ACME COMMUNICATIONS INC
Form 10-K
April 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended
DECEMBER 31, 2005

Commission File Number: 000-27105

ACME COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0866283**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

2101 E. Fourth Street, Suite 202 A
Santa Ana, California, 92705
(714) 245-9499
(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: None

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.01 per share	Nasdaq National Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [**X**]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes [ ] No [**X**]

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 [**X**] No [ ]

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 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. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [**X**]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [**X**]

As of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2005), the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $43,911,984 based on the basis of $4.02 per share, as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at March 29, 2006
Common Stock, $.01 par value per share	16,772,415 shares (including 725,652 shares held in treasury)

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for the 2006 Annual Meeting of Stockholders	Part III

ACME COMMUNICATIONS, INC.

ANNUAL REPORT ON FORM 10-K

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* Items incorporated by reference, in whole or in part, to our Proxy Statement to be filed pursuant to Regulation 14A relating to the 2006 Annual Meeting of Stockholders

Forward-looking Statements

This Annual Report on Form 10-K includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. In some cases, you can identify forward-looking statements by terminology such as may, will, intend, could, expect, anticipate, believe, predict, potential , might , project , outlook or continue or the negative of such terms or other comparable terminology. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our and the television broadcast industry s actual results, levels of activity, performance, achievements and prospects to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include those identified under Risk Factors in this Annual Report on Form 10-K. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-K might not occur.

We do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Annual Report on Form 10-K. In addition, we make no representation with respect to any materials available on the Internet, including materials available on our website.

PART I

Item 1. *Business*

ACME Communications, Inc. and its wholly-owned subsidiaries unless the context otherwise requires (together, the Company or we) owns and operates nine broadcast television stations in medium-sized markets across the United States. Eight of these television stations are network affiliates of The WB Television Network and one station is a network affiliate of UPN. These nine stations broadcast in markets that cover, in the aggregate, approximately 3.7% of the total U.S. television households. We are the fourth largest WB Network affiliated group in the country. Mr. Jamie Kellner, our Chairman and Chief Executive Officer, is also a founder of The WB Network and served as its Chairman and Chief Executive Officer from 1994 until June 2004. Prior to that, Mr. Kellner was President of Fox Broadcasting Company from its inception in 1986 through 1993.

In March 2003, we sold two of our stations, KPLR-TV serving the St. Louis marketplace and KWBP-TV, serving the Portland, Oregon marketplace, to subsidiaries of the Tribune Company for an aggregate all-cash consideration of $275 million (the Tribune Transaction) plus additional consideration in the amount of approximately $4.6 million relating to KPLR s closing-date working capital. In August 2005, we entered into an agreement to sell our Salt Lake City station, KUWB, to subsidiaries of Clear Channel Communications, Inc. (the Clear Channel Transaction) for $18.5 million in an all-cash transaction. The Clear Channel Transacation was completed on April 4, 2006. In accordance with U.S. generally accepted accounting principles (GAAP), we have accounted for the results of these three stations as discontinued operations and our remaining eight stations represent our continuing operations.

On January 24, 2006, CBS and Warner Bros. jointly announced that, effective September 2006, they would cease operations of their respective networks, UPN and The WB Network, and create a new network, The CW, which will be jointly owned between the two companies. The CW will launch in September 2006, immediately following the closure of UPN and The WB Network and is expected to include on its program schedule the better performing shows from each of The WB and UPN networks. Most industry observers believe that The CW will achieve stronger initial ratings than either The WB or UPN individually achieved in the 2005/2006 season and will be more financially sound.

Following the CBS and Warner Bros. joint announcement in January, The CW began securing affiliation arrangements across the country. In February 2006, Fox announced that it was launching a new network MyNetworkTV effective in the fall 2006. Fox announced that the terms of its affiliation agreements would include more commercial time for its affiliates compared to the commercial time offered by The CW and would not include a programming fee payable by the affiliated stations (unlike The CW which contemplated a programming fee payable in its affiliation agreements).

After careful evaluation of each of the two new networks, we concluded that The CW Network was significantly advantaged due to its proven roster of popular shows culled from the current WB and UPN schedules and decided to affiliate all of our eight continuing WB Network affiliated stations with The CW. We affiliated our second station in Albuquerque-Santa Fe, currently a UPN affiliate, with MyNetworkTV.

Similar to both the WB s and UPN s approach, The CW and MyNetworkTV are expected to focus on younger demographics than the Big Four networks. Accordingly, we will be able to continue our strategy to focus much of our surrounding, non-network, syndicated programming on shows that appeal to younger viewers. In addition, in several of our markets we broadcast local and regional sports programming and provide local news and weather updates during our morning news show. We believe this programming enhances our ability to sell advertising time to local and regional advertisers and increase audience awareness of our still developing stations.

We will also continue to focus on medium-sized (middle) markets which we believe provide certain advantages such as fewer competitors and lower operating costs compared to large markets. Our strategy is to capitalize on these advantages and to grow our revenues and cash flow with an emphasized focus on local advertising sales. Since we centralize many of our stations administrative functions and primarily provide entertainment programming, our station general managers are able to focus on increasing sales and improving operating margins.

ACME Communications, Inc. was incorporated in Delaware in 1999. Our executive office telephone number is (714) 245-9499.

Our Development, Strategy and Outlook

We formed our company in 1997 with the goal of building a middle market broadcast television station group comprised mostly of new start up stations and underperforming stations generally affiliated with The WB Television Network, which at the time was an emerging network. We believed then, and still believe today, that significant value will be created in aligning ourself with emerging networks (i.e., The CW and MyNetworkTV) that, with respect to The CW, enjoys significant financial and creative support from three large media companies Time Warner Inc., Viacom and the Tribune Company, and with respect to MyNetworkTV, enjoys significant financial and creative support from another large media company, News Corp.

By the end of 1997 we had three stations on the air. During 1998 we added another two stations, bringing our total stations on the air to five. In 1999, we put a sixth station on the air and acquired another four stations. Together, these acquisitions were the major catalyst for our initial public offering in September 1999.

In the fall of 2000, signs of a slowing economy and receding advertising demand became evident and the industry was in a full recession by 2001 with non-political advertising revenues declining in the double-digit percentage range in many markets. The events of 9/11 only compounded and delayed an expected recovery.

In 2002, in the face of a continued soft ad environment, we decided to explore opportunities to reduce our debt and exposure to a prolonged industry slump. In December 2002, we entered into an agreement to sell our two largest stations station KPLR, St. Louis and station KWBP, Portland, Oregon to the Tribune Company. We used the proceeds from this transaction, which closed in March 2003, to significantly reduce our debt, which in turn allowed us to amend and extend our revolving credit facility. In late 2002, we also completed the purchase of our Madison station our most recent acquisition.

The broadcast television business in 2004 saw record-level political advertising, especially in connection with the 2004 Presidential campaign and especially in key, battleground states. Including political advertising, aggregate market revenues in our eight markets were up 13%. However, we, along with other WB Network and UPN Network affiliates, did not greatly benefit from this record in political advertising expenditures, and we garnered less than a 1% share of such political advertising revenues.

Aggregate 2005 market revenues in our seven continuing station markets (excluding the Salt Lake City market), excluding political revenues, were up 5.6% compared to 2004. Local advertising sales were significantly stronger than national advertising sales, with a growth rate of 8.0% and 1.4% compared with 2004 figures, respectively. The national growth rate, when viewed in the context of 2004 s record level political advertising which reduced the overall advertising inventory available, thereby increasing prices for non-political advertisers, reflected very weak demand. Our aggregate share of non-political revenues in our seven continuing markets decreased slightly from 8.6% in 2004 to 8.3% in 2005. On a viewer basis, our continuing station group s average in-market share of viewers for the 2004 / 2005 broadcast season, based on a composite of key demographic categories of adult viewers during the 5:00 p.m. to midnight daypart, was 9.2% compared to a 10.4% in-market viewing share for the 2003 / 2004 period which equated to an 11% decrease. We believe that most of this decrease may be attributed to the decline, for the second straight season, in the WB Network s prime-time ratings and the resulting effect on surrounding dayparts. On a positive note, our continuing stations posted a rebound in the November 2005 sweeps, achieving an average composite viewing share of 9.5% compared to an average composite viewing share of 9.0% in the November 2004 sweeps, a 5% increase.

To date in 2006, there have been no early signs that national advertising demand is rebounding, but since industry observers seem to be predicting another very strong political advertising year, which should reduce the overall advertising inventory available in each market, we believe that we should be able to capitalize on our availability of advertising inventory (because political advertisers generally do not advertise on our stations) and increase our market share of non-political revenues during the year. We expect that the January 2006 announcement that both The WB and UPN networks will cease operations in September 2006 and be replaced by The CW network will have mixed results for us in 2006, but should provide us with more upside in the following years. Both The WB and UPN have lost some programming momentum as a result of their new venture, with the networks airing fewer original programs to reduce losses in their final broadcast season. We believe that the reduction of original programming will have a downward pressure on each network s ratings and our revenues from daypart programming will be consequently reduced as well. On the positive side, The CW will have the benefit of being able to broadcast the most highly rated shows from each of the two networks, which should yield higher ratings than either network enjoyed individually, and which should translate into higher revenues for our stations as well.

In 2005, there were a number of television station sale transactions announced, including Emmis Communications sale of most of its television assets and The Liberty Corporation s sale of its small market television station group. The aggregate value of the television stations sold in the 2005 and the number of such transactions were significantly higher than in recent years. While there still seems to be gaps between sellers and buyers pricing expectations, we believe the momentum is continuing for the acquisitions of television stations. We are optimistic that there will continue to be opportunities to monetize our station assets and assuming that an offer is reasonable, we may sell additional television stations, as we recognize that we are in an environment of continuing industry consolidation.

Programming

Our current programming includes:

The WB Network prime time programming (at seven of our eight continuing stations);

The UPN Network prime time programming (at one of our eight continuing stations);

The WB Network weekday afternoon programming (effective January 2, 2006 at seven of our eight continuing stations);

Kids' WB! Saturday morning programming (at seven of our eight continuing stations);

syndicated programming;

The Daily Buzz, a three-hour morning news program (at seven of our eight continuing stations); and

local programming.

Prime Time Programming. In prime time, The WB Network, has the youngest average of viewers compared with the other network broadcasters. Prime time programming includes: *7th Heaven, Smallville, Everwood, Gilmore Girls, Supernatural, Related, Charmed* and *Reba*. When The WB Network began broadcasting in 1995, it provided two hours of prime time programming per week. The WB Network is currently providing 13 hours of prime time programming Sunday through Friday. It also provides a two hour pre-prime time block on Sunday nights which consists of earlier season s episodes of popular WB Network prime time shows.

Kids WB! Programming and Weekday Afternoons. The WB Network launched Kids WB! in September 1995, and until January 2, 2006, it provided 14 hours of kids programming Monday through Saturday. Effective January 2, 2006, the network ceased airing its two-hour children s oriented programming on weekday afternoons and replaced it with programming targeted at adult demographics leaving only the Saturday morning block with children s oriented programming, with shows such as *Pokemon, Yu-Gi-Oh!* and *The Batman.* This scheduling change is expected to meaningfully improve our revenue in that afternoon time period and also provide us with a better lead-in for our 5:00 p.m. access programming.

Syndicated Programming. In addition to The WB Network and UPN programming, our stations air syndicated programs. Generally, our most profitable programming time periods are the hours immediately before and after the network prime time programming. Consequently, during these time periods, we air programs that are targeted to the audiences similar in demographics as those that watch The WB Network and UPN prime time programs. These syndicated programs include *That 70s Show, Everybody Loves Raymond, King of Queens, Will and Grace, Judge Judy, King of the Hill, Drew Carey, Spin City* and *Malcolm in the Middle.* We have secured future broadcast rights for certain of our stations to *Friends* (second cycle), *Everybody Loves Raymond* (second cycle), *That 70s Show* (second cycle), *According to Jim* and other shows. We have multi-year contracts to air most of our syndicated programming.

The Daily Buzz. In September 2002, we launched *The Daily Buzz,* a three-hour (6:00 9:00 a.m. Eastern / Pacific Time) morning news show. Effective January 1, 2004, we began jointly producing the program with Emmis Television Broadcasting, L.P. (Emmis), a subsidiary of Emmis Communications Corporation. In 2005, we significantly increased the shows distribution and it is now aired on 138 stations, including all of our WB Network affiliated stations and Emmis two WB Network affiliates and on The WB 100+ Cable Group (which airs on cable in more than 100 small markets across the country), representing in the aggregate approximately 38% of U.S. households. The show is produced at Emmis station facilities in Orlando, Florida, and in addition to traditional news, weather and sports related stories, contains entertainment, technology and lifestyle segments. We believe that this program, which is targeted at younger, underserved viewers, has the potential of generating meaningful additional revenues in its time slot, including revenues generated from political advertising and other advertising targeted at traditional news viewers.

Local Programming. Several of our stations also air certain regional and local sporting events of local interest, which we believe helps increase local awareness of our stations and expands our advertiser base. In addition, we air local weather and news updates at all of our stations during *The Daily Buzz*, our weekday morning news program. We also air a 10-minute weeknight newscast on our Knoxville station.

New Network Programming. In March 2006, we signed affiliation agreements with The CW and effective September 2006, when The CW launches, all of our current WB Network affiliated stations will begin airing The CW s prime time lineup two hours per night, Sunday through Friday. CW s prime-time lineup will include popular shows currently airing on The WB and UPN networks, including *Smallville*, *America s Next Top Model*, *Gilmore Girls*, *Veronica Mars*, *Everybody Hates Chris* and *Supernatural*. The CW Network will also provide our stations with weekday programming from 3:00 5:00 p.m., Saturday morning kids programming from 7:00 a.m. to 12:00 p.m. and a two hour Sunday pre-prime block from 5:00 7:00 p.m. (ET/PT). We have signed an affiliation agreement with Fox s MyNetworkTV for our second station in the Albuquerque-Santa Fe market, currently a UPN affiliate, and it will begin airing MyNetworkTV prime time programming two hours per night, Monday through Saturday, when that network launches in September 2006.

Our Stations and Markets

The following table provides general information concerning our continuing stations:

Marketplace	Market Rank (1)	Station Calls / Channel	Affiliation	Number of Commercial Stations in Market (2)	Station Rank (3)	Station Share (4)	ACME Operation
Albuquerque - Santa Fe, NM	46	KWBQ / 19	WB	7	5	6	March 1999
		KASY / 50	UPN	7	6	4	November 1999
		KWBR /21	WB (5)	See (5)	See (5)	See (5)	January 2003
Knoxville, TN	58	WBXX / 20	WB	5	4	8	October 1997
Dayton, OH	59	WBDT / 26	WB	5	5	6	June 1999
Ft. Myers - Naples, FL	66	WTVK / 46	WB	5	5	5	March 1998
Green Bay - Appleton, WI	69	WIWB / 14	WB	6	5	5	June 1999
Champaign - Springfield - Decatur, IL	82	WBUI / 23	WB	6	5	4	June 1999
Madison, WI	85	WBUW / 57	WB	5	5	2	November 2002

Effective September 2006, The WB and UPN will cease their operations and all of our WB affiliated stations will become affiliated with The CW and our UPN affiliate will become affiliated with MyNetworkTV.

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(1) All television stations throughout the United States are grouped into 210 markets that are ranked in size according to the number of households with televisions in the market for the 2005/2006 season.

(2) Represents the number of full-power commercial broadcast television stations in the market, excluding Spanish-language stations, digital-only stations and satellite stations.

(3) Represents our station s rank, based on the average of the February, May and November 2004 major ratings periods, for adult viewers ages 18-49 on a Monday through Sunday, 5:00 p.m. to midnight basis.

(4) Station share based on the average of the February, May and November 2004 major ratings periods, for adults 18-49 on a Monday through Sunday, 5:00 p.m. to midnight basis.

(5) KWBR is a full-power satellite station of KWBQ s, serving the Roswell area of the Albuquerque-Santa Fe marketplace. Its viewership is reflected in KWBQ s station rank and share.

KWBQ: Albuquerque Santa Fe, New Mexico
KASY: Albuquerque Santa Fe, New Mexico

Designated Market Area: 46 TV Households: 653,680
Total Age 2+ Population: 1,644,000

Market Description. Thirty-five percent of the total population of Albuquerque Santa Fe is under 25 years of age. The estimated average household income in the Albuquerque Santa Fe market is approximately $40,500 per year. Major employers in the market include Intel, Motorola, General Electric, General Mills, Philips, Tempur-Pedic and Levi Strauss.

KWBQ Station Overview. We launched KWBQ in March 1999 with The WB Network prime time programming and Kids WB! In addition, the station s syndicated programming currently includes *Malcolm in the Middle, That 70s Show* and *King of the Hill.* The station has contracted for the future exclusive-market broadcast rights to popular shows such as *Friends* (second cycle) which begins airing in June 2006. KWBQ delivered a 2004 / 2005 Season Average rating of 0.9 among adult viewers ages 18-49 for the 5 p.m. midnight, Monday through Sunday, time period. a 40% decrease over the comparable Season Average rating for the 2003 / 2004 broadcast season.

KASY Station Overview. We began operating KASY, the UPN affiliate in the market, under an interim LMA in November 1999 and closed our purchase of the station in December 1999. The station has been a UPN affiliate since that network s launch in January 1995. Prior to November 1999, the station had been operating as an LMA by another station owner in the market. The station s syndicated programming includes *Everybody Loves Raymond, King of Queens, Seinfeld, Judge Judy* and *Judge Joe Brown*. All of the future program rights negotiated for KWBQ are also available to air on KASY. KASY delivered a 2004 / 2005 Season Average rating of 0.07 among adult viewers ages 18-49 for the 5 p.m. midnight, Monday through Sunday, time period a 13% decrease over the comparable Season Average rating for the 2003 / 2004 broadcast season.

WBXX: Knoxville, Tennessee

Designated Market Area: 58 TV Households: 516,180
Total Age 2+ Population: 1,205,000

Market Description. Thirty percent of the total population of Knoxville is under 25 years of age. The estimated average household income in the Knoxville market is approximately $40,800 per year. Major employers in the market include the University of Tennessee, TVA, Oakridge National Laboratories, Alcoa and Nippondenso.

Station Overview. We launched WBXX in October 1997. In addition to carrying The WB Network prime time programming and Kids WB!, the station s syndicated programming currently includes *That 70s Show, Will & Grace, Dharma & Greg, King of the Hill*, *Friends, King of Queens* and *Just Shoot Me*. In September 2004, the station began airing a weeknight 10-minute newscast produced by the number one news affiliate in the market. The station has contracted for the future exclusive-market broadcast rights to popular shows such as *Friends* (second cycle) and *According to Jim*, which begin airing in June 2006 and September 2006, respectively. In October 2002, Knoxville became Nielsen s 54th metered market. WBXX delivered a 2004 / 2005 Season Average rating of 2.1 among adult viewers ages 18-49 for the 5 p.m. midnight, Monday through Sunday, time period a 16% decrease over the comparable Season Average rating for the 2003 / 2004 broadcast season.

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WBDT: Dayton, Ohio

Designated Market Area: 59 TV Households: 513,610
Total Age 2+ Population: 1,222,000

Market Description. Thirty-three percent of the total population of Dayton, Ohio is under 25 years of age. The estimated average household income in the Dayton market is approximately $44,600, per year. Major employers in the market include Chrysler Corp/Acustar Inc., General Motors, Bank One Dayton, American Matsushita and BF Goodrich.

Station Overview. We acquired WBDT in June 1999. WBDT signed on the air in October 1980 and has been affiliated with The WB Network since our acquisition of the station. The station s syndicated programming currently includes *Malcolm in the Middle, That 70s Show, Everybody Loves Raymond, Will & Grace* and *King of Queens,* and the station has contracted for the future exclusive-market broadcast rights to popular shows such as *Sex in the City* and *Friends* (second cycle), which both begin airing in September 2005. WBDT delivered a 2004 / 2005 Season Average rating of 1.9 among adult viewers ages 18-49 for the 5 p.m. midnight, Monday through Sunday, time period a 5% decrease over the comparable Season Average rating for the 2003 / 2004 broadcast season.

WTVK: Ft. Myers Naples, Florida

Designated Market Area: 66 TV Households: 461,920
Total Age 2+ Population: 1,061,000

Market Description. Twenty-six percent of the total population of Ft. Myers Naples is under 25 years of age. The estimated average household income in the Ft. Myers Naples market is approximately $52,700 per year. Major employers in the market include The Lee County School District, Lee Memorial Health System, Columbia Healthcare and Publix SuperMarkets. The market is the fastest growing television market in the country and has jumped from having the 83rd largest television market in the country in June 1998, when we acquired the station, to currently having the 68th largest television market in the country.

Station Overview. We began operating WTVK in March 1998 under a local marketing agreement (LMA) and acquired the station in June 1998. WTVK signed on the air in October 1990 and has been affiliated with The WB Network since our acquisition of the station. In addition to carrying The WB Network prime time programming and Kids WB!, the station s syndicated programming currently includes *Judge Judy, Judge Joe Brown, That 70s Show, King of Queens, Dharma & Greg, Roseanne* and *Just Shoot Me.* The station has contracted for the future exclusive-market broadcast rights to popular shows such as *According to Jim* and *Frazier,* both which begin in September 2006. In May 2001, the Ft. Myers-Naples market became Nielsen s 51st metered market. WTVK delivered a 2004 / 2005 Season Average rating of 1.7 among adult viewers ages 18-49 for the 5 p.m. midnight, Monday through Sunday, time period a 6% increase over the comparable Season Average rating for the 2003 / 2004 broadcast season.

WIWB: Green Bay Appleton, Wisconsin

Designated Market Area: 69 TV Households: 432,810
Total Age 2+ Population: 1,049,000

Market Description. Thirty-two percent of the total population of Green Bay Appleton is under 25 years of age. The estimated average household income in the Green Bay Appleton market is approximately $44,000 per year. Major employers in the market include Fort James Corporation, the Oneida Tribe of Indians of Wisconsin, Schneider National, Humana, Shopko Stores, American Medical Security, Bellin Memorial Hospital and Procter & Gamble Paper Products.

Station Overview. We acquired WIWB in June 1999. WIWB signed on the air in August 1998 and has been affiliated with The WB Network since our acquisition of the station. The station s syndicated programming currently includes *That 70s Show, Will & Grace, Everybody Loves Raymond, Frasier* and *King of Queens* and the station has contracted for the future exclusive-market broadcast rights to popular shows such as *Friends* (second cycle), which begins in September 2006. WIWB delivered a 2004 / 2005 Season Average rating of 1.2 among adult viewers ages 18-49 for the 5 p.m. midnight, Monday through Sunday, time period a 9% increase over the comparable Season Average rating for the 2003 / 2004 broadcast season.

WBUI: Champaign Springfield Decatur, Illinois

Designated Market Area: 82 TV Households: 378,100
Total Age 2+ Population: 885,000

Market Description. Thirty-three percent of the total population of Champaign Springfield Decatur is under 25 years of age. The estimated average household income in the Champaign Springfield Decatur market is approximately $42,100 per year. Major employers in the market include ADM, Staley s, Caterpillar, Mueller, Illinois Power, Kraft and the University of Illinois.

Station Overview. We acquired WBUI in June 1999. WBUI signed on the air in May 1984 and has been affiliated with The WB Network since our acquisition of the station. The station s syndicated programming currently includes *Malcolm in the Middle, That 70s Show, Everybody Loves Raymond* and *King of Queens.* The station has contracted for the future exclusive market broadcast rights to popular shows such as *Friends* (second cycle), which begins airing in June 2006. WBUI delivered a 2004 / 2005 Season Average rating of 1.1 among adult viewers ages 18-49 for the 5 p.m. midnight, Monday through Sunday, time period unchanged compared to the comparable Season Average rating for the 2003 / 2004 broadcast season.

WBUW: Madison, Wisconsin

Designated Market Area: 85 TV Households: 365,550
Total Age 2+ Population: 867,000

Market Description. Thirty-two percent of the total population of Madison is under 25 years of age. The estimated average household income in the Madison market is approximately $46,300 per year. Madison is the state capitol of Wisconsin and in addition to the state government, major employers in the market include General Motors, Lands End, Mercy Health System and the University of Wisconsin.

Station Overview. We acquired WBUW through a bankruptcy auction in December 2002. Under an interim LMA, we became fully responsible for its operations effective November 1, 2002. WBUW signed on the air in May 1984 as an affiliate of UPN. The station became a primary WB Television Network affiliate in August 2002. The station s syndicated programming currently includes *That 70s Show, King of Queens, Judge Judy* and *Home Improvement*. In September 2003, we began airing a weeknight half-hour local newscast on the station that is produced by the market s NBC affiliate. The station has contracted for the exclusive market broadcast rights to the popular show *Sex in the City* (which began airing in September 2005) and *Friends* (second cycle), which begins airing in June 2006. WBUW delivered a 2004 / 2005 Season Average rating of 0.7 among adult viewers ages 18-49 for the 5 p.m. midnight, Monday through Sunday time period a 40% increase over the comparable Season Average rating for the 2003 / 2004 broadcast season.

Our Affiliation Agreements

Currently, seven of our stations are affiliated with The WB Network and one station is affiliated with UPN. As described above, both The WB Network and UPN will cease operations in September 2006 and their respective owners will launch a newly formed network, The CW, that same month. We have affiliated each of our current eight WB Network affiliates with The CW. Our one UPN affiliated station has affiliated with Fox s MyNetworkTV, which also will launch in September 2006. Our network affiliation agreements provide each station with the exclusive right to broadcast the applicable networks programming in its respective market. Our affiliation agreements with The CW have up to 10 year terms that expire in September 2016. Our affiliation agreement with MyNetworkTV has a five year term that expires in September 2011.

Under the affiliation agreements, The CW and MyNetworkTV each retain the right to program and sell approximately 75% and 30%, respectively, of the advertising time available during each network s applicable prime time schedule and our stations sell the remaining commercial inventory time. The CW will also program other dayparts: a Sunday pre-prime time two-hour block, a Monday through Friday two-hour late afternoon block and a Saturday morning children s five-hour programming block. We retain approximately 33% of the commercial inventory in the weekday afternoon and Sunday pre-prime blocks and 14% of the commercial inventory in the Saturday morning block.

Each of our eight stations affiliated with The CW is also subject to annual compensation payments to The CW. Although the annual payment to The CW is generally fixed, such payment is either increased if The CW surpasses a certain prime-time ratings threshold or such payment amount is completely eliminated if The CW fails to achieve a specified minimum rating. Our one station affiliated with MyNetworkTV is not required to pay MyNetworkTV an annual payment. As is the case with our WB and UPN affiliated stations, we expect to participate in cooperative marketing efforts with The CW and MyNetworkTV whereby the networks will reimburse us up to 50% of certain pre-approved advertising expenditures to promote their network programming.

Advertising/Sales

Most of our revenues consist of advertising revenues, and no single advertiser has ever accounted for more than 10% of our gross advertising revenues. Our advertising revenues are generated both by local advertising and national spot advertising.

Local Advertising. Local advertising revenues are generated by both local merchants and service providers and by regional and national businesses and advertising agencies located in a particular designated market area. Local advertising revenues represented 61% of our continuing station advertising revenues in 2005, 57% in 2004 and 58% in 2003.

National Spot Advertising. National spot advertising represents time sold to national and regional advertisers based outside a station s designated market area. National spot advertising revenues represented 39% of our continuing station advertising revenues in 2005 and 43% in 2004 and 42% in 2003. National spot advertising primarily comes from:

New advertisers wishing to test the market

advertisers who are regional retailers and manufacturers without national distribution;

advertisers who need to enhance network advertising in given markets; and

advertisers wishing to place more advertisements in specified geographic areas.

In addition to advertising revenues, we generate revenue from licensing *The Daily Buzz* to broadcast and cable stations outside of our markets and Emmis markets. These licensing fees have grown dramatically over the past three years and represent approximately 3%, 1% and 0% of our total net revenues in 2005, 2004 and 2003, respectively.

Our Competition

Broadcast television stations compete for advertising revenues primarily with other broadcast television stations in their respective markets and, to a lesser but increasing extent, with radio stations, cable television system operators, newspapers, billboard companies, direct mail and internet sites. ABC, CBS, NBC and Fox programming generally achieve higher audience levels than that of The WB Network, UPN and syndicated programming aired by independent stations which is attributable to a number of factors, including:

the traditional networks' efforts to reach a broader audience;

historically, less competition;

generally better channel positions;

more network programming being broadcast weekly;

the traditional networks' cross-promotions; and

the traditional networks more established market presence than The WB Network and UPN.

However, because The WB Network and UPN have provided (and The CW and MyNetworkTV will provide) fewer hours of programming per week than the traditional networks, we have a significantly higher inventory of advertising time for our own use and, therefore, our stations generally achieve a share of television market advertising revenues greater than their share of the market s audience. We believe that this available advertising time, combined with our efforts to attract (via our programming) the audiences that are key targets of advertisers, and our focus on advertising sales allows us to compete effectively for advertising revenues within our stations markets.

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The broadcasting industry is continuously faced with technical changes and innovations, the popularity of competing entertainment and communications media, changes in labor conditions, and governmental restrictions or actions of federal regulatory bodies, including the FCC, any of which could possibly have an adverse effect on a television station s operations and profits. Sources of video service other than conventional television stations, the most common being cable television, can increase competition for a broadcast television station by bringing distant broadcasting signals not otherwise available to the station s audience, serving as a distribution system for national satellite-delivered programming and other non-broadcast programming originated on a cable system and selling advertising time to local advertisers. Other principal sources of competition include home video exhibition, direct-to-home broadcast satellite television, entertainment services and multi-channel multi-point distribution services. Currently, two FCC permittees, DirecTV and Echostar, provide subscription DBS services via high-power communications satellites and small dish receivers, and other companies provide direct-to-home video service using lower powered satellites and larger receivers. Furthermore, emerging technologies that allow viewers to digitally record and play back television programming is likely to decrease viewership of commercials and, as a result, lower television advertising demand. Additionally, an increasing number of network programs are becoming available to download, on a fee basis, to consumers computers or handheld devices and this trend threatens to further erode traditional viewership of local broadcasters. While these download fees represent new and growing revenue streams to the networks, as of yet, local broadcast affiliates are not sharing in any of those revenues.

Other technology advances and regulatory changes affecting programming delivery through fiber optic telephone lines and video compression could lower entry barriers for new video channels and encourage the development of increasingly specialized niche programming. The Telecommunications Act of 1996 permits telephone companies to provide video distribution services via radio communication, on a common carrier basis, as cable systems or as open video systems, each pursuant to different regulatory schemes. We cannot predict the effect that these and other technological and regulatory changes will have on the broadcast television industry or on the future profitability and value of a particular broadcast television station.

Broadcast television stations compete with other television stations in their designated market areas for the acquisition of programming. Generally, cable systems do not compete with local stations for programming, but various national cable networks do from time to time and on an increasing basis acquire programming that could have been offered to local television stations. Public broadcasting stations generally compete with commercially-rated broadcasters for viewers, but do not compete for advertising revenues. Historically, the cost of programming has increased because of an increase in the number of independent stations and a shortage of quality programming.

Federal Regulation of Television Broadcasting

Television broadcasting is a regulated industry and is subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended from time to time (the Communications Act). The Communications Act prohibits the operation of television broadcasting stations except under a license issued by the FCC. The Communications Act empowers the FCC, among other things:

to issue, revoke and modify broadcast licenses;

to decide whether to approve a change of ownership or control of station licenses;

to regulate the equipment used by stations; and

to adopt and implement regulations to carry out the provisions of the Communications Act.

Failure to observe FCC or other governmental rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of short, or less than maximum, license renewal terms or, for particularly egregious violations, the denial of a license renewal application, the revocation of a license or denial of FCC consent to acquire additional broadcast properties.

License Grant, Renewal, Transfer and Assignment. Our current licenses are or were scheduled to expire on the following dates:

Station (by market ranking)	Expiration Date
KWBQ / Albuquerque - Santa Fe	October 1, 2006
KASY / Albuquerque - Santa Fe	October 1, 2006
KWBR / Albuquerque - Santa Fe	October 1, 2006
WBDT / Dayton	October 1, 2005
WBXX / Knoxville	August 1, 2005
WTVK / Ft. Myers - Naples	February 1, 2005
WIWB / Green Bay - Appleton	December 1, 2005
WBUI / Champaign - Decatur - Springfield	December 1, 2005
WBUW / Madison	December 1, 2005

We have filed separate renewal applications for each of those licenses that were scheduled to expire in 2005. Those renewal applications are still pending before the FCC. To some extent, the delay may be occasioned by the FCC s apparent decision not to renew licenses for WB Network affiliated stations until it completes its investigation of indecency complaints relating to network programming that was aired by most of its affiliates, including our WB Network affiliated stations. The delay in FCC action on our renewal applications may also reflect some violations by our stations of limitations in FCC rules on the amount of commercial material that is allowed in children s programming and, in one case, a violation of the FCC rule with respect to the required public inspection file. In the meantime, the Communications Act entitles us to continue to operate the stations under the prior licenses until the FCC acts on the renewal applications.

A party must obtain a construction permit from the FCC to build a new television station. Once a station is constructed and commences broadcast operations, the permittee receives a license which must be renewed by the FCC at the end of each license term (which may be as long as eight years under current law). The FCC grants renewal of a broadcast license if it finds that the station has served the public interest, convenience, and necessity, there have been no serious violations by the licensee of the Communications Act or FCC rules and policies, and there have been no other violations of the Communications Act and FCC rules and policies which, taken together, would constitute a pattern of abuse. If the FCC finds that a licensee has failed to meet these standards, the FCC may deny renewal, condition renewal, or impose some other sanction (such as forfeiture). Any party with standing may petition the FCC to deny a broadcaster s application for renewal. However, only if the FCC issues an order denying renewal will the FCC accept and consider applications from other parties for a construction permit for a new station to operate on that channel. The FCC may not consider any new applicant for the channel in making determinations concerning the grant or denial of the licensee s renewal application. Although renewal of licenses is granted in the majority of cases even when petitions to deny have been filed, we cannot be sure our station licenses will be renewed for a full term or without modification.

The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast licensee without the prior approval of the FCC. In determining whether to permit the assignment or transfer of control of, or the grant or renewal of, a broadcast license, the FCC considers a number of factors pertaining to the licensee, including:

compliance with various rules limiting common ownership of media properties;

the character of the licensee and those persons holding attributable interests therein; and

compliance with the Communications Act's limitations on alien ownership.

Character generally refers to the likelihood that the licensee or applicant will comply with applicable law and regulation. Attributable interests generally refer to the level of ownership or other involvement in station operations which would result in the FCC attributing ownership of that station or other media outlet to the person or entity in determining compliance with FCC ownership limitations.

To obtain the FCC s prior consent to assign a broadcast license or transfer control of a broadcast licensee, an application must be filed with the FCC. If the application involves a substantial change in ownership or control, the application must be placed on public notice for a period of no less than 30 days during which petitions to deny the application may be filed by interested parties, including certain members of the public. If the FCC grants the application, interested parties have no less than 30 days from the date of public notice of the grant to seek reconsideration or review of that grant by the commission or, as the case may be, a court of competent jurisdiction. The full FCC commission has an additional 10 days to set aside on its own motion any action taken by the FCC s staff. When passing on an assignment or transfer application, the FCC is prohibited from considering whether the public interest might be better served by an assignment or transfer to any party other than the assignee or transferee specified in the application.

Ownership Restrictions. The officers, directors and equity owners of 5% or more of our outstanding voting stock or the voting stock of a company holding one or more broadcast licenses are deemed to have an attributable interest in the broadcast company. However, specified institutional investors, including mutual funds, insurance companies and banks acting in a fiduciary capacity, may own up to (but not as much as) 20% of the outstanding voting stock without being subject to attribution if they exercise no control over the management or policies of the broadcast company. Finally, even if it owns non-voting stock, a third party could be deemed to have an attributable interest if it owns and / or holds more than 33% of a station s (or the Company s) asset value (which is generally defined by the FCC to mean the aggregate of equity plus debt) and either has another attributable interest in the same market as the station(s) or provides more than 15% of the weekly programming for the station(s).

The FCC s current rules generally prohibit the issuance of a license to any party, or parties under common control, for a television station if that station s Grade B contour overlaps with the Grade B contour of another television station in the same designated market area (DMA) in which that party or those parties already have an attributable interest. FCC rules provide an exception to that general prohibition and allow ownership of two television stations with overlapping Grade B contours under any one of the following circumstances:

there will be eight independent full-power television stations in the DMA after the acquisition or merger and one of the two television stations owned by the same party is not among the top four-ranked stations in the DMA based on audience share;

the station to be acquired is a "failing" station under FCC rules and policies;

the station to be acquired is a "failed" station under FCC rules and policies; or

the acquisition will result in the construction of a previously unbuilt station.

On June 2, 2003, the FCC adopted new rules (the New Rules) with respect to ownership of broadcast television stations and related matters. The New Rules included many changes, including the following:

with few exceptions, ownership restrictions would be determined by the DMA in which the station is located without regard to Grade B contour overlaps;

a single entity could own two television stations in a market with at least five television stations if one of the stations is not among the top-4 ranked stations;

a single entity could own three television stations in a market with at least 18 television stations as long as two of the stations are not among the top-4 ranked stations;

waivers would be allowed to permit ownership of two of the top-4 ranked stations in markets with eleven or fewer television stations if certain criteria were satisfied (including whether the combination would enable the buyer to better compete with the dominant television station in the market); and

waivers would be allowed to own another television station in the DMA (regardless of the number of television stations in the market) if the station does not have a Grade B contour overlap with the buyer s other station in the DMA and if the station to be purchased is not carried by the same cable television systems and other multi-video program distributors as the other station.

The FCC s New Rules also established new cross media limits (CML) to govern the combined ownership of television stations, radio stations, and daily newspapers. More specifically, the New Rules include the following changes:

no cross-ownership is allowed in markets with three or fewer television stations;

in markets with 4 8 television stations, a single entity can own (1) a combination of one daily newspaper, one television station, and half the ownership limit of radio stations, (2) a combination of one daily newspaper and the full complement of allowed radio stations, or (3) a combination of two television stations (if otherwise permissible) and the full complement of radio stations but no daily newspaper; and no CML limits in markets with more than eight television stations.

The FCC s New Rules also raised the cap on the reach of a single entity s television ownership to 45% of the country s audience. However, Congress subsequently enacted a law which reduced that cap to 39%. Prior to adoption of that new statute, stations in the UHF band, which covers channels 14 69, were attributed with only 50% of the households in their respective markets (while 100% of the market households are attributed to stations in the VHF band, which covers channels 2 13). The FCC issued a public notice requesting comment on whether the new statute had any impact on the ability of the FCC to continue that UHF discount.

The New Rules were scheduled to become effective on September 4, 2003. However, several parties filed appeals in federal court seeking to overturn the New Rules. The court issued an order on September 3, 2003 which prevented the New Rules from becoming effective and required the pre-existing rules to remain in effect. On June 24, 2004, the court issued a decision (with one of the three judges dissenting) which upheld some of the FCC s New Rules (mostly relating to radio) but concluded that the FCC had failed to provide an adequate explanation to support other New Rules (mostly relating to television). The court therefore sent the entire proceeding back to the FCC with instructions to provide a better explanation of, or to modify, the rules which the court found objectionable. The court left in place its order of September 3, 2003 which prevented any of the New Rules from going into effect.

In response to a request by the FCC, the court issued a decision on September 3, 2004 which allowed the FCC to implement certain New Rules relating to radio that the court had upheld. However, the court made no change in its decision with respect to those New Rules that affect television broadcasting. On January 27, 2005, the FCC and the Department of Justice (which works with the FCC on certain court appeals) decided not to appeal the court s decision to the United States Supreme Court. On June 13, 2005, the United States Supreme Court denied a petition for certiorari filed by other parties. As a result, the FCC will probably inaugurate a new proceeding at some point in the future to determine whether the New Rules should be changed and to develop a better explanation for those New Rules it decides to retain.

At this juncture, no predictions can be made as to whether or when the New Rules (at least with respect to television) will be changed and, if so, how those changes will affect the Company. It is possible, however, that changes could be made in the New Rules that will adversely affect the Company and our ability to buy new television stations or sell our existing television stations.

Restrictions on Foreign Ownership. The Communications Act prohibits the issuance of broadcast licenses to, or the holding of a broadcast license by, foreign citizens or any corporation of which more than 20% of the capital stock is owned of record or voted by non-U.S. citizens or their representatives or by a foreign government or a representative thereof, or by any corporation organized under the laws of a foreign country. The Communications Act also authorizes the FCC to prohibit the issuance of a broadcast license to, or the holding of a broadcast license by, any corporation controlled by any other corporation of which more than 25% of the capital stock is owned of record or voted by aliens. The FCC has interpreted these restrictions to apply to other forms of business organizations, including partnerships and limited liability companies. As a result of these provisions, the FCC licenses granted to our subsidiaries could be revoked if more than 25% of our stock were directly or indirectly owned or voted by aliens. Our certificate of incorporation contains limitations on alien ownership and control substantially similar to those contained in the Communications Act. Pursuant to our certificate of incorporation, we have the right to refuse to sell shares to aliens or to repurchase alien-owned shares at their fair market value to the extent necessary, in the judgment of our board of directors, to comply with the Communications Act s alien ownership restrictions.

Programming and Operation. The Communications Act requires broadcasters to serve the public interest, convenience and necessity. The FCC has gradually restricted or eliminated many of the more formalized procedures it had developed to promote the broadcast of programming responsive to the needs of the station s community of license. Licensees continue to be required, however, to present programming that is responsive to community problems, needs and interests and to maintain certain records demonstrating such responsiveness. Complaints from viewers concerning a station s programming will be considered by the FCC when it evaluates the licensee s renewal application, but these complaints may be filed and considered at any time.

Stations must also pay regulatory and application fees and follow various FCC rules that regulate, among other things:

political advertising;

children s programming;

the broadcast of obscene or indecent programming;

sponsorship identification; and

technical operations.

Failure to observe these or other rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of short, less than the maximum, renewal terms, or for particularly egregious violations, the denial of a license renewal application or the revocation of a license.

Review of Must Carry Rules. FCC regulations implementing the Cable Television Consumer Protection and Competition Act of 1992 require each television broadcaster to elect, at three-year intervals beginning October 1, 1993, to either:

require carriage of its signal by cable systems in the station s market, which is referred to as must carry rules; or

negotiate the terms on which such broadcast station would permit transmission of its signal by the cable systems within its market, which is referred to as retransmission consent.

The United States Supreme Court upheld the must-carry rules in a 1997 decision. These must carry rights are not absolute, and their exercise is dependent on a variety of factors such as:

the number of active channels on the cable system;

the location and size of the cable system; and

the amount of programming on a broadcast station that duplicates the programming of another broadcast station carried by the cable system.

Therefore, under certain circumstances, a cable system may decline to carry a given station. We have elected must carry for each of our stations on all of the cable systems where such carriage can be elected. See also *Digital Television Services* below.

Local Marketing Agreements. Under the FCC s current rules (as well as the New Rules), the licensee of a television station providing more than 15% of another television station s programming under a LMA is considered to have an attributable interest in the other station for purposes of the FCC s national and local multiple ownership rules if both stations are located in the same market. The FCC also adopted a grandfathering policy providing that local marketing agreements that are in compliance with the previous FCC rules and policies and were entered into before November 5, 1996, would be permitted to continue in force until the FCC conducts its biennial review of regulations in 2004. Local marketing agreements entered into after November 5, 1996 but prior to the adoption of the new FCC rules in 1999 were grandfathered until August 2001.

Prior to the adoption of the FCC s New Rules, we did, from time to time, enter into local marketing agreements, generally in connection with pending station acquisitions. By using local marketing agreements, we can provide programming and other services to a station that we have agreed to acquire before we receive all applicable FCC and other governmental approvals.

Both the current FCC rules and the FCC s New Rules generally permit local marketing agreements if the station licensee retains ultimate responsibility for and control of the applicable station, including finances, personnel, programming and compliance with the FCC s rules and policies. We cannot be sure that we will be able to air all of our scheduled programming on a station with which we may have a LMA or that we would receive the revenue from the sale of advertising for such programming.

Joint Sales Agreements. A joint sales agreement is an arrangement where one station sells advertising time on another station. The FCC s New Rules make joint sales agreements for radio stations an attributable ownership interest if the selling station is located in the same market and sells more than 15% of the other station s weekly advertising time. The FCC initiated a new rulemaking proceeding that could result in rules which make joint sales agreements for television an attributable ownership interest to the same extent that radio joint sales agreements are an attributable ownership interest. There could be situations where we would want to have a joint sales agreement with another television station in a market where we already own one or more television stations. Therefore, the FCC proceeding could result in the adoption of rules which would limit our opportunities to have those agreements, and that limitation could adversely affect the Company.

Digital Television Services. The Communications Act and the FCC s rules have numerous provisions that relate to the establishment of digital television service, which will improve the technical quality of television signals and provide broadcasters the flexibility to offer high-definition television, data broadcasting and other new services. Among other requirements, the FCC must:

limit the initial eligibility for licenses to existing television broadcast licensees or permittees (who held those licenses or permits by April 3, 1997);

allow digital television licensees to offer ancillary and supplementary services;

charge appropriate fees to broadcasters that supply ancillary and supplementary services for which such broadcasters derive certain non-advertising revenues; and

require television broadcasters to surrender their license to broadcast analog, or non-digital, signal by February 17, 2009.

As a starting point, the FCC adopted a table of allotments for digital television. Under the table, all eligible broadcasters with a full-power television station were allocated a separate channel for digital television operation. However, on September 7, 2004, the FCC issued a Report and Order which initiated a process to refine that table of allotments so that all digital television stations will operate on Channels 2 through 51, which are identified by the FCC as the core channels. The Report and Order also adopted a procedure that will enable television stations to make certain elections about which channel they would like to use for digital television. It is anticipated that the new table of allotments will be completed sometime in late 2006 or early 2007. The FCC has established a freeze on the filing of applications to modify existing analog television stations (like ours) until the new digital table of allotments is completed.

In the meantime, the FCC s Report and Order of September 7, 2004 established certain construction deadlines for digital television facilities. All stations affiliated with the top four networks (ABC, CBS, Fox and NBC) in the top 100 markets were required to complete construction of full power digital television facilities by July 1, 2005 if the procedure described above resulted in the retention of the original digital channel assigned to the station. All other commercial and noncommercial television stations must complete construction of full-power digital television facilities by July 1, 2006 if the procedure described above results in the station s retention of its original digital channel. The Report and Order adopted other deadlines as well concerning the construction of full power digital television facilities.

We have already constructed full power digital television facilities for each of our stations except the station in Roswell (which was not assigned a digital channel). The FCC s Report and Order of September 7, 2004 may nonetheless require that we expend monies to build new digital facilities for Roswell. At the same time, the potential exists for new sources of revenue to be derived from digital television. We cannot predict the overall effect the transition to digital television might have on our business.

Another major issue surrounding the implementation of digital television is the scope of a local cable television system s obligation to carry the signals of local broadcast television stations. On February 10, 2005, the FCC decided that a cable television system is only obligated under the Communications Act to carry a television station s primary video signal and, accordingly, that a cable television system does not have to carry the television station s digital signal as well as its analog signal (but must carry the digital signal if the station does not have an analog signal). The new digital technology will enable a television station to broadcast four or more video streams of programming to the public, but the FCC said that the cable television system only has an obligation to carry one of those signals (the primary video signal) and not all of them, thus rejecting the broadcasters request for the FCC to impose a multicasting obligation on cable television systems. The FCC decisions could limit the reach of our television stations digital programming and, to that extent, could have an adverse impact on the revenue we derive from station operations.

Children s Television Act. FCC rules limit the amount of commercial matter that a television station may broadcast during programming directed primarily at children 12 years old and younger. FCC rules further require television stations to serve the educational and informational needs of children 16 years old and younger through the stations own programming as well as through other means. Television broadcasters must file periodic reports with the FCC to document their compliance with foregoing obligations.

Dual Network Rule. The FCC repealed the rule that prohibited one of the major television networks (ABC, CBS, NBC or Fox) from owning one of the other television networks. Viacom utilized that change in FCC rules to acquire UPN. However, the FCC s New Rules retained the rule that prohibits dual ownership of two or more of the four major networks.

Satellite Home Viewer Act. The Satellite Home Viewer Act, which was renewed and expanded by federal law in December 2004, and related FCC regulations allow satellite carriers to deliver broadcast programming to