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Media Monitor

FAF Conference Panel—Regulatory and Technological Changes in Broadcasting

Highlights

Speaker: Commissioner James L. Quello — Federal Communications Commission

"You'll find group owners and networks are most meticulous in making sure that they do a good job serving the public interest...Things done on a large scale usually provide for more service at less cost."

"Turner, with all his flamboyant faults, is still a very successful licensee and ...he has CNN doing pretty well. Eventually the stockholders themselves will have to decide this."

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"If there is ever going to be a Golden Age of Cable, it is a little closer to ~~obtainment~~ than it has been before."

"I think there is a good future challenge in cellular, given time to develop."

Speaker: Charles S. Mechem, Jr., Chairman and CEO—Taft Broadcasting Company

"It (the financial reshuffling) is simply a recognition of the underlying values of media companies...and over-the-air broadcaster's sustained ability to prevail in the face of new technologies."

"For one person to succeed in our business, it does not mean that some other person has to fail."

"We suspect that cable will never hurt individual station operators nearly so much as networks, because local audiences want local news...At Taft, local news provides 33% of our revenues and 40% of our gross profits."

"What will matter in the video arena of tomorrow is not the technology, but the programming."

Moderator—William P. Suter, Vice President—Merrill Lynch Capital Markets.

"A lot of the effect of new competition (for TV audiences) has already been felt by the networks and affiliated stations, and both are still healthy, as is the cable industry."

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William P. Suter

Good afternoon ladies and gentlemen and welcome to our panel on regulatory and technological changes in the media field. We are very fortunate to have with us two highly qualified speakers. First, Mr. Charles S. Mechem, Jr., who has served since 1967 as Chairman and Chief Executive Officer of the Taft Broadcasting Company, group broadcaster that moved quickly to take advantage of the recent liberalization of F.C.C. station-ownership rules. Our second speaker is one of the people responsible for making the regulatory changes -- James L. Quello, one of the F.C.C. commissioners. Both gentlemen will be glad to answer questions after their remarks.

The F.C.C. has been a leader in the overall trend toward Government deregulation. The agency's recent changes have encouraged free marketplace dynamics while eliminating a lot of unnecessary paperwork. One significant change was the increase from seven to 12, in the number of television stations that one entity can own. The increase is permissible as long as the audience reached by the combined stations does not exceed 25% of total television households. That change has played a meaningful role in the recent merger mania in broadcasting -- for example, allowing Capital Cities to propose joining forces with ABC.

Radio has also been deregulated, and we expect many more changes, some of which Commissioner Quello will discuss with us.

Actually, technology and deregulation have been moving hand in hand with the F.C.C. allowing new and expanded broadcasting services to compete in the marketplace. Examples are: MDS-Multi-point distribution services, STV-Subscription television (over-the-air-pay), LPTV-Low power television stations, DBS-Direct broadcast satellite, as well as AM and television stereo.

Foremost, however, is cable television, which the F.C.C. has addressed many times. Most recently, Congress addressed cable in its 1984 Cable Act, and its execution by the F.C.C. frees local cable systems from rate controls on the part of the municipalities which award the cable franchises, and that establishes fair guidelines for franchise renewals.

As my list of expanded services implies, the effect of new technology on broadcasting has been primarily external, because the new technologies have increased competition for the television audience. Actually, competition has been created by the addition of alternative viewing options furnished by cable and independent stations, or a combination thereof. Cable is now available to 85% of television homes and is serving 43% of them. In terms of independent stations, more than 100 new stations have gone on the air since 1980. The effect of all this has resulted in the networks' share of the primetime audience declining from 89% in 1976 to about 80% now, and it is expected to decline to 70% by 1990, when cable is likely to be serving 60% of television homes, two-thirds of which may also subscribe to pay cable. A lot of the effect of new competition has already been felt by the networks and affiliated stations, and both are still healthy, as is the cable industry.

The other new technologies -- MDS - STV - DBS -- have not fared so well, and we expect that to remain the case. Because of the growth in total television households, in fact, the networks and their affiliates should be delivering slightly more television households to advertisers in 1990 than in 1985. Therefore, the networks and affiliates should remain the dominant delivery service; with cable widespread, but adding mostly specialized and pay services. One big question, however, is the effect of VCRs, but even they seem to be compatible with cable households and services, and are still used a lot more for off-the-air-recording (time switching) than for watching prerecorded cassettes.

Other media technologies have been more of an internal force. In the case of major newspapers, for example, my partner, Peter Falco, has seen new technologies result in tremendous increases in productivity, mostly in composing rooms and in pressrooms. We estimate that most newspaper chains are about 80% along in the process of adopting new technologies that have improved margins and profits. Among exceptions are the Chicago Tribune, which can still make substantial gains in the pre-press area. Further gains from new technology are likely in the mailroom and distribution areas of the newspaper publishing industry, which is just beginning to take advantage of automation and robotic technology.

So, we have changing technology and changing regulation -- actually less regulation and more deregulation -- and more broadcasting stations owned by the same firm. The F.C.C. just recently approved Taft's proposed purchase of five television and four radio stations from the Gulf Broadcasting Company. So, I am particularly glad to have Mr. Mechem with us to share his views about the trends. Charlie, welcome.

C.S. Mechem, Jr.

Thank you Bill. Mr. Commissioner, ladies and gentlemen. Nice to be with you this afternoon. I'm happy to be here, at what we in the industry regard as a really very interesting

and exciting time. Indeed I have speculated with some of my associates that someday down the road, when the history of business in the 80's and 90's is written, it will be recognized that probably no other business, at least in the last fifty years, has undergone so much change in so short a time. Because if one thinks about it for a moment, literally in the last six months, virtually every major participant in the broadcast business has either undergone some change or someone would like them to. So I think it is a particularly interesting time for us to be talking about both financial restructuring in our business and also technology, because it is impossible to separate the fact that all of these financial changes have taken place against a backdrop of several emerging technologies, each one of which is or could have significant impact on the way the industry is structured in the future.

I want to give you our view on some of those technologies. But let me first place those remarks in the context of the financial reshufflings you've read so much about. Seems to me that however one feels about takeovers, and about the roles of regulatory bodies, boards of directors, shareholders and employees in what's going on, one conclusion seems inevitable, and that is, it is simply a recognition of the underlying values of media companies. For some of us in the business, that recognition seems tardy. Ironically, though, I think it is at least in part the emergence of some of the new technologies, and over-the-air broadcaster's sustained ability to prevail in the face of them, that has prompted the recognition of these values.

The point is simply this, over the past several years, it has become increasingly clear that for one person to succeed in our business, it does not mean that some other person has to fail. The universe for video-oriented media has now expanded to the point where cable and VCRs are household commonplace, yet over-the-air television in 1984 had its best year ever had. Not very long ago, those of us running television stations were hearing that by the time one-third of the country was wired for cable, we could say good-bye to our bread and butter. Well something happened on the way to the cemetery. By the end of the 1984, 44% of the country was wired, and prices for over-the-air television properties, both independent and affiliates, were setting new records almost every week. By 1990 we expect cable penetration to reach 55%-58%-60% -- and I believe that traditional television will still be the dominant medium and that the business will be as it is now, extremely healthy.

Why? Despite the emergence of cable, and the undeniably varied and high-quality programming it can offer, network shares of total viewing audiences remain very high -- 75% in primetime and 66% sign-on to sign-off. While cable penetration has slightly more than doubled since 1980, from 22% then to something over 44% in mid-1985, network viewing's decline has certainly not been inversely proportionate. Total network share in primetime for the 1980-81 season for example was 84%; in 1983-84, as I said, it dropped to 75%, not surprising and not bad. Nor is this decline solely a function of cable, and this is an often overlooked fact but I'll come back to that in a moment, it has importantly to do with the expansion of independent television stations.

It seems clear that as cable penetration increases, network viewing does erode -- but at a declining rate. Since it will not be feasible -- and I think almost everybody in whatever industry agrees with this -- since it will not be feasible to wire more than about 60% of U.S. homes in the foreseeable future, it seems reasonable to suggest that much of the country is already cabled. And given that, it is probable that network viewing shares will not decline dramatically from current levels. Our own view is that the most they would ever fall would be to the 60-65% range, leaving over-the-air television still by far, in spite of that drop, the most effective means available of reaching a mass audience.

Now, permit me to spend just another moment or two on cable. In terms of current impact, it is by far the most significant of the new technologies. Some will argue that as viewers become more used to cable, they'll watch it more. They suggest that as younger viewers -- who are now cable's most avid users -- mature, they will build its audience.

I don't diminish those arguments. Cable viewing is going to grow. But it is important to remember that in the overall spectrum of television households -- cable and non-cable -- a very significant portion of the non-network viewing is now going to independent television stations, not to cable. Specifically, 66% goes to the networks, 22% to the "indies," and only 14% to cable (the overlap is due to multiple sets in a home). We should also remember that cabled televisions include affiliate and independent station signals. Just because someone takes cable does not mean he or she is neglecting to watch the others. Since it is likely that a good 40% of the audience will never be cabled, it is clear that cable viewing can expand quite a bit on its present base and still not be an adverse factor in the overall television environment. That is why both media can continue to thrive side by side -- why proponents of both can and should make strong cases for their future growth because they will both experience it.

I should also point out that cable advertising revenues have increased tenfold since 1980 and will soar even more dramatically in the next 10 years. I think that growth has certainly taken some money away from the national spot market that's so important to operators like Taft. But at the same time we've seen local revenues surge far beyond anybody's predictions. Last year, at our company, they were up 14%. As a result, we suspect that cable will never hurt individual station operator nearly so much as networks, because local audiences want local news, and they get it from local over-the-air affiliates. At Taft affiliates, local news provides 33% of our revenues and 40% of our gross profits.

Now, let me turn to some of the other new technologies. VCRs for example are on the cover of Forbes this week, and inside we read that by year's end more than 23 million of these videocassette recorders will be in U.S. homes. By 1990, says media analyst Paul Kagan, the figure will be nearly 70 million homes, or 70% coverage. Will this proliferation divert sizable numbers of viewers from traditional over-the-air broadcasting? I simply don't know. The industry doesn't know. We have a strong suspicion that VCRs have cut into Saturday night viewing. Ratings are down that night, and among people who own VCRs, Saturday night appears to be a popular time for viewing rented movies.

On the other hand, there is increasing evidence that VCRs expand overall time in front of the set.

Looking ahead, I have two additional feelings about the trend to more VCRs. First, we had best be prepared for the very real possibility that it could cut into over-the-air viewing more than it has. This year, pre-recorded cassette sales could hit 29 million units, for over \$1 billion in sales. That represents a lot of time in front of the screen, and it would be foolish to think that some of it may not be at the expense of traditional viewing. On the other hand, experience preaches that the mass audience likes very much the news, sports, and current entertainment now offered on network affiliates and independents and, while some of that may be time-shifted through the use of VCRs, my best guess is that most people are going to want to keep watching this kind of fare in some fashion. VCRs can supplement it in important ways -- with classics, with recent movies, with "how to" tapes, with stronger sex than tv offers. But my best guess is that most VCR programming will be viewed as just that -- a supplement.

A third technology that received a lot of press a couple of years ago was direct broadcast satellite, or DBS. As you perhaps know, DBS is the technology of using a high-powered satellite to deliver a television signal directly to a subscriber's home to be received by a small -- or sometimes not so small -- dish antenna. Several of the major corporations which sought initially to enter this business have now backed away from it. The reason, quite simply, is the incredible cost and the lack of any fresh programming. As DBS proponents shopped for ways to make their service as unique and appealing as cable, it became clear they were going to have great difficulty in knocking out cable's advantage of being in most markets first. Moreover, HBO and Showtime, to name two of the most successful pay services, were unwilling to provide their programming to the DBS industry. Thus, these companies that pulled out concluded that the huge investment necessary to launch a DBS service would probably not generate adequate returns. Frankly, we don't see DBS as a threat to over-the-air broadcasting.

Two other new technologies that have been positioned as possible competition for traditional over-the-air broadcasting are multipoint distribution service (MDS) and low power television. The former makes possible the commercial use of eight channels or microwave that, until very recently, were reserved for non-profit purposes. How these might ultimately be used is still open to conjecture. Right now the only commercial MDS services are limited: there are the pay-tv programs in apartments and hotels that you've undoubtedly encountered in your travels. Here in Washington, the Marquee TV Network is the oldest commercially operating pay-video system using MDS in the country. It is into more than 600 apartment buildings, condos and hotels, as well as private homes. Also in Washington, a company called Capitol Connection is now leasing four ITFS (Instructional Television Fixed Service) channels from George Mason University to deliver such services as SelectTV Movies, Odyssey Music Video, Home Team Sports, CNN and C-Span. The company doesn't disclose subscriber numbers, but is believed to have in excess of 500. Still another company, Microband, the MDS carrier in Washington, is now considering whether to start a service of its own as well.

Some industry observers speculate that MDS could be a kind of "wireless cable," ideally suited to metropolitan markets where cable has not been installed. Time will tell but one thing is clear -- although more expensive to introduce, cable can offer many more channels, so, it has the edge. Others suggest that MDS could be used to provide local distribution of computer data, electronic mail or local paging services. I think partly because people don't know how MDS will turn out, but want to be involved when it does, and partly because it's inexpensive to enter, a lot are filing applications. About 16,000 have filed so far. On June 28, the first lottery for awarding some channels in nine of the nation's larger cities will be held.

Low power television (LPTV) was licensed in 1981. It has the capability of broadcasting to an area between 10 and 15 miles in radius. (By contrast, traditional high power stations cover about 80 miles). At this time, the commercial potential of LPTVs is also uncertain. By late last year about 260 of the stations were in operation, but many have found that local programming and other innovations are just too expensive. Local advertisers have not provided substantial support. So once again, I foresee no real threat to traditional over-the-air television from either MDS or LPTV.

The other new technologies which you most frequently read about are not really competitive to over-the-air broadcasting at all. Teletext is a one-way service that delivers "pages" of information -- news headlines, sports scores, stock listings etc. -- to television sets via the standard broadcast signal. Viewers need only punch a decoder to get the information they want, and it will appear via their "vertical blanking interval." Cellular radio, as I'm sure you know, makes possible a new, greatly expanded mobile telephone service. Video conferencing permits live meetings to be linked to one or more locations simultaneously via satellite.

We have said at our company for some time -- and I see no reason to alter that posture now -- that what will matter in the video arena of tomorrow is not the technology but the programming. Whoever has quality programming, programming that mass audiences find current, entertaining and provocative, is going to continue to attract the most viewers. If I saw a technology that I believed was going to accomplish that more effectively than traditional over-the-air broadcasting, you can be sure I would be moving our company aggressively into it. But if all goes well, sometime early this fall Taft will assume ownership of five brand new television stations, making us the first group broadcaster in the country to operate 12 stations.

I think that tells you where our heads are now! And let me tell you why that's where our heads are. We talk a lot about the new technologies, but if we can stand back for a moment, imagine what it would be like if we already had some of them pretend with me that cable exists, VCRs are big, some limited DBS and MDS, etc. But no over-the-air television -- over-the-air tv hadn't been invented -- and then someone came along and proposed it. I've got an idea, he would say, for delivering news, sports and entertainment over the air, into the home, free, 24 hours a day. It won't involve any cables. It will be advertising-supported, so there won't be any subscriber fees. And because there won't be any franchises to award, and no variety of companies

ving to own them, there won't be any of the state and local regulation that go hand in hand with cable. There will be three national programming services -- called networks, and they will pay money to their affiliate stations to carry their programs. Can you imagine the response if all of this were to be offered now, for the very first time. That is exactly what we have and exactly what have had for the last forty years and that in the last analysis is the reason, the only reason, why over-the-air broadcasting continues to compete so effectively with all the other technologies.

Nice to be with you, anxious to deal with whatever questions you might have after Commissioner Quello gives his remarks.

William P. Suter

Thank you Charlie. Now, turning to the public side, our next speaker is Commissioner James Quello, who has been with the F.C.C. since 1974. Before joining the F.C.C. he had a dis-

distinguished managerial career in broadcasting. I am delighted that Commissioner Quello could join us to offer his view of current trends from the Government's point of view. Commissioner Quello, welcome.

Commissioner James L. Quello

Thank you. I agree with everything that Charlie Mechem said. The very fact that you have a company like Taft, that is well-managed and with a very good reputation for serving the public interest, went out and bought five television stations would indicate to me that over the air tv must have looked good to sensible people out there, and that its going to be around a long time.

I do think that if there is ever going to be a Golden Age of Cable, it is a little closer to ^{attainment} obtainment than it has been before. The 1984 Cable Act by Congress and the implementation of that act by the F.C.C. constitutes an emancipation proclamation for cable. Cable is getting away from a lot of restrictions it had before from the licensing authorities, it's getting a larger group of subscribers, it's beginning to advertise, the advertising is increasing and Charlie, one of the threats I see to it, is one that has not occurred yet, but seems like it will, and that is, there is a possibility that the District Court of Appeals in Washington will repeal the "must-carry" requirements of cable. Now these judges have the authority to overrule us, and legally they probably are very expert, but they don't know a hell of a lot about communications and they are liable to do away with all of must carry.

Now my attitude on "must-carry" is that I think there is room for some sensible revision. There are too many duplicated signals carried by small systems. You should not have the excesses be the reason for repeal of the entire rule. I told the Cable Convention last week, I don't tell one group one thing and another group another thing, I think if "must-carry" is completely repealed you are going to have problems with what is called the compulsory license (gives cable the right to take other programs off the air), and you are going to have some revision of the copyright that you are paying, which is very favorable. I thought I would add that because that isn't the main topic of my speech. I appeared recently at the Detroit Advertising Club. It was old home week for me because when I was in Detroit, where I did everything with the Advertising Club. I was on the board for two terms and was chairman of just about everything.

When asked by the Advertising Club to choose a speech topic, I said "You have a choice of a lot of contentious issues." "Incidentally," he said "Give us a good title. Give us some grabbers." Well how do you like "FCC from crisis to crisis?" It sounded pretty good, so they took advantage of that and said "the crisis situation got so bad at the FCC that it has caused our speaker today many a sleepless afternoons." So he is in the advertising business. I said "You're damn lucky your not from regulated industry."

But I gave him the choice -- I said okay here are the issues: Media mania, Mergers and Hostile Takeovers, Repeal of Fairness Doctrine Section 315, the problems with the adversarial press, Public Broadcasting, V for U Swaps, Advertising Authorization for Public Broadcasting, Beer-Wine Counter Commercials, Multiple Ownership Rules, Financial Interest and Syndication, Telephone rates and restructuring, Cable "must-carry" and copyright requirements, spectrum allocation and sharing, Intelset competition, the Westmoreland and CIA famous doctrine complaints. The most timely subject was the one that they suggested that I devote most of my time to, and that is this

sudden merger craze. This sudden urge to merge that is unprecedented in broadcast properties and the role of FCC in the merging that has gone on lately.

Looks like Let's Make A Deal is more than just the name of a popular tv show. It's become the maxim of the television industry. Everyone is taking over someone else or everyone is in a mad rush to go private. If you look at some of the headlines, it gives you the idea of the problem. I'll read a few of them. One is TAFT ACQUIRES GULF STATIONS; TERRIBLE TED TURNER BID FOR CBS VIEWED AS OUTLANDISH. Next headline, two days later, TED TURNER CRAZY LIKE A FOX: ABC AND CAP CITIES MERGE, LITTLE DAVID TAKES OVER GOLIATH; STORER GRIDES FOR A FIGHT: UNUSUAL FCC RULING OPENS DOOR TO HOSTILE BREAK-UP BID; KNIGHT-RIDDER GROUP MAKES BID FOR STORER; I didn't even know that one. FOURTH NETWORK MURDOCK TV TWO BILLION DOLLAR DEAL FACES F.C.C. HURDLES; METROMEDIA AGREES TO SELL SEVEN STATIONS; MULTIMEDIA REJECTS JACK KENT COOKE OFFER; GANNETT COMPANY REAFFIRMS ANTI-TAKEOVER PLANS; TAKEOVER TREMOURS TOP NETWORK AGENDAS. I can tell you my version of how we had the sudden interest in broadcast properties. At one time, companies would acquire television or radio stations because by the time you got through the F.C.C., it took so much time it took all the fun out of acquiring a company, and it wasn't very practical. That period seems to have gone by.

I got personally involved in a rather unusual way. Before any of these deals were announced, I ran into Ted Turner at the National Airport in early February. He came up to me and said, "Hi, Commissioner." I said "Hi Ted." He said "I wanna buy a network." I said "Doesn't everybody. Talk is easy, implementing is kind of hard. What are using for green?" He says, "Well what if I come up with the money." "Well, I said, you had to float a stock issue last year that's a little bit tougher. I suppose it's ABC. He says, "Not necessarily." "Is it possible?" I said "Its possible. You file a long form, 30 days comment, 15 days reply comment, 5-days for public comments. Our staff takes it all together, analyzes it, comes before the commission, the commission decides whether it serves public interest, but you have to get public interest finding from the commission before it transfers control. He says, "It's possible". I said "Yeah," and a few days later, his attorney Charlie Ferris comes in and says "We are studying procedure, we plan to go ahead," and its kind of a surprise. There we have Mr. Turner trying something that has never been successful before. There's never been a successful hostile takeover of a broadcast property. I looked it up, there hasn't been. Right after this happened, why then of course, a few other things were announced.

One morning, two people, one I happen to know pretty well; Mr. Goldenson of ABC, and Tom Murphy of Capital Cities, came in and announced that they had made these plans, it is a friendly merger, two very reputable companies, no problems except for the usual things of cross-ownership. Someone could file a petition to deny, I don't know on what basis but I don't see any roadblocks except a waiver. Everyone else in Cap Cities would like to get a waiver to keep Philadelphia. My attitude on that has been made public. This isn't a restricted proceeding.

I think the overlap is more technical than practical. Two circles, they overlap in New Jersey. If you forced Capital Cities to divest Philadelphia, you'd have another ABC affiliate in there. You have CBS already in there with a grandfather deal where they have an O&O in New York and an O&O in Philadelphia. They are two separate markets. I don't know how that's going to come out with the Commission. But, I made it public that I felt the overlap was elevating form over substance, people are accustomed to it, they're two separate markets. But even that is a relatively small matter, because I don't see any big fire for this kind of a takeover.

The next thing that came to our attention was, all of a sudden, attorneys for a dissident group came in wanting to elect 8 new members to a Storer Board of Directors. The idea was to elect 8 new members to the board and then sell all the assets of the company. Of course, the claim they made was that the assets are worth so much more than the company operating. I don't think there is a company around that can stand that kind of a test. Certainly your assets, Mr. Mechem, would be worth a lot more to stockholders tomorrow than nothing. But what happens five years from now, or 10 years from now. Well I didn't want to answer that question since it was a takeover and it was more or less engineered by people who had great experience and expertise in takeovers.

So, the commission met on this. My idea was if you elect 8 new members to the board and you go from an operating company to a non-operating company that represents a most drastic change of direction that requires a drastic change of control. Two of us voted for it, three against us and the District Court of Appeals backed the majority opinion. Sometimes I think legal technicalities obstruct common sense solutions. I decided I still don't understand the decision but it's there. I guess Storer found a green knight, not a white knight. They won by 5-4 but they have some new ownership looking over their shoulders, but Peter Storer is still chairman of the board, so it came out I think pretty well.

I just want people here to know I thought it was definitely a change in direction. As a result of this thing I was called by the Los Angeles Times. They said "How would you like to do a piece on the op ed page." I said "fine." I thought it was going to be a letter. They gave me a by-line, made a big article out of it and one paragraph from that was quoted in a number of other publications. And the quote I had in there right after the Storer thing, was:

"The Financial Community should realize that Broadcast Properties should not be considered just another takeover game. Potential buyers have to meet the requirements of not only the Securities and Exchange Commission and the Justice Department, but also the F.C.C., which is required to make a public interest finding before a transfer of control or ownership. The requirement for F.C.C. approval is something that potential raiders should keep in mind. Our broadcasting system requires a degree of stability that is not enhanced by excessive financial manipulation and speculation." I even got a check, very flattering to me. I wrote a 750 word article like they said. They sent me a check for \$250. I said, Gee I can make a living writing. Then I realized that I had to return it to them because they are a part of Times Mirror licensee, so I had to return it.

Then here we come with another, Mr. Kluge. John Kluge, I've known him for 40 years, and he comes in with Rupert Murdoch. These are advance courtesy calls. So, I said, "John I've seen you go from nothing to the biggest act in the business. This is almost an emotional tug for me and I'm not supposed to be emotional." I said, "You are getting out of the business, no longer tv?" He said "Well I'm hanging on to the radio. I see the great future challenge in cellular." So he wants to put his money in cellular. Well I think there is a good future challenge in cellular, given time to develop.

I think, at 71, Mr. Kluge obviously wanted to get his estate in order and he got a very high price for his stations. Mr. Murdoch said "I am going to become an American citizen. I've lived most of my eleven years in America. He already has his 5 years required residence. And I said, "Well, if you become an American citizen and get rid of your cross-ownership problems I don't see any bar. I did ask him the question-I thought I had to--Mr. Murdoch, "How do you plan to serve the American public interest?" Because that is a question we should ask. He said, "First, I have past experience in communications and mentioned some of the papers, including the London Times, which is probably the most respected paper in Europe, and certainly Great Britain. I have television experience, two large television stations in Australia. I am going to become an American citizen. I want to become an important part here" and he said, "Besides, I feel I would have \$400-to-500 million dollars that I could apply to program development and program acquisition." It wasn't a pledge, it's not a commitment but I assume with all he has, that is possible.

You know people out there might say well "Gee its an awful lot to pay." Is this the highest a television station will go? It seems like Mr. Murdoch is paying a high price, but he also owns Twentieth Century Fox. There's gonna be some vertical integration there. I think when you put six major markets with a major producer with the capability of getting a lot of independent stations, you have a very large entity coming on the American scene. I said that to U.S. News Today. They ran a big headline, MURDOCH FOURTH NETWORK. I said something like "If anyone is going to have a fourth network, its going to be Murdoch." I didn't mean he was going to end up with 200 affiliates. If the production is good enough I can see 80-90-100 stations claimed for Mr. Murdoch. I think at one time he's going to ask for a waiver of the Chicago Sun Times, and the New York Post. As far as I'm concerned, I told him that I think that would be too much! The Wall Street Journal had the wrong headline in there-they had an article in there saying MURDOCH ASKED FOR WAIVER. I told a reporter, who happens to covers the F.C.C. among other things, "You better get it straightened out. I think you got it wrong." It was corrected. And Murdoch did not ask for waivers.

Everyone has a right to ask for a waiver to give them reasonable time to divest a property so you are not into a distress sale situation, so I assume that if Mr. Murdock were to request 18 months to sell he would have a pretty fair chance of getting it. I can only speak as one vote, but I can more or less have a sense of the commission attitude. Eighteen months has been accorded by people before. I suppose it would be all right with him. I can't talk too much about the Turner advance, only that procedurally he's complying. As for a petition to deny filed by CBS, Turner's reply comments are due in 4-5 days, then there will be rebuttal comments, and we analyze it.

The current controversy is whether we should just have a hearing with the idea of giving everyone a chance to express their views, and having the F.C.C. Commissioners have the opportunity to interview them in a 1 or 2-day hearing. Or whether there should be an evidentiary hearing which would take a long time. I think an evidentiary hearing requires an administrative law judge to be sworn in and everyone one brings in lawyers, that's about a three-month delay. That's a decision the commission would have to make.

But there we are. I don't know what effect this will have on broadcasting as a whole. There's a possibility that with a lot of debt to service your primary funds will go into servicing the debt rather than into program development and improvement. I mean you can make that assertion anyway. And I know this much turmoil is good for broadcasting. You might have that type of reaction after they find out that it isn't quite that easy. There is still, when you take over broadcast property, in addition to getting approval from the Securities & Exchange Commission (which protects shareholders), approval from the Justice Department (which protects competition), and approval from the F.C.C. which has to make a public interest finding. The basis of that Public Interest finding would be character, financial qualifications, technical qualifications. It could be a very subjective judgment. That's what makes it a little bit tricky. That's still a requirement. So it just isn't a big takeover game.

I do feel this - that the Storer decision by the F.C.C. lent some impetus to everyone saying it's easy. It looks like they opened the gates there. Let's go after 'em. I think as you see how long it will take the others to get in place they'll have a tendency to go back to normal. Friendly takeovers are one thing, but with hostile takeovers you're asking for a real battle. I think that's where the big contention is in the battle of CBS against Turner. It's now a restricted proceeding, so there we are.

I'll be glad to answer questions. Oh, the other thing the advertisers are interested in is Beer and Wine. I think that's been more or less laid to rest. Twenty-four years ago, in Michigan, the State Legislature initially introduced a Bill that seemed to have a lot of support of barring beer and wine advertising from television and radio. I told them then what I believe now; It's discriminatory, unconstitutional and ineffective. We finally had a meeting and we agreed not to drink beer, actually consume it (with people smacking their lips) on television, and that was adopted by everyone nationally, and that started right in Michigan. I happened to be Legislative Chairman at the time. I did tell the broadcasters though that there are some people that would like to see a ban on that, and those that would like to see a ban on that can prove that as little as 1/4 of a bottle of liquor can have devastating social effects. I tell you what they do, they take one quarter of a bottle of whiskey and they pour it in a one pound rat. Depending on that rat's genetics, he either falls asleep, runs a month on his treadmill or he sexually assaults his own litter box. But that depends. The scientist can do that. I could comment on all these controversial issues but each one of them takes an hour in itself I think I've talked enough. Thank you.

William P. Suter

Thank you very much Commissioner. Charlie, a question for you. What multiple of operating earnings did you pay for your latest properties?

What is your minimum return on investments?

Mechem

For better or for worse in the broadcast business recently, station prices have been multiples of cash flow. I think I can answer it a little more effectively that way. When you read about a broadcast acquisition and read a multiple you'd better dig a little further to find out whether the multiple of cash flow that's being referred to is for the current year, or prospective cash flow a year out. Some have been made on that basis as well. Obviously, if you base it on prospective you're apt to be inaccurate. Our acquisition was approximately eleven times cash flow. You gotta remember, we were the first broadcaster to make a move. Some of my buddies say we lit the fuse. We announced on February 1, and everything has happened since. At the time, I'd be the first to say that eleven times was at the high end of the range. People had paid as high as twelve, but most broadcast companies were going in the range from nine to ten.

However, we had feelings about the markets, which happily with the way the stations we're acquiring are performing are more than being born out now. So the way it looks now, we will come in to something closer to eleven times cash flow for the first year in which we operate the stations. I don't want to spend a lot of the time on a lot of the details. We expect the acquisition is going to be a good one. We think already that it's better than it was when we made it. We think the return on investment is going to be a very adequate one. The debt that we're going to have to carry will be importantly less than we originally thought. First, because we had budgeted a certain amount of borrowings to buy on our own stock if we had a serious stock price erosion problem, which we haven't had. And secondly, we are selling radio properties acquired in the deal for a greater amount of money than we had expected. So at this point it looks like a good one.

William P. Suter

Thank you Charlie. Commissioner Quello, do you feel there's an inherent conflict between federal regulations, the F.C.C., and shareholder rights? If so how do you suggest reconciliation of this conflict?

Commissioner

That's a sensitive issue that was discussed in the Star. It's a tough judgment to call. In a case where people become stockholders for the express purpose of taking over a company and then cashing it in,

I would say to me that represents a drastic change in control. And maybe its a violation of shareholder rights, depending on how you feel about it. I'd like to find out just when shareholders became shareholders. If they come at a time when a professional company decided to take them over, and certainly stockholders have a right to elect whom they want to the board. It so happened that the legal firm that did it is very expert. I understand they were hired by ABC so that no one came after ABC while they were working out their deal with Capital Cities. These are professional mercenaries that say, "Hey, we either go after you or protect you, just pay us." Maybe it shouldn't have, but subconsciously, it bothered me.

Suter

Thank you. A question for both panelists. The Wall Street Journal today had an article on the front page which felt that the number of mergers/acquisitions in the media area was

not in the public interest. Can both panelists comment on the public interest issue.

Mechem

Seems to be that if there's one thing that ought to be clear by now, it is that major group broadcasters, by and large, if you can generalize and you have to in order to answer

a question like that, provide better local public service to their communities than smaller, less well-capitalized individual station owners. The reason has nothing to do with the fact that we're better people than they are, or that we are more sanctimonious about what we want to do. It's simply a matter of dollars and cents. A major group broadcaster can afford to provide more news, more sports, more public service of all kinds, simply because he has the way to do it. Take as given the fact that most, if not all, group broadcasters are responsible citizens who want to do the right thing. If you add to that the fact that being larger gives them the wherewithal to do it. To me it's only reasonable then to conclude that bigness, clearly in this case, does not suggest in any way that public service will be diminished, indeed I think it's enhanced.

Commissioner

Yes, that argument was used in expanding the number of stations that an owner could hold. The staff studied it for about a year, and group owners, and networks as far as that

goes, because they could afford larger news staffs, more facilities and people for documentaries, were providing a superior service to a small station. There's also a regulatory incentive to make sure you do a good job locally. You lose one license in one area, and you're a group owner, it jeopardizes all your other licenses (same for the network). And so you'll find group owners and networks are most meticulous in making sure that they do a good job of serving public interest and that they don't violate the rules. You could make the argument say, well which we have more local input by a lot of local stations being owned by one person locally. I don't think in this day and age

that that principle is very practical anymore. Things done on a large scale usually provide for more service at less cost, or better service at the same cost.

Mechem

The other thing, Bill, that I think is worth everybody remembering is that our business is a far cry from an industry that is coming down from three or four people controlling it. We've got scores of companies that are large, but not huge. There are no General Motors in our business and under the F.C.C. rules, even as modified, there won't be. There will be major companies, but as I said that's to the benefit rather than the detriment of the country.

Suter

That's true. Charlie, two questions on zapping on VCR's. What are the implications and is it causing advertisers to shift ad dollars from electronic to print media and if so what are your responses?

Mechem

Well here again this is such a new thing that anything I say would be speculative and certainly my judgment here I don't think is any better than yours. There are some interesting things going on. I don't think advertisers are doing any shifting now because they're worried about zapping on VCR's. For those of you who don't spend everyday in our business, zapping simply means you eliminate the commercials or go by them when watching a pre-recorded program on television. There is some interesting evidence, however, that is being gathered that suggests that when you zap you don't just sit there and say okay the program has ended here and then I jump immediately to where the program picks up. What you do is fastforward and you go by that quickly. The evidence suggest that subliminally the impact of the advertisement of the commercial is just as great, if not greater than it is because when you zap you don't go to the bathroom or the kitchen. You sit there and watch it run by. So, I don't know whether this is true or accurate or not. But I don't think there's any good evidence at all at this point that zapping is a real problem. I frankly, don't think that it's going to be a major problem.

Commissioner

I think advertising is asking for zapping. I mean, the commercials come on so loud. We had this before the F.C.C. for 8 or 9 months. I think TV Digest remembers it. I went way out of character and voted for actually strict restrictions, some kind of a decimal level for commercials. I think I was the only Commissioner that voted for it. Having come from the industry, this was considered most unusual. You can be sitting in your living room, and the program is at a nice level. Then all of a sudden a commercial comes on, and just blasts you right out of you seat. And I think it's time for the station managers, the group owners, Charlie, to get the advertiser and say "Hell, we got a problem on zapping. Why not have the commercials on the same level as the program so we don't even have that as an objection, or even a pro industry commissioner even has to complain about it. That's me.

Suter

Charlie, a question about your opposition to the swapping of non-commercial for commercial UHF's in terms of beyond Tampa. Maybe Commissioner Quello also wants to talk about that.

Mechem

We have a disagreement on this. Our position really has two facets. (1) a very selfish facet, if you will, or I should say a personal facet, and that is that in several of our markets, including one of the markets in which we are acquiring a property, there is a direct situation where swapping could occur. For those of you who are not knowledgeable in this particular area, it has to do with swapping of frequencies by an educational station, that has a VHF allocation, with a commercial independent that has a UHF frequency. One proposed in Tampa, for example, would swap Channel 44 for a low band channel 2 or 3, plus some loot in the neighborhood of 40 or 50 million dollars. So we had just purely in terms of protecting our own interest, we were opposed to it. But more than that, we felt that there were some serious arguments against it. We felt that clearly that overall, the educational broadcast system would be degraded because the frequencies that would be swapped by definition are less valuable signals. Secondly, we felt it could create a have/have not kind of situation where if there was swapping, and markets for swapping were possible, and those educational stations got a nice piece of change, that would cut down on their ability to raise money in other ways, and thereby making it virtually impossible for educational stations in markets where swaps weren't possible to raise money from conventional sources.

There were a lot of reasons why we felt that both in the general and in a specific Taft Company way that this was a mistake. We have opposed it, and we'll continue to do so. I know there are arguments the other way. That's what makes a ball game, I guess. But, we have taken a strong position opposing the swaps and believe very strongly in that position.

Quello

I'm closer to this than any other Commissioner because I have the discredit or credit, depending on how you look at it, of proposing it. I never did propose it, I only ventilated the problem. I always left myself with the back door open. I said, I'm asking the question, I don't have the answer. You have such a mixed feeling among the public broadcasters themselves. There are nine or ten markets that want this option. NAPTS, and PBS think it would be bad for public broadcasting as a whole.

Initially people said it isn't a bad idea. How it came about, I was supposed to be somewhere else during Christmas vacation. One of the broadcasting magazines called me up, and I had too much time on my hands, and I just ran off with this. They said, "What do you think of the Tampa swap?" I said, well, I understand all 40 members of the Board of Directors want it. Hubbard wants to do it. Sounds all right.

However, The ramifications of this thing are mind-boggling. He says, "What do you mean?" I say there are 120 public broadcasting V's out there, in every major

market. They've got V's in New York, Chicago, Miami, Houston, Dallas, New Orleans, St. Louis, Pittsburgh, Philadelphia, Boston. There's gonna be a big raid and people that weren't expecting a V competition suddenly are going to get V competition. I made a call around to about 10 or 11 different key markets and I was amazed at the varied opinions I had. In New York, I happen to know Dr. Frank Stanton, so I said, Frank, I assume certainly any key or the big flagships of public broadcasting would be dead set against it. He says, "Are you kidding, their mouths are watering. They want it." They're claiming if they get \$200³⁰⁰ million they're going to feed 200 stations down the line. They'd like to do it. Maybe the way to do it is on a waiver basis and not on the rule they are proposing.

My last comment on this Charlie, and maybe you and others will be a little bit relieved, is that I sensed a lot more opposition to this than I sensed support. I'm beginning to walk away from it. If I had my druthers, but you can not do this, I'd say let Tampa go, then no more. But I don't think we could do that. And if we did do it with Tampa then I suppose they have to consider your Channel 10, rather than 44. I understand that has been offered.

Mechem

You see that's another argument that we made. We own Channel 10 in Tampa and why, if you gonna do it, does only one of the commercial channels have the opportunity to

sit down and negotiate with the educational station and make the swap. If indeed the purpose of the educational station is to get the most money, then it would seem to me that any approach that allowed swaps would say fine, put the frequency up for grabs, and let them get the most money. If you really interested in promoting educational television; that's the way to do it. But I think Jim has taken a bum rap, if you will in somehow being said by some to be the sponsor of this proposal, he never did sponsor it. He suggested as is quite properly his role to say, "Hey, this is an important issue. Let's get some information on it." Other people can come out and say what they want. That's the perfectly responsible thing to do.

Suter

Charlie, questions about videotext or teletext. Do you see it becoming viable? How is your operation doing? And how long will you give it to succeed?

Mechem

I really have to say, I don't know for sure on that. We've been the only commercial broadcaster to pursue Teletext with any real vigor. We like what we see. The problem is simply that there aren't enough American homes with the hardware to receive it. But videotext, I'm not at all sure about. Videotext is a much more complicated two-way type of system. Teletext is nothing more than using the vertical blanking interval of the television signal which doesn't cost anybody anything, once you have the type of set that receives it. My feeling is that if software purveyors will hang in there, teletext eventually will have a reasonably important place in the American home as a provider of textual information over your existing television set. But it's not gonna happen quickly.

Suter Any questions from the floor?

Floor

I'm wondering in the case of Ted Turner, why CBS has the option to label him hostile? Is it because CBS already has the licenses?

Commissioner

CBS isn't labeling Turner hostile. I think the type of takeover that he has would apply to anyone trying to takeover another company without having

an agreement with that company. What he wants people to do is tender their stock. So the hostile takeover is kind of a financial turnabout. When someone tries to take over another company without negotiating with them or having an agreement with them. I think what CBS did -- the chairman of CBS said he (Turner) didn't have the conscience to become a network chief -- I don't know. I don't think that was the greatest public relations for CBS. Maybe he shouldn't have said that.

Because, you have to remember that Turner with all his flamboyant faults is still a very successful licensee, and still has a network. He has CNN doing pretty well. That station in Atlanta went from a money losing U to a superstation. He has his points. I think its just a matter of eventually the stockholders themselves will have to decide this. Whether they feel they will have a better deal with Turner than they have with CBS, and that's gonna be up to the individual stockholders. If they don't make that determination, that goes against Turner. We won't even have the problem. In some cases they're trying to get an advance approval from the F.C.C., without us even having a transfer of control to consider. It might be better if he came in and said, "I have the stock now. I want approval for transfer of control." He is trying to do this thing in advance and I guess he has a right to do it, but it's heating up into quite a legal battle. There is a petition to deny, he will have to answer that. They want evidentiary hearings instead of just an en banc hearing, a lot of difference. These are decisions we'll have to make or someone will have to make in the next three weeks.

Suter

Question-Does the F.C.C. control the network directly or just through the stations?

Commissioner

We don't have any regulation of the networks per say. We do license the stations. From time to time there have been bills introduced or threatened in

Congress to regulate networks directly. It can be quite a tough job. We don't do it. But I think what a key Congressman on the communications committee, or what the F.C.C., says about a network is enough of a deterrent to have ~~it~~ ^{faults} corrected in most cases. They don't want those O&Os threatened. As I said before there's a terrible domino effect, that I don't believe in, but it's there. If you don't believe it look at RKO, you lose a license for one station and all thirteen of them can be challenged and you're in deep trouble.

Suter

Any other questions? If not, I thank our speakers very much for sharing their views with us.

SECURITIES RESEARCH DIVISION

William Suter
Vice President
(212) 637-8060

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