FCC Form 314
Section III, Question 6(b)
Exhibit 18

Amarillo Failing Station Waiver and Radio-Television Cross-Ownership Showing

This Application and a concurrently-filed FCC Form 314 application seek consent to the assignment of the licenses of two television stations — KEYU(TV), Borger, Texas, and KFDA-TV, Amarillo, Texas (together, the "Amarillo TV Stations") — from Midessa Broadcasting Limited Partnership and Panhandle Telecasting Limited Partnership, respectively (together, "Drewry"), to KFDA/KEYU License Subsidiary, LLC ("Assignee"), as well as the assignment of a radio station — KEYU-FM, Amarillo, TX — to Assignee. This Exhibit 18 (1) respectfully requests that the Commission permit Assignee to acquire both Amarillo TV Stations pursuant to Section 73.3555, Note 7 of the Commission's rules, because KEYU(TV) qualifies as a "failing" station, and (2) demonstrates that the assignments comply with the Commission's radio-television cross-ownership rule, Section 73.3555(c).

I. KEYU(TV) Qualifies as a "Failing" Station

Drewry owns two television stations in the Amarillo DMA: KFDA-TV, Amarillo and KEYU(TV), Borger. KFDA-TV is a CBS affiliate, and KEYU is a Telemundo affiliate. KEYU is not a top-four station. However, there are fewer than eight independently owned and operated television stations in the Amarillo DMA, and therefore a waiver is necessary for Assignee to acquire KEYU.[1] Drewry itself acquired KEYU in 2010 pursuant to a failing station waiver.[2] For the reasons set forth below, Assignee submits that grant of a failing station waiver to allow Assignee to continue to own both KEYU and KFDA-TV would serve the public interest.

To qualify for a failing station waiver under Note 7 to Section 73.3555 of the Commission's rules, an applicant must satisfy the following four criteria:

- One of the stations has an all-day audience share of no more than 4 percent;

- The financial condition of the station is poor (with a waiver more likely to be granted if the station has had negative cash flow for three consecutive years immediately prior to the application);

- The common ownership of the stations will produce tangible and verifiable public interest benefits that outweigh any harm to competition and diversity; and

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[1] *See* 47 C.F.R. § 73.3555(b).

[2] *Borger Broadcasting, Inc., Debtor-in-Possession*, Letter to Counsel, 25 FCC Rcd 1204 (MB 2010).

- An in-market buyer is the only reasonably available candidate willing and able to acquire and operate the station, and selling the station to an out-of-market buyer would result in an artificially depressed price.[3]

As demonstrated below, these criteria are satisfied here.

Low All-Day Audience Share. KEYU consistently has failed to achieve a meaningful audience share. KEYU's all-day audience share (Mo-Su, 9:00AM-12:00AM) during the last five Nielsen ratings books was 2% or less. *See* **Annex A**. KEYU's low all-day audience share meets the first criterion for a failing station waiver.

Poor Financial Condition. KEYU's financial performance has improved under Drewry's stewardship as a direct result of its joint operation with KFDA-TV. Without the synergies of joint operation, however, KEYU would have continued to lose hundreds of thousands of dollars each year. As shown in the financial statements at **Annex B**, KEYU would have experienced negative cash flow during each of the past three years if operated on a stand-alone basis.[4]

Moreover, eliminating the news would not turn KEYU into a successful stand-alone financial operation. As shown in the financial statements at Annex B, KEYU would have experienced negative cash flow if operated on a stand-alone basis without local news, as it did under prior ownership. KEYU's local news is very successful and by far the most popular program on KEYU and, as a result, generates a significant percentage of the advertising sales on KEYU. KEYU would not be attractive to advertisers without the local news and would likely lose hundreds of thousands of dollars in advertising revenue.

KEYU is not financially viable as a stand-alone operation. KEYU would have negative cash flow and operations would not be sustainable – with local news or without it. KEYU's poor financial condition meets the second criterion for a failing station waiver.

Public Interest Benefits. As Drewry discussed in connection with its failing station waiver request, KEYU has a troubled history. It commenced operation in 2005 as a digital-only station. At the time of Drewry's acquisition of KEYU, it had experienced annual

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[3] *Review of the Commission's Regulations Governing Television Broadcasting*, Report and Order, 14 FCC Rcd 12903 (1999), *recon. granted in part*, 16 FCC Rcd 1067 (2001).

[4] The financial data are confidential and have been submitted under separate cover, with a request for confidential treatment. The Commission permits an applicant to demonstrate poor financial condition in a request for continuation of a failing station waiver by the use of adjusted and unadjusted financial statements. *See The E.W. Scripps Company,* Letter to Counsel, 29 FCC Rcd 14870, 14873 & n.16 (MB Vid. Div. 2014); *J. Stewart Bryan III and Media General Communications Holdings, LLC*, Mem. Op. & Order, 28 FCC Rcd 15509, 15522 (MB 2013).

negative cash flow and annual losses from nearly $300,000 to over $450,000, without regard to financing costs. The then-licensee of KEYU was in liquidation as a result of bankruptcy, and KEYU was the last station sold. Furthermore, at the time of Drewry's acquisition of KEYU in 2010, the station was operating with at most five percent of its authorized power.

Drewry promised to upgrade KEYU's equipment and to increase KEYU's public service to the community. As the Bureau noted in granting the 2010 waiver request, Drewry promised that under joint ownership with KFDA-TV, KEYU would be able to "produce and broadcast local programs," "provide viewers with important news and weather alerts," and staff KEYU with sufficient employees to improve programming and responsiveness to the local community."[5]

Drewry did this and more.

Today, KEYU has a consistent and reliable signal throughout its service area. In 2013, Drewry replaced the station's transmission facilities. KEYU now operates at full power with new equipment and broadcasts in high definition.

Today, KEYU is sufficiently staffed. KFDA-TV and KEYU jointly have close to one hundred employees.

Today, KEYU produces and airs two 30-minute local news programs daily at 5:00 PM and 10:00 PM. KEYU is able to produce and air these two daily newscasts only because of its common ownership with KFDA-TV. However, the local news on KEYU is not a simulcast of KFDA-TV news. KFDA-TV is a CBS affiliate. KEYU is a Telemundo affiliate and serves Spanish-speaking viewers. KEYU produces and airs local news in Spanish, utilizing KFDA-TV's resources, but also with KEYU's own dedicated team of producers and anchors. Indeed, KEYU has the only local Spanish-language newscast in the Amarillo market.

Raycom intends to maintain KEYU's service to the community by producing and broadcasting local programs on KEYU, providing viewers with important news and weather alerts, and staffing KEYU with sufficient employees to provide programming and responsiveness to the local community. This would only be possible because KEYU would continue to be jointly operated with KFDA-TV. Without Raycom's continued joint operation of KEYU with KFDA-TV, the local community would likely lose out on the benefits accrued through Drewry's operation of KEYU jointly with KFDA-TV. Most importantly, the Spanish-speaking community in Amarillo could lose its only source of local news and information programming. The public interest benefits of the continued joint operation of KEYU and KFDA-TV are clear and satisfy the third criterion of the failing station waiver.

<u>No Rational Out-of-Market Buyer</u>. **Annex C** contains an analysis of the marketability of KEYU by Kalil & Co., one of the nation's premier media brokerage firms. Kalil evaluated the prospects for the sale of KEYU to an out-of-market buyer. In connection

[5] *Borger Broadcasting, supra* n.2, at 3.

with this evaluation, Kalil considered the challenges to a stand-alone Telemundo affiliate in the Amarillo DMA. Kalil explains that, on the basis of its evaluation of factors, as well as KEYU's stand-alone financial performance and the current economic and competitive environment, an in-market buyer would be the only reasonably available candidate willing and able to acquire and operate the station. Thus, the fourth criterion for a failing station waiver is also satisfied.

II. The Proposed Assignments Comply With the Radio-TV Cross-Ownership Rule

In the Amarillo DMA, in addition to KEYU(TV) and KFDA-TV, Drewry Communications owns KEYU-FM, which Assignee would acquire as part of the instant transaction. As shown in the contour map attached as **Annex D**, KEYU-FM's 1 mV/m contour encompasses Amarillo, Texas, the community of license of KFDA-TV**,** and the noise-limited service contours of KFDA-TV and KEYU(TV) encompass Amarillo, the community of license of KEYU-FM, thus triggering the radio-television cross-ownership rule.[6]

Under the radio-television cross-ownership rule, it is permissible in any market for an entity to own up to two commercial TV stations (if otherwise permitted under the local television ownership rule) and one commercial radio station. Accordingly, the rule permits Assignee to acquire an attributable interest in the Amarillo TV Stations and KEYU-FM (subject to the Commission's grant of the failing station waiver requested above). No party to this transaction will have an attributable interest in any other television or radio station in the DMA upon consummation of the transaction. Accordingly, the transaction complies with the radio-television cross-ownership rule.

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[6] *See* 47 C.F.R. § 73.3555(c)(1). Although Section 73.3555(c) of the Commission's rules references the Grade A contour of a television station, the Commission has determined that the digital NLSC may be used in lieu of the former analog Grade A contour in analyzing the applicability of the radio-television cross ownership rule. *See Application for Transfer of Control of Nassau Broadcasting II, LLC*, 25 FCC Rcd 1851(MB 2010); *New Rushmore Radio, Inc*., 29 FCC Rcd 3265, 3266 n.6 (MB 2014).

Annex A

TELEMUNDO AMARILLO

KEYU Share

Author: Salvador Rivas

Market: AMARILLO [130]
Schedule Date: 7/31/2015 - 7/31/2015
Sort: Book to Book

Acct. Exec: Sal Rivas
Phone #: 806-331-9836
Email: srivas@ktmo36.com

Books	Program	DMA P2+				DMA P2+			
		RTG	SHR	%chg	PVT	000	SHR	%chg	PVT
Station	KEYU	Program	all day			Time	Mo-Su 9:00a-12:00a		
May/2015LP	VARIOUS	0.3	1.8	+6%	17.5	1.6	1.8	+6%	17.5
Feb/2015LP	VARIOUS	0.3	1.7	+42%	17.7	1.5	1.7	+42%	17.7
Nov/2014LP	VARIOUS	0.2	1.2	-25%	17.9	1.1	1.2	-25%	17.9
Jul/2014LP	VARIOUS	0.3	1.6	-6%	18.1	1.4	1.6	-6%	18.1
May/2014LP	VARIOUS	0.3	1.7	n/a	17.3	1.5	1.7	n/a	17.3

Annex B

STATEMENT OF CASH FLOWS

[Confidential; submitted under separate cover]

Annex C

Kalil & Co., Inc.
2960 North Swan Road • Suite 134 • Tucson, Arizona 85712 • (520) 795-1050 • FAX (520) 322-0584

August 5, 2015

Raycom Media, Inc.
201 Monroe Street
RSA Tower 20th Floor
Montgomery, AL 36104

Attention: Paul McTear
President/Chief Executive Officer

Re: KEYU-TV, Borger, Texas
Evaluation of Prospects for Television
Station Sale to Out-of-Market Purchaser

Ladies and Gentlemen:

Raycom Media, Inc. ("Raycom") has engaged Kalil & Co., Inc. ("Kalil") to evaluate the prospects for a sale of television broadcast station KEYU-TV, Borger, Texas.

Background: At present, Drewry Communications Group operates both KEYU-TV and KFDA-TV in the Amarillo, Texas DMA ("DMA"), pursuant to a "failing station" waiver granted by the Federal Communications Commission (the "Commission") in 2010 in connection with the Drewry purchase of this station.

You have explained to us that Raycom intends to request a failing station waiver for KEYU-TV in conjunction with your purchase of Drewry Communications. In connection with that request for a failing station waiver, Raycom seeks to include our expert evaluation of the prospects that KEYU could be sold to an out-of-market buyer at other than a depressed price. This letter is being provided to you with the understanding that Raycom intends to submit it to the Commission as part of a request for a KEYU "failing station" waiver.

Qualifications of Kalil: Kalil & Co., Inc. has been in the media brokerage business for over forty years. Located in Tucson, Arizona, Kalil is comprised of eight brokers whose combined experience totals well over 100 years. Kalil conducts business throughout the United States and is widely recognized as one of the top brokerage organizations in the country. Over the last 10 years, Kalil has brokered over $2.5 billion worth of transactions.

As a Vice President at Kalil, I have extensive knowledge of the television industry in general, having worked as a media broker for the past 13 years. I have been engaged by the owners of television stations for both acquisitions and divestitures. I have been involved personally in the acquisition or sale of hundreds of broadcast properties, including stations in small, medium, and large markets.

Analysis: In evaluating the marketability of KEYU, the following points highlight the challenging nature of attempting to sell KEYU as a standalone Telemundo affiliate:

- KEYU is co-located with KFDA, the CBS affiliate for Amarillo, which is also owned by Drewry. Being co-located has allowed KEYU to operate with a much more efficient, read lower, cost structure. An analysis by the current owners, Drewry, and Raycom shows the station would be losing hundreds of thousands of dollars per year if it were unable to take advantage of the synergies associated with being co-located with KFDA. If the station produced its own news, as opposed to utilizing the facilities and resources of KFDA, the news production synergies would be eliminated and the station's operating expenses would more than quintuple according to the financial analysis. Furthermore, an out-of-market purchaser of this station would need to buy, or lease, its own office and studio space, and employ additional managers and staff, further increasing the expenses associated with operating KEYU.

- In the last five years there have been no sales of standalone, full power, Telemundo stations in comparable markets (markets ranked 100-150). Amarillo is ranked as the nation's 130th market.

- Over the last few years we have heard of other small market Telemundo affiliated full power stations which have been unsuccessful in their attempts to sell. The one example we can point to which is public knowledge was a deal filed at the FCC in 2013 for the sale of a standalone Telemundo in Boise, Idaho, market rank 109. The deal never closed.

- In the entire country, there are only 25 full power stations with Telemundo running on their primary, or .1. stream. Of the 25 full power Telemundo affiliates in the U.S., well over half of them are owned by the parent company of Telemundo, Comcast. The smallest market Comcast operates a Telemundo station in is Harlingen-Weslaco-Brownsville-McAllen, Texas. This market has a revenue ranking of 66, and is on the border with Mexico. In comparison, Amarillo's revenue ranking as a television market is 137. Furthermore, according to Nielsen, Harlingen is the nation's 10th largest Hispanic television market, as compared to Amarillo, which is the 50th largest Hispanic market in the U.S. Harlingen's Hispanic population comprises 90% of the market, as compared to Amarillo's Hispanic population at 35%. In our opinion, Amarillo does not have a Hispanic population base large enough to support the operation of a full power, standalone, Telemundo affiliate.

- An attempt to sell KEYU without the Telemundo affiliation would be even more difficult. There is little to no opportunity for KEYU to obtain another network affiliation. All of the Big 4 affiliations are taken in Amarillo and if we were to look at secondary affiliations, both MyNetworkTV and the CW+, a national feed of the CW television network intended for markets ranked below the top 99, are already carried in the market.

- Without a Big 4 network affiliation, KEYU, or any other full power station for that matter, cannot produce local news as a standalone operation without incurring significant operating losses in a market the size of Amarillo. All stations in Amarillo airing local news are either Big 4 affiliates or operated with a Big 4 affiliate.

- KEYU would be a money losing enterprise upon acquisition by an out-of-market buyer. The vast majority of television deals taking place in the market today are driven by cash flow, with cash flow being a major, if not the primary, component of price. KEYU's marketability as a standalone, money losing, full power station, would be close to non-existent.

- During the marketing process for these stations, not one prospective buyer ever expressed an interest in KEYU as a standalone station.

- If Kalil & Co., Inc. were approached to market KEYU-TV as a standalone Telemundo, we would be inclined to not take that listing. For all the reasons noted above, that endeavor would most likely be an exercise in futility.

Conclusion: Based on the factors listed above, as well as our extensive experience in marketing television properties, it is our professional opinion that if KEYU were marketed as a standalone station, an in-market buyer would be the only reasonably available candidate willing and able to acquire and operate the station, and furthermore, selling the station to an out-of-market buyer, assuming one could be found, would result in a depressed price. The analysis of Telemundo transactions in comparable markets over the last five years is a strong indicator of the attractiveness, or lack thereof, of owning a standalone station not affiliated with a Big 4 network in a smaller market. In summary, it is highly unlikely a buyer for KEYU in Amarillo could be found at other than a depressed price.

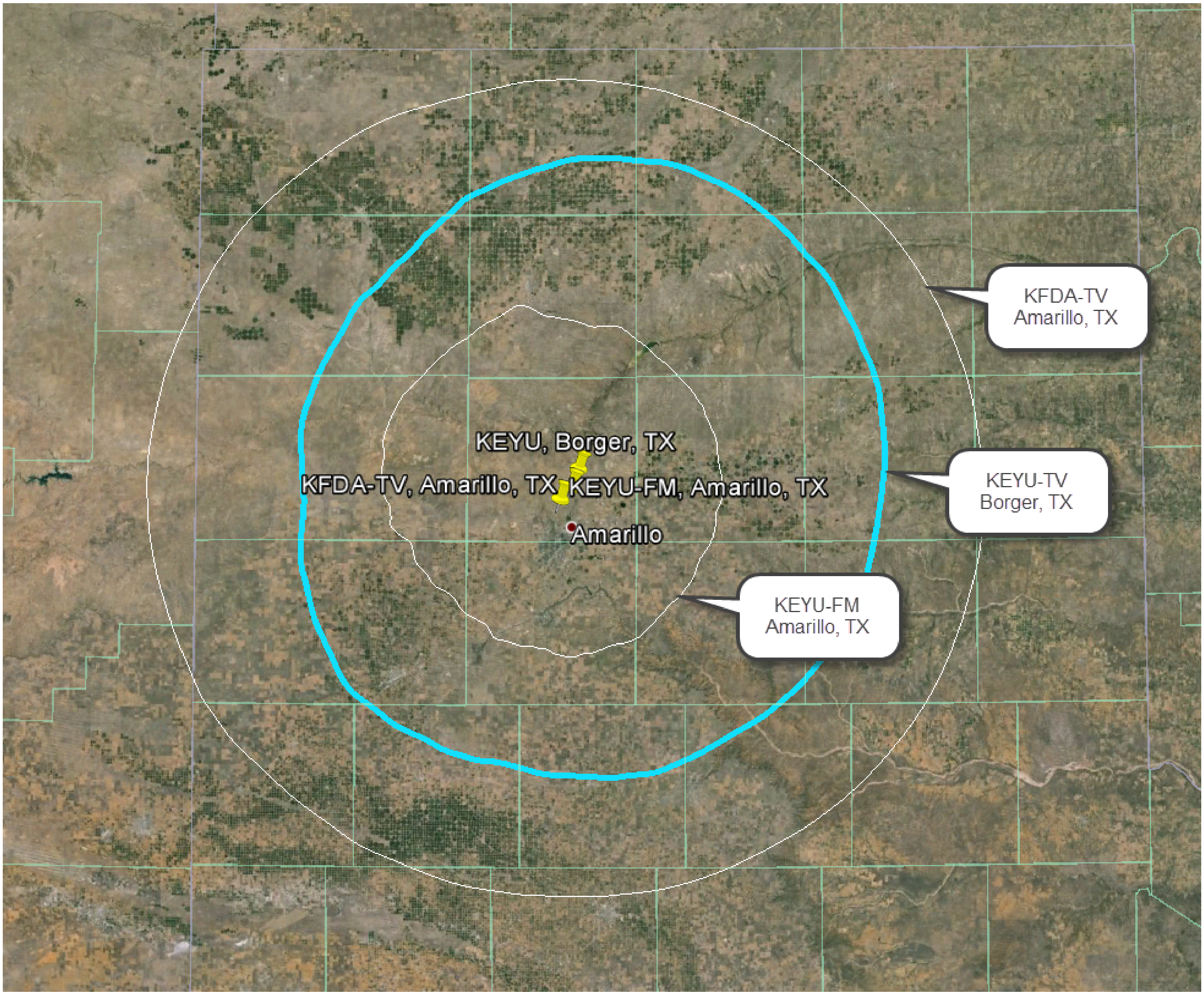
Sincerely,

Kalil & Co., Inc.

By: Louis McDermott

Louis McDermott
Vice President

Annex D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