GRAY TELEVISION INC
Form 10-K
March 14, 2008

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007 or**

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________.**

Commission File Number 1-13796

GRAY TELEVISION, INC.
(Exact Name of Registrant as Specified in Its Charter)

Georgia	**58-0285030**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
4370 Peachtree Road, NE	
Atlanta, GA	**30319**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(404) 504-9828**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock (no par value)	**New York Stock Exchange**
Common Stock (no par value)	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the voting stock (based upon the closing sales price quoted on the New York Stock Exchange) held by non-affiliates as of June 30, 2007: **Class A and Common Stock; no par value $395,919,598.**

The number of shares outstanding of the registrant s classes of common stock as of February 25, 2008: **Class A Common Stock; no par value 5,753,020 shares; Common Stock, no par value 42,525,897 shares.**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the annual meeting of shareholders to be filed with the Commission pursuant to Regulation 14A is incorporated by reference into Part III hereof.

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PART 1

Item 1. Business.

In this Annual Report, unless otherwise indicated, the words we, us, and our refer to Gray Television, Inc. and its subsidiaries. Our discussion of the television stations that we own and operate does not include our interest in the stations owned by Sarkes Tarzian, Inc., which we refer to as Tarzian.

Our common stock, no par value, and our Class A common stock, no par value, have been listed and traded on The New York Stock Exchange (the NYSE) since September 24, 1996 and June 30, 1995, respectively. The ticker symbols are GTN for our common stock and GTN.A for our Class A common stock.

Unless otherwise indicated, all station rank, in-market share and television household data herein are derived from reports prepared by A.C. Nielsen Company (Nielsen).

General

As of the filing date of this Annual Report, we own 36 television stations serving 30 television markets. Seventeen of the stations are affiliated with CBS Inc., or CBS, 10 are affiliated with the National Broadcasting Company, Inc., or NBC, eight are affiliated with the American Broadcasting Company, or ABC and one is affiliated with FOX Entertainment Group, Inc. or FOX. The combined station group has 20 markets with stations ranked #1 in local news audience and 23 markets with stations ranked #1 in overall audience within their respective markets based on the results of the average of the Nielsen November, July, May and February 2007 ratings reports. Of the 30 markets that we serve, we operate the #1 or #2 ranked station in 29 of those markets. The combined TV station group reaches approximately 6.2% of total U.S. TV households. In addition, we currently operate 40 digital second channels including one affiliated with ABC, five affiliated with FOX, eight affiliated with The CW Network, LLC (CW) and 16 affiliated with Twentieth Television, Inc. (MyNetworkTV or MyNet.), plus eight local news/weather channels and two independent channels in certain of our existing markets. With 17 CBS affiliated stations, we are the largest independent owner of CBS affiliates in the country.

In 1993, we implemented a strategy to foster growth through strategic acquisitions and certain select divestitures. Since January 1, 1994, our significant acquisitions have included 33 television stations.

Acquisitions, Investments and Divestitures

We did not purchase any television stations during 2007. Our other acquisition, investment and divestiture activities during the most recent five years are described below.

2006 Acquisition

On March 3, 2006, we completed the acquisition of the stock of Michiana Telecasting Corp., owner of WNDU-TV, the NBC affiliate in South Bend, Indiana, from the University of Notre Dame for $88.9 million, which included certain working capital adjustments and transaction fees. We financed this acquisition with borrowings under our senior credit facility.

2005 Spinoff

On December 30, 2005, we completed the spinoff of all of the outstanding stock of Triple Crown Media., Inc. (TCM). Immediately prior to the spinoff, we contributed all of the membership interests in

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Gray Publishing, LLC which owned and operated our Gray Publishing and GrayLink Wireless businesses and certain other assets, to TCM. In the spinoff, each of the holders of our common stock received one share of TCM common stock for every ten shares of our common stock and each holder of our Class A common stock received one share of TCM common stock for every ten shares of our Class A common stock. As part of the spinoff, we received a cash dividend of approximately $44.0 million from TCM, which we used to reduce our outstanding indebtedness on December 30, 2005. TCM is now quoted on the Nasdaq National Market under the symbol TCMI. The financial position and results of operations of the publishing and wireless businesses are reported in our consolidated statement of operations as Discontinued Operations for the year ended December 31, 2005.

2005 Acquisitions

On November 30, 2005, we completed the acquisition of the assets of WSAZ-TV, the NBC affiliate in Charleston-Huntington, West Virginia from Emmis Communications Corp. for approximately $185.8 million in cash plus certain transaction fees. We financed this acquisition with borrowings under our senior credit facility.

On November 10, 2005, we completed the acquisition of the assets of WSWG-TV, the UPN affiliate serving the Albany, Georgia television market from P.D. Communications, LLC. for $3.75 million in cash. We used a portion of our cash on hand to fund this acquisition. Subsequent to the acquisition, we obtained a CBS affiliation for this station.

On January 31, 2005, we completed the acquisition of KKCO-TV from Eagle III Broadcasting, LLC for approximately $13.5 million plus certain transaction fees. KKCO-TV, Channel 11 serves the Grand Junction, Colorado television market and is an NBC affiliate. We used a portion of our cash on hand to fully fund this acquisition.

During 2005 we acquired a Federal Communications Commission (FCC) license to operate a low power television station, WAHU-TV, in the Charlottesville, Virginia television market. The FOX broadcast network has agreed to an affiliation agreement to allow us to operate WAHU-TV as a FOX affiliate.

2004 Acquisition

On August 17, 2004, we completed the acquisition of an FCC television license for WCAV-TV, Channel 19, in Charlottesville, Virginia from Charlottesville Broadcasting Corporation. Our cost to acquire that FCC license was approximately $1.0 million. CBS Inc. has agreed to a ten-year affiliation agreement to allow us to operate WCAV-TV as a CBS affiliate.

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Our Stations and Their Markets

The following is a list of all our owned and operated television stations. In markets where we have satellite stations and stations that serve distant communities, certain figures relating to in-market share of household viewing and television households have been combined:

DMA Rank (a)	Market	Station	Primary Network Affil.	Primary Network Exp.	Secondary Network Affil.	Secondary Network Exp.	Broadcast License Expiration	Primary Network Station Rank in DMA (b)	News Rank in DMA (c)
58	Knoxville, TN	WVLT	CBS	12/31/14	MyNet.	12/31/08	08/01/05 (g)	2	2
64	Lexington, KY	WKYT	CBS	12/31/14	CW	09/17/14	08/01/05 (g)	1	1
65	Charleston/Huntington, WV	WSAZ	NBC	01/01/09	MyNet.	09/05/09	10/01/12	1	1
69	Wichita/Hutchinson, KS	KAKE	ABC	12/31/13	NA	NA	06/01/06 (g)	2	2
	(Colby, KS)	KLBY (d)	ABC	12/31/13	NA	NA	06/01/06 (g)	2	2
	(Garden City, KS)	KUPK (d)	ABC	12/31/13	NA	NA	06/01/06 (g)	2	2
75	Omaha, NE	WOWT	NBC	01/01/12	Ind.	NA	06/01/06 (g)	2	2
85	Madison, WI	WMTV	NBC	01/01/12	News	NA	12/01/05 (g)	2	2
89	South Bend, IN	WNDU	NBC	12/31/10	NA	NA	08/01/13	1	1
93	Colorado Springs, CO	KKTV	CBS	12/31/14	MyNet.	09/05/09	04/01/06 (g)	1	2
					News	NA		1	2
95	Waco-Temple-Bryan, TX	KWTX	CBS	12/31/14	CW	12/31/14	08/01/06 (g)	1	1
	(Bryan, TX)	KBTX (e)	CBS	12/31/14	CW	12/31/14	08/01/06 (g)	1	1
104	Lincoln/Hastings/Kearney, NE	KOLN	CBS	12/31/14	MyNet.	09/05/09	06/01/06 (g)	1	1
	Grand Island, NE	KGIN (f)	CBS	12/31/14	NA	NA	06/01/06 (g)	1	1
105	Greenville/New Bern/ Washington, NC	WITN	NBC	01/01/12	News	NA	12/01/04 (g)	2	1
108	Tallahassee, FL/ Thomasville, GA	WCTV	CBS	12/31/14	MyNet.	09/05/09	04/01/13	1	1
110	Reno, NV	KOLO	ABC	12/31/13	Ind.	NA	10/01/06 (g)	1	1
112	Lansing, MI	WILX	NBC	01/01/12	News	NA	10/01/05 (g)	1	2
115	Augusta, GA	WRDW	CBS	12/31/14	MyNet	12/31/14	04/01/13	1	1
					News	NA			
127	La Crosse/Eau Claire, WI	WEAU	NBC	01/01/12	News	NA	12/01/05 (g)	1	1
132	Rockford, IL	WIFR	CBS	12/31/14	News	NA	12/01/05 (g)	1	2
134	Wausau/Rhinelander, WI	WSAW	CBS	12/31/14	MyNet.	09/05/09	12/01/05 (g)	1	2
					News	NA			
139	Topeka, KS	WIBW	CBS	12/31/14	MyNet.	02/18/09	06/01/06 (g)	1	1
146	Albany, GA	WSWG	CBS	12/31/14	MyNet.	09/05/09	04/01/13	3	NA (h)
154	Panama City, FL	WJHG	NBC	01/01/12	CW	09/17/08	02/01/05 (g)	1	1
					MyNet.	09/05/09			
161	Sherman,TX/Ada, OK	KXII	CBS	12/31/14	FOX	06/30/08	08/01/06 (g)	1	1
					MyNet.	09/05/14			

172	Dothan, AL	WTVY	CBS	12/31/14	CW	09/01/08	04/01/13	1	1
					MyNet.	09/05/09			
178	Harrisonburg, VA	WHSV	ABC	12/31/13	ABC	12/31/13	10/01/12	1	1
					FOX	06/30/08			
					MyNet.	09/05/09			

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DMA Rank (a)	Market	Station	Primary Network Affil.	Primary Network Exp.	Secondary Network Affil.	Secondary Network Exp.	Broadcast License Expiration	Station Rank in DMA (b)	Primary Network News Rank in DMA (c)
181	Charlottesville, VA	WCAV	CBS	12/31/14	NA	NA	10/01/12	2	2
		WVAW	ABC	12/31/13	NA	NA	10/01/12	4	4
		WAHU	FOX	06/30/08	MyNet.	09/05/09	10/01/12	3	3
183	Bowling Green, KY	WBKO	ABC	12/31/13	FOX	06/30/08	08/01/05 (g)	1	1
					CW	09/01/08			
186	Meridian, MS	WTOK	ABC	12/31/13	FOX	06/30/08	06/01/05 (g)	1	1
					CW	09/17/08			
					MyNet.	09/05/09			
187	Grand Junction, CO	KKCO	NBC	01/01/16	CW	09/01/08	04/01/06 (g)	1	1
190	Parkersburg, WV	WTAP	NBC	01/01/12	FOX	06/30/08	10/01/04 (g)	1	1
					MyNet.	09/05/09			
(i)	Hazard, KY	WYMT	CBS	12/31/14	NA	NA	08/01/05 (g)	1	1

(a) Based on data published by Nielsen or other public sources for the 2007-2008 television season for each designated market area or (DMA).

(b) Based on the average of Nielsen data for November, July, May and February 2007 rating periods, Sunday to Saturday, 6 a.m. to 2 a.m.

(c) Based on our review of Nielsen data for November, July, May and February 2007 rating periods for various news programs.

(d) KLBY-TV and KUPK-TV are satellite stations of KAKE-TV under FCC rules and retransmit the signal of the primary station and may offer some locally originated programming such as local news.

(e) KBTX-TV is a satellite station of KWTX-TV under FCC rules and retransmits the signal of the primary station and may offer some locally originated programming such as local news.

(f) KGIN-TV is a satellite station of KOLN-TV under FCC rules and retransmits the signal of the primary station and may offer some locally originated programming such as local news.

(g) License renewal application has

been filed with the FCC and renewal is pending. As of the date of filing this Annual Report, we anticipate that all pending applications will be renewed in due course.

(h) This station does not currently broadcast local news.

(i) We consider WYMT-TV s service area as a separate television market. This area is a special 17 county trading area as defined by Nielsen and is part of the Lexington, KY DMA.

Television Industry Background

Licenses to operate a television station are granted by the FCC. Historically, there have been a limited number of channels available for broadcasting in any one geographic area.

Television station revenues are primarily derived from local, regional and national advertising and, to a much lesser extent, from retransmission consent fees, network compensation and revenues from studio and tower space rental and commercial production activities. Advertising refers primarily to advertisements broadcast by stations, but it also includes advertisements placed on a station s websites. Advertising rates are based upon a variety of factors, including a program s popularity among the viewers an advertiser wishes to attract, the number of advertisers competing for the available time, the size and demographic makeup of the market served by the station and the availability of alternative advertising media in the market area. Rates are also determined by a station s overall ratings and in-market share, as well as the station s ratings and share among particular demographic groups which an advertiser may be targeting. Because broadcast stations rely on advertising revenues, they are sensitive to cyclical changes in the economy. The sizes of advertisers budgets, which are affected by broad economic trends, affect the broadcast industry in general and the revenues of individual broadcast television stations.

All television stations in the country are grouped by Nielsen, a national audience measuring service, into approximately 210 generally recognized television markets that are ranked in size according to various formulae based upon actual or potential audience. Each DMA is an exclusive geographic area consisting of all counties in which the home-market commercial stations receive the greatest percentage of total viewing hours. Nielsen periodically publishes data on estimated audiences for the television stations in the various television markets throughout the country.

Four major broadcast networks, ABC, NBC, CBS and FOX, dominate broadcast television. FOX, CW and MyNetworkTV provide their affiliates with a smaller portion of each day s programming, compared to affiliates of ABC, NBC and CBS.

Network Affiliation of the Stations

The affiliation of a station with ABC, NBC or CBS has a significant impact on the composition of the station s programming, revenues, expenses and operations. A typical affiliate of these networks receives the majority of each day s programming from the network. This programming, along with cash payments (network compensation) in certain instances, is provided to the affiliate by the network in exchange for a substantial majority of the advertising time available for sale during the airing of network programs. The network then sells this advertising time and retains the revenues. The affiliate retains the revenues from time sold during breaks between network programs and in programs the affiliate produces or purchases from non-network sources. In acquiring programming to supplement programming supplied by the affiliated network, the affiliates compete primarily with other affiliates and independent stations in their markets. Cable systems generally do not compete with local stations for programming, although various national cable networks from time to time have acquired programs that would have otherwise been offered to local television stations. In addition, a television station may acquire programming through barter arrangements. Under barter arrangements, a national program distributor will retain a fixed amount of advertising time within the program in exchange for the programming it supplies, with the station paying a fixed fee (or in certain instances no fee) for such programming. Most successful commercial television stations obtain their brand identity from locally produced news programs.

In contrast to a station affiliated with a network, a fully independent station purchases or produces all of the programming that it broadcasts, resulting in generally higher programming costs. An independent station, however, retains its entire inventory of advertising time and all the revenues obtained therefrom. As a result of the smaller amount of programming provided by its network, an affiliate of FOX, CW or MyNetworkTV must purchase or produce a greater amount of programming, resulting in generally higher programming costs. These affiliate stations, however, retain a larger portion of the inventory of advertising time and the revenues obtained therefrom compared to stations affiliated with the major networks.

Cable-originated programming is a significant competitor for viewers of broadcast television programming, although no single cable programming network regularly attains audience levels amounting to more than a small fraction of any single major broadcast network. The advertising share of cable networks has increased as a result of the growth in cable penetration (the percentage of television households which are connected to a cable system). Notwithstanding such increases in cable viewership and advertising, as well as growth in direct broadcast satellite (DBS), and other multichannel video program distribution services, over-the-air broadcasting remains the dominant distribution system for mass-market television advertising.

We account for trade or barter transactions involving the exchange of tangible goods or services with our customers. The revenue is recorded at the time the advertisement is broadcast and the expense is recorded at the time the goods or services are used. The revenue and expense associated with these transactions are based on the fair value of the assets or services received.

In accordance with the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards No. 63, Financial Reporting by Broadcasters, we do not account for barter revenue and related barter expense generated from network or syndicated programming.

Seasonality

Broadcast advertising revenues are generally highest in the second and fourth quarters each year, due in part to increases in consumer advertising in the spring and retail advertising in the period leading up to and including the holiday season. In addition, broadcast advertising revenues are generally higher during even numbered years due to spending by political candidates, political parties and special interest groups, and this spending typically is heaviest during the fourth quarter.

Competition

Competition in the television industry exists on several levels: competition for audience, competition for programming (including news) and competition for advertisers. Additional factors that are material to a television station s competitive position include signal coverage and assigned frequency.

Audience

Stations compete for audience based on program popularity, which has a direct effect on advertising rates. A substantial portion of the daily programming on each of our stations is supplied by the affiliated network. During those periods, the stations are dependent upon the performance of the network programs to attract viewers. There can be no assurance that such programming will achieve or maintain satisfactory viewership levels in the future. Non-network time periods are programmed by the station with a combination of locally produced news, public affairs and other entertainment programming, including news and syndicated programs purchased for cash, cash and barter, or barter only.

In addition, the development of methods of television transmission of video programming other than over-the-air broadcasting, and in particular cable and/or satellite television, has significantly altered competition for audience in the television industry. These other transmission methods can increase competition for a broadcasting station by bringing into its market distant broadcasting signals not otherwise available to the station s audience and also by serving as a distribution system for non-broadcast programming.

Other sources of competition include home entertainment systems, wireless cable services, satellite master antenna television systems, low power television stations, television translator stations, DBS video distribution services and the internet.

Recent developments by many companies, including internet service providers, are expanding the variety and quality of broadcast content on the internet. Internet companies have developed business relationships with companies that have traditionally provided syndicated programming, network television, production studios for news and live content, as well as motion picture studios.

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Programming

Competition for programming involves negotiating with national program distributors or syndicators that sell first-run and rerun packages of programming. Each station competes against the broadcast station competitors in its market for exclusive access to off-network reruns (such as *Seinfeld*) and first-run product (such as *Oprah*). Competition exists for exclusive news stories and features as well. Cable systems generally do not compete with local stations for programming, although various national cable networks from time to time have acquired programs that would have otherwise been offered to local television stations.

Advertising

Advertising rates are based upon the size of the market in which the station operates, a station s overall ratings, a program s popularity among the viewers that an advertiser wishes to attract, the number of advertisers competing for the available time, the demographic makeup of the market served by the station, the availability of alternative advertising media in the market area, aggressive and knowledgeable sales forces and the development of projects, features and programs that tie advertiser messages to programming. Advertising revenues comprise the primary source of revenues for our stations. Our stations compete for such advertising revenues with other television stations in their respective markets. The stations also compete for advertising revenue with other media, such as newspapers, radio stations, magazines, outdoor advertising, transit advertising, yellow page directories, direct mail, internet and local cable systems. Competition for advertising dollars in the broadcasting industry occurs primarily within individual markets.

Federal Regulation of the Company s Business

General

Our television broadcast operations are subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended (the Communications Act). Among other things, the Communications Act empowers the FCC to: (1) issue, revoke and modify broadcasting licenses; (2) regulate stations technical operations and equipment; and (3) impose penalties for violations of the Communications Act or FCC regulations. The Communications Act prohibits the assignment of a license or the transfer of control of a licensee without prior approval of the FCC.

License Grant and Renewal

The FCC grants television station licenses for terms of up to eight years. Broadcast licenses are of paramount importance to the operations of our television stations. The Communications Act requires a broadcast license to be renewed if the FCC finds that: (1) the station has served the public interest, convenience and necessity; (2) there have been no serious violations of either the Communications Act or the FCC s rules and regulations; and (3) there have been no other violations which, taken together, would constitute a pattern of abuse. Although in substantially all cases broadcast licenses are renewed by the FCC, there can be no assurance that our stations licenses will be renewed. We are not aware of any facts or circumstances that could prevent the renewal of the licenses for our stations at the end of their respective license terms. See the dates through which the current licenses are effective and the status of the renewal applications in the table Our Stations and Their Markets included on pages five and six of this Annual Report. Under FCC rules, a license expiration date is automatically extended pending review and grant of the renewal application.

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Ownership Rules

The FCC s broadcast ownership rules affect the number, type and location of broadcast and newspaper properties that we may hold or acquire. The rules now in effect limit the common ownership, operation or control of, as well as the attributable interests or voting power in: (1) television stations serving the same area; (2) television stations and daily newspapers serving the same area; and (3) television stations and radio stations serving the same area. The rules also limit the aggregate national audience reach of television stations that may be under common ownership, operation and control, or in which a single person or entity may hold an official position or have more than a specified interest or percentage of voting power. The FCC s rules also define the types of positions and interests that are considered attributable for purposes of the ownership limits, and thus also apply to our principals and certain investors. Pursuant to the Communications Act and recent appropriations legislation, the FCC must review all of its broadcast ownership rules every four years to determine if they remain necessary in the public interest.

The FCC completed a comprehensive review of its ownership rules in 2003, significantly relaxing restrictions on the common ownership of television stations, radio stations and daily newspapers within the same local market. However, in 2004, the United States Court of Appeals for the Third Circuit rejected many of the FCC s 2003 rule changes. The Court remanded the rules to the FCC for further proceedings and extended a stay on the implementation of the new rules.

In December 2007, the FCC adopted a Report and Order addressing the issues remanded by the Third Circuit and fulfilling the FCC s obligation to review its media ownership rules every four years. That Order left most of the FCC s pre-2003 ownership restrictions in place, but made modifications to the newspaper/broadcast cross-ownership restriction.

Local TV Ownership Rule

The FCC s December 2007 action generally reinstates the FCC s pre-2003 local television ownership rules. Under those rules, one entity may own two commercial television stations in a DMA as long as no more than one of those stations is ranked among the top four stations in the DMA and eight independently owned, full-power stations will remain in the DMA.

Cross-Media Limits

The newspaper/broadcast cross-ownership rule generally prohibits one entity from owning both a commercial broadcast station and a daily newspaper in the same community. The radio/television cross-ownership rule allows a party to own one or two TV stations and a varying number of radio stations within a single market. The FCC s December 2007 decision leaves the newspaper/broadcast and radio/television cross-ownership prohibitions in place, but provides that the FCC will evaluate newly proposed newspaper/broadcast combinations under a non-exhaustive list of four public interest factors. The FCC will apply a presumption that the combination is in the public interest if it is located in a top 20 DMA and involves the combination of a newspaper and only one television station or radio station. If the combination involves a television station, the positive presumption will only apply where the station is not among the top four in the DMA and at least eight independently owned and operated major newspapers and/or full-power commercial television stations remain in the DMA. All other combinations will be presumed not in the public interest. That negative presumption can be reversed if the combination will result in at least seven hours of new local news programming or if the property being acquired has failed or is failing.

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National Television Station Ownership Rule

The maximum percentage (or cap) of U.S. households that a single owner can reach through commonly owned television stations is 39 percent. This limit was specified by Congress in 2004 and is not affected by the December 2007 FCC decision. The FCC applies a 50 percent discount for ultra-high frequency (UHF) stations, but the FCC indicated in the December 2007 decision that it will conduct a separate proceeding to determine how or whether the UHF discount will operate in the future.

We anticipate that the FCC s latest actions concerning media ownership will be subject to further judicial review, but we cannot predict the outcome of potential appellate litigation.

Attribution Rules

Under the FCC s ownership rules, a direct or indirect purchaser of certain types of securities of the Company could violate FCC regulations if that purchaser owned or acquired an attributable interest in other media properties in the same areas as stations owned by us. Pursuant to FCC rules, the following relationships and interests generally are considered attributable for purposes of broadcast ownership restrictions: (1) all officers and directors of a licensee and its direct or indirect parent(s); (2) voting stock interests of at least five percent; (3) voting stock interests of at least 20 percent, if the holder is a passive institutional investor (investment companies, banks, insurance companies); (4) any equity interest in a limited partnership or limited liability company, unless properly insulated from management activities; (5) equity and/or debt interests which in the aggregate exceed 33 percent of a licensee s total assets, if the interest holder supplies more than 15 percent of the station s total weekly programming, or is a same-market broadcast company or daily newspaper publisher; (6) time brokerage of a broadcast station by a same-market broadcast company; and (7) same market radio joint sales agreements (in addition, the FCC is considering making same-market television joint sales agreements attributable.)

To our knowledge, no officer, director or five percent stockholder currently holds an attributable interest in another television station, radio station or daily newspaper that is inconsistent with the FCC s ownership rules and policies or with ownership by us of our stations.

Alien Ownership Restrictions

The Communications Act restricts the ability of foreign entities or individuals to own or hold interests in broadcast licenses. Foreign governments, representatives of foreign governments, non-citizens, representatives of non-citizens, and corporations or partnerships organized under the laws of a foreign nation are barred from holding broadcast licenses. Non-citizens, collectively, may directly or indirectly own or vote up to 20 percent of the capital stock of a licensee. In addition, a broadcast license may not be granted to or held by any corporation that is controlled, directly or indirectly, by any other corporation more than 25 percent of whose capital stock is owned or voted by non-U.S. citizens if the FCC finds that the public interest will be served by the refusal or revocation of such license. We serve as a holding company of wholly owned subsidiaries, of which one is a licensee for our stations; therefore we may be restricted from having more than one-fourth of our stock owned or voted directly or indirectly by non-citizens, foreign governments, representatives of non-citizens or foreign governments, or foreign corporations.

Programming and Operation

Rules and policies of the FCC and other federal agencies regulate certain programming practices and other areas affecting the business or operations of broadcast stations.

The Children s Television Act of 1990 limits commercial matter in children s television programs and requires stations to present educational and informational children s programming. Broadcasters have been required for several years to provide at least three hours of children s educational programming per week on their analog channels. The FCC has determined that the amount of children s educational programming a digital (DTV) broadcaster must air will increase proportionately with the number of free video programming streams it broadcasts simultaneously (or multicasts).

In November of 2007, the FCC adopted an Order imposing new public file and public interest reporting requirements on broadcasters. Pursuant to these new requirements, which could take effect during the first half of 2008, stations that have websites will be required to make certain portions of their public inspection files accessible online. All stations will be required to notify their audiences twice daily during regular station identification announcements that the public file is available for viewing at the main studio and, if applicable, the station website. Stations also will be required to electronically file quarterly a new, standardized form that will track various types and quantities of local programming. The form will require information about programming related to local news and community issues, local civic affairs, local electoral affairs, and underserved communities as well as public service announcements, independently produced programming and religious programming. Stations will also have to detail any efforts made to assess the programming needs of their station s community, whether the station is providing required close captioning, efforts to make emergency information accessible to persons with disabilities and, if applicable, any local marketing or joint sales agreements involving the station. The new standardized form will significantly increase recordkeeping requirements for television broadcasters. We expect that station owners and other parties will ask the FCC to reconsider the new reporting requirements and will seek to postpone their implementation.

In December of 2007, the FCC issued a Report on Broadcast Localism and Notice of Proposed Rulemaking. The Report tentatively concluded that broadcast licensees should be required to have regular meetings with permanent local advisory boards to ascertain the needs and interests of the communities. The Report also tentatively adopted specific renewal application processing guidelines that would require broadcasters to air a minimum amount of local programming. The Report also seeks comment on a variety of other issues concerning localism including potential changes to the main studio rule, network affiliation rules and sponsorship identification rules. We cannot predict whether the FCC will codify some or all of the specific localism initiatives discussed in the Report.

The FCC has increased its enforcement efforts regarding broadcast indecency and profanity over the past few years. In June 2006, the statutory maximum fine for broadcasting indecent material increased from $32,500 to $325,000. The United States Court of Appeals for the Second Circuit has recently remanded the FCC s decision to sanction stations for airing so-called fleeting expletives. The FCC has yet to act on the remand from the Second Circuit, and further indecency-related litigation remains pending before the Third Circuit that might affect FCC indecency policies. We cannot predict the outcome of the FCC s action on remand or the pending litigation.

EEO Rules

The FCC s Equal Employment Opportunity (EEO) rules impose job information dissemination, recruitment, documentation and reporting requirements on broadcast station licensees. Broadcasters are subject to random audits to ensure compliance with the new EEO rules and could be sanctioned for noncompliance.

Cable and Satellite Transmission of Local Television Signal

Under FCC regulations, cable systems must devote a specified portion of their channel capacity to the carriage of the signals of local television stations. Television stations may elect between must carry rights or a right to restrict or prevent cable systems from carrying the station s signal without the station s permission (retransmission consent). Each of our stations has elected must carry status on certain cable systems in our DMAs. On other cable systems, our stations are in the process of negotiating or

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have entered into retransmission consent agreements. These elections and agreements will generally entitle our stations to carriage on those systems until at least December 31, 2008.

The FCC also has established a market-specific requirement for mandatory carriage of local television stations by direct broadcast satellite (DBS) operators similar to that applicable to cable systems, for those markets in which a DBS carrier provides any local signal. In addition, the FCC has adopted rules relating to station eligibility for DBS carriage and subscriber eligibility for receiving signals. There are also specific statutory requirements relating to satellite distribution of distant network signals to unserved households (i.e. households that do not receive a Grade B signal from a local network affiliate). We cannot predict the impact of DBS service on our business. We have, however, entered into retransmission consent agreements with EchoStar through December 31, 2008 and DirectTV through December 31, 2009 for the retransmission of our television stations signals into the local markets that each of these DBS providers respectively serves.

Digital Television Service

In 1997, the FCC adopted rules for implementing DTV service, which will improve the technical quality of television signals received by viewers and give broadcasters the ability to provide new services including high definition television. With certain limited exceptions, broadcasters holding licenses or construction permits for full-power television stations were temporarily assigned a second channel in order to provide DTV programming. Currently, with one exception all full-power stations licensed to us are broadcasting digitally. WCAV-TV, Charlottesville, Virginia did not commence operations until 2005 and therefore was not assigned a second channel for digital operations. It will convert to digital operations on its currently assigned channel at the end of the digital transition.

At the end of the DTV transition, currently scheduled for February 17, 2009, analog television transmissions will cease, television broadcasters will surrender their analog spectrum to the government, and DTV channels will be reassigned to a smaller segment of the broadcast spectrum.

Broadcasters may use their digital spectrum to either provide a single DTV signal or multicast several program streams. Broadcasters also may use some of their digital spectrum to offer non-broadcast ancillary services (i.e. subscription video, data transfer or audio signals), provided that they pay the government a fee of five percent of gross revenues received from such ancillary services. Under the FCC s rules relating to must carry rights of digital broadcasters, which apply to cable and certain DBS systems: (1) broadcasters are not entitled to carriage of both their analog and their digital streams during the transition; (2) digital-only television stations are entitled to must-carry rights; and (3) a digital-only station asserting must carry rights is entitled only to carriage of a single programming stream and other program-related content even if it multicasts. In November of 2007, the FCC decided that after the transition, cable operators will have two options to ensure that all analog cable subscribers will continue to be able to receive the signals of stations electing must-carry status. Cable operators can choose to either broadcast the signal in digital format for digital customers and down-convert the signal to analog format for analog customers, or the cable operator may deliver the signal in digital format to all subscribers as long as the cable operator has ensured that all subscribers with analog service have set-top boxes that will convert the digital signal to analog format.

The FCC is in the process of finalizing broadcasters post-transition DTV channel assignments and establishing policies to facilitate broadcasters construction of their final digital facilities by the transition deadline. The FCC is also considering imposing consumer education requirements on broadcasters.

Finally, Congress has charged the National Telecommunications and Information Administration (NTIA) with implementing a $1.5 billion program to provide digital converter boxes to American households that do not have DTV sets or television sets connected to cable or satellite.

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The FCC has adopted rules and procedures regarding the digital conversion of Low Power Television (LPTV) stations, TV translator stations and TV booster stations. Under these rules, existing LPTV and TV translator stations may convert to digital operations on their current channels. Alternatively, LPTV and translator licenses may seek a digital companion channel for their analog station operations. At a later date, the FCC will determine the date by which those stations obtaining a digital companion channel must surrender one of their channels.

Beginning December 31, 2006, DTV broadcasters were required to comply with Emergency Alert System (EAS) rules and ensure that viewers of all programming streams can receive EAS messages.