EXHIBIT 18
FCC Form 315
Section IV, Question 8

Request For Continued Satellite Authority for KCFW-TV

By this application, Transferee Bonten Media Group LLC ("Bonten Media Group") seeks FCC consent to acquire, through the transfer of control of BlueStone TV Holdings Inc. (including its licensee subsidiary BlueStone License Holdings Inc. ["BlueStone"]), parent station KECI-TV (Facility ID 18084), Channel 13, Missoula, Montana, and its long-time satellite station KCFW-TV (Facility ID 18079), Channel 9, Kalispell, Montana.

The stations operate in the small Missoula, MT Nielsen Designated Market Area ("Missoula DMA"), the 168th ranked DMA, and have partially overlapping Grade B contours.[1] While the proposed acquisition of KECI-TV and KCFW-TV does not meet the requirements of Section 73.3555(b)(2) of the local television ownership rules, the FCC has long authorized common ownership of the stations pursuant to its Note 5 "satellite" exemption. As shown herein, the public interest is well-served by granting Transferee's request for authority to continue the longstanding authorization for KCFW-TV to operate as a satellite of KECI-TV.

Pursuant to the FCC's television satellite policy, an applicant for satellite status is entitled to a presumption that the proposal serves the public interest if it meets

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1 By this application, Bonten Media Group also is acquiring BlueStone station KTVM(TV), Butte, Montana. While partial Grade B contour overlap exists between KTVM and KECI-TV, co-ownership of the stations complies with Section 73.3555(b) because KTVM is located in the separate Butte-Bozeman, Montana, Designated Market Area.

three criteria: (1) there is no City Grade contour overlap between the parent and the proposed satellite; (2) the proposed satellite would provide service to an underserved area; and (3) no alternative operator is ready and able to construct or to purchase and operate the satellite as a full-service station.[2] Furthermore, if a satellite proposal does not meet each criterion, the FCC may grant a satellite exemption where, based on an *ad hoc* analysis, it finds that compelling circumstances warrant such approval.[3] The instant proposal meets the second and third criteria but not the first, due to minimal city-grade contour overlap. The FCC, however, has repeatedly found, under its *ad hoc* review analysis, that "other compelling circumstances" warrant the continued authorization of KCFW-TV to operate as a satellite of KECI-TV under the Note 5 satellite exemption of Section 73.3555(b).[4]

The attached Economic Viability Study of Dr. Mark Fratrik, Vice President of BIA Financial Network ("BIA") ("2006 BIA Study"),[5] demonstrates that the circumstances warranting previous satellite grants by the FCC, together with other relevant factors, establish compelling circumstances for granting the requested relief and finding that, as before, no prospective buyer would be able and willing to purchase KCFW-TV to operate as a stand-alone, full-service station.

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2 *See Television Satellite Stations Review of Policy and Rules*, 6 FCC Rcd 4212, 4123-14 (1991) ("*Satellite Order*").

3 *Id.* at 4214.

4 *See* Attachment A, *Precht Communications, Inc.*, 13 FCC Rcd 8659 (MMB 1998) ["*1998 Satellite Decision*"]; Attachment B, *KCFW-TV, Kalispell, MT, et al., BTCCT-20040114AEZ et al.*, April 29, 2004 ["*2004 Satellite Decision*"].

5 *See* Attachment C.

1. City-Grade Overlap.

The satellite proposal does not meet the first criterion of the presumptive standard because of the existence of small city-grade contour overlap between KECI-TV (Missoula) and KCFWS-TV (Kalispell). The overlap encompasses 647 square kilometers and a population of 9,570, representing only 4.9% of the area and 7.1% of the population within the KECI-TV city-grade contour and only 7.4% of the area and 10.6% of the population within the KCFW-TV city-grade contour.[6] As the FCC found in the *1998 Satellite Decision* and reaffirmed in the *2004 Satellite Decision*, this "minimal" overlap "is not so substantial as to outbalance the competing considerations favoring grant."[7]

2. Service To Underserved Area.

KCFW-TV (Kalispell) continues to serve an underserved area. An applicant may demonstrate that a proposed satellite serves an underserved area by demonstrating either (a) that there are two or fewer full-service stations licensed to the station's community of license ("transmission test") or (b) that 25% or more of the area within the satellite's Grade B contour, but outside the parent station's Grade B contour, is served by four or fewer full-power television stations ("reception test").[8] As the FCC previously has determined,[9] and as confirmed by Section 73.606 of the rules, KCFW-TV remains the only commercial full-power television station licensed to Kalispell,

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6 *See* Attachment C, Appendix 1

7 *See* Attachment A at ¶ 14.

8 *See Satellite Order* at 4215.

9 *See* Attachment B at 3.

Montana.[10] Moreover, the importance of KCFW-TV's service to Kalispell and the outlying rural Montana area is highlighted by the fact that 100% of the area within KCFW-TV's Grade B contour (but outside KECI-TV's Grade B contour) receives four or fewer television services, not including KCFW-TV. Indeed, 93% of Kalispell's Grade B contour (containing 97.5% of the population) receives no full-power television service at all, other than from KCFW-TV.[11] Thus, under both the "transmission test" and the "reception test," the instant satellite proposal clearly meets the second criterion of the presumptive standard.

3. <u>Infeasibility Of Acquiring And Operating KCFW-TV As A Viable Full-Service, Stand-Alone Station Serving Kalispell.</u>

As the FCC previously has found, operation of KCFW-TV as a satellite of KECI-TV meets the third prong of the FCC's presumptive standard. KCFW-TV has operated as a satellite of KECI-TV since the Kalispell station first began operating in 1968.[12] While small in population and even smaller in terms of television advertising revenues,[13] the Missoula DMA is geographically dispersed over an extensive area which includes seven large, most rural, sparsely-settled counties. Due to distance and mountainous terrain, the four stations licensed to Missoula (the economic center of the DMA) require satellites (full or low power facilities) to provide over-the-air service to the

[10] Section 73.606 reflects a vacant noncommercial allotment.

[11] *See* Attachment C at 10.

[12] *See KCFW-TV, Kalispell, MT, et al.*, BTCCT-20040114AEZ, Request for Continued Satellite Exemption, January 5, 2004 Declaration of Andrew W. Stabler, Jr., Chairman of the Board of LAMCO, parent of Eagle Communications.

[13] *See* Attachment C at 5-6.

northwest Montana area bordering Canada which includes the distant community of Kalispell.[14]

The 2006 BIA Study demonstrates that KCFW-TV's coverage area does not realistically provide the basis to support full-service, stand-alone operations. The Kalispell station is licensed to a community more than 90 miles distant from the most populous community of Missoula, the economic center of the market, where each of the four other full-power stations are licensed. As the only full-power station licensed to a community in the northern portion of the market, the KCFW-TV Grade B contour does not even reach the key Missoula area.[15] In addition to its seriously disadvantaged market coverage, the 2006 BIA Study examines in detail various other reasons why the sole Kalispell station could not support a viable, stand-alone station — including the level of competition in and sparse advertising revenues of the small market; the unavailability of a major network affiliation or an alternative one that could support full-service operations from the distant Kalispell area; and the major costs of converting the station to stand-alone operations, including the significant costs of digital conversion. As the 2006 BIA Study points out, even one of the four stations licensed to Missoula, based on information submitted to the FCC in a pending application,[16] has sustained significant losses despite its larger coverage area, affiliation with the major Fox Television Network and severe cutbacks in service, including local news.[17]

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[14] *See* Attachment C at 5.

[15] *See* Attachment C at Appendix 3. As Dr. Fratrik notes, the stations licensed to Missoula reach substantially more of the television households in the DMA than does the Kalispell station. *Id*. at 4.

[16] *See* BALCT-2005119ADJ, Attachment 15 (Failing Station Waiver Request).

[17] *See* Attachment C at 9-10.

Operating as a satellite has enabled KCFW-TV to provide important service to Kalispell and the northernmost part of the Missoula DMA. KCFW-TV extends off-air NBC network television service to more than 78,000 people who would otherwise not receive such off-air service.[18] Importantly, KCFW-TV's ability to rebroadcast the basic entertainment and information programming of parent station KECI-TV — which service is of interest to viewers throughout the Missoula DMA — has subsidized the substantial resources necessary for KCFW-TV to develop and broadcast a separate locally-produced, 30-minute weekday evening newscast directed to residents of the rural northern portion of Montana. As demonstrated by the 2006 BIA Study, area residents would lose the important service provided by KCFW-TV if the station is not authorized to continue as a satellite of KECI-TV.[19]

* * *

Transferee Bonten Media Group respectfully submits that the record amply supports a finding that continued authorization of KCFW-TV's satellite status serves the public interest. The 2006 BIA Study confirms the continuing validity of the FCC's earlier considered judgments that KCFW-TV (Kalispell) could not realistically function as a stand-alone, full-service television station and that no knowledgeable, qualified buyer would be willing and able to acquire KCFW-TV to own and operate it as a full-service station. Continuing the satellite status of the station, of course, would not diminish diversity or competition in the Missoula market, but, rather, would preserve the

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18 *See* Attachment C at 10.

19 *See* Attachment C at 10.

Kalispell station's long-established status. Moreover, as shown, its satellite status provides the opportunity for KCFW-TV to extend the NBC network and other services of parent station KECI-TV to the northern portions of the Missoula DMA, while also providing significant local community service for the underserved Kalispell area.

ATTACHMENT A

1998 Satellite Decision

13 F.C.C.R. 8659, 13 FCC Rcd. 8659, 1998 WL 204984 (F.C.C.)

Federal Communications Commission (F.C.C.)
Memorandum Opinion and Order

IN RE APPLICATIONS OF PRECHT COMMUNICATIONS, INC., (TRANSFEROR)
AND
THE DGH COMPANY, (TRANSFEREE)
File Nos. BTCCT-980113IB
BTCCT-980113IC
BTCCT-980113ID
BTCTTV-980113IE
BTCTTV-980113IF
BTCTTV-980113IG
BTCTTV-980113IH
BTCTTV-980113II
BTCTTV-980113IJ
BTCTT-980113IK
BTCTT-980113IL
BTCTT-980113IM
BTCTT-980113IN

For Consent to the Transfer of Control of Eagle Communications, Inc., Licensee of Television Stations: KCFW-TV, Kalispell, Montana KECI-TV, Missoula, Montana KTVM(TV), Butte, Montana
DA 98-815

Adopted: April 29, 1998
Released: April 29, 1998

By the Chief, Mass Media Bureau:

1. The Commission, by the Chief, Mass Media Bureau, acting pursuant to delegated authority, has before it for consideration applications seeking consent to transfer control of Eagle Communications, Inc., licensee of KCFW-TV, Channel 9 (NBC), Kalispell, Montana; KECI-TV, Channel 13 (NBC), Missoula, Montana; and KTVM(TV), Channel 6 (NBC), Butte, Montana; from Precht Communications, Inc. (Precht), to the DGH Company (DGH).FN[FN1] DGH also requests the Commission grant a permanent waiver of 47 C.F.R. § 73.3555(b), the Commission's television duopoly rule, to allow continued common ownership of KECI-TV and KTVM(TV) which have overlapping Grade B contours.FN[FN2] Should the Commission not allow a permanent waiver, then DGH requests a conditional waiver of 47 C.F.R. § 73.3555(b) pursuant to the conditional waiver policy expressed by the Commission in connection with its pending review of the duopoly rule. *See Review of the Commission's Regulations Governing Television Broadcasting, Second Further Notice of Proposed Rule Making*, 11 FCC Rcd 21655 (1996) (*Second Further Notice*). Finally, to permit continued common ownership of KCFW-TV and KECI-TV, the Grade B contours of which also overlap, DGH proposes to continue operating KCFW-TV as a satellite of KECI-TV and requests grant of its transfer of control application pursuant to Note 5 of Section 73.3555 of the Commission's rules, which exempts satellite stations from the duopoly prohibition. The applications and waiver requests are unopposed.

Duopoly Waiver

2. *Waiver Showing.* DGH maintains that there is “ample basis” for a permanent waiver of the Commission's television duopoly rule in this case. DGH notes that KECI-TV and KTVM(TV) have been under common ownership since KTVM(TV) went on the air in 1970. DGH argues that the transfer for which approval is sought here would not create a new ownership combination but would simply continue a common ownership situation that has existed under two successive owners. DGH also argues that the existing KECI-TV/KTVM(TV) ownership combination parallels other Missoula/Butte television ownership combinations that exist with respect to all other stations in both markets.FN[FN3]

3. As demonstrated in DGH's Engineering Statement, the predicted Grade B overlap of stations KECI-TV and KTVM(TV) encompasses 9,562 square kilometers and 17,924 persons. This represents 22.4% of the area and 12.3% of the population within the Grade B contour of KECI-TV, and 19.5% of the area and 9.5% of the population within the KTVM(TV) Grade B contour. The stations' Grade A contours do not overlap.

4. DGH also notes that the stations serve separate markets. Station KECI-TV is licensed to Missoula, which is the 171th ranked Designated Market Area (DMA), while KTVM(TV) is licensed to Butte/Bozeman, the 192th ranked DMA. DGH

asserts that there are abundant competing media in the overlap area. According to DGH's Engineering Statement, the Grade B contours of 7 other television stations serve all or a portion of the KECI-TV/KTVM(TV) Grade B overlap area.FN[FN4] Six LPTV or translator stations also serve portions of the overlap area, as do 26 radio stations. According to DGH, all of the communities in the overlap area have existing multi-channel cable operations and cable penetration in the Missoula DMA as a whole is 52% and in the Butte/Bozeman DMA is 57%. In isolated areas not reached by cable, DGH notes that many homes subscribe to direct broadcast satellite services. Finally, DGH states that three daily newspapers are published in or near the area of overlap.

5. *Discussion.* In adopting the duopoly rule's fixed standard of prohibiting overlap of Grade B service contours, the Commission also acknowledged the need for "flexibility" in that rule's application, noting that waivers should be granted where rigid conformance to the rule would be "inappropriate." *Multiple Ownership of Standard, FM and Television Broadcast Stations (Multiple Ownership),* 45 FCC 2d 1476, 1479 n.12, *recon. granted in part,* 3 RR 2d 1554 (1964). To that end, the Commission has developed a set of factors to be considered when evaluating an applicant's request for waiver of the duopoly rule, including the extent of the overlap, the number of media voices available in the overlap area, the distinctness of the respective markets, the independence of the stations' operations, and the concentration of economic power resulting from the combination. *See* *Iowa State University Broadcasting Corporation,* 9 FCC Rcd 481, 487-88 (1993), *aff'd sub nom.* *Iowans for WOI-TV, Inc. v. FCC,* 50 F.3d 1096 (D.C. Cir. 1995); *H&C Communications, Inc.,* 9 FCC Rcd 144, 146 (1993). After weighing the factors, the Commission considers any public interest benefits proposed by the applicant to determine whether, in light of the overlap, the benefits outweigh any detriment which may occur from grant of the waiver. *See, e.g.,* *Iowa State University,* 9 FCC Rcd at 487-88. As with any waiver, it will only be granted if the Commission concludes that the waiver is in the public interest.

6. Currently, the Commission is reexamining its broadcast television ownership policies, including the duopoly rule. In January 1995, the Commission proposed a new analytical framework within which to evaluate its broadcast television ownership rules. *See* *Review of the Commission's Regulations Governing Television Broadcasting, Further Notice of Proposed Rule Making,* 10 FCC Rcd 3524 (1995) (*Further Notice*). Subsequent to the release of that *Television Ownership Further Notice,* Congress directed the Commission to conduct a rulemaking proceeding to determine whether to retain, modify or eliminate existing limitations on the number of television stations that an entity may control within the same television market. *See* Section 202(c) of the Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (Feb. 8, 1996) (Telecom Act). In response to this Congressional directive in the Telecom Act and to update the record, the Commission released the *Second Further Notice* in its pending television ownership rulemaking proceeding. In that *Second Further Notice,* the Commission tentatively concluded to authorize common ownership of television stations that are in separate DMAs and whose Grade A contours do not overlap, conditioned on coming into compliance with the outcome of the proceeding within six months of its conclusion. *Second Further Notice* at ¶ 57.

7. The Commission also stated in the *Second Further Notice* that it will be inclined, during the pendency of the television ownership proceeding, to grant temporary duopoly waivers involving stations in different DMAs with no overlapping Grade A contours. It also noted there its tentative conclusion that the record in that proceeding "supports relaxation of the geographic scope of the duopoly rule from its current Grade B overlap standard to a standard based on DMAs supplemented with a Grade A overlap criterion." *Id.* The Commission further stated that "we do not believe granting waivers satisfying the proposed standard, and conditioning them on the outcome of this proceeding, will adversely affect our competition and diversity goals in the interim." *Id.* Additionally, the Commission gave the staff delegated authority to act on applications seeking waivers consistent with this interim policy.

8. Given the clearly articulated policy in the *Television Ownership Second Further Notice,* we do not believe that an unconditional grant of DGH's duopoly waiver is appropriate. *See* *WHOA-TV, Inc.,* 11 FCC Rcd 20041, 20046-47 & 20051 (1996). However, we believe that grant of a conditional waiver of the duopoly rule, subject to the outcome of the pending ownership proceeding, is justified. The temporary common ownership of KECI-TV and KTVM(TV) would be consistent with the interim policy set forth in the *Television Ownership Second Further Notice,* as the stations are in separate DMAs and there is no Grade A overlap between KECI-TV and KTVM(TV). Moreover, our examination of the record presented here reveals nothing suggesting that we should not follow the established interim policy in this case.FN[FN5] Accordingly, we conclude that grant

of a temporary waiver, conditioned on the resolution of the pending broadcast television ownership rulemaking, will serve the public interest, convenience and necessity. Any requests to extend this conditional waiver should be filed at least 45 days prior to the end of the six-month period and would be closely scrutinized.

Request for Satellite Status

9. *DGH's Request.* DGH also seeks authority to continue operating station KCFW-TV, Kalispell, Montana, as a satellite of KECI-TV, Missoula, Montana, after the proposed transfer of control. The Commission requires all applicants seeking to transfer existing satellite stations and to continue those stations' satellite operation to demonstrate that the stations meet our satellite policy at the time of transfer of control. *See Television Satellite Stations,* 6 FCC Rcd 4212, 4215 (1991), *on reconsideration Second Further Notice of Proposed Rulemaking* in MM Docket No. 87-8, 6 FCC Rcd 5010 (1991), *on further reconsideration Review of the Commission's Regulations Governing Television Broadcasting*, 10 FCC Rcd 3524 (1995). Pursuant to the Commission's satellite policy, an applicant is entitled to a presumption that its proposed satellite operation is in the public interest if it meets three criteria: (1) no City Grade contour overlap exists between the parent and the satellite; (2) the proposed satellite would provide service to an underserved area; and (3) no alternative operator is ready and able either to construct or to purchase and operate the satellite as a full-service station. *Id.* at 4212. If an applicant cannot qualify for the presumption, we will evaluate the proposal on an *ad hoc* basis to determine whether other compelling circumstances warrant grant of the application. *Id.* at 4214. The satellite operation here fails to meet one of the three presumptive criteria. Nevertheless, as detailed below, we find compelling circumstances exist that warrant continued satellite authority.

10. *Discussion.* The satellite proposal does not meet the first criteria of the presumption because the stations' City Grade contours overlap. The City Grade overlap encompasses 806 square kilometers and a population of 8,090. This represents 5.4% of the area and 7.3% of the population within the KECI-TV City Grade contour and 8.9% of the area and 11.4% of the population within the KCFW-TV City Grade contour.

11. With respect to the second criterion, DGH has demonstrated that the area where satellite station KCFW-TV is located is underserved by applying the Commission's “transmission” test. That test defines as “underserved” an area with two or fewer full-service stations already licensed to the community. DGH notes that Station KCFW-TV is the only television station licensed to Kalispell, Montana. Moreover, KCFW-TV continues to provide the only Grade B television service for Kalispell. DGH also applies the Commission's “reception” test to demonstrate that the area where KCFW-TV is located is underserved. A proposed satellite station is regarded as serving an “underserved” area if 25% or more of the area within the proposed satellite's proposed Grade B contour (but outside the parent's Grade B contour) receives four or fewer services, not including the proposed satellite service. *See Television Satellite Stations*, 6 FCC Rcd at 4215. DGH notes that, considering the area within the KCFW-TV Grade B contour but outside the KECI-TV Grade B contour, 87.6% of this area receives no television service other than KCFW-TV and 95.1% receives four or fewer TV, LPTV or translator television services. DGH argues that Kalispell is “clearly an ‘underserved’ area within the meaning of the satellite exemption policy.” DGH concludes that continuation of satellite status for KCFW-TV is necessary to preserve the station's service to a very large underserved area and that permitting KCFW-TV to continue to its satellite status would “plainly serve the public interest and would be consistent with Commission precedent.”[FN][FN6]

12. As to the third criterion, to qualify for the presumption, an applicant must demonstrate that no alternative operator is ready and able to construct or to purchase and operate the proposed satellite as a full-service stand-alone station. DGH has submitted the Declaration Robert Precht, the President of Eagle Communications, Inc. (Eagle), which has been the licensee of KECI-TV and KCFW-TV since November 1, 1978. Precht states that, during the time that Eagle has been the licensee of the stations, he has never received an offer for the purchase of KCFW-TV as a “stand alone” station.

13. DGH also submits a Declaration from Peter Bowman, Vice President of BIA Consulting, Inc., a financial consulting firm specializing in the appraisal of broadcast properties, which states that firm's opinion on the current viability of a sale of station KCFW-TV. Bowman states that he has performed a “stick value” analysis of KCFW-TV to determine its economic feasibility. This discounted cash-flow analysis assumes the highest and best use of KCFW-TV as a stand-alone station. Bowman states that the highest and best use of KCFW-TV as a stand-alone station would be as an affiliate of the Fox Network,

the only network not currently in the market. However, Bowman notes that, were KCFW-TV to be operated as a network-affiliated stand-alone station, it is likely that it would incur high programming costs considering its signal only serves a small part of the Missoula market. Bowman finds that KCFW-TV's Grade B signal is disadvantaged and does not extend to the city of Missoula. Instead, the station serves smaller communities to the north of Missoula, including Kalispell and, thus, the station would only achieve fragmented viewership due to competition not only from the Missoula stations but also from the Spokane, Washington, stations available on the cable system serving Kalispell. Bowman also notes that the market has a small population and sparse revenues. Bowman states that a market the size of Missoula with estimated revenues in 1996 of $8.1 million can only support two to three viable stations. A fourth station would generate revenues well below $1 million which are considered marginal and it would be unlikely that a fourth station would generate sufficient cash flow to return an acceptable rate of return to lenders and equity investors. In Bowman's opinion, this would render KCFW-TV economically unfeasible as a stand-alone station. In conclusion, Bowman states that the level of competition, the sparse market revenues, the station's disadvantaged signal and the unusually high programming/operating expenses associated with KCFW-TV preclude a knowledgable broadcaster from attempting a stand-alone operation.

14. Although the KCFW-TV/KECI-TV satellite proposal fails to meet the first criteria of the presumptive standard, we believe “other compelling circumstances” warrant continued satellite status of station KCFW-TV. As we have stated in the past regarding satellite proposals that fall outside of our presumption, “the degree of departure from the presumptive criteria will also influence our decision.” *Television Satellite Stations*, 6 FCC Rcd at 4214. We believe that the “departure” from the presumptive criteria in this case is not so substantial as to outbalance the competing considerations favoring grant. Significantly, Station KCFW-TV is the only station licensed to Kalispell, Montana, and is the only Grade B service to significant portions of Kalispell and the surrounding area. We also find persuasive Bowman's opinion that, the level of competition, the sparse market revenues, the station's disadvantaged signal and the unusually high programming/operating expenses associated with KCFW-TV preclude a knowledgable broadcaster from attempting a stand-alone operation. Accordingly, we find such compelling circumstances warrant continued satellite status for KCFW-TV and a grant of waiver of the duopoly rule pursuant to Note 5 to Section 73.3555 would serve the public interest. However, as noted *supra*, in its *Second Further Notice*, the Commission has undertaken a reexamination of its broadcast television ownership policies, including the continued exemption of satellite stations from broadcast ownership restrictions. *See Second Further Notice, supra.* Accordingly, we will condition the grant of this satellite waiver on whatever action is taken in that proceeding.

15. In view of the foregoing, and having determined that the applicants are qualified, we find that a grant of these applications will serve the public interest, convenience and necessity.

16. ACCORDINGLY, IT IS ORDERED, that the request for permanent waiver of the television duopoly rule, Section 73.3555(b) of the Commission's Rules, to permit the common ownership of television stations KECI-TV, Missoula, Montana, and KTVM(TV), Butte, Montana, IS DENIED.

17. IT IS FURTHER ORDERED, that the request for conditional waiver of Section 73.3555(b) of the Commission's rules, to permit the common ownership of television stations KECI-TV, Missoula, Montana, and KTVM(TV), Butte, Montana, IS GRANTED, subject to the outcome of the Commission's pending broadcast ownership rulemaking in MM Docket Nos. 91-221 and 87-8. Should divestiture be required as a result of that proceeding, the licensee is directed to file, within six months from the release of the final order in MM Docket Nos. 91-221 and 87-8, an application for Commission consent to dispose of such station as would be necessary for the licensee to come into compliance with the rules as provided in the final order.

18. IT IS FURTHER ORDERED, that the request for operation of KCFW-TV, Kalispell, Montana, pursuant to the satellite exemption to the duopoly rule, Section 73.3555 of the Commission's rules, IS GRANTED, subject to the outcome of the Commission's pending broadcast ownership rulemaking in MM Docket Nos. 91-221 and 87-8.

19. IT IS FURTHER ORDERED, that the applications for transfer of control of Eagle Communications, Inc., licensee of KECI-TV, Missoula, Montana, KTVM(TV), Butte, Montana, and KCFW-TV, Kalispell, Montana, and associated television translator stations, from Precht Communications, Inc., to the DGH Company (File Nos. BTCCT-980113IB, BTCCT-980113IC,

BTCCT-980113ID, BTCTTV-980113IE, BTCTTV-980113IF, BTCTTV-980113IG, BTCTTV-980113IH, BTCTTV-980113II, BTCTTV-980113IJ, BTCTT-980113IK, BTCTT-980113IL, BTCTT-980113IM, BTCTT-980113IN) ARE GRANTED.

FEDERAL COMMUNICATIONS COMMISSION

Roy J. Stewart
Chief
Mass Media Bureau

FN1. The following television translator stations are included in the above-captioned transfer of control: K02AO, Eureka/Gateway, Montana; K02OL, Seeley Lake, Montana; K09KH, Watkins, etc., Montana; K10HC, Mulland, Idaho; K10HL, Virginia City, Montana; K10HZ, Pony, Montana; K14IU, Frenchtown, etc., Montana; K35DJ, Three Forks, Montana; K42BZ, Bozeman, Montana; and K51DW, Dillon, Montana.

FN2. Section 73.3555(b) of the Commission's Rules prohibits the common ownership of two television stations with overlapping Grade B contours.

FN3. In addition to the existing KECI-TV/KTVM(TV) ownership combination in Missoula/Butte, Montana, DGH notes that the Evening Post Publishing Co. owns KPAX-TV, Missoula and KXLF-TV, Butte, and that Continental Television Network, Inc., owns KTMF(TV), Missoula and KWYB(TV), Butte, which is a satellite of KTMF(TV).

FN4. These stations are as follows (the percentage of overlap area covered is indicated in parantheses): KBCC(TV), Helena, Montana (65%); KPAX-TV, Missoula, Montana (100%); KTMF(TV), Missoula, Montana (30%); KTVH(TV), Helena, Montana (30%); KUFM-TV, Missoula, Montana (20%); KWYB(TV), Butte, Montana (30%); and KXLF-TV, Butte, Montana (100%).

FN5. We note that the land area and population overlaps herein are within the range that the Commission has permitted in previously approved conditional waivers. *See, e.g., Abilene Radio and Television Company*, DA 98-255 (MMB February 12, 1998) (granting conditional waiver where Grade B area overlap was 20.9% and 32.7%, and population overlap was 7.2% and 13.5%).

FN6. DGH cites to the Commission decision in *Craig O. McCaw*, 9 FCC Rcd 5836, 5912-5914 (1994), in support of its arguments.

13 F.C.C.R. 8659, 13 FCC Rcd. 8659, 1998 WL 204984 (F.C.C.)

END OF DOCUMENT

ATTACHMENT B

2004 Satellite Decision

Reference

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554
APR 29 2004

YPL

Eagle Communications, Inc.
c/o Marvin Rosenberg, Esquire
Holland & Knight, LLP
2099 Pennsylvania Avenue, NW
Suite 100
Washington, DC 20006-6801

Re: KCFW-TV, Kalispell, MT
Facility ID No. 18079
BTCCT-20040114AEZ

KECI-TV, Missoula, MT
Facility ID No. 18084
BTCCT-20040114AFB

KTVM(TV), Butte, MT
Facility ID No. 18066
BTCCT-20040114AFI

K02AO, Eureka, Etc., MT
Facility ID No. 18071
BTCTTV-20040114AFA

K02OL, Seeley Lake, MT
Facility ID No. 18080
BTCTTV-20040114AFC

K10HC, Mullan, ID
Facility ID No. 18064
BTCTTV-20040114AFD

K14IU, Frenchtown, Etc., MT
Facility ID No. 18067
BTCTT-20040114AFE

K34FI, Bozeman, MT
Facility ID No. 55698
BTCTTL-20040114AFF

K51DW, Dillon, MT
Facility ID No. 18086
BTCTT-20040114AFG

K42BZ, Bozeman, MT
Facility ID No. 18083
BTCTTA-20040114AFH

K10HL, Virginia City, MT
Facility ID No. 18075
BTCTTV-20040114AFJ

K09KH, Watkins, Etc., MT
Facility ID No. 18082
BTCTTV-20040114AFK

K10HZ, Pony, MT
Facility ID No. 18081
BTCTTV-20040114AFL

K35DJ, Three Forks, MT
Facility ID No. 18065
BTCTT-20040114AFM

Gentlemen:

This is in reference to the unopposed applications for transfer of control of Eagle Communications, Inc. ("Eagle"), licensee of the above-captioned licenses. Eagle requests authorization to continue operating KCFW-TV as a satellite of KECI-TV pursuant to Note 5 of Section 73.3555 of the Commission's Rules.[1] Eagle points out that it has been operating KCFW-TV as a satellite of KECI-TV pursuant to Commission authority most recently granted in 1998.[2]

In *Precht*, we found that KCFW-TV provides service to an underserved area, and that it does not appear likely that an alternative operator would be willing to operate the satellite as a full-service station. Although there was minimal overlap of the City Grade contours of KCFW-TV and KECI-TV, we concluded that continuation of their satellite

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[1] 47 C.F.R. §73.3555, Note 5.

[2] *See Precht Communications, Inc.* 13 FCC Rcd 8659 (MMB 1998) (*"Precht"*).

relationship was consistent with the policies set forth in *Television Satellite Stations.*[3]

Pursuant to *Television Satellite Stations,* the Commission presumes that a proposed satellite operation will serve the public interest if: 1) no City Grade overlap exists between the parent and the satellite; 2) the proposed satellite would provide service to an underserved area; and 3) no alternative operator is ready and able to purchase or operate the satellite as a full-service station.

Eagle represents that the factors upon which the Commission based the last satellite authorization have not changed. Specifically, the applicant indicates that KCFW-TV provides service to an underserved area. KCFW-TV is the only full-power television station licensed to Kalispell, Montana. In addition, 92.5% of the area and 97.7% of the population within KCFW-TV's Grade B contour receives television service only from KCFW-TV.

Eagle provides the declaration of Andrew W. Stabler, Jr., the current Chairman of the Board of Directors of Eagle's parent, who states that, since the last transfer of control of Eagle in 1998, Eagle has not received an offer to purchase KCFW-TV as a stand-alone station. Eagle further submits the declaration of Frank Higney, a media broker familiar with the market in question. Higney opines that Kalispell, Montana, could not support a stand-alone operation and, thus, that no qualified buyer would be interested in KCFW-TV as a stand-alone station. Higney points out that the Missoula, Montana, DMA, which includes Kalispell, is a geographically large market with over 120 miles separating the two largest cities, Missoula and Kalispell. The cost of operating a full-service, stand-alone facility in either area with no sharing of costs between stations in separate areas would be prohibitive. Moreover, based on KCFW-TV's signal contours, the station can only achieve fragmented viewership. Furthermore, available advertising revenue in the DMA is relatively low, and the revenue potential for a station serving a small part of the market, such as KCFW-TV, is questionable. Finally, Higney indicates that the marketing of television stations owned by Eagle's parent has gone on for over a year. Neither the parent company, nor its broker, has received any indication of interest whatsoever for KCFW-TV standing alone.

Eagle concedes that there is City Grade overlap between KECI-TV and KCFW-TV. The overlap consists of 826 kilometers and a population of 10,306. It represents 5.5% of the area and 7.5% of the population located within KECI-TV's City Grade contour, and 9.1% of the area and 11.4% of the population within the City Grade contour of KCFW-TV. Although the first presumptive criterion is therefore not satisfied, Eagle argues that, just as the Commission found in *Precht*, this overlap is minimal and does not overcome other reasons favoring a grant of Eagle's request.

In *Precht*, we pointed out that where, as here, the satellite operation fails to meet all of the three presumptive criteria, we will nevertheless evaluate the proposal on an *ad hoc* basis to determine whether other compelling circumstances exist that warrant satellite

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[3] 6 FCC Rcd 4212, 4213-4214 (1991) (subsequent history omitted).

authority.[4] In that case, we concluded that such circumstances existed. We based this conclusion on the fact that the departure from the presumptive criteria was not sufficiently substantial to outbalance the other competing considerations favoring a grant.[5]

The current degree of City Grade contour overlap between KECI-TV and KCFW-TV is very similar to what existed when *Precht* was adopted.[6] Thus, we find that it is not substantial enough, taking the other factors shown into account, to warrant denial of Eagle's request. The area served is just as underserved now as it was in *Precht.* Moreover, as in *Precht*, KCFW-TV's viability as a stand-alone operation is questionable because of the level of competition in the DMA, the station's likely high operating expenses, its fragmented viewership, and its low revenue potential. Finally, we note, as we did in *Precht*, that Eagle has not received an offer for the purchase of KCFW-TV as a stand-alone station, and that Eagle has demonstrated that no alternative operator is ready and able to operate it as a stand-alone station. Thus, we find, as we did in *Precht*, that compelling circumstances warrant a grant of Eagle's request for continued satellite operation of KCFW-TV.

Based upon the representations made by the applicant concerning the feasibility of finding a buyer for the station and its surviving as a stand-alone facility in this community, we are persuaded that the factors upon which we based our previous satellite authorization have not changed to such an extent that we should alter the determination we made then. We conclude, therefore, that continued operation of KCFW-TV as a satellite of KECI-TV would serve the public interest.

Accordingly, Eagle's request for continued television satellite authorization, pursuant to Note 5 of Section 73.3555 of the Commission's Rules, to enable KCFW-TV to operate as a satellite of KECI-TV, IS GRANTED.

Having determined that the applicants are qualified in all other respects, the above-captioned applications to transfer control of Eagle ARE GRANTED.

Sincerely,

Barbara A. Kreisman
Chief, Video Division
Media Bureau

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4 *Precht,* at 8663, ¶ 9, citing *Television Satellite Stations,* 6 FCC Rcd at 4214.

5 *Id.* at 8664, ¶ 14, citing *Television Satellite Stations,* 6 FCC Rcd at 4214 ("the degree of departure from the presumptive criteria will also influence our decision.")

6 In *Precht* the overlap consisted of 806 kilometers and a population of 8,090, which represented 5.4% of the area and 7.3% of the population within KECI-TV's City Grade contour and 8.9% of the area and 11.4% of the population within the KCFW-TV City Grade contour. 13 FCC Rcd at 8663, ¶ 10.

ATTACHMENT C

2006 Economic Viability Study of KCFW-TV (Kalispell) prepared by Dr. Mark Fratrik, BIA FINANCIAL NETWORK

THE ECONOMIC VIABILITY OF

KCFW-TV

IF OPERATED AS A

FULL-SERVICE TELEVISION STATION

Mark R. Fratrik, Ph. D.

Vice President, BIA Financial Network

PREPARED FOR

Bonten Media Group LLC

November 27, 2006

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THE ECONOMIC VIABILITY OF KCFW-TV (KALISPELL, MT)

AS A FULL-SERVICE TELEVISION STATION

Introduction

The competitive landscape facing television stations changes every day as more options become available to consumers and advertisers. This dual pressure on attracting and/or retaining viewers at the same time as attracting and/or retaining advertisers presents a formidable challenge to all local, over-the-air television stations. These challenges are even more pronounced in smaller television markets, such as Missoula, MT, as in these cases the potential revenues that can be generated by local television stations are severely limited.

The FCC has long authorized KCFW-TV, Kalispell, Montana, to operate as a satellite of co-owned parent station KECI-TV (NBC affiliate), Missoula, Montana. The stations serve the small but geographically dispersed Missoula television market in which KCFW-TV is the only full-power station licensed to the distant northern community of Kalispell. Bonten Media Group, LLC, the proposed Transferee of the licensee of these stations, is requesting that the FCC continue to authorize KCFW-TV to operate as a satellite of KECI-TV pursuant to the criteria established in *Television Satellite Stations*, 6 FCC Rcd 4212 (1991). This report examines the reasons why no alternative operator would be willing and able to operate KCFW-TV as a stand-alone station in this small, largely rural, market.

Under *Television Satellite Stations*, first, we will review the competitive situation that would face this satellite station if it was to become a full-service television station. The signal contour patterns of this station will be shown and discussed in order to describe the size and composition of the Missoula, MT audiences that it could serve. By showing that contour, we can also examine whether there is any overlap between the city-grade contours of that satellite station with its existing "parent" station, KECI-TV. At the same time, we can also analyze what other stations serve this area in order to see whether that area is "underserved" according to the FCC definition.

We will then review the competition in the local television market of Missoula, MT, examining the affiliation and reach of the full-power television stations in those markets. This examination shows the types of station that a new owner of KCFW-TV could become – CW affiliate, Hispanic network affiliate, or an independent station. We then examine the coverage pattern of KCFW-TV to assess its potential as an independently owned station.

As an CW or Hispanic affiliate or independent station in the Missoula, MT television market, there would be no chance that KCFW-TV would become a viable station. The revenue base in that small market is very limited, and therefore, it would have to steal advertisers from four very established stations in that marketplace. KCFW-TV would need to secure a considerable amount of syndicated programming that would be very expensive. KCFW-TV would also need to invest in transforming into a full-service, independently-owned television station. These costs would be in addition to the additional costs of converting to full-power digital television operations on KCFW-TV's interim DTV channel before February of 2009 and then rebuilding digital facilities to operate on its analog channel as of February 2009.[1]

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[1] KCFW-TV has elected to operate under an STA and then convert to digital operations using its analog allotment by the February 17, 2009 deadline. If it was no longer a satellite station, it would be obliged to meet immediately the Commission's replication/maximization deadlines applicable to full-service stations.

Upon examining all of the above referenced points, no prospective buyer would purchase KCFW-TV as a separately owned full-service television station in the Missoula, MT market. No prospective buyer would purchase KCFW-TV given the local market conditions and the costs (both operating and capital expenditures) it would have to incur. Therefore, maintaining KCFW-TV as a satellite station would be the only option available to maintain service to their local community.

Missoula, MT Television Market

Station Lineup

The Missoula, MT television market is ranked as the 168th largest television market in terms of the number of households. The market includes four full-service television stations, each licensed to Missoula, the largest community in the DMA, and one satellite commercial full-power station licensed to the more than 90-mile distant community of Kalispell. Table 1 below shows these stations with their network affiliations as well as the total population served by each of these stations.

Table 1

Missoula, MT Television Market Full-Power Stations

Calls	Channel	Affiliation	Community of License	Population Served	Percent of Market[2]
KPAX-TV	8	CBS	Missoula	157,583	59.1%
KECI-TV	13	NBC	Missoula	156,225	58.6%
KMMF[3]	17	Fox/My	Missoula	119,062	44.6%
KTMF	23	ABC	Missoula	135,708	50.9%
KCFW-TV	26	NBC	Kalispell	97,132	36.4%

As shown, all of the major English-language television networks already have affiliates in the market. There is no CW network affiliate in this market, but that is not surprising since very few small markets have a CW network affiliate that is not part of a local duopoly. In those rare cases where there is one, the coverage of the local market is noticeably higher than the percentage of the market that KCFW-TV reaches. The other alternatives for KCFW-TV would be either an affiliate of an Hispanic network or to operate as an independent station.

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[2] These populations are the populations within the Grade A contour for each of these stations, and were generated by the Dataworld service.

[3] The owner of Missoula's ABC affiliate has filed an application to acquire KMMF, Missoula, as its second station in the market (BALCT-2005119ADJ). Assignee seeks a duopoly waiver to permit co-ownership of the market's ABC and Fox affiliates based on a showing that KMMF is a "failing station" (e.g., low audience share, operating at a loss despite major affiliation and cut backs in local programming).

Populations Reached by Local Television Stations

As shown in the Table 1, the signals of all the stations licensed to the community of Missoula reach substantially more of the television households in the DMA that does the Kalispell satellite. Moreover, as discussed below, the much smaller reach of the Kalispell satellite does not cover the most populous community of Missoula, the economic center of the market. The CBS, ABC and Fox affiliates provide coverage to the outlying Kalispell area though Class A or LPTV stations which operate as satellites. These satellite services are necessary to provide service to these areas due to distance to the northern outlying areas and the very mountainous terrain.

Television Advertising Revenues in Missoula, MT Market

The Missoula, MT television market is the 168th ranked in terms of households, and slightly lower, 170th in terms of total television advertising revenues.[4] Due to the limited population, there are very limited television revenues (estimated to have been $12.3 million for 2005) to be split amongst the four full-power television operations in this market and would be strained to support another, separately-owned, full-power television operation. In fact, the closest television market with five independent full-power, full-service television stations is Odessa-Midland, TX (market rank 159) which generated $17.9 million in advertising revenues in 2005. That market's total revenues were 45.5% larger than the 2005 revenues for the Missoula, MT television market.

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[4] *Investing in Television, 2006, 3rd edition,* BIA Financial Network.

While market revenue growth is expected to increase, that growth will not be substantial enough to support additional full-service television stations. From 2005 through 2010, the market television advertising revenues are expected to grow at a 4.0% compounded annual growth rate, as compared to 4.6% for the average television market.[5] That new independently owned station would have to steal business away from the more powerful existing, established stations in the market that have the advantage of not only reaching a much larger percentage of the marketplace but also are based in the population center (Missoula, MT) of this television market.

Reach of KCFW-TV

Overlap

Appendix 1 provides a map detailing the city-grade contours for KCFW-TV and its parent station, KECI-TV. As can be seen there is very limited overlap of the satellite station's city grade contours with the city-grade contour of KECI-TV. That overlap covers only 647 square kilometers and 9,570 in total population representing only 4.9% of the total area and 7.1% of the total population reached by KECI-TV. That overlap population is also a minor part of the population served by KCFW-TV, 7.4% of the total area and 10.6% of the population reached under its city-grade contour.

Populations Served

KCFW-TV reaches approximately 97 thousand people within its Grade A contours, only slightly more than one third of the entire local television market. That population is significantly

[5] Ibid.

less than the populations reached by any of the other full-service stations in this market. Having such a smaller over-the-air reach would significantly disadvantage this station if it became a full-service television station. The reach of the other present full-service television stations would be noticeably greater than this station.

Each of the other affiliates has low-power television stations located near Kalispell to broaden the reach of their services. Appendix 2 shows the coverage pattern of the major affiliates with their associated low-power television stations that enable them to reach more of the Missoula, MT market. Cordillera Communications, which owns the full-power television station KPAX-TV (CBS affiliate), also owns K18AJ, a Class A television station that reaches the northern part of the Missoula, MT television market, reaching an additional 59,630 (22.4% of the Missoula, MT television market). Collectively, these two television stations enable Cordillera to reach 81.5% of the Missoula, MT television market population. In similar fashion, Max Media LLC, owner of ABC affiliate KTMF, has a low power television station, KTMF-LP, also reaching the northern portion of this market, adding 47,014 people (17.6% of the Missoula, MT television market) leading to a total of 68.5% of the market reached by this company for its ABC affiliate. Finally, Equity Broadcasting, owner of FOX affiliate KMMF, also has a low power television station, KMMF-LP, covering the same area of the television market adding 59,081 people (22.2% of the Missoula, MT television market) leading to a total of 66.8% of the market reached by this company.

Since KCFW-TV would have less than half of the total reach of these other three television groups, it would be at a severe disadvantage in competing with these stations. Additionally, KECI-TV would also be disadvantaged in competing with these three local television groups if it no longer had the over-the-air reach in the northern part of the Missoula, MT television market. Without having KCFW-TV, KECI-TV would have twenty to thirty percent less reach than these three competitive groups.

Finally, due to their limited coverage and the lack of established programming service, KCFW-TV would also face great difficulty in obtaining market-wide carriage on cable television systems and satellite delivered services,[6] further lessening their viability other than as satellite stations.

Included in the populations reached by KCFW-TV are a small number of people of Hispanic descent who might be attracted to Spanish-language programming. At present, there are no local affiliates airing the over-the-air Spanish networks in this market. Yet, given the small size of the populations served, there is little likelihood that they would become full-service affiliates of these Spanish language networks. The Hispanic population reached by KCFW-TV is only 1,611.[7] That small Hispanic population is too small a total potential audience to support an economically viable full-service station.

Consequently, KCFW-TV would be forced to program as ether a CW network affiliate or a pure independent station for the foreseeable future. As mentioned earlier, there are few full-power CW network affiliates in smaller markets such as Missoula, MT that are not part of local duopoly situations. The reason for that is simply these stations cannot generate enough revenues and the resulting profits in the smaller markets to be profitable. An indication of that difficulty is

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6 At the present time, only Dish TV offers local station service to their subscribers in the Missoula, MT market.

7 Demographic information for populations covered under the Grade A contour was generated by Dataworld, Inc.

found in the profitability data for WB affiliates.[8] For 2005, the average WB affiliate in markets ranked 26 and above lost over $292 thousand, with a quarter of these affiliates losing more than $2.3 million.[9] Even that bleak picture overstates the financial viability of a potential CW affiliate in the Missoula, MT. That summary profit values were derived from a set of WB affiliates from markets much larger than Missoula, MT. With the smaller revenue potential in the Missoula, MT market (discussed above), the potential operating losses would be staggering.[10]

As for operating as a pure independent station, these stations typically are relegated to inferior programming (like evergreen series) that do not attract very large audiences, and subsequently, do not generate substantial advertising revenues. Typically, they are unable to generate sufficient revenues to support local news or other local public affairs programming. Furthermore, given their small over-the-air market reach, these stations would have great difficulty in generating enough revenues to become viable at all as independent stations.

The experience of KMMF (FOX, Missoula) is instructive in assessing the possible viability of KCFW-TV as a stand-alone station. Even though KMMF is licensed to the larger community of Missoula and is affiliated with the FOX network, it has been able to garner only a low audience share and has apparently sustained significant losses. The prospect of success for a

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8 The CW network just started a few months ago, and therefore, there are no financial data available to indicate their performance. Since much of the programming on the CW network was originally on the WB network, the best available benchmarks for their performance are the financial results from the WB affiliates.

9 *2006 NAB/BCFM Television Financial Report*, Table 78, pp. 157-158, National Association of Broadcasters, 2006.

10 Even stations affiliated with the major networks do not fare very well in smaller markets, such as Missoula, MT. The pre-tax profit margin for 2005 for the average affiliate of the ABC, CBS, and NBC network was 9.4%, with at least one-quarter of those stations losing nearly $245 thousand. Ibid., Table 33, pp. 66-67.

stand-alone KCFW-TV, a station licensed to a smaller community without a network affiliation, seems highly unlikely in light of KMMF's struggles.

Served Communities

The area served by KCFW-TV is located a substantial distance away from the core market city of Missoula, MT. Its city of license, Kalispell, MT is nearly 93 miles away from Missoula, MT. None of the full-service stations located in Missoula, MT city reach that area without the help of their own low-power television stations. For 78,139 people in the Kalispell part of the Missoula, MT market, KCFW-TV is the only full-power television service from Missoula, MT available.[11] The parent-satellite status has enabled the stations to extend NBC network programming to Kalispell and the surrounding rural area, while also providing a separate 30-minute, locally-produced weekday evening newscast for KCFW-TV at Kalispell. If operated as a stand-alone station, residents of the outlying area would lose off-air NBC service. In addition, as reflected by the difficulties experienced by KMMF (Fox, Missoula), it is highly likely that residents would lose this local news service as well.

Finally, there are three Spokane, WA stations (located more than 140 miles away) whose Grade B contours cross minimally with KCFW-TV's Grade B contour. Despite those minimal intersections, there are 76,210 people within 18,009 square kilometers – 97.5% of KCFW-TV's Grade B contour population and 93% of its area that are **not** under the KECI-TV Grade B contour – who have receive only one full-power television station, KCFW-TV. (In addition, 258 people who receive three full-power television services, 0.33% of KCFW-TV Grade B contour

[11] This is the total population covered by KCFW-TV's Grade B signal **not** covered under KECI-TV's signal within the Missoula, MT television market.

population that is **not** under the KECI-TV Grade B contour. Hence, under the FCC's "transmission" test, these stations serve underserved areas. The relevant Grade B contours of all of these stations are included in Appendix 3.

Additional Capital Costs for Digital Transmission and Full-Service Conversion

In addition to the very limited revenue possibilities for KCFW-TV as a full-service station and the resulting very limited possibilities for these stations to become economically viable on an operating basis, are the significant additional capital costs that this station already faces in the next few years to convert to digital transmission. As a satellite KCFW-TV has been operating a STA on its digital channel at a reduced power and will convert to full-power DTV operations on its analog channel at the time of the February 2009 deadline. As a result, KCFW will have to purchase some additional capital equipment necessary for digital transition.

These digital conversion costs are in addition to the added capital costs that KCFW-TV would incur to convert from satellite status to full-service status. Those costs include necessary improvements to the master control room, commercial and field production equipment, and other ancillary equipment that is necessary to operate as a full-service station, in addition to the costs of local news production, if they chose to offer that service. The purchaser of a stand-alone station would have to complete the build-out immediately on KCFW-TV's interim digital channel because as a non-satellite, it could not continue to operate a STA at reduced facilities during the DTV transition. In addition, since KCFW elected its analog channel, a non-satellite owner would later have to build out on the analog channel at the digital transition date. In an earlier study analyzing another satellite station, we estimated that the typical conversion costs for a satellite station to become a full-service station to be over $1.3 million.[12]

In addition to the obstacles described earlier in this report and the considerable capital expenditures detailed above, any new owner of KCFW-TV trying to convert it to a full-service station would have extreme difficulty securing investment capital for such a risky venture. Since KCFW-TV reaches a very limited population base and would have to enter the market as either a CW affiliate or an independent station, potential lenders would be very hesitant in providing the necessary funds. Securing investment funds to purchase these stations and convert them to independent full-service stations would be very difficult, further reducing their viability as full-service operations. In our judgment, there would not be any alternative purchasers of these stations as full-service operations.

Conclusion

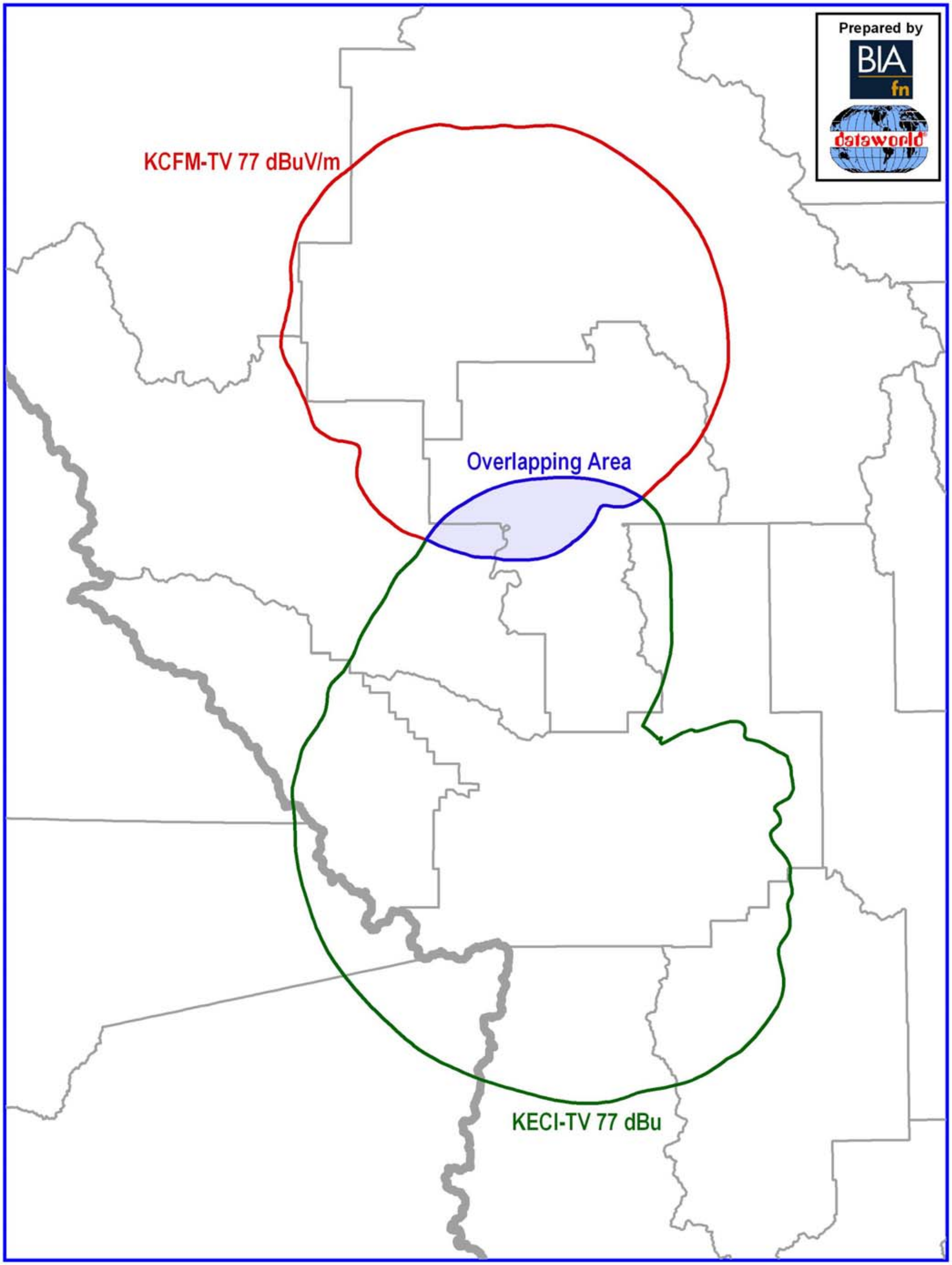
Local television stations in smaller markets face incredible pressures trying to serve their local communities. An increased number of video choices now available to consumers have led to smaller audiences for these local television stations. Concurrently, increased competition in the advertising marketplace is present with local cable systems more aggressively selling local advertising spots airing on the larger number of national cable networks and new local competition coming from the Internet as more sites are focused on local content.

[12] "The Economic Viability of Operating WTTK-TV as a Full-Service Television Station," Mark R. Fratrik, May 2, 2002, attachment to the application for the assignment of license, FCC File No. BALCT - 20020502AAQ.

With this competitive situation, television stations switching to full service status face considerable challenges to become economically viable competitors. First, securing an affiliation with one of the major over-the-air television networks is usually not possible as those networks typically already have affiliates in most markets. Second, significant operating costs must be incurred when operating an independent television station. Finally, large capital costs for new full-service television stations exist, especially those stations that have to convert to digital transmission.

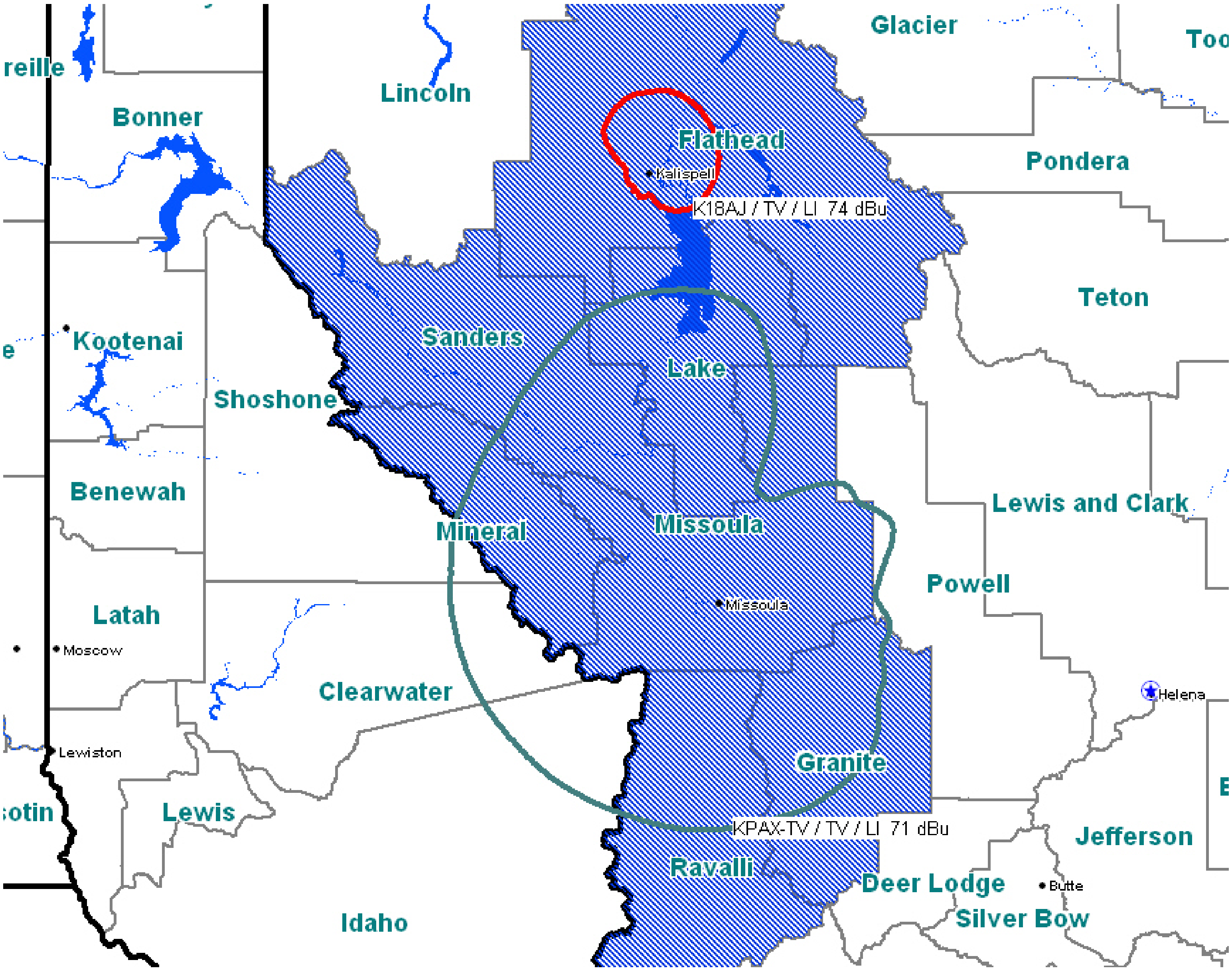
Consequently, whether KCFW-TV could become economically viable as a full-service television station is very questionable. The over-the-air reach of KCFW-TV within the local Missoula, MT television market would be much less than any of the other full-service stations. Additionally, only a CW affiliation is available and that is rare in these size markets. It will make little sense for KCFW-TV to become an affiliate of any of the Spanish-language networks. Finally, substantial capital expenditures must be incurred if KCFW-TV were converted to a full-service station. Therefore, there appears to be no chance that any purchaser of KCFW-TV would be able to convert it to a full-service station. As a result, the only over-the-air service that this area could enjoy is by a television station that is a satellite facility of another station in this market.

Appendix 1 – City Grade Contours of Parent and Satellite Stations

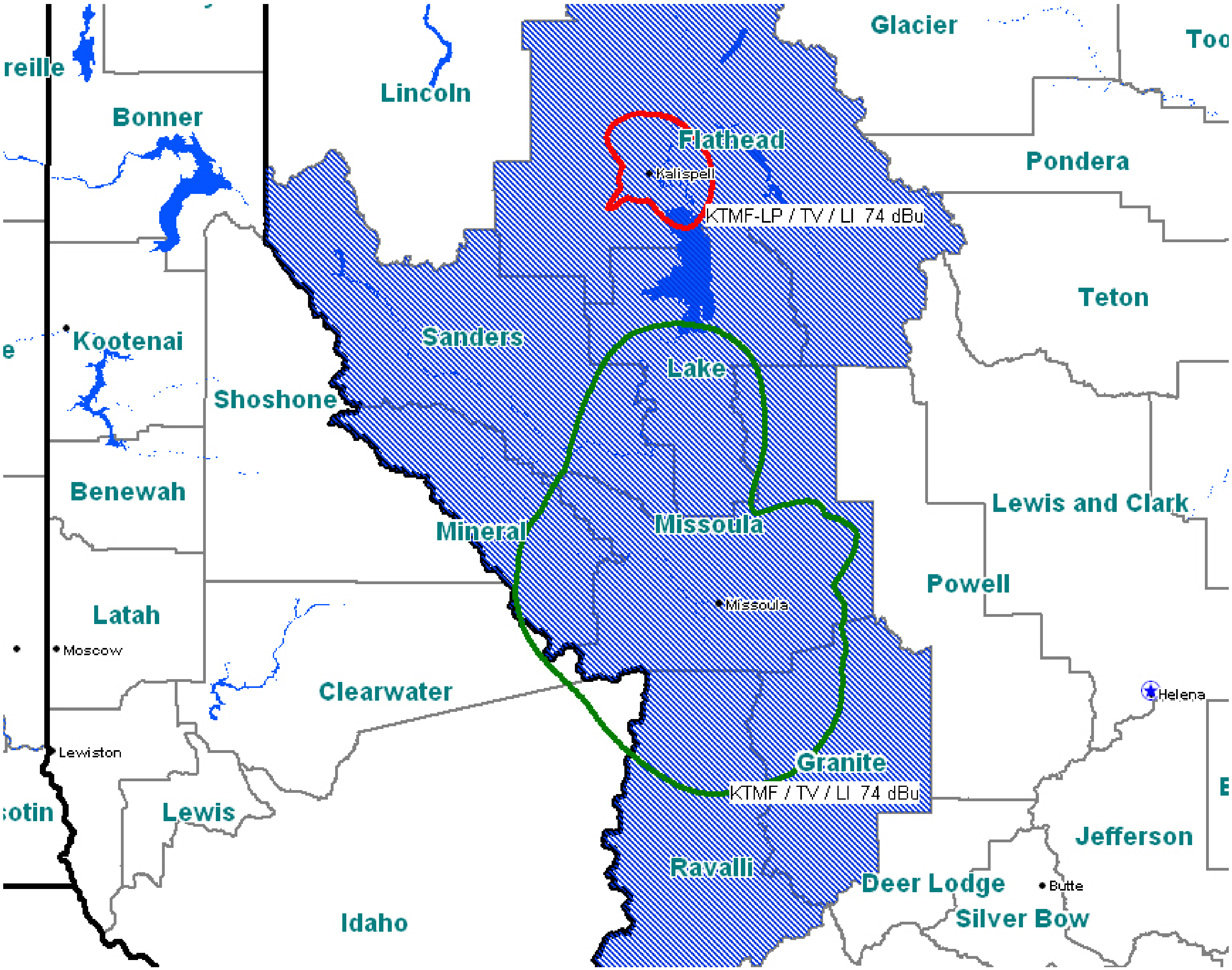

Prepared by
BIA
fn
dataworld
KCFM-TV 77 dBuV/m
Overlapping Area
KECI-TV 77 dBu

Appendix 2 – Grade B Contours of Competitive Television Stations in Missoula, MT Television Market

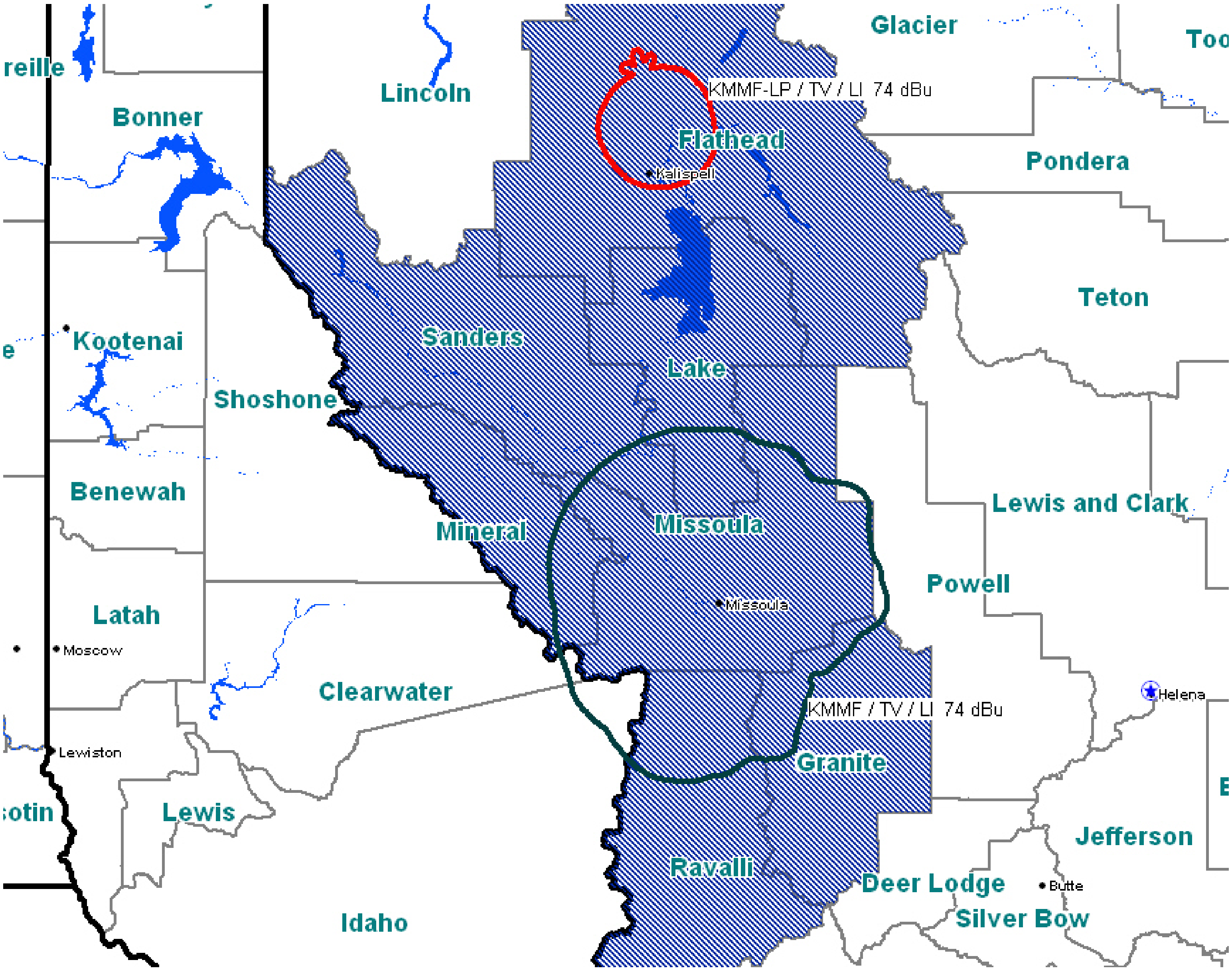
Coverage Patterns of Cordillera Communications Missoula, MT Television Properties



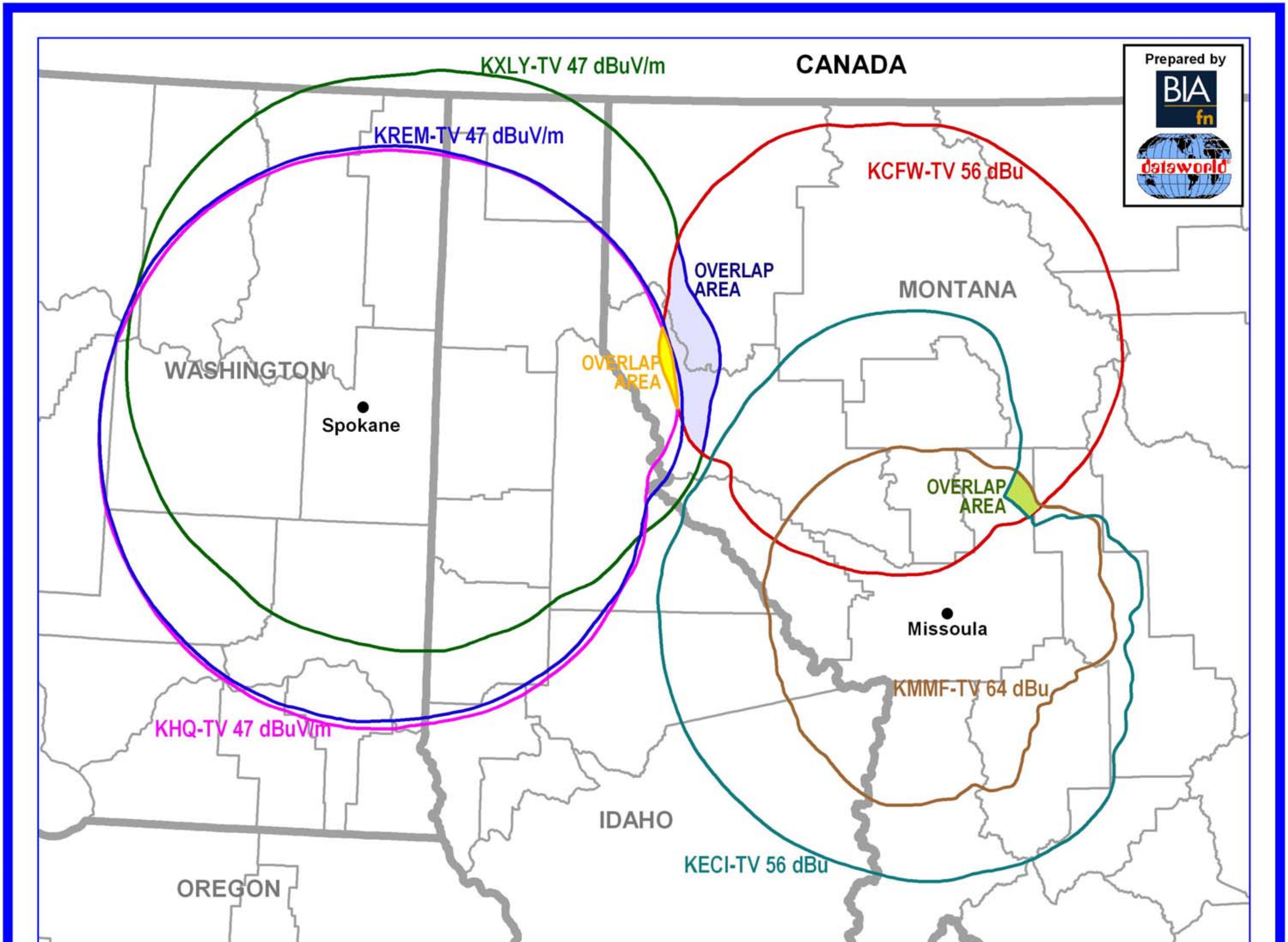
Coverage Patterns of Max Media LLC Missoula, MT ABC Affiliated Television Properties



Coverage Patterns of Equity Broadcasting Missoula, MT Fox/My Network Affiliated Television Properties



Appendix 3 – Grade B Contours Intersecting with KCFW-TV's Grade B Contours


KXLY-TV 47 dBuV/m
CANADA
Prepared by
BIA
fn
dataworld
KREM-TV 47 dBuV/m
KCFW-TV 56 dBu
OVERLAP
AREA
MONTANA
OVERLAP
AREA
WASHINGTON
Spokane
OVERLAP
AREA
Missoula
KMMF-TV 64 dBu
KHQ-TV 47 dBuV/m
IDAHO
KECI-TV 56 dBu
OREGON

Qualifications

QUALIFICATIONS OF MARK R. FRATRIK, Ph.D.

Mark R. Fratrik, Ph.D. is vice president with BIA Financial Network (BIAfn), the premier financial consulting firm specializing in the appraisal and fair market valuation of broadcasting, cable, and telecommunications properties and preparation of bank presentations for communications clients.

As Vice President, Dr. Fratrik is involved in conducting industry studies on the broadcasting and related industries, as well as consulting clients in these industries about their strategic directions. He has also been involved in the estimation of values for assets owned by broadcast stations.

Prior to coming to BIAfn, Dr. Fratrik worked at the National Association of Broadcasters (NAB) for nearly 16 years as vice president/economist. While there, he conducted primary research about the broadcasting and related industries and was responsible for the annual financial and biennial salary and fringe benefits study conducted by the association. He is the author several publications concerning the radio and television industries both from financial and strategic perspectives. He has also spoken at numerous conferences on the status of the broadcasting industries, and their future business prospects.

Before joining NAB in 1985, Dr. Fratrik worked for the Federal Trade Commission in the Bureau of Economics where he spent five years conducting analyses of industry practices to evaluate overall economic impact. Also, Dr. Fratrik has worked closely with broadcasters in determining what opportunities lay in the spectrum as well as exploring regulatory matters concerning the spectrum.

Dr. Fratrik received his Ph.D. and MA in Economics from Texas A& M University, and BA in Economics (Honors) and Mathematics from State University of New York. He is the author of several articles in academic and business trade journals.