new entrants to our industries including minorities and women.

- As financial prospects improve and the industries begin to recover and pay down existing debt, we are likely to see capital sources begin to consider investing and lending to radio and television again. However, it will be paramount that such financial sources believe that the framework and fundamentals of owning radio and TV are solid and not subject to significant changes in regulations that would materially affect station value and their investment. This holds true for institutional equity, debt and investors using their own capital. Even if a broadcaster is investing his or her own private capital—why would they do so if the FCC or Congress is going to take action to the detriment of that investment? Broadcasters must have a stable structure that allows them to operate and serve their communities yet still be an attractive investment vehicle.

- Going forward I would respectfully advise the FCC that a review of the economic effects of potential regulation has never been more important. Your mantra should first and foremost be "DO NO HARM!"

- The FCC should also avoid proposing regulation based only on a review of the largest companies in our industries. Many, many stations are not controlled by these owners and I believe this is too often forgotten by those seeking to regulate our industries.

- In terms of radio, it is my opinion, again offered respectfully, that the FCC should do nothing new at this time. A move to de-consolidate radio from current levels would guarantee that capital sources will run for the hills. The industry needs to be stable first and foremost considering its regulated status.

- With regard to television, and particularly small and medium market television which is the focus of this particular panel, the industry urgently needs further duopoly ownership relief similar to that already granted to large market stations. Too many smaller TV stations have cut back or eliminated their news operations because they cannot afford them. By allowing two stations to be jointly operated in these small and medium markets TV operators will have the ability to again increase the viability and effectiveness of their news and better serve their communities overall.

- For those who would argue that this diminishes voices in any given community, I wholeheartedly disagree. With the advent of the internet, cable news channels, blogs, social networking, local community groups and even individuals have unlimited opportunities to voice varied opinions. The concept of limited voices in a community has long gone by the wayside.

- Today, consumers can get opinions everywhere—on TV, on radio, on the internet, on their phone….. there are voices everywhere just waiting to be heard.

- Finally, I believe the FCC should grant the cross-ownership of broadcast stations and newspapers. I believe that the newspaper industry as we know it is perhaps in its final throes. It is a natural fit to be paired with existing or future television or radio station owners and would help both the broadcast and newspaper industries. The FCC has professed to be very concerned about the future of journalism as we know it—this would go a long way to saving that important part of our political process.

- It has never been more important to consider the economics of regulation than it is in this time. Do no harm, keep the broadcast regulatory expectations stable, and grant relief that will further the economic viability of existing stations. By doing so, the radio and TV industries can continue their strong histories of localism, community involvement, being significant employers in their markets, being there in emergency situations, and providing free over the air broadcasts.

Thank you.