

SETTLEMENT AND MERGER AGREEMENT

This SETTLEMENT AND MERGER AGREEMENT (the "Agreement") is entered into as of July 17, 2000, by and among KM Communications, Inc. ("KM"), Potelco Broadcasting ("Potelco"), and Kaleidoscope Foundation, Inc. ("Kaleidoscope") (each a "Party" and collectively, the "Parties").

PREMISES:

WHEREAS, each of the Parties and three other applicants (the "Dismissing Applicants") have pending before the Federal Communications Commission ("FCC") mutually exclusive applications for a construction permit for a new commercial television broadcast station on Channel 15 at Pocatello, Idaho; and

WHEREAS, the Dismissing Applicants have agreed to dismiss their pending applications for a specified settlement payment, pursuant to separate settlement agreements executed on or before this date, and the FCC has announced by Public Notice that it will waive its regulations limiting settlement payments to expenses, and therefore the proposed settlement payments to the Dismissing Applicants are permitted; and

WHEREAS, the Parties have agreed, subject to prior FCC consent, to enter into a bona fide merger settlement and to amend one of their applications to specify a new entity owned equally by all of the Parties as the applicant, which with the dismissal of the applications of the Dismissing Applicants resolves the mutual exclusivity among the competing applications so that the new entity's amended application may be granted; and

WHEREAS, the Parties agree that resolving the mutual exclusivity among the applications will serve the public interest, by speeding the inauguration of a new commercial television service to Pocatello and surrounding communities, and by conserving the resources of the applicants and the FCC.

NOW THEREFORE, in consideration of the above premises and of the mutual covenants, agreements, conditions, representations and warranties contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties to this Agreement hereby agree as follows:

1. Formation of New Entity. On the date of execution of this Agreement, or within the specified time thereafter: (i) the Parties, through FCC counsel, shall proceed to form a new limited liability company, Pocatello Channel 15, L.L.C. (the "LLC"), to be organized under the laws of the State of Idaho, which shall be treated similar to a general partnership for tax purposes; (ii) each of the Parties shall make an initial capital contribution of \$35,000 to the LLC within four (4) business days, by wire transfer to the Irwin, Campbell & Tannenwald, P.C. Trust Account; (iii) in consideration of such initial capital contributions, each of the Parties shall be issued one hundred (100) membership units in the LLC, in the name of each respective Party, or in the name of any principal(s) of such Party in any manner as may be approved by such Party, as designated on Schedule 1 attached hereto; and (iv) the Parties shall deliver to FCC counsel to the LLC an exhibit describing the other mass media interests or applications of the Party, and any other such information as may be required to file this Agreement with the FCC. The Parties or their designees listed on Schedule 1, as it may be amended from time to time as described herein, shall be the only members of the LLC (the "Members").

2. Management of LLC. Unless and until formal regulations governing the LLC (an "Operating Agreement") are executed by the Members, the LLC shall be governed in accordance with the Idaho Limited Liability Company Act, Idaho Code §§ 53-601 to 53-672 (as it may be amended, the "Idaho LLC Act"), except as otherwise expressly set forth herein. The articles of organization shall reflect that Kevin Joel Bae is hereby designated as the initial manager of the LLC (with any successors as manager, the "Manager"), primarily for the purpose of organizing the LLC, filing this Agreement with the FCC, amending KM's application to specify the LLC as the applicant, retaining counsel for the foregoing purposes, and such other actions as may be necessary or appropriate to pursue a prompt grant of this settlement by the FCC. The Manager may be removed, and a new Manager appointed, by a vote by the holders of 60% of the voting membership units of the LLC (if the Manager is removed but no new Manager is appointed, the LLC shall be governed without a manager pursuant to the Idaho LLC Act and this Agreement). The Manager shall have all the rights, responsibilities and authority to manage the LLC accorded to a manager under the Idaho LLC Act, except that the following actions not expressly provided for herein must be approved by a unanimous vote by the Members:

(a) any proposal for the sale or other disposition of all, substantially all or any substantial portion of the assets of the LLC;

(b) any proposal to authorize or issue membership units in addition to the 300 units issued initially upon the formation of the LLC pursuant to Section 1 of this Agreement;

(c) any proposal to authorize or issue any securities or debt instruments convertible into equity of the LLC;

(d) any proposal for the LLC to borrow money or otherwise incur debt or any liabilities (contractual or otherwise), confess a judgment, or loan funds or assets or distribute assets to a Member, Manager or third Party;

(e) the adoption of an Operating Agreement, provided further that any such Operating Agreement shall not contain any provision not equally applicable to all Members and to all Parties to this Agreement;

(f) any proposal to appoint any officers, hire any employees, or retain any independent contractors (except that the Manager may retain FCC counsel for the LLC);

(g) any proposal to require any additional capital contributions from any Member(s), provided further that any such additional capital contributions shall be required of all members of the LLC on a pro rata basis, and provided further that the membership interest of any Member not making a required additional cash capital contribution within ten (10) days of written notice that such additional cash capital contribution is required (if any such additional cash capital contribution may be approved from time to time in the manner required by this Section 2(g)) shall be diluted and the membership interests of all other Members shall be increased to reflect the percentage of cash capital contributions actually made by each Member (subject to prior FCC consent if required), with written notice given by the Manager to all Members of the LLC in the form of a revised Schedule 1 reflecting the revised membership interests of each Member;

(h) any proposal to dissolve or windup the affairs of the LLC;

(i) any proposal for capital and operating budgets or for the Manager to expend funds for items or set aside reserves not within such an approved capital or operating budget; provided, however, that the Manager may use the \$105,000 initial capital contribution pursuant to Section 1(ii) solely for: (A) the costs and expenses of the LLC, as specified in Section 5 of this Agreement; and (B) any settlement payment to be made, or to be placed in escrow to secure any such settlement payment, to the Dismissing Applicants for the dismissal of their applications, as specified in Section 9 of this Agreement; and

(j) any proposal for the selection of programming for the station, other than as provided in Section 10 of this Agreement.

Notwithstanding any other provision of this Agreement to the contrary, the Manager shall act in accordance with any decision reached by a unanimous vote of the Members.

3. Filing of Amendment and Joint Request. On the date of execution of this Agreement, the Parties hereto, through the Manager and/or FCC counsel to the LLC, shall take the following actions:

(a) KM shall file an amendment to its application to specify the LLC as the applicant and reflecting the ownership of the LLC in accordance with Section 1 of this Agreement (as amended, the "LLC Application"); and

(b) jointly file and prosecute in good faith a Joint Request For Approval Of Universal Settlement (the "Joint Request"), as required by Section 73.3525 of the FCC's rules, requesting that the FCC issue an order (or orders): (i) granting the Joint Request; (ii) approving this Agreement; (iii) granting the LLC Application, contingent upon the grant of the Joint Request and approval of this Agreement; and (iv) dismissing the applications of Potelco, Kaleidoscope, and the Dismissing Applicants, contingent upon the grant of the Joint Request and approval of this Agreement.

The Parties and the Manager shall diligently prosecute the Joint Request and the LLC Application and promptly file any amendment or other supporting documentation that may be required or requested by the FCC. No Party nor the Manager shall take any action adverse to this Agreement, the Joint Request, the LLC Application, or the dismissal of the remaining applications.

4. FCC Action. Within thirty (30) days after the FCC order or orders granting the Joint Request, approving this Agreement, granting the LLC Application, and dismissing the remaining applications become a final order or orders no longer subject to administrative or judicial review, reconsideration, or appeal (a "Final Order"), the Members shall meet in person or via conference call to discuss adoption of an Operating Agreement, and to develop and adopt a construction and operating budget (the "Budget") and a construction schedule, if they have not done so already.

5. Costs and Expenses. Except as otherwise provided herein, each Party and Member shall be responsible for paying its own costs and expenses incurred with respect to: (i) its application; (ii) the negotiation, execution and performance of this Agreement; and (iii) the filing and prosecution of the Joint Request and the LLC Application. Notwithstanding the foregoing, the Manager shall be reimbursed for any reasonable and legitimate out-of-pocket costs and expenses incurred on behalf of the LLC, including legal fees (separate and apart from any costs and expenses associated with any application of the Manager other than the LLC Application), in an aggregate amount not to exceed \$15,000 out of the \$105,000 initial capital contribution pursuant to Section 1(ii), for: (i) the organization of the LLC; (ii) the preparation,

filing and prosecution before the FCC of the Joint Request and the LLC Application; (iii) other administrative costs and expenses of the LLC (including but not limited to filing fees, postage, courier services, telephone or facsimile costs, and copying costs); and (iv) any other costs and expenses which may be approved by a unanimous vote by the Members.

6. Sale, Transfer or Assignment of LLC Membership Units. No Member shall sell, transfer, assign, pledge or mortgage any membership units in the LLC except in accordance with the provisions of subsections (a), (b) or (c) of this Section 6 and with the prior consent of the FCC, if such FCC consent is required, and any sales, transfers, assignments, pledges or mortgages not made in accordance with this Section 6 shall not be recognized by the LLC. Within three (3) business days after any such sale, transfer, assignment, pledge or mortgage in accordance with this section, the Member involved shall give written notice to all other Members of the LLC, in the form of a revised Schedule 1 reflecting the new holders of the membership units and their address. Any certificates which may be issued to represent the membership units in the LLC shall be inscribed with a legend, in bold face type and in the form set forth on Schedule 6 hereto, describing the restrictions on the sale, transfer, assignment, pledge or mortgage of the membership units.

(a) Any corporation, partnership, or other legal entity holding membership units may transfer or assign all or any portion of its membership units to the equity owners of the entity in proportion to such owner's equity in the entity.

(b) Any individual holder of membership units may transfer or assign all or any portion of his or her membership units to members of his or her immediate family (parents, siblings, spouse, or children), or to any entity in which they hold a 100% ownership interest, and any membership units held by any deceased individual holder may be transferred to the executor(s) or administrator(s) of the deceased holder's estate and ultimately to the deceased holder's heirs.

(c) In the event any holder of membership units (a "Selling Member") receives a bona fide cash offer from a Member or a non-Member third party to purchase all or any portion of the Selling Member's membership units which the Selling Member intends to accept (an "Offer"), the Selling Member shall give written notice of the Offer and any material terms of the Offer (the "Notice") to all other Members of the LLC. The Selling Member shall sell the membership units subject to the Offer in the following manner:

(i) For a period of thirty (30) days after the effective date of the Notice (the "Initial Notice Period"), each of the Members other than the Selling Member (an "Option Member") shall have the option to purchase, on the same terms and conditions as the Offer, that portion of the membership units subject to the Offer that is equal to the percentage of the membership units held by such Option Member in proportion to the total membership units not subject to the Offer (an "Option"). The Option shall be exercised by an Option Member delivering the purchase price to an escrow account for the benefit of the Selling Member and giving written notice of such tender to all other Members during the Initial Notice Period, with the purchase price released from escrow and delivered to the Selling Member at a closing on the Option to be held within ten (10) days after the later of either the end of the Initial Notice Period or the FCC approval (if required) becomes a Final Order.

(ii) In the event that any Option Member does not exercise its Option, for a period of fifteen (15) days after the end of the Initial Notice Period (the "Second Notice Period"), any other Option Member that exercised its Option during the Initial Notice Period (a "Second Option Member") shall have

an option to purchase, on the same terms and conditions as the Offer, any number of the membership units subject to the Offer not purchased during the Initial Notice Period (a "Second Option"). The Second Option shall be exercised by a Second Option Member delivering the purchase price to an escrow account for the benefit of the Selling Member and giving written notice of such tender to all other Members during the Second Notice Period, with the purchase price released from escrow and delivered to the Selling Member at a closing on the Second Option to be held within ten (10) days after the later of either the end of the Second Notice Period or the FCC approval (if required) becomes a Final Order.

(iii) Any membership units subject to the Offer which remain unsold after the Initial Notice Period and the Second Notice Period may be sold to the Member or non-Member third party making the Offer, provided, however, that closing on the Offer shall occur within ten (10) days after the later of either the end of the Second Notice Period or the FCC approval (if required) becomes a Final Order, and provided further that after such required closing date the Selling Member's right to sell any membership units not sold shall expire, and thereafter such membership units may be sold only after a new bona fide cash offer from a Member or non-Member third party subject to this Section 6(c).

(d) Notwithstanding any other provision of this Section 6, Larry E. Morton (the party designated by Kaleidoscope as a Member) may transfer his entire membership interest to Equity Broadcasting Corporation ("Equity"), with Equity admitted as a Member of the LLC, subject to prior FCC approval, if such approval may be required.

7. Termination. Any Party not then in default may terminate this Agreement upon written notice to all other Parties in the event that: (i) the FCC has not issued an order or orders granting the Joint Request, approving this Agreement, granting the LLC Application, and dismissing the remaining applications within two (2) years from the date of execution of this Agreement; or (ii) the FCC designates this Agreement or the conduct of any Party hereto for a hearing related to or affecting the settlement contemplated hereunder. This Agreement shall also terminate automatically if settlement agreement(s) are not reached with all mutually exclusive applicants, permitting a universal settlement of the proceeding, in time to permit the filing of the Joint Request on July 17, 2000.

8. Representations and Warranties. The Parties to this Agreement each represent and warrant to all other Parties that: (i) they have the full right and legal authority to execute and deliver this Agreement and to consummate the transactions contemplated hereunder; (ii) they are under no restrictions, contractual or otherwise, which prevent or preclude them from entering into this Agreement and performing their obligations hereunder; and (iii) they will not take any action, or fail to take any required action, which may hinder the consummation of the transaction contemplated by this Agreement. Each Party to this Agreement hereby represents and warrants to all other parties, and certifies to the FCC under penalty of perjury and pursuant to Section 1.16 of the FCC's rules, that: (i) their respective applications were not filed for the purpose of reaching or carrying out this Agreement or any agreement with any other applicant regarding the dismissal or withdrawal of its application; (ii) except for the agreement with the Dismissing Applicants, this Agreement is the only agreement, written or oral, in connection with this matter; and (iii) neither the Parties nor their respective principals have received nor been promised any money or other consideration or reimbursement of expenses except as expressly set forth in this Agreement.

9. Settlement Agreement with the Dismissing Applicants. KM has entered into settlement agreements with each of the Dismissing Applicants on or before the date of this Agreement, providing for

the dismissal of each Dismissing Applicants' application in consideration of a settlement payment to each Dismissing Applicant in the amount of \$30,000, subject to prior FCC approval (the "the Dismissing Applicants Agreements"). \$90,000 of the \$105,000 initial capital contribution pursuant to Section 1(ii) of this Agreement shall be held in reserve by the LLC or placed in escrow to secure the settlement payment to the Dismissing Applicants for the dismissal of their applications, in accordance with the provisions of the Dismissing Applicants Agreements. The Parties hereby agree that KM shall assign to the LLC, and that the LLC shall assume, the Dismissing Applicants Agreements and all rights and obligations thereunder.

10. Lack Of Unanimous Vote. Each Member covenants to use its best efforts to resolve any and all disputes. In the event of an irreconcilable difference, any Member may offer to buy all the interests of the other Members for an amount based on a minimum company value of \$300,000 (i.e., a 66 $\frac{2}{3}$ % interest has a value of \$200,000). Such Member making the offer is the Offeror. The offer shall be made in writing. The other Members ("Offerees") shall have 30 days from receipt of such offer to either accept or reject the offer. If the offer is accepted by one or more of the Offerees, payment shall be made in full within 10 days following receipt of FCC approval, if such approval is required, otherwise payment shall be made 30 days after the offer is accepted. If acceptance of the offer requires FCC approval, the required payment shall be placed in escrow within 30 days of acceptance of the offer. If the offer is rejected, then the Offeror must sell, and the Offerees must buy, the Offeror's membership interest for the same consideration (i.e., a 33 $\frac{1}{3}$ % interest has a value of \$100,000).

11. [This Section Left Blank Intentionally].

12. [This Section Left Blank Intentionally].

13. Brokerage Fees. Each Party represents and warrants to all other Parties that no third party (including Parties to this Agreement) is entitled to claim a broker's fee or commission upon the execution of this Agreement, the grant of the construction permit or otherwise in connection with the performance of this Agreement, as a result of or arising out of such Party's conduct.

14. Default. The breach or failure to perform by any Party of any material covenant, action, condition, provision or agreement required under this Agreement, and the continuance of such breach or failure for a period of ten (10) days after notice has been given by any other Party, shall constitute a default under this Agreement. Except for the right of any Party to enforce the provisions of this section or to enforce any determination made pursuant to this section, the Parties agree that in the event of a default or to resolve any dispute arising out of or in connection with this Agreement by submitting the default or dispute to binding arbitration pursuant to the rules and procedures of the American Arbitration Association.

15. Notices. Except as otherwise provided herein, all notices or other documents which are required or contemplated by this Agreement shall be in writing, and shall be either: (i) personally served upon the opposing Parties, effective as of the date of such personal service; (ii) mailed, postage prepaid, by certified or registered mail, return receipt requested, effective as of the date of receipt; or (iii) sent by overnight courier service, effective as of the day after the date of delivery to such courier service; and sent to such person as specified in Schedule 1 or as later specified by notice by and to the Parties.

16. Integration. This Agreement constitutes the only agreement between the Parties hereto with respect to the subject matter hereof, and contains all of the terms and conditions agreed to with respect to said subject matter, and supersedes any prior negotiations, agreements, or understandings between the

Parties. The representations and warranties of the Parties shall survive the consummation of this Agreement.

17. Construction. This Agreement shall be interpreted and construed in accordance with the laws of the State of Idaho applicable to transactions conducted entirely within that state, the Communications Act of 1934, as amended, and the FCC's rules, regulations and published policies. If any provision of this Agreement is declared unlawful or unenforceable by a court or administrative agency of competent jurisdiction, then this Agreement shall be read and enforced with the offending provision deleted as if it had never been incorporated herein and with a substitute provision intended to accomplish to the maximum extent possible the intent of the Parties. The headings in this Agreement are for convenience only and in no way modify, interpret or construe the meaning of the specific provisions hereof. The waiver of any provision of this Agreement, or forbearance from enforcing any provision, by any Party shall not obligate that Party to waive or forbear from enforcing the same or any other provision.

18. Amendment. This Agreement shall not be altered or amended except in writing signed by all Parties to this Agreement.

19. Assignment. Subject to the restrictions of Section 6 herein, this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their permitted transferees, successors, heirs and assigns.

20. Counterparts and Signatures. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original with full force and effect, but all of which together shall constitute only one agreement. Facsimile copies of any signature on this Agreement shall be deemed and treated as if the facsimile signature is an original signature, with full force and effect.

[signatures on following page]

IN WITNESS WHEREOF, the Parties hereto have executed this Settlement and Merger Agreement as of the date and year first set forth above.

KM Communications, Inc.

By: _____
Kevin Joel Bae
Secretary

Potelco Broadcasting

By: _____
Todd P. Robinson
Sole Proprietor

Kaleidoscope Foundation, Inc.

By: _____
Larry E. Morton
Title:

Schedule 1

Membership Units

<u>Party to Agreement and Address</u>	<u>Member and Unit Holder</u>	<u>Membership Units/Votes and %</u>	
KM Communications, Inc. 3654 West Jarvis Avenue Skokie, IL 60076	Myoung Hwa Bae	100 units/votes	33 $\frac{1}{3}$ %
Kaleidoscope Foundation, Inc. 1 Shackleford Drive, Suite 400 Little Rock, AR 72211	Larry E. Morton	100 units/votes	33 $\frac{1}{3}$ %
Potelco Broadcasting 2307 Princess Ann Street Greensboro, NC 27408	Todd P. Robinson	100 units/votes	33 $\frac{1}{3}$ %

Schedule 6

Form of Membership Unit Certificate

The units represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Act"), and may not be sold or transferred in the absence of an effective registration statement under the Act or an exemption from registration thereunder. The transfer of the units represented by this certificate is subject to the conditions specified in a certain Merger and Settlement Agreement dated July 17, 2000, which governs the issuer (the "Company"). A copy of such conditions shall be furnished by the Company to the holder hereof upon written request and without charge.

Pocatello Channel 15, L.L.C.

MEMBERSHIP UNIT CERTIFICATE

Certificate Number: _____

Membership Units: _____

This certifies that _____ is the registered economic owner and holder of _____ limited liability company membership units in Pocatello Channel 15, L.L.C., an Idaho limited liability company (the "LLC") and the economic interest and membership interest represented thereby in the books of the LLC, which limited liability company membership units shall be transferable only on the books of the LLC by the holder hereof in person or by attorney upon surrender of this Certificate.

In witness whereof, the LLC has caused this Certificate to be signed by its duly authorized officers or manager this _____ day of _____, _____.

Pocatello Channel 15, L.L.C.

By: _____
Name:
Title: