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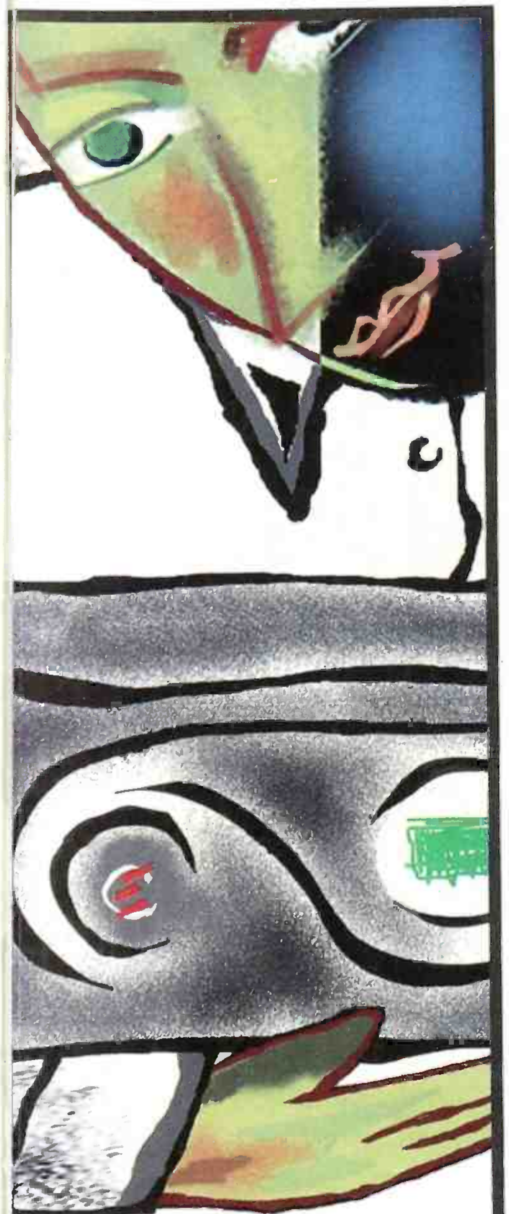
RADIO BUSINESS REPORT™

VOICE OF THE RADIO BROADCASTING INDUSTRY®



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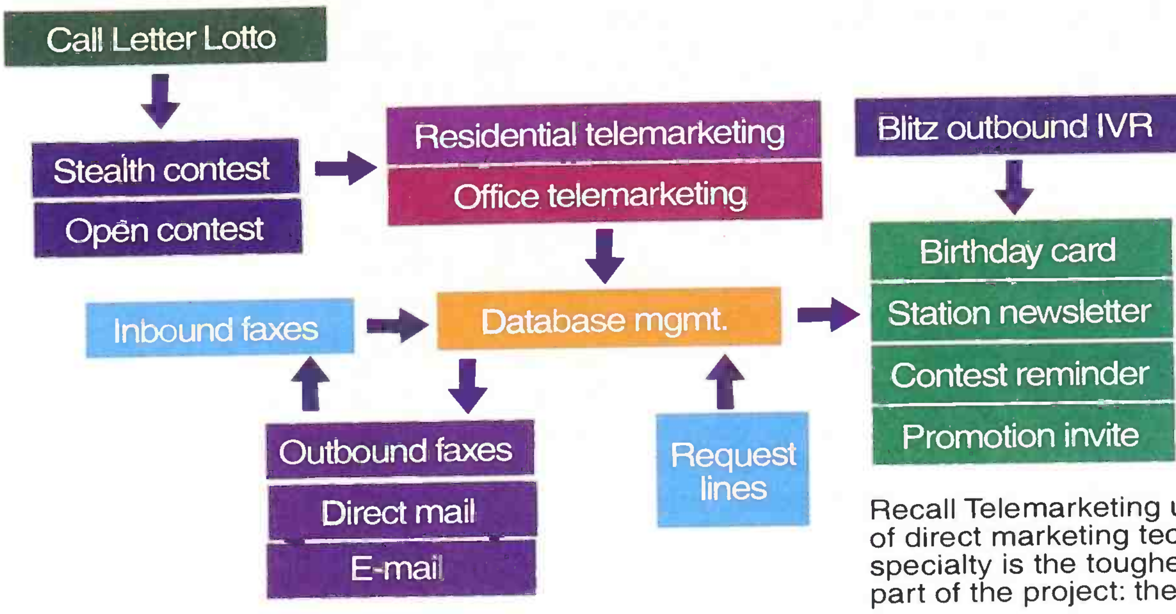

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Ad Bias report main dish at AAF Luncheon

FCC Chairman **Bill Kennard** (D) called on the advertising and broadcasting industries to adopt a code to prevent discrimination in ad buying at an American Advertising Federation (AAF) luncheon last week (2/22) in New York. Talk at the gathering focused on disparities in ad spending with minority-targeted radio stations, as detailed in the FCC's recent report on ad bias (*RBR* 1/18, p. 3).

Speaking via satellite, Vice President **Al Gore** seconded Kennard's suggestion. Gore urged agencies "to make voluntary commitments demonstrating that they understand the value of diversity and the economic logic of serving minority consumers."

In Kennard's speech, he stated "the use of minority discounts and 'no Urban/Spanish dictates' has had a significant effect on minority broadcasters' bottom lines." It is estimated that "these practices reduce [stations'] revenues by as much as two-thirds."

The FCC Chairman spun this problem of agency bias as a unique opportunity for national marketers to connect with a relatively new consumer base. Advertisers are missing untapped markets in the "long neglected minority communities, depriving them of a whole range of customers," Kennard said.

So, what happens next? Well, for starters, VP Gore is organizing "an interagency working group" to investigate ad agency bias. The group will consist of representatives from agencies such as the FCC, Department of Justice, Small Business Administration, Department of Commerce and the Federal Trade Commission. In addition, the AAF will study the feasibility of a code preventing buying discrimination and its impact on the industry.

Magnitude Networks, WebRadio.com, Chancellor launching sites

They say imitation is the sincerest form of flattery...well, Broadcast.com's huge successes on Wall Street may be what's spurring yet more radio Internet aggregators. This time around it's CMGI's Magnitude Networks (which is partnered with Motorola's RadioWave) and WebRadio.com (launching with stations Q2), which positions itself as the "plug-in-free" Internet broadcasting site.

Because it is powered by the Emblaze™ streaming media technology (Java-based), WebRadio claims users need not download a streaming audio plug-in. 27 stations are currently signed. "We're not looking for exclusive arrangements with the stations. The difference between our technology and Real's is that besides being plug-in free, we do not limit the number of streams that a station could use. If you license with Real for 60 streams, then only 60 people can listen at one time. With ours, it's virtually unlimited," said **Michael Weiss**, VP/GM.

Also realizing radio's unique ability to drive people to the Web, Chancellor (O:AMFM) will be leveraging its own Internet strategy with six station-tailored sites mid-march for the Philadelphia beta test. "AMFM Interactive" is partnering with Internet management/marketing consulting company, Cyber Dialogue. The goal is to drive listeners (and therefore advertisers) to the station sites. Next is two stations in NYC, including WLTW-FM and then Boston.

Chuck Armstrong, SVP, Entertainment and New Media, Chancellor, is currently heading the project: "The bottom line is this is programming-driven. Everything we're doing in Philadelphia is to enhance the existing franchise, to build it. One of the things that radio stations have not been able to do, with 20% cash flow growth every year, is to really devote a lot of resources towards building out web sites. They often allow someone else to do it for them—piggybacking off our brand to build their company." He added there will be an Internet and Content Marketing Manager at each station, operating with the duality of duties that the marketing director and PD have on the radio side. Listeners will be able to communicate with Jocks on the Internet side with full-time e-mail placed in the studio."—CM

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This week: Rush begins audiostreaming; Bell videostreaming

It may have begun late last week, but most likely, **Rush Limbaugh** will begin his long-awaited audio streaming through Broadcast.com (O:BCST) early this week. "Affiliates will be able to put up a link to Broadcast.com and pick the audio up from there," said Premiere EVP **John Axten**. "We're going up on the Web because some people can't listen in the office building or don't have a radio." Premiere's Dr. **Laura Schlessinger** has been audio streaming for some nine months now; **Art Bell** for four+ years.

Following up on what Bell told *RBR* in January (*RBR* 1/18, p. 6), he will begin videostreaming his show this week. Said Axten: "He's been doing webcasting for sometime, where [the video image] updates every 15 or 20 seconds. He will begin full video streaming [soon]—he's going to try out a new technology."

That new technology, using G2 software, will allow "smooth video on the net as never seen before," according to Bell, who said it allows up to 30 frames per second video, depending on the connection.

"It incorporates Intel's streaming Web Video software," said **Alan Corbeth**, SVP Talk, Premiere.

"It's kind of a marriage deal between Intel and Broadcast.com," said Bell, as the Broadcast.com folks were installing the equipment at his Pahrump, NV home. "Intel came up with the software, Broadcast.com comes up with the distribution system."

Said Bell: (2/25) "I'm going to have [Broadcast.com President] **Mark Cuban** on tonight. Interesting is not the word [for this]. It's going to be awesome. I know, because I've been sitting here testing it. To see it, all you need is a G2 player and it's free."—CM

NAB takes casino ad fight to Supreme Court

NAB, the 4As and a host of advertising and media groups (plus the American Civil Liberties Union) have asked the US Supreme Court to hear the case of Greater New Orleans Broadcasting Association Inc. v. the United States of America and decide once and for all whether legal casinos have the right to advertise. The joint filing claims that the Fifth Circuit Court of Appeals ignored the Supreme Court's previous order to consider the high court's most recent ruling on commercial speech when the appeals court found for a second time that the federal ban on casino radio and TV ads was constitutional.

If the Supreme Court agrees to hear the case, it would end the conflict between the ruling in the Fifth Circuit and a similar case in the Ninth Circuit, where the appeals court struck down the ban and casino ads now air regularly in several western states.—JM

RBR News Briefs

Mel repeats dream of owning NBC

It's not the first time he's said it, but CBS (N:CBS) CEO **Mel Karmazin** shook up the 4As conference last week (2/25) in New Orleans by saying he wanted to buy NBC from General Electric (N:GE): "If Exxon and Mobil can combine, then why can't I buy NBC?"

Such a combination is, of course, impossible under current law.

Karmazin's comment came after Saatchi & Saatchi's **Allen Banks** called media consolidation a threat to advertisers and ad agencies.—JM

Buchannan 2000?

Former Westwood One (N:WON) Talk host **Pat Buchannan** has taken a leave of absence from his CNN show to build support for a possible run for the 2000 Republican presidential nomination. The populist firebrand has run twice before and shocked the GOP by finishing first in the 1996 New Hampshire primary.—JM

Greaseman inserts foot in mouth, gets fired

CBS' WARW-FM morning drive eccentric **Doug "Greaseman" Tracht** was terminated Thursday (2/25) for a flippant remark made 2/24 about a **Lauryn Hill** track hours before the hip-hop artist won five Grammys: "No wonder people drag them behind trucks," referring to the torture and death of a black man, **James Byrd**, who was dragged behind white supremacist **John William King**'s truck in Texas. King was found guilty and sentenced to death in that criminal case 2/25. —CM

Radio staying off legislative radar screen

Only two bills introduced so far in the 106th Congress would appear to have any specific impact on radio.

Rep. **Mike Oxley** (R-OH) introduced H.R. 598, which would require the FCC to eliminate the crossownership rule. That's the rule which prohibits the common ownership of a radio or TV station in the same market with a daily newspaper. Co-sponsors are Reps. **Cliff Stearns** (R-FL) and **Ralph Hall** (R-TX). The bill has been referred to the House Commerce Committee, where the Republican majority is expected to look favorably on it. A companion bill is expected in the Senate, but hasn't yet been introduced.

As of yet, there's been no bill from Stearns to also do away with the one-to-a-market rule and allow TV duopolies (*RBR* 2/15, p. 5). If both measures pass Congress and are signed by President **Clinton** (which would probably mean tacking them onto must-pass legislation), the result would be a green light for a single company to own eight radio stations, two TV stations and a daily newspaper (two, if they currently own both a morning and afternoon paper) in the same market.

Rep. **Eliot Engel** (D-NY) introduced H.R. 125, which would require the FCC to establish an "ethnic and minority affairs section." The purpose of the section would be to "establish a clearinghouse for complaints, grievances, and opinions relating to radio, television and cable television broadcast programming and their depiction of ethnic and minority groups." The bill would require the FCC to hold an annual conference to draw public attention to how minorities are portrayed by broadcasters and cablecasters and submit an annual report to Congress. The Chairman of the FCC would appoint a 15-member commission made up of broadcasters, educators, mental health experts and minority leaders to assist the FCC in implementing the annual conference. The bill has been referred to the Commerce Committee's telecommunications subcommittee. Since Engel has no Republican co-sponsors (nor any fellow Democrats for that matter), it appears unlikely any action will be taken on the bill.—JM

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CD vs. XM; patent problems propagating

by Carl Marcucci

As fast as technology is moving, it seems the only roadblocks to progress—getting a product or service in or to the consumer's hands—these days are patent infringement suits. The latest in this costly battlefield: CD Radio (O:CDRD) is suing XM Satellite Radio for allegedly infringing on three of its eight patents—covering space diversity (using two or more satellites for the service as opposed to one), time diversity (delaying one satellite's transmission slightly to allow receivers' internal buffers to "hand-off" the signal under blockages like highway overpasses), and the small receiving disc antenna.

CD Radio is seeking an injunction to stop XM from building its system. "We have diligently developed our intellectual property over the course of many years, specifically with respect to overcoming blockage issues in a satellite DARS broadcast environment. Having invented this industry, our intellectual property represents the keys to a superior delivery system. Anyone wishing to borrow this technology has to pay for it," said **David Margolese**, CEO, CD Radio. "Certainly, we have had discussions with XM with respect to infringing on our intellectual property. Their response was 'no, we're not.' We said, 'O.K., then show us why you're not.' Then they stonewalled us and didn't return calls. So, now, this is the track we have to take—let the courts decide."

XM says the suit was filed 1/21, and this announcement was made now to coincide with the Bear Stearns Satellite Conference in New York 2/23, where both Margolese and XM CEO **Hugh Panero** spoke and addressed questions.

This suit comes 30 days after CD Radio announced a significant delay in its schedule (*RBR* 2/15, p.4). Said Panero: "We believe that the suit has no merit, that we do not infringe and obviously, this suit was filed just 30 days or so prior to CD Radio announcing a six month delay in its launch program and chipset plan, and a $175M addition to its capital requirements. Reasonable people can come to the conclusion of what the purpose of this suit was. We continue to be on schedule for our commercial launch in the year 2000 and we look forward to offering the service at that point in time—at the same time as CD Radio, or potentially before them."

According to Margolese, if XM uses only one satellite for its service, instead of the planned two, there would be no space or time diversity patent infringements, and the disc antenna patent can be designed around. However, technically, the system would probably have mobile reception problems. He added that manufacturers can't sell radios for XM's system if the technology is found to infringe upon CD's patents.

DRE vs USADR?

Is USADR infringing on competitor Digital Radio Express' patents, as claimed recently by DRE President **Norm Miller** (*RBR* 1/11, p.2)? "I guarantee you with 100% certainty that our patent is being infringed upon by the way they designed and presented it at the NAB show. There's no doubt—it's a key part of making IBOC work. All [patent] claims have been allowed and the patent is in its final stages of being released. The patent is not truly official until it's published. Maybe they can design around it."

With DRE VP Engineering **Derek Kumar** not revealing what this mystery patent is until it's published, even USADR President **Bob Struble** admits he doesn't know for sure if it wont affect his work. "The way the process works is the details of the patents are in the dark until they're awarded. Derek has a bunch of patents that were awarded. We've looked at all of those and they have no impact on our system. We don't know what people might have in the hopper, nor do people know what we have in the hopper. If anything comes up, we'll certainly deal with it. But to the best of our knowledge there are no patents issued to anyone besides us which infringe on our ability to implement our technology."

DRE has a process patent, which can be particularly hard to design around or "back engineer." A process patent is not so much a specific technology, but a way of putting technologies together to create something new. **Bill Suffa**, VP Strategic Development, Jacor (O:JCOR) is a little jaded about how process patents can hold technology hostage. "I've spent some time with patent lawyers recently, and I'll tell you—from a user's standpoint it [ticks] me off. I don't want to infringe on somebody's rights, if somebody legitimately invented something new first, then that's one thing. Patents are intended to protect the rights of people who legitimately came up with an invention first. I'm not sure I share the value of process patents. If you figure out how to put five or six blocks together and make a production line and you go out and say 'I'm going to patent this process,' then that's one thing. It's an entirely different thing to say 'hey, I invented a new way of compressing audio'."

QDI controls EAS?

The same thing goes with Quad Dimension Inc. (QDI) and the EAS patent controversy (*RBR* 2/15, p. 4). The whole issue, like the rest of them, could end up in court. Quad Dimension says it patented new EAS technology that the FCC adopted as the standard, and broadcasters owe monthly license fees for using the system, which is another process patent. Broadcasters, equipment manufacturers, the NAB, The National Weather Service and NOAA want a second patent reevaluation to take place, hoping there is some prior art to prove this is not unique. The first reevaluation requested by NOAA upheld QDI's patent.

StarGuide vs. Wegener?

A possible patent infringement issue with StarGuide Digital and Wegener (O:WGNR) on store and forward technology (that will replace satellite CEDAT technology—*RBR* 12/21/98, p.3) has most likely been put to rest. StarGuide Network Development Director **Chuck Wagner** tells that story: "We were in kind of an embarrassing position—we had competition out there building a box that violated our patents. Now, we could have gone in and been the big bully, carrying a big club and said 'you can't do that,' and sued them. We don't like doing that because a lot of people would look at that in a negative way. But, yet, this is something we built, worked on and owned. It's not even patent-pending. The patents are granted. We basically served notice in this thing—'here's what could happen [if you proceed] legally.' We would rather have [clients] make choices based on our equipment being the better."

According to Wagner, the patent may have been designed around. "We did find out that Wegener has a way to get around [our] patent. The way they would do it is by taking the audio as it comes in and going from digital to analog and then back to digital again. But what's happened then is you've gone through a transcoding which creates a degeneration of your audio." Wegener did not return calls seeking comment.

Premiere, Jacor and Clear Channel (N:CCU) are currently considering which store and forward system to use under the upcoming merger, as Premiere President/COO **Kraig Kitchin** had mentioned in the 12/21 story. Suffa is one of the decision makers: "I got the proposals in [1/8] and I'm reviewing them. We're going through the process much the same way we went through the audio server selection process [choosing Prophet Systems]."

Milwaukee (30)

Consolidation Lite is the brew of choice

by Dave Seyler

While most other large markets have long since gone through a virulent bout of consolidation fever, Milwaukee can only be said to have run a mild temperature. Only one owner has maxed out a superduopoly on the FM band, and only two have a superduop of any kind. Only 28.1% of stations in the market are in superduops, and only 65.6% are in some form of consolidated operation. Both numbers are well below the national averages.

The old-fashioned AM-FM combo, which in most places has become a quaint reminder of times gone by, continues to thrive here, claiming over 30% of the market's stations. Two of the combos are among the top five owners, and if current trends continue, Journal's combo may well leap-frog Saga's superduop to grab the #2 spot.

The superduopoly total figures to go up a bit if Clear Channel decides to go ahead with the much-discussed proposal to purchase Chancellor Media. That would move Capstar's combo into the Clear Channel column. This would solidify Clear Channel's hold on first place, but seemingly not so much that the DOJ would feel a need to get involved (not that we ever hope to make a living figuring out what the DOJ will do next).

***RBR* observation**: We would not be at all surprised to see further consolidation here. Shamrock and All Pro have already joined together in a joint sales arrangement that will celebrate its second birthday later this summer. However, the most likely candidate to buy is probably unable to do so. Journal's AM-FM combo, lonely by radio's new ownership standards, is, to quote Dylan, "not so all alone." The TV station and newspaper that also cavort about in the Journal rumpus room mean that Journal will more than likely have to "waiver" bye-bye to any plans for additional radio acquisitions in town, unless legislation passes Congress (and the White House) to do away with the FCC's crossownership rule. The current combination exists because it is older than the rule.

Owners Scorecard

Rank	Owner	Calls	Fa97	Fa98	Chng
1	Clear Channel**	WMIL/WKKV/WOKY/WZTR	21.7	23.5	+1.8
2	Saga**	WLZR/WKLH/WPNT/WFMR/WJYI	18.8	17.6	-1.2
3	Journal	WTMJ/WKTI	16.3	17.1	+0.8
4	Sinclair*	WMYX/WXSS/WEMP	8.0	9.7	+1.7
5	Capstar	WISN/WLTQ	8.0	9.5	+1.5
6	Shamrock/All Pro*#	WJZI/WLUM/WMCS	7.6	6.0	-1.6
7	Bliss*	WRJN/WEZY/WBWI/WBKV	2.4	2.0	-0.4
8	Courier	WNOV	2.2	1.6	-0.6
9	WALT-WEST*	WAUK/WAUX	1.0	1.0	-
10	Kettle Moraine	WTKM AF	1.0	0.7	-0.3
11	Kinlow	WGLB AF	0.5	0.4	-0.1
12	Pride	WEXT/WLIP	0.0	0.4	+0.4

* = duopoly; ** = superduopoly; # = JSA

Duopoly Dimensions

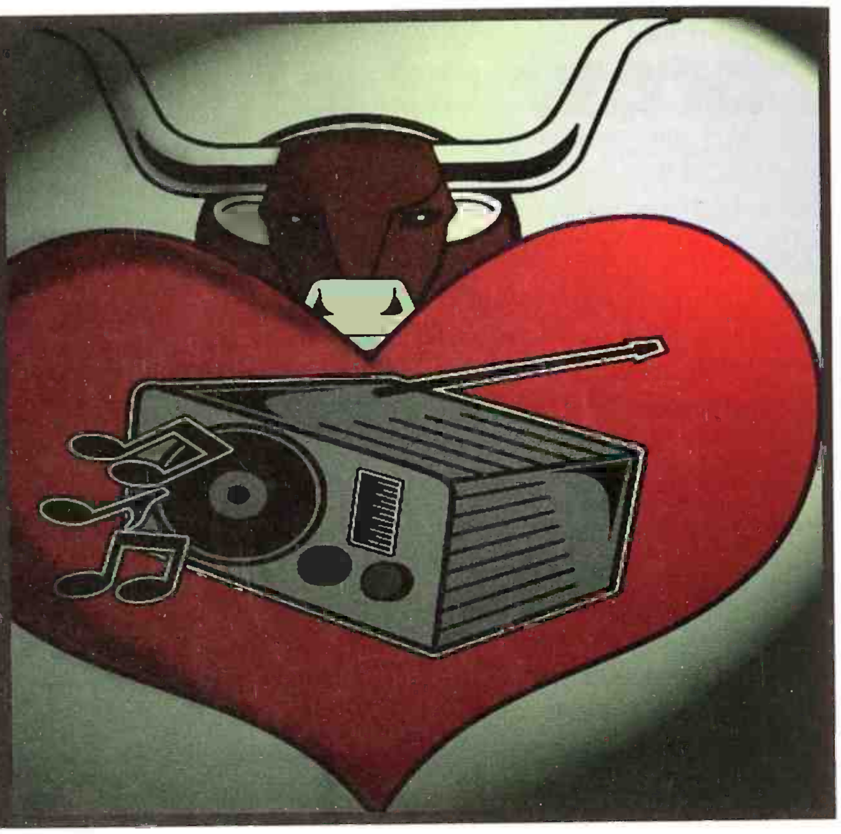
	Owners	Stns	Pct
Total Own/Stns	12	32	
Superduop	2	9	28.1
Duop	4	12	37.5
Combo	5	10	31.3
Standalone	1	1	3.1
Total Consolidation	6	21	65.6

Market Statistics

Rank	31
12+ population	1,377,100
Black population	188,400
%Black	13.7
Hispanic population	58,700
%Hispanic	4.3

Source: Arbitron, RBR Information Services Group by Jack Messmer

Wall Street appears ready to embrace radio stock and bond offerings in 1999



Barring unforeseen turbulence in the US economy, 1999 is looking like a favorable year for radio IPOs, add-on stock offerings and bond sales.

At Prudential Securities, **Mark Leavitt**, Managing Director/Group Head, Media and Telecom Group, is expecting a good year for the stock market, based on bullish reports from Prudential's market strategist, **Greg Smith**. Additionally, the Media and Telecom Group's broadcast analyst, **James Marsh**, is projecting good revenue and cash flow growth for the radio companies that he follows.

Strength in the sector attracts investors, both to existing issues and new offerings, so 1999 could be a prime year for radio companies to raise money on Wall Street.

"If you look at where stock prices are for most of the broadcasting companies, they are at or near record highs," Leavitt noted *(RBR's* interview was shortly before The Radio Index™ hit a record of 129.75 on 2/3). "So we continue to expect more financing activity in the broadcasting sector."

Successful IPOs also attract buyers to similar IPOs. Leavitt noted that there were four radio IPOs in 1998—Citadel Communications (O:CITC), Cumulus Media (O:CMLS), Capstar Broadcasting (N:CRB) and Infinity Broadcasting (N:INF)—followed by Entercom (N:ETM) in January of this year. "And the stocks have all performed reasonably well," Leavitt said. (See chart, page 8.) "You're starting to see, and will continue to see, more broadcasting groups looking to go public."

The only real inhibitor is the lack of potential IPO candidates, since most of the largest radio companies now have public stock—a dramatic change from a decade ago when there were only a handful of radio stocks on Wall Street.

How big do you need to be?

The companies most often mentioned as likely IPO candidates for this year are minority-owned radio groups with a focus on a particular format niche—Radio One, the largest African-American-owned group, with primarily large market Urban stations, and two Hispanic-owned groups with Spanish stations, Spanish Broadcasting System and Z-Spanish Media. Do niche players hold a special attraction for investors, or is it just a coincidence that format specialists are likely to dominate the next wave of radio IPOs?

"When you say niche players, groups like Radio One are niches in that they are within a particular format, but they've built pretty sizeable companies. So I think it's really the absolute size of the company that's the governing issue right now," said Leavitt.

So, how big do you need to be to do an IPO in today's market?

"It goes back and forth, depending on where you are in a market cycle and how much leverage there is in the company," Leavitt explained. "The rule of thumb, with reasonable leverage, is probably around $20M in broadcast cash flow."

For many companies, the first trip to Wall Street is for a bond offering, rather than a stock sale. Several radio companies which don't yet have public stock, and in some cases may not ever choose to do an IPO, do have publicly-traded bonds. The current list includes Radio One, Spanish Broadcasting System, Salem Communications, Brill Media and Interep.

First-time bond issuers typically sell high-yield bonds—a more respectible name for the sector of the market once derisively called "junk bonds." High-yield bonds, as the name indicates, pay higher interest rates than the investment-grade bonds issued by Fortune 500 companies. Savvy buyers, who know how to balance risk and rewards in a diversified bond portfolio, can often achieve higher returns than they could get from a more conservative portfolio. And although the issuing companies pay higher rates than their blue chip brethren, they typically pay a little less than for bank loans, lock-in long-term rates and get more flexibility than a lender would agree to.

"It's a market which has had great experience in the broadcasting sector," Leavitt noted. "The minimum size for doing a deal in the broadcasting sector is probably less than you'd find for most other areas. In terms of minimum size, you're probably looking at cash flow of about $15M."

To attract interest from institutional investors and have enough bond trading for holders to feel that they have liquidity, Leavitt says the rule of thumb is that a bond offering has to be around $100M.

In some ways, that first bond offering is a coming out party. It's a company's first exposure to the institutional investor community.

"You want to be sure than you use it to your advantage when you go public," said Leavitt, citing **Larry Wilson**'s Citadel as an example. "Citadel's first deal was this $200M high-yield deal that we did for them. It established a core of institutional investors which has continued to support the company as it has grown and has continued to buy its securities."

Finding a partner on Wall Street

The first step for a broadcaster who wants to sell stock or bonds on Wall Street is to establish a relationship with the investment banker who'll be the lead underwriter. But how is the broadcaster supposed to know which firm to approach? And how?

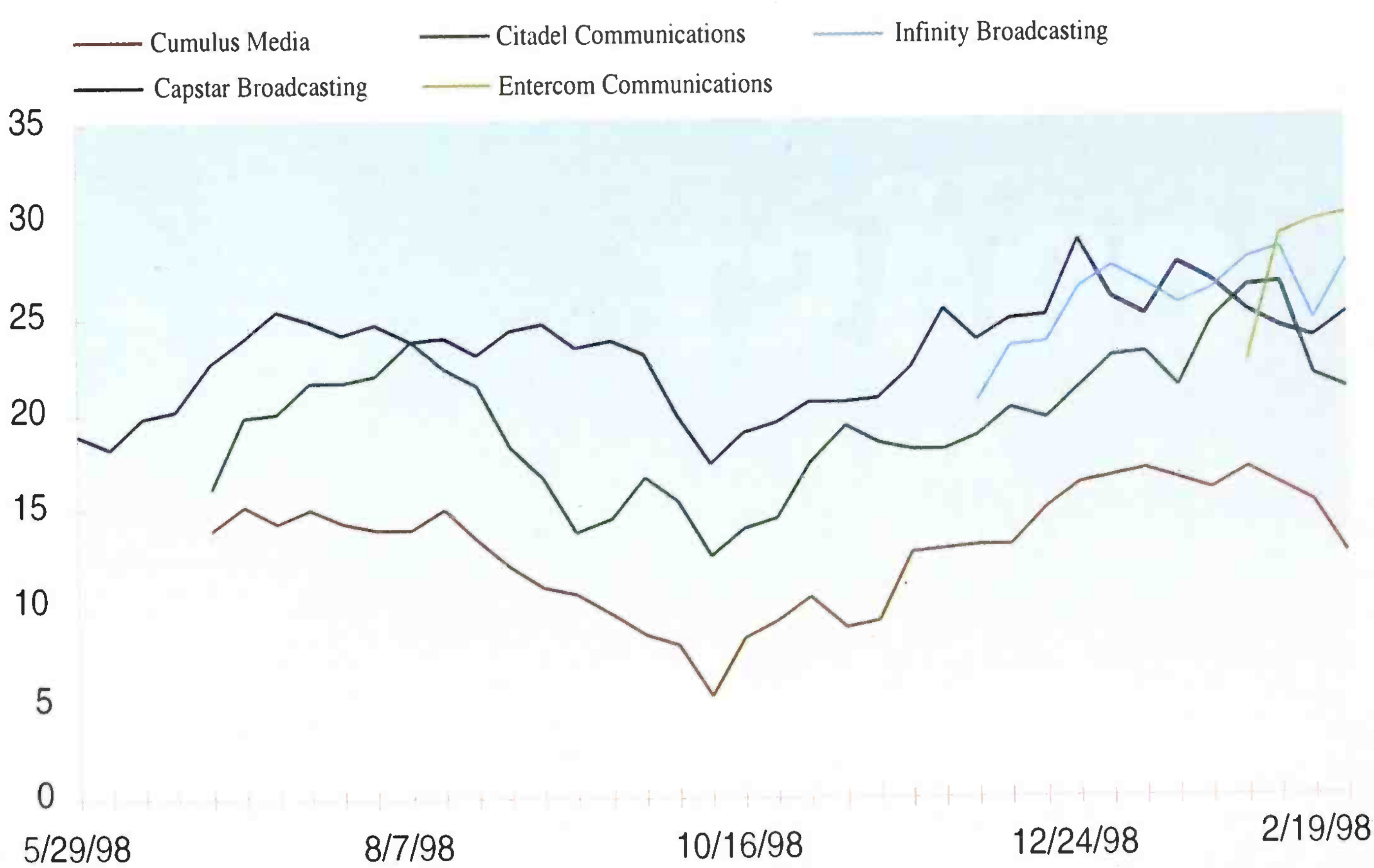
"One of the things that a would-be issuer needs to look for is to find an investment bank that has done deals of a comparable size," Leavitt said. "You want to make sure that you're not either too big for the firm, and it's something that they don't have the size to do, or just as bad, you don't want to be in a spot where your deal is sufficiently small that you become an afterthought for that investment bank."

Additionally, he noted, the investment bank should have experience in your sector—broadcasting.

One recent trend has been for radio broadcasters to branch out into other types of media. Clear Channel, Infinity, Chancellor and Radio One are all into outdoor advertising. Emmis Communications (O:EMMS) has acquired several regional magazines and last year expanded into TV—the traditional medium to pair with radio. Proponents of multi-media holdings tout "synergy" from cross-media promotion and ad selling, but Leavitt says the jury

The Class of '98 (plus a month)

As the radio industry waits to see which groups will join the Wall Street parade this year, here's a look at the stock price performance of the four companies which sold IPOs in 1998, plus Entercom, which went public in January of this year. Of the five, all except Cumulus are trading above their IPO price, and it is up from the low point of last fall's stock market sell-off.



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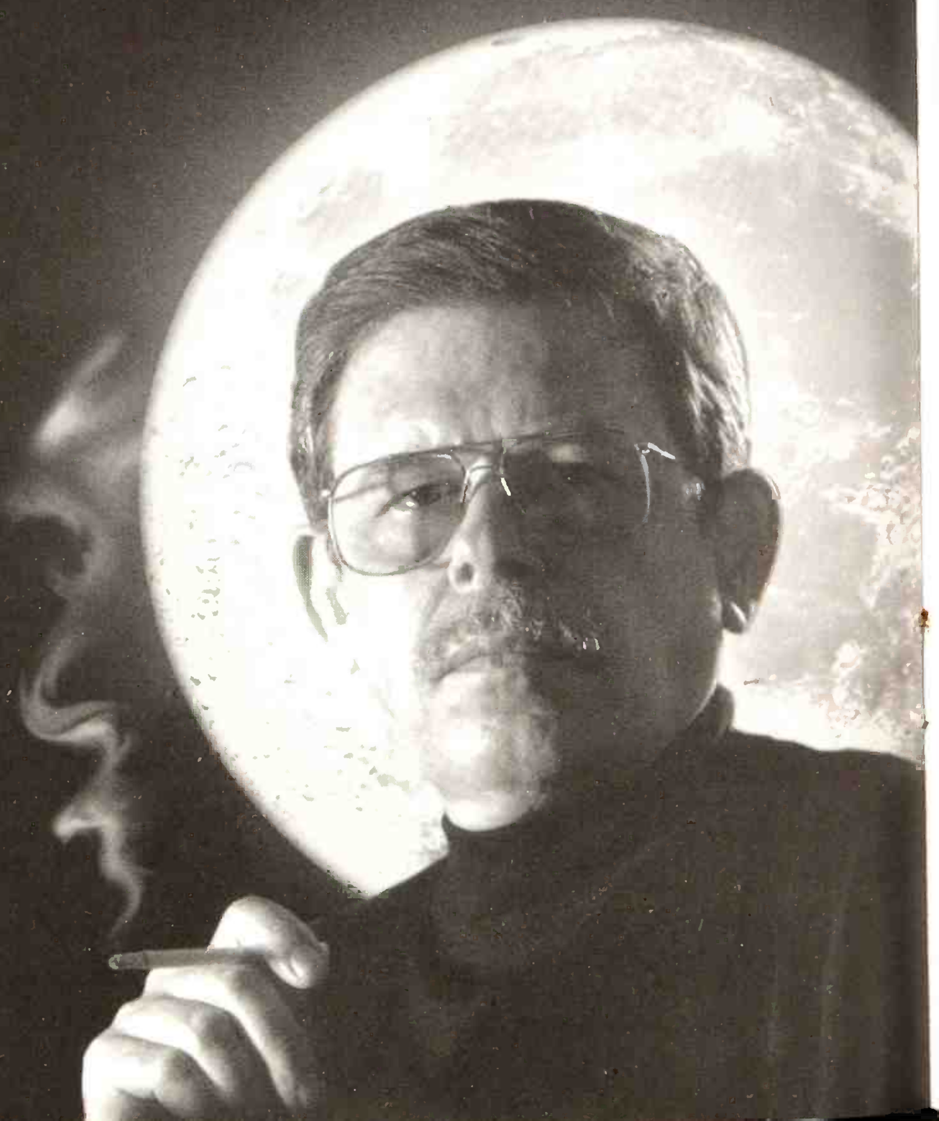
Chicago	WLS-A	#2
San Francisco	KSFO-A	#2
Boston	WRKO-A	#2
Cleveland	WTAM-A	#2
Seattle	KOMO-A	#1
Tampa	WFLA-A	#1
Sacramento	KSTE-A	#2
Denver	KHOW-A	#1
Phoenix	KFYI-A	#1
Hartford	WTIC-A	#1
Orlando	WDBO-A	#1

COAST TO COAST AM with Art Bell



PREMIERE RADIO NETWORKS

541-664-8829

Source: Fall 1998 Arbitron Metro, Persons 12+

is still out on such synergies.

"We're actually a big underwriter in the outdoor area. We've been an underwriter for Lamar (O:LAMR) and for Outdoor Systems (N:OSI)," Leavitt noted. "I think it's too early to tell whether the ability to cross-sell advertising in a market is something that can be done. And you hear, depending on which group you're talking to, different approaches, although I think one of the things that's helped a group like Clear Channel (N:CCU), which has probably been the most active buyer of outdoor properties, is diversified sources of cash flow within the media sector—radio, TV and outdoor."

How far afield can you diversify before you don't look like a broadcaster?

"If you look at some of the groups, like a Chancellor or a Clear Channel, the groups are so large and diversified that in a lot of ways they look like a more general proxy for the market as a whole than just a broadcasting company," said Leavitt. "One of the things that you see is new institutional buyers owning a Clear Channel or a Chancellor because they have such a broad and diverse base of earnings."

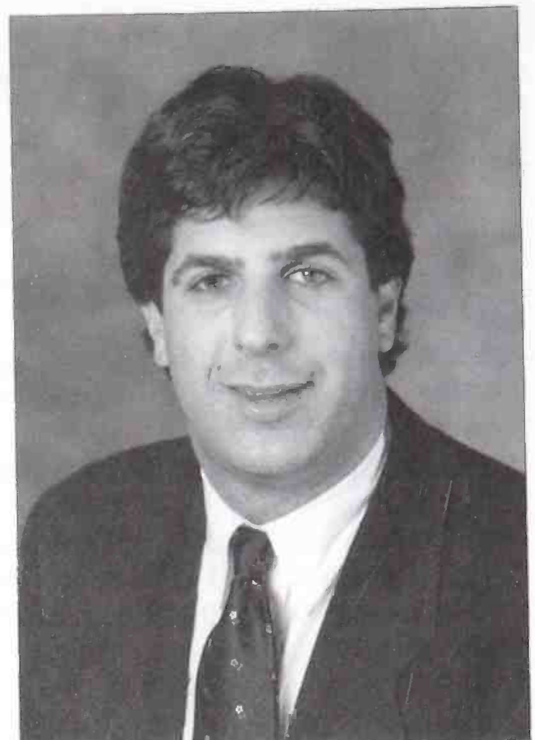
Because of the growth of radio companies since the 1996 Telcom Act, Leavitt is one of those who believes that, eventually, a big radio company is going to be an attractive takeover target for a giant media company—News Corp. (N:NWS),Time-Warner (N:TWX) or GE (N:GE), for instance. "I think these companies have gotten sufficiently large that at some point it's going to become attractive for someone who's not in the business to come back in, or to come in initially," Leavitt predicted.

Many broadcasters are trying to figure out strategies for taking advantage of the Internet—and hopefully getting a bit of the stock price treatment that Wall Street has been giving to Internet companies. For example, Disney (N:DIS) recently launched Go.com as an Internet portal to challenge America OnLine (N:AOL), Yahoo! (O:YHOO) and others—so-called "new media" companies whose revenues are a fraction of Disney's, but command much higher stock price multiples of P/E, cash flow or any other measure you might choose.

"It's too early. You have some free-standing things like Broadcast.com (O:BCST) with some wonderful valuations, but I think it's too early to see how those models play out and whether they get merged with a traditional broadcaster or not," Leavitt said of the impact of broadcasters on the Internet—and vice versa.

The IPO party continues

Wall Street briefly lost its appetite for IPOs for a couple of months in the third quarter of last year as stock prices took a tumble, but the fast-moving market recovered in record time and the IPO market reopened in the fourth quarter, in time for **Mel Karmazin** to take Infinity Broadcasting public for the third time (this time as a spin-off from CBS) and set an all-time record for a media IPO. Entercom followed with its IPO in January and the window remains open for radio IPOs—and most other sectors, as well. All that's lacking is any radio company in the pipeline to sell its initial stock offering.



Mark Leavitt, Managing Director/Group Head, Media and Telecom Group

Prudential Securities

While the likely radio IPOs of 1999 get their ducks in a row, is there much concern that the window of opportunity could close and Wall Street would lose interest in new radio stocks? What could happen to close the window to radio?

"I don't think it's anything unique to the broadcasting sector. I think it would take another general market scare," said Leavitt. "We had Brazil look like it was going to melt down for a week, and the market seems back from that, so the market has proved to be fairly resilient. In the face of impeachment, Brazil, additional emerging market crises, it's still a healthy market for equity offerings."

Barring some unforseen difficulty for the general economy, Leavitt is expecting 1999 to be another good year for the investment bankers who work with broadcasters. "It should be a decent year, and I think that should be broad-based across international broadcasters and domestic broadcasters. It should be pretty balanced between equity offerings and M&A (mergers and acquisitions) activity. I don't see a reliance on any one sector or type of activity."

Even with a bullish outlook, Leavitt advises those who are considering a visit to Wall Street this year to get into line as soon as possible. "Right now there are markets that are there, but who knows whether there will be later in the year."

As noted repeatedly in *RBR*, many analysts are expecting radio and all other types of media to enjoy record growth next year as the world celebrates the dawn of the new millennium.

"I think you'll see the effects of that this year," Leavitt said. "Within a relatively short timeframe, people are going to be selling off of next year's anticipated earnings and cash flows. I think you'll see the effects of that in the financing activities this year."

MEDIA MARKETS & MONEY™

by Jack Messmer

Radio Unica adds Chicago

Chris Brennan says it was appealing for One-On-One Sports to double its money in 14 months, so it's selling WIDB-AM Chicago to **Joaquin Blaya**'s Radio Unica for $16.75M—$7.25M more than One-On-One paid **John Douglas** for the signal in 1997. Also, Brennan notes, One-On-One will still broadcast in the Windy City through its LMA of **Joe McNaughton**'s WJKL-FM.

"Chicago is a key part of our distribution strategy that calls for the ownership and management of stations in the top US Hispanic markets," said Blaya.

Radio Unica had been LMAing WYPA-AM from Z-Spanish Media and had an option to buy the station. Blaya said the 24-hour signal of WIDB (WYPA is a daytimer) will be especially important to Radio Unica's early evening sports programming.

Combining beachfront property

Lee Hagan has joined forces with **Richard Shively** to form a new company, Gulf Coast Broadcasting Co. Inc., to combine five stations for coverage from Mobile to Pensacola and north to near Montgomery. Hagan will contribute WCSN-FM Orange Beach, AL-Pensacola, FL to the new entity, which will then acquire WABF-AM Fairhope-Mobile, AL, WXWY-AM Robertsdale, AL and WIJK-AM & WPGG-FM Evergreen, AL.

The price tag for the Evergreen combo is $1.5M and for WXWY $224,000. Gulf Coast is paying only $25,000 for WABF, but there's a story to explain that tiny price tag. It doesn't include the real estate, although Gulf Coast will have a three-year lease option. Hagan says he expects to move out of the studios right after the sale closes and relocate the transmitter well before the three-year deadline.

Hagan says there will be separate programming on all five stations. WABF and WXWY will move into the WCSN studio complex, but the Evergreen stations will remain in separate studios.

Sarkes Tarzian sale heading to court

Sarkes Tarzian Inc. President **Tom Tarzian** has sued in federal court to block a deal to sell the company stock held by his mother's estate to Bull Run Corp. (*RBR* 2/8, p. 7). Tarzian claims a hand-shake deal to sell the stake back to the company is binding on the estate. "We are dismayed that the estate ignored that contract in its subsequent dealings with Bull Run," Tarzian said in a statement.

Rather than being a 73% stock interest, as claimed in Bull Run's announcement, Tarzian said the estate's stake is only 33.5% of the company's stock. It is, however, entitled to 73% of the company's dividends. One problem: Sarkes Tarzian Inc. doesn't plan to pay any dividends.

Sarkes Tarzian Inc. owns two TV stations and four radio stations.

RBR's deal digest

Bruce Buzil's and **Aaron Shainis**' Marathon Media is paying $1.75M for KONY-AM & FM Washington-Kanab UT from Red Rock Broadcasting, headed by **Harold Hickman**. Broker: **Greg Merrill**, Media Services Group... Fast-growing Marathon is also paying $1.75M for **Jeff** and **Pam Johnston's** KREC-FM Brian Head UT. Broker: **Greg Merrill**, Media Services Group... **Bob Rogers**' Word Broadcasting is acquiring Gore-Overgaard Broadcasting's WNAI-AM Louisville for $820,000. Broker: **John Pierce**, Force Communications

Hearst-Argyle reports growth, prepares for merger

If nothing else, Hearst-Argyle Television's (N:HTV) announcement of its Q4 and full year results must have set the Guiness record for the longest press release ever, if there is such a category. The computer print-out from the Internet ran 25 pages.

It's not that CEO **Bob Marbut** was overly wordy, but rather that the company is in such a state of flux. The report included the company's actual results for 1998 (combining the former Hearst Broadcasting and Argyle Television), pro forma full-year results on a same-station basis (reflecting a station swap at mid-year and full-year adjustments for the August merger) and a second set of pro-forma results including the broadcast division of Pulitzer Publishing (N:PTZ)—a merger due to close at the end of March—and the pending acquisition of KCRA-TV Sacramento (including an LMA of KQCA-TV).

"As these results would suggest, we are very excited about the prospect of completing the Pulitzer broadcast acquisition by the end of this quarter," said Marbut. "The pro-forma results indicate that the Pulitzer and Kelly transactions combined are accretive by five cents...to our 1998 after-tax cash flow per share." He also noted that the Pulitzer merger will double Hearst-Argyle's stock float to offer investors greater liquidity.

The Pulitzer deal will make Hearst-Argyle a radio group owner for the first time, although it already manages WBAL-AM & WIYY-FM Baltimore for the Hearst family.

Once all of the pending transactions close, Hearst-Argyle will own or LMA 26 TV stations and seven radio stations.

Here's a side-by-side view of 1998 results for the fast-growing company:

(all $ in millions)

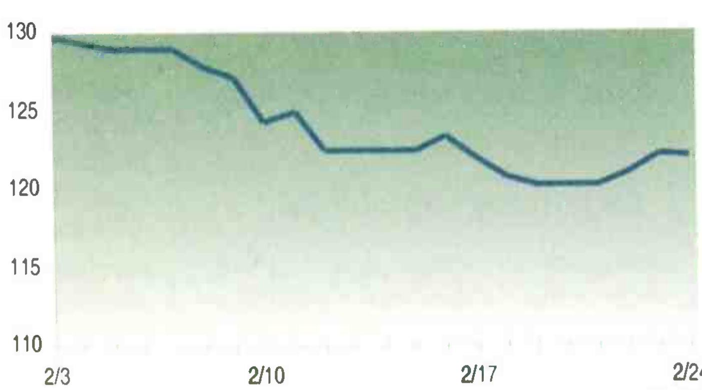
Category	Actual 1997	Actual 1998	Pro-forma 1997	Pro-forma 1998	+Pulitzer/KCRA 1997	+Pulitzer/KCRA 1998
Revenues	$333.7	$407.3	$388.4	$407.4	$689.8	$731.0
Broadcast cash flow	$151.0	$190.5	$177.0	$190.3	$312.6	$346.3
After-tax cash flow	$74.1	$96.1	$90.8	$97.9	$152.8	$167.1
Net income*	$51.1	$59.7	$50.8	$59.5	$21.7	$39.5

* Does not include special charges
Source: Hearst-Argyle "press release" 2/22/99

The Radio Index™

RADIO BUSINESS REPORT — THE WALL STREET JOURNAL RADIO NETWORK

Radio stock prices appeared to have finally leveled off last week after The Radio Index™ had fallen from its 2/3 record high of 129.75. The index closed last Wednesday (2/24) at 122.14, down 0.2 from a week earlier.



Broadcast Investments™

February 24—RBR Stock Index 1999

Company	Mkt:Symbol	2/17 Close	2/24 Close	Net Chg	Pct Chg	2/24 Vol (00)
Ackerley	N:AK	17.250	17.812	0.562	3.26%	118
Alliance Bcg.	O:RADO	1.031	1.062	0.031	3.01%	1282
Am. Tower	N:AMT	25.625	25.750	0.125	0.49%	2697
AMSC	O:SKYC	4.250	4.250	0.000	0.00%	530
Belo Corp.	N:BLC	16.375	17.562	1.187	7.25%	1882
Big City Radio	A:YFM	4.750	4.812	0.062	1.31%	6
Broadcast.com	O:BCST	58.187	81.687	23.500	40.39%	44921
Capstar	N:CRB	21.812	21.312	-0.500	-2.29%	1135
CBS Corp.	N:CBS	37.062	37.437	0.375	1.01%	19230
CD Radio	O:CDRD	23.125	22.625	-0.500	-2.16%	1131
Ceridian	N:CEN	73.625	74.687	1.062	1.44%	1601
Chancellor	O:AMFM	48.000	45.750	-2.250	-4.69%	37635
Citadel	O:CITC	25.500	27.000	1.500	5.88%	1388
Clear Channel	N:CCU	59.312	60.250	0.938	1.58%	8008
Cox Radio	N:CXR	42.187	42.750	0.563	1.33%	366
Crown Castle	O:TWRS	18.375	18.937	0.562	3.06%	1901
Cumulus	O:CMLS	15.125	12.062	-3.063	-20.25%	500
DG Systems	O:DGIT	5.500	5.000	-0.500	-9.09%	234
Disney	N:DIS	34.937	35.062	0.125	0.36%	61589
Emmis	O:EMMS	43.000	46.187	3.187	7.41%	691
Entercom	N:ETM	30.000	30.937	0.937	3.12%	1260
Fisher	O:FSCI	62.500	63.000	0.500	0.80%	130
Gaylord	N:GET	25.125	25.187	0.062	0.25%	241
Granite	O:GBTVK	7.000	6.875	-0.125	-1.79%	887
Harris Corp.	N:HRS	34.250	31.875	-2.375	-6.93%	5656

Company	Mkt:Symbol	2/17 Close	2/24 Close	Net Chg	Pct Chg	2/24 Vol (00)
Heftel Bcg.	O:HBCCA	43.500	43.500	0.000	0.00%	1088
Infinity	N:INF	25.500	25.812	0.312	1.22%	6893
Jacor	O:JCOR	68.750	69.625	0.875	1.27%	6300
Jeff-Pilot	N:JP	66.125	69.250	3.125	4.73%	1433
Jones Intercable	O:JOINA	37.500	42.750	5.250	14.00%	3514
Metro Networks	O:MTNT	49.500	48.250	-1.250	-2.53%	53
NBG Radio Nets	O:NSBD	3.375	3.750	0.375	11.11%	385
New York Times	N:NYT	31.750	32.687	0.937	2.95%	6272
OmniAmerica	O:XMIT	27.250	28.000	0.750	2.75%	55
Otter Tail Power	O:OTTR	36.000	38.250	2.250	6.25%	40
Pacific R&E	A:PXE	1.750	1.750	0.000	0.00%	0
Pinnacle Hldgs.	O:BIGT	14.000	14.000	0.000	0.00%	12639
Pulitzer	N:PTZ	81.562	81.062	-0.500	-0.61%	112
RealNetworks	O:RNWK	60.062	70.125	10.063	16.75%	6451
Regent Pfd.	O:RGCIP	5.000	4.750	-0.250	-5.00%	0
Saga Commun.	A:SGA	17.750	18.875	1.125	6.34%	73
Sinclair	O:SBGI	13.562	14.250	0.688	5.07%	5232
SportsLine USA	O:SPLN	40.000	42.750	2.750	6.88%	2572
TM Century	O:TMCI	1.000	0.687	-0.313	-31.30%	0
Triangle	O:GAAY	0.012	0.015	0.003	25.00%	4200
Triathlon	O:TBCOA	11.687	12.062	0.375	3.21%	71
Tribune	N:TRB	65.250	66.250	1.000	1.53%	1731
WesTower	A:WTW	27.750	26.125	-1.625	-5.86%	161
Westwood One	N:WON	24.687	24.375	-0.312	-1.26%	252
WinStar Comm.	O:WCII	33.750	34.000	0.250	0.74%	13935

Pinnacle joins Wall Street brigade

Pinnacle Holdings (O:BIGT) finally got its IPO done (2/18) and began Nasdaq trading (2/19). The issue of 20M shares priced at $14 each—the low end of the anticipated range *(RBR 2/22, p. 13)*—and remained virtually flat in the first few days of trading. The repeatedly delayed IPO was managed by BT Alex. Brown (although it was not the original lead underwriter), along with Salomon Smith Barney, NationsBanc Montgomery Securities, Raymond James & Associates and Deutsche Bank.

Pinnacle CEO **Robert Wolsey** announced last week that the tower company had entered into 13 deals to acquire a total of 28 towers for $12M. The purchases will increase the company's strength in its core area, the Southeast. As of the end of 1998, Pinnacle owned 876 tower sites.

Shortly before the IPO pricing, Pinnacle reported that its revenues, including those from recent acquisitions, grew 148% in 1998 to $32M. Its "gross margin" (yet another new term for cash flow) increased 154% to $25.9M.

Omni buys ten more

Carl Hirsch's OmniAmerica Inc. (O:XMIT) will be a little bigger when it closes its pending merger into American Tower (N:AMT). OmniAmerica has acquired ten more communications towers located in central Pennsylvania from RF Communications. Broker: **Joe Rapchak**, Blackburn & Co.

The ownership of the merged American Tower was detailed in last week's issue of RBR, 2/22, page 15.

Saga adds another TV

Ed Christian is continuing to make deals wherever he thinks he can make a good deal—radio, TV, US, Iceland or whatever. Right now the Saga Communications (A:SGA) CEO is finding the hunting better for TV stations, so he's adding a third small market network affiliate. Saga is buying WXVT-TV (Ch. 15, CBS) Greenville, MS for an as-yet-undisclosed price.

Double-digit gains

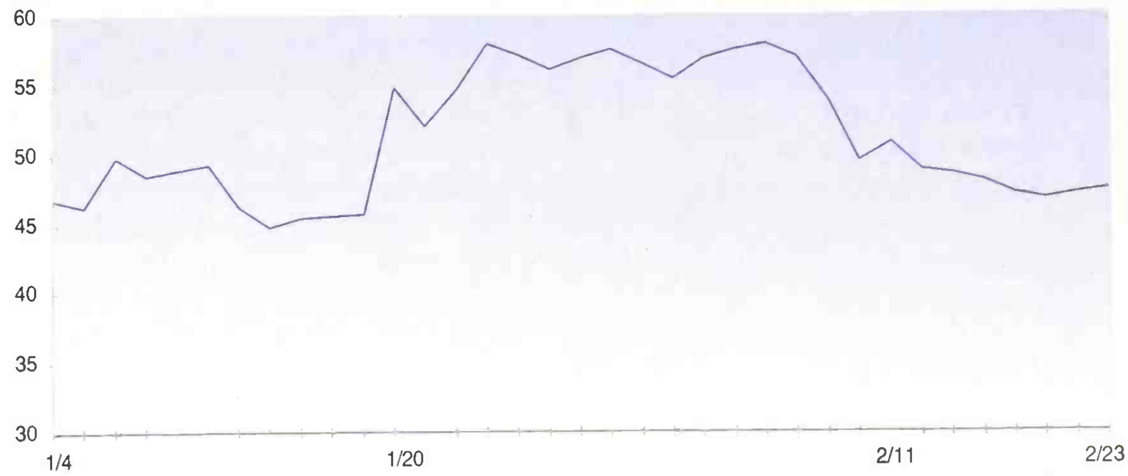
Meanwhile, Saga reported that its net revenues grew 14.5% to $75.9M for 1998. Broadcast cash flow shot up 21.7% to $27.3M and net income soared 41.4% to $6.4M. On a same-station basis, revenues gained 8.7% and cash flow 16.8%.

Heftel sets records

Heftel Broadcasting (O:HBCCA), the nation's largest radio group targeting Hispanics, posted record broadcast cash flow of $68.3M, up 25.3%. Net revenues gained 20.2% to $164.1M. Excluding operating losses primarily associated with WPAT-AM New York, pro forma broadcast cash flow would have increased 36.4% to $73.6M.

Chancellor shareholders on a roller coaster ride

Chancellor Media 1999 Stock Price



Hanging a "For Sale" sign on your company is a sure way to boost your stock price. But that impact may not last, as Chancellor Media (O:AMFM) Chairman **Tom Hicks** and CEO **Jeff Marcus** have learned since their January 20th announcement that put Chancellor on the auction block *(RBR* 1/25, p. 3). As the chart (right) shows, Chancellor's stock price shot up on the announcement.

As the weeks went on, though, some on Wall Street began to question whether Chancellor would be able to command a premium price. If Clear Channel (N:CCU) is essentially the only bidder, what incentive does **Lowry Mays** have to raise his bid? Is America Online (N:AOL) really a serious bidder, or is that just a smokescreen?

Such worries were not soothed when Marcus' 2/11 conference call gave no indication that a sale of all or part of the company was imminent *(RBR* 2/15, p. 12). The stock price had been falling in advance of the conference call and continued sliding until it appeared to stabilize last week (2/23) when Merrill Lynch analyst **Jessica Reif-Cohen** rated the stock a near-term "accumulate" and long-term "buy."

Calm returns to Disney's annual meeting

Wall Street Journal—Walt Disney Co.'s (N:DIS) 1999 annual meeting was mostly free of the shareholder discontent that marked such sessions in the past two years, allowing Disney Chairman and CEO **Michael Eisner** instead to tout the company's prospects on the Internet and in China.

The past two Disney annual meetings were marked by shareholder unrest related to the alleged lack of independence on the company's board; the multimillion dollar exit package awarded to fired Disney president **Michael Ovitz** after a short stint at the company; and the rich new contract that Eisner himself was awarded. In 1997, an unusually high 13% of voting shareholders withheld votes for the re-election of company directors, and last year 35% of those voting supported a shareholder resolution urging Disney to reconfigure its board to promote greater independence.

Disney has seemed responsive to the criticism in the past year, particularly in the appointment of new directors who don't have any personal ties to Mr. Eisner or a professional link to the company. As a result, many large shareholder groups have backed off in their criticisms. At last week's meeting, 98% of those voting supported the re-election of five directors.

That freed Eisner to promote Disney's opportunities for expansion, coming off a year of uncharacteristically stagnant growth and flat earnings. At the meeting, Mr. Eisner demonstrated the "Go Network," the new Internet portal operated by Disney and Infoseek Corp. He also predicted that in the future Disney will benefit from its Internet entry in the same way that it exploited new technologies in the past, such as television, which it also didn't have a hand in inventing. Indeed, Disney held the annual meeting in Seattle—an area known for being into the cyberspace groove—to underscore its commitment to the Internet.

Eisner also drew attention to the release in China of Disney's animated film "Mulan"—an event that signals the end of chilly relations between Disney and China that resulted from the company's pro-Tibet film "Kundun." Eisner said the "Mulan" release "portends well for our company in the world's most populous nation." Disney has previously said that it is exploring the possibility of building a theme park in China.

Internet banner ad prices falling

Wall Street Journal—The stubbornly high price of Internet "banner" advertising finally is falling, as revenue-hungry Web sites proliferate and big online advertisers flex their muscles.

The average price per 1,000 online ad "impressions"—that is, each banner placed on a Web page—slipped 5.6% to $35.13 in December from $37.21 a year earlier. And the declines are continuing this year, says AdKnowledge, a firm that helps clients buy banner ads.

"It's a simple example of supply and demand," said **Michele Schott**, director of marketing communications for AdKnowledge, based in Palo Alto, CA. "Many more sites are seeking advertising, so there's a lot more to choose from."

Online advertising is exploding. Jupiter Communications, a New York Internet-research firm, expects it to reach $3B this year. But the cost to reach each set of eyeballs started out higher than in long-established media such as television, where the cost of reaching viewers with a 30-second commercial during prime time averages about $12 for each 1,000 homes.

Procter & Gamble caused a stir earlier this year when some Web publishers felt strong-armed by P&G's suggestion that it ought to be paying a paltry $5 per 1,000 impressions. P&G today sounds more flexible. "We recognize that there isn't one right solution," says spokeswoman **Gretchen L. Briscoe**. "We are very happy with the schedule and value that we are receiving for our investments."

Advertisers say they are demanding lower prices partly because it is tough to measure the online ads' effectiveness. Web publishers contend that banner ads promote a company's brand whether consumers act on the ad or not, but advertisers often are more interested in how many viewers clicked on an ad to learn more (the "click through" rate) or who actually bought one of the advertiser's products.

TRANSACTION DIGEST™

Transaction Digest™

by Jack Messmer

The deals listed below were taken from recent FCC filings. *RBR's* Transaction Digest reports on all deals that involve assignment of a station license (FCC Form 314) and substantial transfers of control of a licensee via a stock sale (FCC Form 315), but not internal corporate restructurings (FCC Form 316). All deals are listed in descending order of sales price.

$16,000,000— WMEG-FM San Juan (Guayama PR) and **WEGM-FM** Mayaguez (Hormigueros PR) from Guayama Broadcasting Co. and LaMega Estacion Inc. (Jose Raul Fuster, Livia Elsie Rovira) to Spanish Broadcasting System of Puerto Rico Inc., a subsidiary of Spanish Broadcasting System (Raul Alarcon Jr., Pablo Raul Alarcon Sr., Jose Grimalt). $16M cash. Note: No contour overlap with WDOY-FM in the San Juan market.

$10,750,000—* KCHZ-FM Kansas City (Ottawa KS) from Radio 2000 KS Inc. (Frank Copsidas Jr.) to Syncom Radio Corporation (Herbert Wilkins Sr., Terry Jones, Duane McKnight). $1M escrow, balance in cash at closing. The price will be reduced if the seller has not completed an upgrade to Class C1 by certain deadlines. **Duopoly** with KNRX-FM. Broker: Bergner & Co.

$2,000,000—* WYCL-FM Pensacola from Paxson Communications Corp. (A:PAX, Lowell Paxson, Chairman) to Clear Channel Broadcasting Licenses Inc. (Lowry Mays), a subsidiary of Clear Channel Communications (N:CCU). Exercise of 1997 option to purchase this station for $2M. This station was separated from Clear Channel's previous deal to purchase the entire Paxson Radio group. **Superduopoly** with WTKX-FM in the Pensacola FL market and WNTM-AM, WKSJ-AM, WRKH-FM, WMXC-FM, WKSJ-FM & WTKX-FM in the Mobile AL market. Note: Clear Channel is seeking a **waiver** of the one-to-a-market rule, since it owns WPMI-TV (Ch. 15, Fox) Mobile.

$1,600,000—WSSP-FM Charleston (Goose Creek SC) from Regent Licensee of South Carolina Inc. (Terry Jacobs), a subsidiary of Regent Communications (O:RGCIP), to Concord Media Group Inc. (Mark Jorgenson). $50K escrow, balance in cash at closing. LMA since 1/15.

$925,000—WPRX-AM Hartford (Bristol CT) from Connecticut Communications House II Inc. (James Huber) to Nievezquez Productions Inc. (P. Oscar Nieves, Jose Valazquez, Carol Nieves). $10K escrow, $915K note, LMA in place.

$600,000—* KXXZ-FM Barstow CA from Hub Broadcasting Inc. (John Schimmenti) to Tele-Media Company of High Desert LLC, a subsidiary of Tele-Media Communications Holding LLC (Robert Tudek, Everett Mundy, Frank Vicente, Douglas Best, Ira Rosenblatt, Pacesetter Growth Fund). $25K escrow, additional $75K in cash at closing, $500K note. **Duopoly** with KSZL-AM & KDUC-FM. Broker: Miller & Associates

$575,000—* WPNH-AM & FM Plymouth NH from Permigewasset Broadcasters Inc. (E.H. Close) to Northeast Communications Corp. (Jeffrey, Philip, Ruth & J. Christopher Fisher, Jeffrey Levitan, Richard Walsh). $28.75K escrow, balance in cash at closing. Duopoly with WSCY-FM Moultonborough NH.

$432,500—KLFJ-AM Springfield MO from He 'N Me Broadcasting Inc. (Mark Holmes) to 127 Inc. (C.J. Perme). $231,250 downpayment, additional $211,250 in cash at closing. LMA since 11/98.

$398,000—WSGC-AM Appleton-Oshkosh (Kaukauna WI) from Evangel Ministries Inc. (Roy A. Jacobsen Jr.) to Lyle Robert Evans. $39.8K escrow, additional $310.2K in cash at closing, $48K note.

$350,000—WAVB-AM Mayaguez (Lajas PR) from Professional Broadcasting Corp. (Aurea B. Valez Ramirez) to International Broadcasting Corp. (Pedro Roman Collazo). $35K escrow, balance in cash at closing. Note: No contour overlap with the buyer's existing radio and TV stations in Puerto Rico.