Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
2006 Quadrennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996	)	MB Docket No. 06-121
	)	
2002 Biennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996	)	MB Docket No. 02-277
	)	
Cross-Ownership of Broadcast Stations and Newspapers	)	MM Docket No. 01-235
	)	
Rules and Policies Concerning Multiple Ownership of Radio Broadcast Stations in Local Markets	)	MM Docket No. 01-317
	)	
Definition of Radio Markets	)	MM Docket No. 00-244

FURTHER NOTICE OF PROPOSED RULE MAKING

Adopted: June 21, 2006 **Released: July 24, 2006**

Comment Date: September 22, 2006
Reply Comment Date: November 21, 2006

By the Commission: Chairman Martin and Commissioners Tate and McDowell issuing separate statements; Commissioners Copps and Adelstein concurring in part, dissenting in part and issuing separate statements.

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I. INTRODUCTION

1. With this *Further Notice of Proposed Rulemaking* ("*Further Notice*"), we seek comment on how to address the issues raised by the opinion of the U.S. Court of Appeals for the Third Circuit in *Prometheus v. FCC*[1] and on whether the media ownership rules are "necessary in the public interest as the result of competition."[2] On June 2, 2003, the Commission adopted a Report and Order in its third biennial review of its broadcast ownership rules (the "*2002 Biennial Review Order*"). The *2002 Biennial Review Order* addressed all six of the Commission's broadcast ownership rules: the national television multiple ownership rule,[3] the local television multiple ownership rule,[4] the radio/television cross-ownership rule,[5] the dual network rule,[6] the local radio ownership rule,[7] and the newspaper/broadcast

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[1] *See 2002 Biennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996*, 18 FCC Rcd 13620, 13711-47 (2003) ("*2002 Biennial Review Order*"), *aff'd in part and remanded in part*, *Prometheus Radio Project, et al. v. F.C.C.*, 373 F.3d 372 (2004) ("*Prometheus*"), *stay modified on rehearing*, No. 03-3388 (3d Cir. Sept. 3, 2004) ("*Prometheus Rehearing Order*"), *cert. denied,* 73 U.S.L.W. 3466 (U.S. June 13, 2005) (Nos. 04-1020, 04-1033, 04-1036, 04-1045, 04-1168, and 04-1177).

[2] *See* Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, § 202(h) (1996) ("1996 Act"); Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, § 629, 118 Stat. 3 (2004) ("Appropriations Act") (amending Sections 202(c) and 202(h) of the 1996 Act).

[3] 47 C.F.R. § 73.3555(d) (2005).

[4] 47 C.F.R. § 73.3555(b) (2005) (allowing the combination of two television stations in the same Designated Market Area ("DMA"), as determined by Nielsen Media Research or any successor entity, provided: (1) the Grade B contours of the stations do not overlap; or (2) (a) at least one of the stations is not among the four highest-ranked stations in the market, and (b) at least eight independently owned and operating full power commercial and noncommercial television stations would remain in that market after the combination).

[5] 47 C.F.R. § 73.3555(c) (2005) (allowing common ownership of one or two TV stations and up to six radio stations in any market in which at least 20 independent "voices" would remain post-combination; two TV stations and up to four radio stations in a market in which at least ten independent "voices" would remain post-combination; and one TV and one radio station notwithstanding the number of independent "voices" in the (continued….)

cross-ownership rule.[8] The 2002 biennial ownership review was conducted pursuant to Section 202(h) of the Telecommunications Act of 1996, which requires the Commission to periodically review its media ownership rules to determine "whether any of such rules are necessary in the public interest as the result of competition" and to "repeal or modify any regulation it determines to be no longer in the public interest."[9] Section 202(h) requires that the next quadrennial review of the media ownership rules commence this year. Accordingly, we initiate a comprehensive review of the media ownership rules in this *Further Notice*. In the *2002 Biennial Review Order,* the Commission concluded that neither the newspaper/broadcast cross-ownership rule nor the radio/television cross-ownership rule remained necessary in the public interest. Accordingly, it replaced those rules with new cross-ownership regulations called the Cross Media Limits ("CML"). The Commission also revised its market definition and the way it counts stations for purposes of the local radio ownership rule, revised the local television multiple ownership rule, modified the national television ownership cap, and retained the dual network rule.

2. Several parties sought appellate review of various aspects of the *2002 Biennial Review Order*; others filed petitions for reconsideration. The court challenges were consolidated into a single proceeding, and on June 23, 2004, the U.S. Court of Appeals for the Third Circuit issued its decision on review of the *2002 Biennial Review Order*, affirming some Commission decisions and remanding others for further Commission justification or modification.[10] On June 13, 2005, the U.S. Supreme Court denied petitions for certiorari which had sought review of *Prometheus*.

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market. If permitted under the local radio ownership rules, where an entity may own two commercial TV stations and six commercial radio stations, it may own one commercial TV station and seven commercial radio stations. For this rule, a "voice" includes independently owned and operating same-market, commercial and noncommercial broadcast TV stations, radio stations, independently owned daily newspapers, and cable systems (all cable systems within the DMA are counted as a single voice).

[6] 47 C.F.R. § 73.658(g) (permitting a television broadcast station to affiliate with a network that maintains more than one broadcast network, unless the dual or multiple networks are created by a combination between ABC, CBS, Fox, or NBC).

[7] 47 C.F.R. § 73.3555(a) (2005). The local radio ownership rule was the subject of a separate proceeding which was incorporated into the 2002 Biennial Review. *Rules and Policies Concerning Multiple Ownership of Radio Broadcast Stations in Local Markets,* 16 FCC Rcd 19861 (2001) (*"Local Radio Ownership NPRM"*); *Definition of Radio Markets*, 15 FCC Rcd 25077 (2000) ("*Definition of Radio Markets NPRM*").

[8] 47 C.F.R. § 73.3555(c) (2005) (prohibiting common ownership of a daily newspaper and a broadcast station in the same market). The newspaper/broadcast cross-ownership rule was the subject of a separate proceeding which was incorporated into the 2002 Biennial Review. *See Cross-Ownership of Broadcast Stations and Newspapers*, 16 FCC Rcd 17283 (2001) (*"Newspaper/Broadcast Cross-Ownership NPRM"*).

[9] 1996 Act, § 202(h); Appropriations Act, § 629.

[10] *Prometheus*, 373 F.3d 372. The court had earlier stayed the effectiveness of the Commission's decision pending review. *See Prometheus Radio Project, et al. v. FCC*, No. 03-3388 (3rd Cir. Sept. 3, 2003) (*per curiam*). In *Prometheus*, the court continued the stay pending its review of the Commission's action on remand. On September 3, 2004, in response to the Commission's petition for rehearing, the court allowed certain revisions to its local radio ownership rules – "specifically, using Arbitron Metro markets to define local markets, including noncommercial stations in determining the size of a market, attributing stations whose advertising is brokered under a Joint Sales Agreement to a brokering station's permissible ownership totals, and imposing a transfer restriction (collectively, the "Approved Changes")" – to go into effect, but continued its stay of the other revisions. *Prometheus Radio Project, et al. v. FCC*, No. 03-3388 (3d Cir. Sept. 3, 2004) (*"Prometheus Rehearing*
(continued….)

3. In this *Further Notice*, we discuss each rule that was remanded individually[11] and invite comment on how we should address the issues remanded by the court in the *Prometheus* decision. We encourage commenters to buttress their arguments with current empirical evidence and sound economic theory.

II. DISCUSSION

4. In the *2002 Biennial Review Order,* the Commission determined that its long-standing goals of competition, diversity, and localism would continue to guide its actions in regulating media ownership.[12] These policy objectives also will guide our actions on remand. In addition to the other requests for comment discussed below, we ask that commenters address whether our goals would be better addressed by employing an alternative regulatory scheme or set of rules.

5. The *Prometheus* court noted that the Commission deferred consideration of certain proposals for advancing ownership by minorities. The court stated that "the Commission's rulemaking process in response to our remand order should address these proposals at the same time."[13] We therefore seek comment on the proposals to foster minority ownership advanced by MMTC in its filings in the 2002 biennial review proceeding, including those that were listed in the *2002 Biennial Review Order* and referenced by the court.[14] Are any of these proposals effective and practical ways to increase minority ownership? If so, how could they best be implemented? Do we have the statutory authority to adopt them? Are there any constitutional impediments to adoption? Are there any other alternatives that we should consider that would be more effective and/or would avoid any statutory or constitutional impediments?[15]

6. More generally, we urge commenters to explain the effects, if any, that their ownership rule proposals will have on ownership of broadcast outlets by minorities, women and small businesses. We also urge commenters to discuss the potential effects, if any, of the broadcast ownership rules currently in effect, and any changes proposed in this proceeding on: advertising markets, the ability of independent stations to compete, the availability of family-friendly and children's programming, the amount of

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Order"). Accordingly, except for the Approved Changes, the ownership rules that were in effect prior to the *2002 Biennial Review Order* remain in effect.

[11] The national television ownership limit and the dual network rule were not remanded to the Commission. Petitioners did not appeal the Commission's decision regarding the dual network rule. The court held that challenges to the Commission's decision to raise the national TV ownership limit to 45 percent were moot because Congress subsequently directed the Commission by statute to set the cap at 39 percent and stated that the quadrennial review requirement does not apply to this limitation. *Prometheus,* 373 F.3d at 396. Because of this statutory directive, we do not address the national television ownership limit in this *Further Notice*.

[12] *2002 Biennial Review Order*, 18 FCC Rcd at 13627 para. 17. *See also, Prometheus*, 373 F.3d at 446-47.

[13] *Prometheus,* 373 F.3d at 421 n.59.

[14] *2002 Biennial Review Order,* 18 FCC Rcd at 13634, 13636 paras. 46, 50. *See also, e.g.,* MMTC Jan. 2, 2003 Comments, MMTC Feb. 3, 2003 Reply Comments.

[15] For example, the Advisory Committee on Diversity for Communications in the Digital Age has submitted recommendations regarding policies and practices intended to enhance the ability of minorities and women to participate in telecommunications and related industries. *See* Letter from Julia Johnson, Chairperson, Federal Advisory Committee on Diversity in the Digital Age to Kevin J. Martin, Chairman, FCC (June 8, 2006) (filed in MB Docket 02-277).

indecent and/or violent content broadcast over-the-air, and the availability of independent programming.

7. The Commission has a long-standing policy to foster broadcast "localism," which it has defined as the airing of "programming that is responsive to the needs and interests of their communities of license."[16] In its 2002 Biennial Review, the Commission invited comment on the extent to which its broadcast ownership rules were necessary to foster localism.[17] Subsequently, the Commission established its Localism Task Force ("Task Force") to study the issue of localism and advise the Commission on whether any new rules or policies were required to promote it.[18] The Task Force conducted a series of public hearings around the country, including in Monterey, CA, Rapid City, SD, Charlotte, NC, and San Antonio, TX, in which numerous members of the public and others representing interested parties expressed their views. In addition, the Commission issued a *Notice of Inquiry* ("*NOI*") seeking comment from the public on how broadcasters are serving the interests and needs of their communities; whether the Commission needs to adopt new policies, practices, or rules designed to promote localism in broadcast television and radio; and what those policies, practices, or rules should be.[19] The *NOI* also asked, in the alternative, whether the Commission should continue to rely on market forces and the existing issue-responsive programming rules to encourage broadcasters to meet their obligations.[20]

8. The record compiled in the localism docket, MB Docket No. 04-233, is extensive. The four hearings included 52 formal presentations and remarks from community and broadcaster representatives, as well as elected and appointed officials from state and federal government. The proceedings also included testimony from 52 witnesses and from 278 additional participants during the "open microphone" sessions. In response to the *NOI*, the Commission as of June 2006 has received more than 82,000 written comments from broadcasters, broadcast industry organizations, public interest groups, and members of the public. Many broadcast entities submitted information with their comments outlining the process that each follows to determine the needs and interests of people within their respective communities of license. Licensee commenters also provided detailed data concerning the amount, nature, and variety of the programming that each airs to meet those needs and problems. A number of public interest organizations submitted with their comments studies of various aspects of the nature and quality of localism broadcast programming.

9. The Media Bureau will compile a summary of the comments in the localism proceeding and submit it into this docket. The Commission will consider the evidence received in MB Docket No. 04-233 as it moves forward with this rulemaking.

10. Finally, we note that the media marketplace continues to evolve. We seek comment on the impact of new technologies and providers such as digital video recorders, video-on-demand, and the availability of television programming and music on the Internet on media consumption and ownership issues.

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[16] *Broadcast Localism (MM Docket No. 04-233)*, Notice of Inquiry, 19 FCC Rcd 12425 (2004) (the "*Broadcast Localism NOI*"), para. 1.

[17] *2002 Biennial Review Order,* 18 FCC Rcd at 136643 para. 73.

[18] Public Notice, "FCC Chairman Powell Launches 'Localism in Broadcasting' Initiative" (rel. Aug. 20, 2003).

[19] *Broadcast Localism NOI*, 19 FCC Rcd at 12425.

[20] *Id*. at 12427-28, para. 7.

A. Local TV Ownership Rule

1. Revisions Adopted in the *2002 Biennial Review Order*

11. The Commission's local TV ownership rule, as currently in effect, provides that an entity may own two television stations in the same designated market area ("DMA") if (1) the Grade B contours of the stations do not overlap; or (2) at least one of the stations in the combination is not ranked among the top four stations in terms of audience share, *and* at least eight independently owned and operating commercial or non-commercial full-power broadcast television stations would remain in the DMA after the combination. To determine the number of voices remaining after the merger, the Commission counts those broadcast television stations whose Grade B signal contours overlap with the Grade B signal contour of at least one of the stations that would be commonly owned.[21]

12. In *Sinclair Broadcast Group, Inc. v. FCC*, the U.S. Court of Appeals for the District of Columbia Circuit found that the Commission had not justified its exclusion of non-broadcast media from its count of independent owners for the eight-voice threshold under the local TV ownership rule.[22] After analyzing the rule in the *2002 Biennial Review Order*, the Commission determined that non-broadcast media compete with broadcast television stations[23] and contribute to viewpoint diversity in local markets and that the local TV ownership rule could not be justified because it did not account for these contributions.[24] Given the "abundance of viewpoint diversity" in most local markets, the Commission decided that the existing rule was not necessary to promote viewpoint diversity.[25] Moreover, the Commission found that the restrictions did not foster, and might even hamper, its goals of localism and program diversity.[26] The Commission cited evidence that owners of more than one station in a market are better able to preserve, or even raise, their level of local news and public affairs programming due to the increased efficiencies that multiple ownership affords.[27] The Commission concluded, however, that restrictions on local television ownership were necessary to promote competition.[28]

13. The Commission revised the local TV ownership rule to permit an entity to own up to two television stations in markets with 17 or fewer television stations, and up to three television stations in markets with 18 or more television stations.[29] These numerical limits on television station ownership were intended to ensure that there would be at least six equal-sized owners of television broadcast outlets

[21] *See 2002 Biennial Review Order*, 18 FCC Rcd at 13668 para. 132 and cites therein.

[22] *Sinclair Broadcast Group, Inc. v. FCC*, 284 F.3d 148, 163-65 (D.C. Cir. 2002) ("*Sinclair*").

[23] The Commission's competition analysis focused not on competition for advertising, but on competition for viewers in the "delivered video programming market," which includes television broadcast stations as well as multichannel video programming distributors ("MVPDs"). *2002 Biennial Review Order*, 18 FCC Rcd at 13671-74 paras. 141-46.

[24] *Id.* at 13668 para. 133.

[25] *Id.* at 13686 para. 171.

[26] *Id.* at 13668 para. 133.

[27] *Id.* at 13685 para. 169.

[28] *Id.* at 13668 para. 133.

[29] *Id.* at 13668 para. 134.

in most markets.[30] The Commission retained the prohibition on combinations involving more than one station ranked among the top four in the market, thus prohibiting combinations in markets with four or fewer television stations.[31] For purposes of setting its numerical limits, the Commission defined firm size in terms of the number of licenses held, rather than some other measure such as market share, because of the fluidity of market share in the markets in which television broadcast stations compete.[32] The Commission added that as a broadcast station requires a license, the number of licenses that a firm controls is the measure of its capacity to deliver programming.[33] The Commission also eliminated consideration of overlapping Grade B contours,[34] and decided to look instead only at whether a station is assigned by Nielsen to a DMA.[35] All full-power commercial and non-commercial television stations within the DMA would be counted for purposes of applying the rule.[36]

14. The *2002 Biennial Review Order* also modified the Commission's criteria for waiver of the local TV ownership rule.[37] Although the Commission stated that it would continue to allow entities to seek a waiver if at least one of the stations in the proposed combination is failed, failing, or unbuilt,[38] it removed the requirement that the waiver applicant demonstrate that there is no buyer outside the market willing to purchase the station at a reasonable price.[39]

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[30] *Id.* at 13693 paras. 192-93. The Commission's decision to set limits that would result in six firms was partly based upon the horizontal merger guidelines used by the Department of Justice ("DOJ") and Federal Trade Commission ("FTC") in antitrust analysis. *Id.* (citing *Horizontal Merger Guidelines issued by the U.S. Department of Justice and the Federal Trade Commission*, 57 Fed. Reg. 41552 (dated Apr. 2, 1992, revised, Apr. 8, 1997) ("*DOJ/FTC Merger Guidelines*")). Under these guidelines, markets with Herfindahl-Hirschmann Index ("HHI") levels between 1000 and 1800 are considered moderately concentrated. The HHI score of a market with six equal-sized competitors is below the *DOJ/FTC Merger Guidelines* 1800 threshold for highly concentrated markets. *Id.*

[31] *2002 Biennial Review Order,* 18 FCC Rcd at 13668 para. 134. As under the existing rule, the revised rule provided that a station's rank would be based on the station's most recent all-day audience share, as measured by Nielsen or any comparable professional and accepted rating service, at the time an application for transfer or assignment of license is filed. *Id*. at 13692 para. 186.

[32] *Id.* at 13694 para. 193.

[33] *Id.*

[34] *Id.* at 13692 para. 187. Combinations in existence as of the time of the *2002 Biennial Review Order* were grandfathered. *2002 Biennial Review Order,* 18 FCC Rcd at 13807-08 paras. 482-84.

[35] *Id.* at 13692 para. 186-87 n.399.

[36] *Id.* at 13691-92 para. 186. Satellite stations, which retransmit all or a substantial part of the programming of a commonly-owned parent station, are exempted from the rule. *Id*. at 13710 para. 233.

[37] *Id.* at 13708 para. 225 (eliminating requirement to show that no out-of-market buyer is available for failed, failing and unbuilt station waivers); *Id*. at 13710 para. 231 (stating that the Commission also would consider waivers of the local TV ownership rule where the stations at issue are in the same DMA, but are not available over-the-air or via MVPDs in any of the same geographic areas); *Id.* at 13708-10 paras. 227-30 (in markets with 11 or fewer stations, parties can seek a waiver of the top four-ranked restriction by making certain showings).

[38] *2002 Biennial Review Order,* 18 FCC Rcd at 13708 para. 225. *See* 47 C.F.R. 73.3555 Note 7 (setting forth the criteria that must be met in order for a station to qualify as "failed, failing, or unbuilt").

[39] *2002 Biennial Review Order*, 18 FCC Rcd at 13708 para. 225.

2. Remand Issues

15. On review, the *Prometheus* court upheld the Commission's determination that "broadcast media are not the only media outlets contributing to viewpoint diversity in local markets."[40] In light of its decision to remand the Commission's numerical limits, the court found that it need not decide "the degree to which non-broadcast media compensate for lost viewpoint diversity to justify the modified [local TV] rule."[41] The court nonetheless noted that "it seems that the degree to which the Commission can rely on cable or the Internet to mitigate the threat that local station consolidations pose to viewpoint diversity is limited."[42] In addition, in light of evidence in the record, including evidence that "commonly owned television stations are more likely to carry local news than other stations" and studies showing that "consolidation generally improved audience ratings," the court rejected petitioners' contention "that the Commission's finding of localism benefits from consolidation was unsupported."[43] The court also upheld the Commission's decision to retain the top four-ranked station restriction, stating that it "must uphold an agency's line-drawing decision when it is supported by evidence in the record."[44] It found "ample evidence in the record" to support the Commission's reliance on a "cushion" of audience share percentage points between the fourth and fifth-ranked stations in most markets to restrict combinations among the top four-ranked stations "as opposed to the top three or some other number."[45]

16. The court, however, remanded the numerical limits of the new rule for further justification. As explained above, the limits were based on a benchmark of six equal-sized competitors. The size of an owner was tied to the number of stations owned, rather than the audience shares of those stations. The court held that the Commission had unreasonably failed to consider the audience shares of stations in setting its numerical limits, finding that "[n]o evidence supports the Commission's equal market share assumption, and no reasonable explanation underlies its decision to disregard actual market share."[46] Further, although the court recognized that the Commission did not intend the numerical limits to be a mechanical application of the *DOJ/FTC Merger Guidelines*, it concluded that the rule was unreasonable because it would allow levels of concentration exceeding the 1800 HHI benchmark relied upon by the Commission in setting its numerical limits, a result which it called "a glaring inconsistency between rationale and result."[47]

17. The court also remanded for further consideration the Commission's elimination of the requirement to demonstrate that no out-of-market buyer is reasonably available when seeking a failed, failing, or unbuilt television station waiver. The Court found that ". . . in repealing the rule without any discussion of the effect of its decision on minority television station ownership," the Commission "entirely failed to consider an important aspect of the problem."[48] The court also noted that the

[40] *Prometheus,* 373 F.3d at 414.

[41] *Id.* at 415.

[42] *Id.* at 415.

[43] *Id.* at 415.

[44] *Id.* at 417-18 (citing *Sinclair,* 284 F.3d at 162; *AT&T Corp. v. FCC,* 220 F.3d 607, 627 (D.C. Cir. 2000).

[45] *Id.* at 417-18.

[46] *Id.* at 418-19.

[47] *Id.* at 419-20.

[48] *Id.* at 421.

Commission deferred consideration of certain proposals for advancing broadcast ownership by minority and disadvantaged businesses and for promoting diversity in broadcasting for a future Notice of Proposed Rulemaking.[49] The court stated that "the Commission's rulemaking process in response to our remand order should address these proposals at the same time."[50]

3. Request for Comment

18. We invite comment on all of the issues remanded by the *Prometheus* court regarding the local TV ownership rule. Should the limits on the number of stations that can be commonly owned adopted in the *2002 Biennial Review Order* be revised, or is there additional evidence or analysis upon which the Commission can rely to further justify the limits it adopted? How should we address the court's concern that the revised numerical limits allow concentration to exceed the 1800 HHI benchmark relied upon by the Commission in setting the limits? Is there additional evidence to support the Commission's decision to treat capacity as an important factor in measuring the competitive structure of television markets? Is there evidence to support fluidity of television station market shares? Should the limits vary depending on the size of the market? How would any changes impact the need for the top four-ranked restriction? We urge commenters to consider and discuss whether their proposals with respect to the local TV ownership rule also would be consistent with the *Sinclair* decision.

19. We also invite comment on the court's remand of the elimination of the requirement that waiver applicants demonstrate that there is no reasonably available out-of-market buyer. Should we reinstate this requirement? Is it unduly burdensome? Are there less burdensome means of ensuring that unnecessary concentration of ownership does not occur? Has the requirement had an effect on minority and/or female ownership of broadcast stations?

B. Local Radio Ownership Rule

1. Revisions Adopted in the *2002 Biennial Review Order*

20. In the *2002 Biennial Review Order*, the Commission retained the local radio numerical limits and the AM/FM service caps that Congress adopted in the 1996 Act.[51] Under these limits, an entity may own, operate, or control (1) up to eight commercial radio stations, not more than five of which are in the same service (*i.e.*, AM or FM), in a radio market with 45 or more radio stations; (2) up to seven commercial radio stations, not more than four of which are in the same service, in a radio market with between 30 and 44 (inclusive) radio stations; (3) up to six commercial radio stations, not more than four of which are in the same service, in a radio market with between 15 and 29 (inclusive) radio stations; and (4) up to five commercial radio stations, not more than three of which are in the same service, in a radio market with 14 or fewer radio stations, except that an entity may not own, operate, or control more than 50 percent of the stations in such a market.[52] The Commission determined that its contour-overlap

[49] *Prometheus,* 373 F.3d at 421 n.59. In the *2002 Biennial Review Order*, the Commission stated that it would commence a separate proceeding to examine proposals to advance broadcast ownership opportunities for minorities and women. *2002 Biennial Review Order*, 18 FCC Rcd at 13634, 13636 paras. 46, 50.

[50] *Prometheus,* 373 F.3d at 421 n.59.

[51] *2002 Biennial Review Order,* 18 FCC Rcd at 13712, 13733-34 paras. 239, 294. The Commission maintained the AM and FM ownership limits due to technical and marketplace disparities between the two services. *Id.,*18 FCC Rcd at 13733-34 para. 294.

[52] *See* 1996 Act § 202(b); 47 C.F.R. § 73.3555(a).

methodology for defining radio markets and counting stations in the market was flawed as a means to protect competition in local radio markets.[53] The Commission therefore modified the definition of a local radio market by replacing the contour-overlap approach with an Arbitron Metro market definition, where Arbitron markets exist.[54] The Commission initiated a rulemaking proceeding, MB Docket No. 03-130, to seek comment on how to define local radio markets in geographic areas that are not defined by Arbitron.[55] In addition, the Commission decided to include non-commercial stations when determining the number of radio stations in a market for purposes of the ownership rules.[56] The Commission also decided to attribute certain radio station Joint Sales Agreements ("JSA").[57] Recognizing that there could be some existing combinations of broadcast stations that would exceed the revised ownership limits, the Commission grandfathered existing combinations of radio stations, existing combinations of television stations, and existing combinations of radio/television stations.[58]

2. Remand Issues

21. The *Prometheus* court concluded that the Commission's decision "to replace contour-overlap methodology with Arbitron radio metro markets was 'in the public interest' within the meaning of §202(h)" and that the decision was "a rational exercise of rulemaking authority."[59] The court also upheld the Commission's attribution of JSAs.[60] The court further held that the Commission had justified its decisions to count noncommercial stations in defining the size of a market and to restrict the transfer of grandfathered combinations except to certain eligible entities.[61] Although it affirmed the Commission's rationale that numerical limits help guard against consolidation and foster opportunities for new entrants and therefore upheld the use of numerical limits, the court remanded the Commission's decision to retain the existing specific local radio ownership limits. The court held that the limits were unsupported by the

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[53] *2002 Biennial Review Order*, 18 FCC Rcd at 13712, 13724-28 paras. 239, 273-81.

[54] *Id.* at 13712, 13724-28 paras. 239, 273-81.

[55] *Id.* at 13729, 13870-73 paras. 282-83, 657-70. For areas not covered by Arbitron Metros, the Commission adopted a modified contour-overlap methodology pending the outcome of the rulemaking. This interim contour-based rule excludes from a market radio stations that have transmitter sites farther than 92 kilometers (58 miles) away from the perimeter of the overlapping area that defines the radio market. The interim rule does not count as in the market any commonly owned stations that are not counted against an owner in a market for purposes of applying the local radio ownership rule. *Id.* at 13717-28, 13729-30 paras. 250-54, 284-86. The issues raised in the non-Arbitron market proceeding will be addressed separately.

[56] *Id.* at 13713 para. 239. The Commission held that its prior exclusion of these stations failed to account for their competitive impact on a radio market. *Id.* at 13730 para. 287. The Commission found that although they do not compete in the radio advertising market, noncommercial stations exert competitive pressure in the radio listening and radio program production markets. *Id*. at 13734 para. 295.

[57] *Id.* at 13742-46 paras. 316-25.

[58] *2002 Biennial Review Order*, 18 FCC Rcd at 13807-09 paras. 482-86.

[59] *Prometheus,* 373 F.3d at 425.

[60] *Id.* at 429-30.

[61] *Id.* at 421-30. Although the Commission did not require owners to divest their interests in stations, it held that parties would have to comply with the ownership rules at the time a transfer of control or assignment application is filed, unless the entity acquiring control of the combination was an "eligible entity," which was defined as an entity that would qualify as a small business consistent with Small Business Administration ("SBA") standards for its industry grouping. *2002 Biennial Review Order*, 18 FCC Rcd at 13809-12 paras. 487-90.

Commission's rationale that they ensure five equal-sized competitors in most markets.[62] The court held that the Commission had failed to justify five as the appropriate benchmark and did not reconcile that benchmark with the *DOJ/FTC Merger Guidelines* it had used to derive the local TV ownership limits. The court also stated that the Commission had failed to show that the limits ensured that five equal-sized competitors have emerged or would emerge under the numerical limits.[63] The court further faulted the Commission for not explaining why it could not take "actual market share" into account when deriving the numerical limits. Finally, the court held that the Commission did not support its decision to retain the AM subcaps.[64]

3. Request for Comment

22. We invite comment on the issues remanded by the *Prometheus* court with respect to the local radio ownership limits. In order to address the court's concerns, should the numerical limits be revised, or is there additional evidence that could be used to further justify the limits? If the Commission should revise the limits, what revisions are appropriate? Should we create additional tiers? How should the Commission address the court's concern that the limits adopted do not account for actual market share? Should the rule still seek to ensure a specific number of competitors in a market, and, if so, what is the appropriate benchmark for that number? Finally, should we retain the AM/FM subcaps? Lastly, we seek comment on whether the local radio ownership rule currently in effect is necessary in the public interest as a result of competition.

C. Cross-Media Limits

1. Revisions Adopted in the *2002 Biennial Review Order*

23. In the *2002 Biennial Review Order*, the Commission concluded that neither the newspaper/broadcast cross-ownership rule nor the radio/television cross-ownership rule was necessary in the public interest as the result of competition.[65] The Commission replaced these rules with a single set of cross-media limits, as discussed below.

24. The newspaper/broadcast cross-ownership rule prohibits common ownership of a full-service broadcast station and a daily newspaper if the broadcast station's service contour completely

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[62] *Prometheus,* 373 F.3d at 432-34 (Because the Commission "has in the past extolled the value of audience share data for measuring diversity and competition in local markets," its "reliance on the fiction of equal-sized competitors, as opposed to measuring their actual competitive power, is even more suspect in the context of the local radio rule.").

[63] The court noted that the Commission's decision to rely on a five firm theory for purposes of the local radio ownership rule conflicts with the *DOJ/FTC Merger Guidelines*, under which a market with five equal-sized competitors is considered "highly concentrated." The court held this conflict "suspect" because, elsewhere in the *2002 Biennial Review Order*, the Commission had relied on the *DOJ/FTC Merger Guidelines* to derive its local TV ownership limits. The court directed the Commission to address this apparent discrepancy on remand. *Prometheus,* 373 F.3d at 433. In addition, the Commission had cited game theory articles to support its finding that a market that has five or more relatively equal-sized firms can achieve a level of market performance comparable to a fragmented, structurally competitive market. The court directed the Commission to respond to the argument that these game theory articles do not rule out market structures other than equal-sized competitors (such as one large firm and many small ones) as equally competitive markets. *Id*. at 432-33.

[64] *Id.* at 434-35.

[65] *2002 Biennial Review Order,* 18 FCC Rcd at 13747 para. 327.

encompasses the newspaper's city of publication.[66] In the *2002 Biennial Review Order,* the Commission concluded that this rule, which does not account for either market size or the availability of other media outlets that may serve a market, was not necessary to promote competition, diversity, or localism.[67] The Commission held that, because newspapers and broadcast stations do not compete in the same economic market, elimination of the ban could not harm competition.[68] The Commission found that efficiencies resulting from common ownership of a newspaper and a television station can actually promote localism, because newspaper-owned television stations tend to produce local news and public affairs programming in greater quantity and of a higher quality than non-newspaper-owned stations.[69] Furthermore, the Commission determined that the blanket ban on cross-ownership was not needed to promote viewpoint diversity given that (1) a vast array of media outlets is available in many markets today, (2) the Commission's revised local cross-media ownership rules will protect diversity sufficiently, and (3) common ownership efficiencies can facilitate the broadcasting of higher quality programming.[70]

25. Similarly, the Commission found that the existing radio/television cross-ownership rule could not be justified under Section 202(h).[71] As with the newspaper/broadcast cross-ownership rule, the Commission found that the radio/television cross-ownership rule was not necessary to promote competition, localism, or diversity because radio and television compete in distinct product markets; the efficiencies of common ownership can enhance localism and diversity; the multitude of media outlets in most local markets renders the rule obsolete; the Commission's revised intra-service ownership rules (*i.e.*, the local TV and local radio rules) afford sufficient protection with regard to competition; and the new CML were targeted more precisely at specific types of markets in which particular combinations could harm diversity.[72]

26. To determine the availability of media outlets in markets of various sizes, the Commission developed a Diversity Index (the "DI"), which it used to analyze and measure the availability of outlets that contribute to viewpoint diversity in local media markets.[73] The DI, which was modeled after the HHI used in economic and antitrust analyses, measured the availability of various media outlets and assigned a weight to each type of outlet based on its relative use by consumers.[74] The Commission stated that the DI would not be used to measure viewpoint diversity in particular local markets. Rather, it was used to evaluate in the aggregate the contributions to diversity of various media outlets in order to determine

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[66] The service contour for AM radio stations is the 2mV/m contour; the service contour for FM radio stations is the 1mV/m contour; and the service contour for TV stations is the Grade A contour. The previous definition of a daily newspaper was one that was published at least four times a week in English. *See 2002 Biennial Review Order*, 18 FCC Rcd at 13747 para. 328; *Id. at* n. 717. In the *2002 Biennial Review Order*, the Commission revised this definition to include non-English newspapers published in the primary language of the market. *Id.* at 13799-800 paras. 457-58.

[67] *Id.* at 13747-48 paras. 328-30.

[68] *Id.* at 13748-49 paras. 331-32.

[69] *Id.* at 13753-60 paras. 342-54.

[70] *Id.* at 13760-62 paras. 355-59.

[71] *Id.* at 13768 para. 371.

[72] *Id.* at 13775 para. 390.

[73] *Id.* at 13775-76 para. 391.

[74] *Id.* at 13776-79 paras. 393-400.

which size markets are most at risk for viewpoint concentration.[75]

27. Reasoning that small markets are at greater risk for diversity concentration, the Commission's CML were tiered according to the size of the market. The Commission prohibited newspaper/broadcast and radio/television cross-ownership in markets with three or fewer television stations.[76] In markets with between four and eight stations, the Commission held that an entity may own a combination that includes a newspaper and either (a) one television station and up to 50 percent of the radio stations that may be commonly owned under the applicable radio cap, or (b) up to 100 percent of the radio stations allowed under the applicable radio cap.[77] In markets with nine or more television stations, cross-media combinations would be permitted without limit, so long as they comply with the applicable local television and local radio caps.[78] In the *2002 Biennial Review Order,* the Commission held that parties may seek a waiver of these limits if they can demonstrate that an otherwise impermissible combination would enhance the quality and quantity of broadcast news available in their market.[79]

2. Remand Issues

28. The *Prometheus* court affirmed the Commission's decision to eliminate the newspaper/broadcast cross-ownership rule,[80] holding that "reasoned analysis supports the Commission's determination that the blanket ban on newspaper/broadcast cross-ownership was no longer in the public interest."[81] The court rejected attacks on the "Commission's conclusion that the newspaper/broadcast cross-ownership ban undermined localism."[82] The court upheld the Commission's determination that the prohibition was not necessary to protect diversity, agreeing that the Commission reasonably concluded that it did not have enough confidence in the proposition that commonly owned outlets have a uniform bias to warrant sustaining the prohibition[83] and that "it was acceptable for the Commission to find that cable and the Internet contribute to viewpoint diversity" in local markets.[84] The court found the Commission did not violate Section 202(h) by concluding that (1) repealing the cross-ownership ban was necessary to promote competition and localism, and (2) retaining some limits was necessary to ensure diversity. The court also held that the Commission's continued regulation of cross-ownership was constitutionally sound.[85]

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[75] *Id.* at 13776 para. 392.

[76] *Id.* at 13797-801 paras. 452-61. The revised rules do not, however, bar a broadcast station from starting a new newspaper in its market. *Id.* at 13799 para. 456. For purposes of counting the number of stations in a market under the cross media limits, the Commission counts both commercial and noncommercial full power television stations assigned to the DMA. *Id.* at 13798 para. 454.

[77] *Id.* at 13803 para. 466.

[78] *Id.* at 13804 paras. 472-73.

[79] *Id.* at 13806-07 para. 481.

[80] *Prometheus,* 373 F.3d at 398-400.

[81] *Id.* at 398.

[82] *Id*. at 399.

[83] *Id*. at 399-400.

[84] *Id.*

[85] *Prometheus,* 373 F.3d at 400-02 (citing *FCC v. Nat'l Citizens Comm. for Broad.,* 436 U.S. 775, 801-02 (1978) ("*NCCB*")).

29. The court concluded, however, that the specific limits selected by the Commission were not supported by reasoned analysis, and remanded the CML to the Commission for further justification or modification. The court stated that it did not object to the Commission's reliance on the HHI as a starting point for measuring diversity, but found that the Commission placed too much weight on the Internet in its DI, irrationally assigned outlets of the same media type equal market shares, and inconsistently derived the CML from its DI results.[86]

30. With regard to the Commission's inclusion and weighting of the Internet in the DI, the court held that the Commission's "decision to count the Internet as a source of viewpoint diversity, while discounting cable, was not rational."[87] The court also distinguished several sources of information available via the Internet from "media outlets," stating that the media "provides (to different degrees depending on the outlet) accuracy and depth in local news in a way that an individual posting in a chat room on a particular issue of local concern does not."[88] The court also contrasted certain Internet sites with media outlets by stating that media have "an aggregator function" as well as a "distillation function (making a judgment as to what is interesting, important, entertaining, etc.)," while the websites of, for example, political candidates or local governments do not aggregate or distill information.[89]

31. The court also remanded for further consideration the Commission's decision to assign all outlets within the same media type equal market shares in constructing the DI. The court held that the "assumption of equal market shares is inconsistent with the Commission's overall approach to its DI, and also makes unrealistic assumptions about media outlets' relative contributions to viewpoint diversity in local markets."[90] The court determined that the Commission's efforts to justify this approach were not persuasive.[91] The court rejected the Commission's rationale that actual-use data are not relevant in predicting future behavior, noting that the Commission employed actual-use data in assigning relative weight to different types of media, even as it used equal market shares, rather than actual market shares, for outlets within a media type. The court also rejected the Commission's assertion that consumer preferences for particular media outlets are more fluid than their preferences for different types of media because the outlet's format or content can be easily changed, stating that the Commission provided no evidence to show that media outlets actually or regularly undergo a content change. Lastly, the court rejected the Commission's claim that relying on actual audience share data would require it to make a constitutionally problematic categorization of programming as news or "non-news" because the Commission obtained actual-use data by asking respondents where they got their local news.[92] Finally, the court held the Commission did not rationally derive its CML from the DI, because the CML would allow certain broadcast combinations where the increases in the DI scores were generally higher than for other combinations that are not allowed.[93]

[86] *Id.* at 402-03

[87] *Id.* at 405.

[88] *Id.* at 407.

[89] *Id.* at 407-08.

[90] *Id.* at 408.

[91] *Id.* at 402-12.

[92] *Id.* at 408-09.

[93] *Id.* at 409-11.

3. Request for Comment

32. We invite comment on all of the issues remanded by the *Prometheus* court regarding cross-ownership. Many of these issues relate to the DI. In light of the court's extensive and detailed criticism of the DI, we tentatively conclude that the DI is an inaccurate tool for measuring diversity. Moreover, we recognize that some aspects of diversity may be difficult to quantify. To the extent that we will not use the DI to justify changes to the existing cross-ownership rules, we seek comment on how we should approach cross-ownership limits. Should limits vary depending upon the characteristics of local markets? If so, what characteristics should be considered, and how should they be factored into any limits? We seek comment on the newspaper/broadcast cross-ownership rule and the radio/television cross-ownership rule. Are there aspects of television and radio broadcast operations that make cross-ownership with a newspaper different for each of these media? If so, should limits on newspaper/radio combinations be different from limits on newspaper/television combinations? Lastly, are the newspaper/broadcast cross-ownership rule and the radio/television cross-ownership rule necessary in the public interest as a result of competition?

D. Dual Network Rule

33. The Commission's dual network rule provides "A television broadcast station may affiliate with a person or entity that maintains two or more networks of television broadcast stations unless such dual or multiple networks are composed of two or more persons or entities that, on February 8, 1996, were 'networks' as defined in Section 73.3613(a)(1) of the Commission's regulations (that is, ABC, CBS, Fox, and NBC)."[94] Thus, the rule permits common ownership of multiple broadcast networks, but prohibits a merger between or among the "top four" networks. In the *2002 Biennial Review Order*, the Commission determined that the dual network rule was necessary in the public interest to promote competition and localism and retained the rule.[95] The Petitioners in *Prometheus* did not appeal the Commission's retention of the rule. We seek comment on whether the dual network rule remains necessary in the public interest as a result of competition.

E. UHF Discount

34. In *Prometheus*, the Third Circuit held that challenges to the Commission's national television ownership rule were moot following Congressional action that set the national cap at 39 percent.[96] In so doing, the court also addressed the Commission's UHF discount rule, which we have used in calculating a UHF station's audience reach under the national TV cap.[97] The court stated that the UHF discount rule "is insulated from this and future periodic review requirements" and yet also noted that the "Commission is now considering its authority going forward to modify or eliminate the discount and recently took public comment on the issue."[98] The court then concluded that that Commission may decide

[94] 47 C.F.R. § 73.658(g).

[95] *2002 Biennial Review Order,* 18 FCC Rcd at 13850 para. 599.

[96] *Prometheus,* 373 F.3d at 395-97. As noted above, the court held that challenges to the Commission's the national TV ownership rule were moot because Congress subsequently directed the Commission by statute to set the cap at 39 percent. *See* Appropriations Act, § 629.

[97] 47 C.F.R. § 73.3555(d)(2)(i).

[98] *Prometheus,* 373 F.3d at 397 (citing the FCC Public Notice published at 69 Fed. Reg. 9216-17 (Feb. 27, 2004)).

the scope of our authority to modify or eliminate the UHF discount outside of the Section 202(h) mandate.[99]

35. We seek comment on whether the court's holding on the UHF discount rule was ambiguous. We seek comment on whether the Commission should retain, modify, or eliminate the UHF discount. Commenters who urge us to modify or eliminate the UHF discount rule should discuss the basis for our authority to take such action.

III. PETITIONS FOR RECONSIDERATION

36. A number of parties filed petitions for reconsideration of the *2002 Biennial Review Order.* These petitions, opposing pleadings, and replies are listed in Appendix A attached hereto. The petitions have already been the subject of public notice and comment during their own pleading cycle. Parties who wish to refresh the record concerning the petitions may do so in their comments filed in response to this *Further Notice.*

IV. PROCEDURAL MATTERS

A. Comment Information

37. Pursuant to sections 1.415 and 1.419 of the Commission's rules, 47 CFR §§ 1.415, 1.419, interested parties may file comments and reply comments on or before the dates indicated on the first page of this document. Comments may be filed using: (1) the Commission's Electronic Comment Filing System (ECFS), (2) the Federal Government's eRulemaking Portal, or (3) by filing paper copies. *See Electronic Filing of Documents in Rulemaking Proceedings*, 63 FR 24121 (1998).

- Electronic Filers: Comments may be filed electronically using the Internet by accessing the ECFS: http://www.fcc.gov/cgb/ecfs/ or the Federal eRulemaking Portal: http://www.regulations.gov. Filers should follow the instructions provided on the website for submitting comments.

  - For ECFS filers, if multiple docket or rulemaking numbers appear in the caption of this proceeding, filers must transmit one electronic copy of the comments for each docket or rulemaking number referenced in the caption. In completing the transmittal screen, filers should include their full name, U.S. Postal Service mailing address, and the applicable docket or rulemaking number. Parties may also submit an electronic comment by Internet e-mail. To get filing instructions, filers should send an e-mail to ecfs@fcc.gov, and include the following words in the body of the message, "get form." A sample form and directions will be sent in response.

- Paper Filers: Parties who choose to file by paper must file an original and four copies of each filing. If more than one docket or rulemaking number appears in the caption of this proceeding, filers must submit two additional copies for each additional docket or rulemaking number.

  Filings can be sent by hand or messenger delivery, by commercial overnight courier, or by first-class or overnight U.S. Postal Service mail (although we continue to experience delays in receiving U.S. Postal Service mail). All filings must be addressed to the Commission's Secretary, Office of the Secretary, Federal Communications Commission.

[99] *Id.*

- The Commission's contractor will receive hand-delivered or messenger-delivered paper filings for the Commission's Secretary at 236 Massachusetts Avenue, NE., Suite 110, Washington, DC 20002. The filing hours at this location are 8:00 a.m. to 7:00 p.m. All hand deliveries must be held together with rubber bands or fasteners. Any envelopes must be disposed of before entering the building.

- Commercial overnight mail (other than U.S. Postal Service Express Mail and Priority Mail) must be sent to 9300 East Hampton Drive, Capitol Heights, MD 20743.

- U.S. Postal Service first-class, Express, and Priority mail should be addressed to 445 12th Street, SW, Washington DC 20554.

People with Disabilities: Contact the FCC to request materials in accessible formats (Braille, large print, electronic files, audio format, etc.) by e-mail at FCC504@fcc.gov or call the Consumer & Governmental Affairs Bureau at 202-418-0531 (voice), 202-418-7365 (TTY).

B. Regulatory Flexibility Act

38. As required by the Regulatory Flexibility Act,[100] the Commission prepared an Initial Regulatory Flexibility Analysis (IRFA) in the initial *Notice of Proposed Rulemaking* in this proceeding.[101] We have now prepared a Supplemental IRFA, which is set forth in Appendix B. Written public comments are requested on the Supplemental IRFA. These comments must be filed in accordance with the same filing deadlines for comments on the *Further Notice of Proposed Rulemaking*, and should have a separate and distinct heading designating them as responses to the Supplemental IRFA.

C. Paperwork Reduction Act

39. This document does not contain proposed information collection(s) subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. In addition, therefore, it does not contain any proposed new or modified "information collection burden for small business concerns with fewer than 25 employees," pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, *see* 44 U.S.C. § 3506(c)(4). However, depending on the rules adopted as a result of this *Further Notice of Proposed Rule Making*, the *Report and Order* (*R&O*) ultimately adopted in this proceeding may contain information collections. The Commission will provide a period for public comment on any PRA burdens contained in the R&O and will submit such burdens to the Office of Management and Budget for approval when the R&O is adopted and released.

D. Ex Parte Information

40. This is a permit-but-disclose notice and comment rulemaking proceeding. Ex parte presentations are permitted, except during the Sunshine Agenda period, provided that they are disclosed

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[100] *See* 5 U.S.C. § 603.

[101] *2002 Biennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules adopted Pursuant to Section 202 of the Telecommunications Act of 1996, Cross-Ownership of Broadcast Stations and Newspapers, Rules and Policies Concerning Multiple Ownership of Broadcast Stations in Local Markets, Definition of Radio Markets,* 17 FCC Rcd 18503, 18558 App. A (2002).

as provided in the Commission's Rules.[102]

41. *Contact Information*. The Media Bureau contact for this proceeding is Mania Baghdadi at (202) 418-7200. Press inquiries should be directed to Rebecca Fisher at (202) 418-2330, TTY: (202) 418-7365 or (888) 835-5322.

V. ORDERING CLAUSES

42. Accordingly, IT IS ORDERED, that pursuant to the authority contained in sections 1, 2(a), 4(i), 303, 307, 309, and 310 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 152(a), 154(i), 303, 307, 309, and 310, and section 202(h) of the Telecommunications Act of 1996, this *Further Notice of Proposed Rulemaking* IS ADOPTED.

43. IT IS FURTHER ORDERED that, pursuant to the authority contained in sections 1, 2(a), 4(i), 303, 307, 309, and 310 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 152(a), 154(i), 303, 307, 309, and 310, and section 202(h) of the Telecommunications Act of 1996, NOTICE IS HEREBY GIVEN of the proposals described in this *Further Notice of Proposed Rulemaking*.

44. IT IS FURTHER ORDERED that MB Docket No. 03-130 SHALL BE severed from this proceeding.

45. IT IS FURTHER ORDERED that the Commission's Consumer and Governmental Affairs Bureau, Reference Information Center, SHALL SEND a copy of this *Further Notice of Proposed Rulemaking*, including the Supplemental Initial Regulatory Flexibility Analysis, to the Chief Counsel for Advocacy of the Small Business Administration.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch
Secretary

[102] *See generally* 47 C.F.R. §§ 1.1202, 1.1203, 1.1206(a).

APPENDIX A

PLEADINGS FILED IN RECONSIDERATION PROCEEDING

PETITIONS FOR RECONSIDERATION

Amherst Alliance and the Virginia Center for the Public Policy
ARSO Radio Corporation
Bennco, Inc.
Capitol Broadcasting Company, Inc.
Center for the Creative Community and the Association of Independent Video and Filmmakers
Consumer Federation of America and Consumers Union
Cumulus Media, Inc.
Diversity and Competition Supporters (filed by Minority Media and Telecommunications Council on behalf of American Hispanic Owned Radio Association; Civil Rights Forum on Communications Policy; League of United Latin American Citizens; Minority Business Enterprise Legal Defense and Education Fund; National Asian American Telecommunications Association; National Association of Latino Independent Producers; National Coalition of Hispanic Organizations; National Council of La Raza; National Hispanic Media Coalition; National Indian Telecommunications Institute; National Urban League; Native American Public Telecommunications, Inc.; PRLDEF-Institute for Puerto Rican Policy; UNITY: Journalists of Color, Inc.; Women's Institute for Freedom of the Press)*
Duff, Ackerman & Goodrich, LLC
Entercom Communications Corporation
Free Press
Future of Music Coalition
Galaxy Communications, L.P.
Great Scott Broadcasting
LIN Television Corporation and Raycom Media, Inc.
Main Street Broadcasting Company, Inc.
Mid-West Family Broadcasting
Monterey Licenses, LLC
Mt. Wilson FM Broadcasters, Inc.
National Association of Black Owned Broadcasters, Inc. and the Rainbow/PUSH Coalition, Inc.
National Organization for Women
Nexstar Broadcasting Group, LLC
Office of Communication of the United Church of Christ, Inc.; Black Citizens for a Fair Media; Philadelphia Lesbian and Gay Task Force; and Women's Institute for Freedom of the Press
Saga Communications, Inc.
Treasure and Space Coast Radio
WJZD, Inc.
WTCM Radio, Inc.

* withdrew Petition for Reconsideration on April 7, 2004

COMMENTS TO PETITIONS FOR RECONSIDERATION

Bonneville International Corporation
Diversity and Competition Supporters
MBC Grand Broadcasting, Inc.
National Association of Broadcasters
Newspaper Association of America
Paxson Communications Corporation
Office of Communication of the United Church of Christ, Inc.; Black Citizens for a Fair Media; Philadelphia Lesbian and Gay Task Force; and Women's Institute for Freedom of the Press
University of Southern California/KUSC(FM)
Viacom, Inc.
Vinson & Elkins LLP

REPLIES TO PETITIONS FOR RECONSIDERATION

Cumulus Media, Inc.
Diversity and Competition Supporters
Entercom Communications Corporation
Mt. Wilson FM Broadcasters, Inc.
National Association of Broadcasters
Sinclair Broadcast Group, Inc.

APPENDIX B

SUPPLEMENTAL INITIAL REGULATORY FLEXIBILITY ANALYSIS

46. As required by the Regulatory Flexibility Act (RFA),[1] the Commission incorporated an Initial Regulatory Flexibility Analysis (IRFA) in the Notice of Proposed Rulemaking (*NPRM*) in MB Docket No. 02-277.[2] Additionally, the Commission has prepared this Supplemental Initial Regulatory Flexibility Analysis (Supplemental IRFA) of the possible significant economic impact on small entities of the proposals in this *Further Notice of Proposed Rulemaking* (*Further Notice*). Written public comments are requested on this Supplemental IRFA. Comments must be identified as responses to the Supplemental IRFA and must be filed by the deadlines for comments on the *Further Notice*. The Commission will send a copy of the *Further Notice*, including this Supplemental IRFA, to the Chief Counsel for Advocacy of the Small Business Administration (SBA).[3] In addition, the *Further Notice* and the Supplemental IRFA (or summaries thereof) will be published in the Federal Register.[4]

A. Need for, and Objectives of, the Proposed Rules

47. The *Further Notice* invites comment on how to address the issues raised by the opinion of the U.S. Court of Appeals for the Third Circuit in *Prometheus Radio Project v. FCC*,[5] and, pursuant to Section 202(h) of the Telecommunications Act of 1996, on whether the media ownership rules are "necessary in the public interest as the result of competition."[6] In the *Prometheus Remand Order,* the court affirmed some Commission decisions and remanded others for further Commission justification or modification.[7] We issue this Supplemental IRFA due to the passage of time since the release of the *NPRM*

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[1] *See* 5 U.S.C. § 603. The RFA, *see* 5 U.S.C. §§ 601-612, has been amended by the Contract With America Advancement Act of 1996, Pub. L. No. 104-121, 110 Stat. 847 (1996) (CWAAA). Title II of the CWAAA is the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).

[2] *2002 Biennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules adopted Pursuant to Section 202 of the Telecommunications Act of 1996, Cross-Ownership of Broadcast Stations and Newspapers, Rules and Policies Concerning Multiple Ownership of Broadcast Stations in Local Markets, Definition of Radio Markets,* 17 FCC Rcd 18503, 18558 App. A (2002).

[3] *See* 5 U.S.C. § 603(a).

[4] *See id*.

[5] *Prometheus Radio Project, et al. v. F.C.C.*, 373 F.3d 372 (2004) ("*Prometheus*"), *stay modified on rehearing*, No. 03-3388 (3d Cir. Sept. 3, 2004) ("*Prometheus Rehearing Order*"), *cert. denied,* 73 U.S.L.W. 3466 (U.S. June 13, 2005) (Nos. 04-1020, 04-1033, 04-1036, 04-1045, 04-1168 and 04-1177).

[6] *See* Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, § 202(h) (1996) ("1996 Act"); Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, § 629, 118 Stat. 3 (2004) ("Appropriations Act") (amending Sections 202(c) and 202(h) of the 1996 Act). Section 202(h) requires the Commission to periodically review its media ownership rules to determine "whether any of such rules are necessary in the public interest as the result of competition" and to "repeal or modify any regulation it determines to be no longer in the public interest."

[7] *See Prometheus Rehearing Order*. Accordingly, except for revisions to the local radio ownership rule, the preexisting ownership rules remain in effect. *See Further Notice, supra*, at para. 2 and n.10.

in this proceeding and in order to invite comment on the effect on small entities of the proposals in this *Further Notice*. We particularly solicit comment from all small business entities, including minority-owned and women-owned small businesses. We especially solicit comment on whether, and if so, how, the particular interests of these small businesses may be affected by the rules.

48. The *Further Notice* discusses the local TV ownership rule, the local radio ownership rule, Cross-Media Limits and the Dual Network rule; details the issues raised in the *Prometheus Order* regarding the Commission's decision with respect to each of these rules; and invites comment on how to address those issues.

B. Legal Basis

49. This *Further Notice* is adopted pursuant to sections 1, 2(a), 4(i), 303, 307, 309, 310, of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 152(a), 154(i), 303, 307, 309, 310, and Section 202(h) of the Telecommunications Act of 1996.

C. Description and Estimate of the Number of Small Entities To Which the Proposed Rules Will Apply

50. The RFA directs agencies to provide a description of, and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted.[8] The RFA defines the term "small entity" as having the same meaning as the terms "small business," "small organization," and "small governmental entity" under Section 3 of the Small Business Act.[9] In addition, the term "small business" has the same meaning as the term "small business concern" under the Small Business Act.[10] A small business concern is one which: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the SBA.[11]

51. **Television Broadcasting.** In this context, the application of the statutory definition to television stations is of concern. The Small Business Administration defines a television broadcasting station that has no more than $13 million in annual receipts as a small business. Business concerns included in this industry are those "primarily engaged in broadcasting images together with sound."[12]

[8] 5 U.S.C. § 603(b)(3).

[9] *Id*. § 601(3) (incorporating by reference the definition of "small business concern" in 15 U.S.C. § 632). Pursuant to the RFA, the statutory definition of a small business applies, "unless an agency, after consultation with the Office of Advocacy of the SBA and after opportunity for public comment, establishes one or more definitions of the term where appropriate to the activities of the agency and publishes the definition(s) in the Federal Register."

[10] *Id.*

[11] 15 U.S.C. § 632.

[12] OMB, North American Industry Classification System: United States, 1997, at 508-09 (1997) (NAICS Code 51320 which was changed to 51520 in October 2002). This category description continues, "These establishments also produce or transmit visual programming to affiliated broadcast television stations, which in turn broadcast the programs to the public on a predetermined schedule. Programming may originate in their own studio, from an affiliated network, or from external sources." Separate census categories pertain to businesses primarily engaged in produced programming. *See id.* at 502-505, NAICS code 512110. Motion Picture and Video Production; Code 512120, Motion Picture and Video Distribution, code 512191, 19 FCC Rcd 15238 (continued….)

According to Commission staff review of the BIA Financial Network, Inc. Media Access Pro Television Database as of June 6, 2005, about 852 (66 percent) of the 1,286 commercial television stations in the United States have revenues of $12 million or less. However, in assessing whether a business entity qualifies as small under the above definition, business control affiliations[13] must be included. Our estimate, therefore, likely overstates the number of small entities that might be affected by any changes to the attribution rules, because the revenue figures on which this estimate is based do not include or aggregate revenues from affiliated companies.

52. An element of the definition of "small business" is that the entity not be dominant in its field of operation. The Commission is unable at this time and in this context to define or quantify the criteria that would establish whether a specific television station is dominant in its market of operation. Accordingly, the foregoing estimate of small businesses to which the rules may apply does not exclude any television stations from the definition of a small business on this basis and is therefore over-inclusive to that extent. An additional element of the definition of "small business" is that the entity must be independently owned and operated. It is difficult at times to assess these criteria in the context of media entities, and our estimates of small businesses to which they apply may be over-inclusive to this extent.

53. **Radio Broadcasting.** The Small Business Administration defines a radio broadcasting entity that has $6.5 million or less in annual receipts as a small business.[14] Business concerns included in this industry are those "primarily engaged in broadcasting aural programs by radio to the public."[15] According to Commission staff review of the BIA Financial Network, Inc. Media Access Radio Analyzer Database as of June 6, 2005, about 10,425 (95 percent) of 11,000 commercial radio stations in the United States have revenues of $6 million or less. We note, however, that in assessing whether a business entity qualifies as small under the above definition, business control affiliations[16] must be included. Our estimate, therefore, likely overstates the number of small entities that might be affected by any changes to the ownership rules, because the revenue figures on which this estimate is based do not include or aggregate revenues from affiliated companies.

54. In this context, the application of the statutory definition to radio stations is of concern. An element of the definition of "small business" is that the entity not be dominant in its field of operation. We are unable at this time and in this context to define or quantify the criteria that would establish whether a specific radio station is dominant in its field of operation. Accordingly, the foregoing estimate of small businesses to which the rules may apply does not exclude any radio station from the definition of a small business on this basis and is therefore over-inclusive to that extent. An additional element of the definition of "small business" is that the entity must be independently owned and operated. We note that it is difficult at times to assess these criteria in the context of media entities, and our estimates of small

(Continued from previous page)
(2004). Teleproduction and Other Post-Production Services, and code 512199, Other Motion Picture and Video Industries.

[13] "[Business concerns] are affiliates of each other when one business concern controls or has the power to control the other or a third party or parties controls or has the power to control both." 13 C.F.R. § 121.103(a)(1).

[14] *See* NAICS code 515112.

[15] *Id.*

[16] "[Business concerns] are affiliates of each other when one business concern controls or has the power to control the other or a third party or parties controls or has the power to control both." 13 C.F.R. § 121.103(a)(1).

businesses to which they apply may be over-inclusive to this extent.

55. **Daily Newspapers**. The SBA has developed a small business size standard for the census category of Newspaper Publishers; that size standard is 500 or fewer employees.[17] Census Bureau data for 2002 show that there were 5,159 firms in this category that operated for the entire year.[18] Of this total, 5,065 firms had employment of 499 or fewer employees, and an additional 42 firms had employment of 500 to 999 employees. Therefore, we estimate that the majority of Newspaper Publishers are small entities that might be affected by our action.

D. Description of Projected Reporting, Recordkeeping, and Other Compliance Requirements

56. Depending on the rules adopted as a result of this Notice of Proposed Rule Making, the Report and Order (R&O) ultimately adopted in this proceeding may contain new or modified information collections. We anticipate that none of the changes would result in an increase to the reporting and recordkeeping requirements of broadcast stations, newspapers, or applicants for licenses. As noted above, we invite small business entities to comment in response to the *Further Notice*.

E. Steps Taken to Minimize Significant Impact on Small Entities, and Significant Alternatives Considered

57. The RFA requires an agency to describe any significant alternatives that it has considered in reaching its proposed approach, which may include the following four alternatives (among others): (1) the establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance or reporting requirements under the rule for small entities; (3) the use of performance, rather than design, standards; and (4) an exemption from coverage of the rule, or any part thereof, for small entities.[19]

58. We are directed under law to describe any alternatives we consider, including alternatives not explicitly listed above.[20] This *Further Notice* initiates the next quadrennial review of the media ownership rules and seeks public comment on the issues raised by the Prometheus Remand Order. Thus, it invites comment on how to address the court's decisions in the Prometheus Remand Order with respect to the local TV ownership rule, the local radio ownership rule, and the cross-media limits. In addition, the Further Notice asks for comment on whether the dual network rule remains necessary in the public interest as a result of competition.[21] The *Further Notice* also seeks comment on the minority ownership proposals made by Minority Media and Telecommunications Council in comments in the 2002 biennial

[17] 13 C.F.R. § 121.201; NAICS code 511110.

[18] U.S. Census Bureau, 2002 Economic Census, Subject Series: Information, "Establishment and Firm Size (Including Legal Form of Organization)," Table 5, NAICS code 511110 (issued Nov. 2005).

[19] 5 U.S.C. § 603(c).

[20] 5 U.S.C. § 603(b).

[21] The Petitioners in *Prometheus* did not appeal the Commission's retention of the rule

ownership proceeding.[22] Parties' discussions of alternatives that are in their submitted comments will be fully considered. We especially encourage small entity comment.

F. Federal Rules that May Duplicate, Overlap, or Conflict With the Proposed Rules

None.

[22] *See Further Notice* at paragraph 5. In the *2002 Biennial Review Order*, the Commission said that it would commence a separate proceeding specifically aimed at increasing ownership opportunities in the media industry for minorities and females. *2002 Biennial Review Order*, 18 FCC Rcd 13634, 13636 paras. 46, 50.

STATEMENT OF
CHAIRMAN KEVIN J. MARTIN

Re: 2006 Quadrennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rule Adopted Pursuant to Section 202 of the Telecommunications Act of 1996; 2002 Biennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996; Cross-Ownership of Broadcast Stations and Newspapers; Rules and Policies Concerning Multiple Ownership of Radio Broadcast Stations in Local Markets; Definition of Radio Markets (MB Docket Nos. 06-121, 02-277, and MM Docket Nos. 01-235, 01-317 and 00-244).

Today, the Commission opens a process to review its media ownership rules, a topic of vital importance to our democracy. We begin this dialog in a neutral and even-handed fashion. The action responds to the Third Circuit's decision in *Prometheus Radio Project v. FCC*.

It has been nearly three years since the Third Circuit stayed the Commission's previous rules[1] and nearly two years since the Third Circuit instructed the Commission to respond to the court with further justification or amended rules.[2]

As we embark upon this comprehensive review, the Commission should take into account the competitive realities of the media marketplace while also ensuring the promotion of the important goals of localism and diversity. As the item indicates, the Commission will look carefully at the relationship between media ownership and localism as it moves forward with this rulemaking. To that end, the Commission will incorporate into this proceeding the efforts undertaken on this issue since the last examination of our media ownership rules.

Public input is integral to this process. The Commission has adopted an extended comment period of 120 days. Over the next several months, the Commission will hold half a dozen public hearings around the country on the topic of media ownership to more fully involve the American people. I look forward to hearing from the American people on a variety of subjects at these hearings such as the impact of the Commission's rules on localism, campaigns and community event coverage, minority ownership, and various types of programming like children's and family-friendly programming and independent and religious programming. The Commission also is creating a new webpage on this topic that will further contribute to making this an open and transparent process.

Finally, the Commission will initiate studies to address unanswered questions about the impact of media ownership. We will seek the resources necessary for comprehensive studies. They will be on a variety of topics that will incorporate issues including how the public gets its news and information, competition across media platforms, marketplace changes since we last reviewed our ownership rules, localism, independent and diverse programming and the production of children's and family-friendly programming.

[1] *Prometheus Radio Project v. FCC*, No. 03-3388, 2003 WL 22052896 (3d Cir. Sept. 3, 2003).

[2] *Prometheus Radio Project, et al. v. F.C.C.*, 373 F.3d 372 (2004).

I look forward to working with my colleagues on each of these efforts and on these issues of great importance to the industry and the listening and viewing public.

STATEMENT OF
COMMISSIONER MICHAEL J. COPPS,
CONCURRING IN PART, DISSENTING IN PART

Re: *2006 Quadrennial Regulatory Review & 2002 Biennial Regulatory Review—Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996, Cross-Ownership of Broadcast Stations and Newspapers, Rules and Policies Concerning Multiple Ownership of Radio Broadcast Stations in Local Markets Definition of Radio Markets* (MB Docket Nos. 06-121, 02-277, MM Docket Nos. 01-235, 01-317, 00-244)

One thing we can probably all agree on is the need to start this proceeding. It has been two years since the Third Circuit sent back to us the misguided handiwork of the previous Commission. We owe the court a response to its instruction to revisit this proceeding and to do it right this time. Additionally, Congress instructed us to review all our media ownership rules in a quadrennial review, which by statute must commence this year—another reason why we should proceed. Meanwhile, the rush to consolidation continues. Since we last voted on this issue three years ago, there have been more than 3300 TV and radio stations that have had their assignment and transfer grants approved. So even under the old rules, consolidation grows, localism suffers and diversity dwindles. For these reasons, I agree that we need to start this proceeding now.

But in Washington, things aren't always what they seem. In fact, this innocuous-looking document initiates the single most important public policy debate that the FCC will tackle this year. Don't let its slimness fool you. It means that this Commission has begun to decide on behalf of the American people the future of our media. It means deciding whether or not to accelerate media concentration, step up the loss of local news and change forever the critical role independent newspapers perform for our Country.

It's tempting to see this debate as important only to giant media moguls. Some companies want the government to make the decision to rush into more media concentration behind closed doors in sequestered Washington bureaucracies. But I believe that Americans need to know what the FCC is doing and that we have a solemn obligation to encourage public participation in the decision. It's important because if we make the wrong decision our communities and our country will suffer. This debate will have far reaching implications for the credibility of information Americans get from the media—for the vitality of the civic dialogue that determines the direction of our democracy—and for whether TV and radio offer entertainment that is creative, uplifting and local or degrading, banal and homogenized.

Let's review some history. We all know that in 2003 the FCC tried to eliminate important safeguards that protected media diversity, localism and competition. A majority of Commissioners approved *stunning*—there is no other word for it—rules that would allow one corporation to own, in a single community, up to three TV stations, eight radio stations, the cable system, the only daily newspaper and the biggest Internet provider. How can it be good for our Country to invest such sweeping power in one media mogul or one giant corporation?

Three years ago the FCC tried to inflict this massive wave of further consolidation onto an already highly concentrated media industry. The majority of the Commission voted to do so without seeking adequate input from the American people, without conducting adequate studies and without even revealing to the country what the new rules would be before forcing a vote. I pleaded with the majority to

do more comprehensive research, to ask the tough questions and to halt the blind rush to more consolidation. My pleading fell on deaf ears. A public, transparent process was not what was wanted. Instead, our far-reaching review of critical media concentration protections was run as a classic inside-the-Beltway process with too little outreach from the Commission and too little opportunity for public participation.

The Commission's stealth process three years ago and the ownership rules that resulted from it galvanized Americans all across this country. In response, millions of Americans from right and left, Republican and Democrat, concerned parents, creative artists, religious leaders, independent businesses, civil rights activists and labor organizations united to protest the Commission's actions. Senators and members of Congress from both parties and from all parts of the country called for those rules to be overturned. Commissioner Adelstein and I traveled the country attending hearings on this issue. On media consolidation, there are no red or blue states—there is only an all-American, grassroots issue about what government proposes to do to the people's airwaves. The Senate voted twice to overturn the rules and the House, it was clear to all, would have done so if permitted to vote. In time, the court held that the FCC's ownership rules were legally and procedurally flawed, sending them back to the FCC to begin again, which brings us to today.

All of that is wrapped up in this little document. Don't underestimate it. We have a choice to make. Will we repeat the mistakes of the past? Or will we work for a process and an outcome that respect the millions of Americans that care deeply about their communities' media and what their kids watch, hear and read? We'll soon know what choice the FCC makes. We'll undoubtedly have some hearings and some research this time—I think at least that part of the lesson has been learned. But Americans know the difference between a fig leaf and a real commitment.

If you see hearings in your hometown, instead of a just a few preselected cities, you'll know. If you see FCC Commissioners come to listen to your point of view personally, instead of expecting you to hire a $500 an hour lobbyist to get heard, you'll know. If the FCC contracts for independent, well-funded studies and seeks public comment on those studies, instead of buying a few-half hearted, time-crunched papers that slide into the record without comment, you'll know. And, critically, if the FCC shows you the specific rules that will reshape the American media before forcing a vote, instead of rushing from this short document to a final vote, you'll know.

You should expect your government to do more this time. We ought to be able to work together and do better. I hope we can. The answer will become apparent in the months ahead. The process we are launching will have to be watched and validated every step of the way.

To be successful in this effort, we will need to work really hard, get around the country, look at various markets, collect the data and reach out to build an adequate record. Good, sustainable rules are the result of an open public process, a serious attempt to gather all the relevant data and a commitment to transparency. Bad rules and legal vulnerability result from an opaque regulatory process and inadequate data.

- ***Public Process:*** This time we need to include the people in our process instead of trying to exclude them. We need to hear from anybody who has a stake in how this is resolved. And everyone has an interest and a stake. I asked for some dozen themed hearing around the country, so we could examine the impact of media consolidation on such topics as minorities, senior citizens, religious broadcasters, family-friendly programming, jobs, independent programming, those with disabilities, campaign coverage and payola. We couldn't get agreement on these. But we will monitor closely any hearings

that are held under Commission auspices and if they fall short of true openness and inclusiveness, I will do my part to make that known. Good hearings must include all sides of the debate and be held in diverse communities around the country. Last time, I learned fifty times more about what is going on in various media markets at grassroots hearings and town hall meetings than I ever could have learned by isolating myself in my office inside the Beltway and reading formal comments. And citizens have a right to expect direct access to decision-makers at the FCC. When a regulatory agency is charged by the law with important public policy matters, it has the obligation to reach out, explain and solicit citizen input. A handful of generalized FCC hearings are not themselves enough. I hope citizens in hundreds of communities across this country will gather to discuss the future of the media. These issues deserve to be discussed in every community because they are going to affect every community. For my part, I stand ready to attend as many of these community hearings as I can.

- ***Research and Data:*** This time, we also need better research and a willingness to ask the tough questions. We need independent studies on the impact of media concentration in a variety of markets so that the FCC can base its decisions on a more solid foundation. Last time a number of in-house studies were undertaken, but they didn't ask most of the questions that needed to be asked and both their methodologies and conclusions received widespread criticism. We are talking here about understanding a mega-billion dollar industry, and a few studies done on the cheap just are not going to tell us what we need to know. What we need instead are independent researchers to produce some real data on important questions like the impact on independence when newspapers and broadcasters are owned by the same conglomerate, the impact of increasing consolidation on minorities and the correlation between media concentration and broadcast indecency. These are only a few of the questions we need to understand before we vote. I, for one, would be reluctant to vote on final rules unless and until we have the information and analysis needed to inform our votes.

- ***Transparency:*** This time, we need a transparent process that ensures we understand the full implications of our decisions—both the intended consequences and the unintended ones. Such a process makes inevitably for better policy. It also makes for better buy-in from the people. And it would enhance the sustainability of Commission decisions in court. A transparent process is especially critical for issues of this magnitude when the Notice asks broad, general questions. Let's remember the beating the Commission took in court for failing to inform the American people of its proposals last time before we were required to vote. I am deeply disappointed that this Notice does not contain a specific, up-front commitment to share proposed media concentration rules with the American people in advance of a final vote. I do not see how we can be transparent and comply with the dictates of the Third Circuit without letting the American people know about and comment on any new standards of measurement that we adopt in developing our ultimate decision. I frankly fear that in the absence of a Further Notice and lacking a commitment to a comprehensive final Order incorporating all of the ownership rules, an attempt could be made to split off one or two rules and ram them through the Commission. This must not be allowed to happen and I dissent in part because such protections for the people are lacking in today's proposal.

Finally, there are two other aspects of this item that should give us all pause. I am disappointed that localism is not front-and-center in this proceeding. For decades the Commission has interpreted the Communications Act to require broadcasters to be responsive to local concerns and to represent a diversity of views and opinions. Localism and media ownership are inextricably linked. Ownership interests have a duty to air programming responsive to the needs and interests of their communities. But if we really want our local stations to be accountable to our local community, why should citizens who want to dial up local station owners have to call from one end of the Country to another? Is it really good

for our Country for distant powers in New York or Los Angeles to dictate so much of what we see, hear and read in our hometown? These are important questions that go right to the heart of this proceeding. But you won't find them asked here. Instead, the Commission goes to great lengths to isolate our stalled localism proceeding from today's media ownership proceeding. The most this Notice does is commit our staff to compiling a summary of the dated record we have in our localism docket. Though there is bipartisan support for completing our localism proceeding before revving up media ownership, the Commission will apparently choose to leave localism stuck at the starting gate.

I am also disappointed that this item fails to commit to specific efforts to advance ownership by minorities. The Third Circuit took the Commission's earlier decision to the woodshed for sidelining proposals to advance minority ownership. Despite this, all we can muster up here are a few questions about this glaring challenge. Why won't we commit to studying the state of minority media ownership in this country and the impact that consolidation has had? Are we afraid of what the facts might show? It is no excuse to argue that many of the nation's broadcast licenses were given away decades ago when women and people of color were unlikely to obtain them. Those sins of omission need to be excised and new strategies to encourage diversity in ownership and jobs and programming need to be put in place. While people of color make up over 30 percent of our population, they own only 4.2 percent of the nation's radio stations and 1.5 percent of the nation's TV stations! More recent statistics suggest that even these numbers are in free fall. I believe the ownership of our media should look more like the diversity of our people. But if all the Commission does is ask a few pat questions and then sweep this issue under the rug one more time, we are not laying the groundwork for progress.

Let me conclude with a challenge to our nation's media to take up this issue, highlight it, give it the attention it merits, inform the debate and spark a national conversation on these issues all across this broad land of ours. With relatively few exceptions, the media—big media especially—failed the test last time, and failed it badly. I hope that was not because some very important media enterprises have financial interests riding on the outcome of the ownership proceeding. Major media companies are at pains to assure us their newsgathering operations are independent of their corporate interests. Here is an excellent opportunity to test that proposition. Because ignoring the issue of media concentration is not going to make it go away.

Launching this proceeding is the easy part. Now comes the hard work. So much hangs in the balance. If we are serious about it and do not treat this proceeding as business-as-usual, if we approach these issues with receptivity on all sides to hard facts and compelling evidence and if we reach out—really reach out—to people all across this land, I believe the Commission can arrive at a decision that will withstand judicial and Congressional scrutiny and more importantly, the scrutiny of the American people. I for one am ready to roll up my sleeves and work with my colleagues to get the job done and done right this time. The American people have a right to expect more from this Commission than they got from the previous one.

**STATEMENT OF
COMMISSIONER JONATHAN S. ADELSTEIN
CONCURRING IN PART, DISSENTING IN PART**

Re: 2006 Quadrennial Review & 2002 Biennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996, Cross-Ownership of Broadcast Stations and Newspapers, Rules and Policies Concerning Multiple Ownership of Radio Broadcast Stations in Local Markets Definitions of Radio Markets, Notice of Proposed Rule Making

We are required by law and by the Third Circuit Court of Appeals to launch this proceeding. It is entirely necessary that we do so. Congress requires a quadrennial review of all of our media ownership rules, and we must respond to the Third Circuit remand of our 2003 ownership decision. Appropriately, this broad inquiry responds to both requirements.

Unfortunately, the manner in which the Commission is launching this critical proceeding is totally inadequate. It is like submitting a high-school term paper for a Ph.D. thesis. This Commission failed in 2003, and if we don't change course, we will fail again.

The large media companies wanted, and today they get, a blank check to permit further media consolidation. The Notice is so open-ended that it will permit the majority of the Commission to allow giant media companies to get even bigger at the time, place and manner of their choosing. That is the reason I have refused to support launching this proceeding until now, and it is why I am dissenting from the bulk of this Notice. This Notice is thin gruel to those hoping for a meaty discussion of media ownership issues.

In particular, this item lacks commitment to three basic building blocks of a successful rulemaking on media ownership – an issue that affects the daily lives of every single American. First, the process does not commit to giving the public an opportunity to comment on specific proposals ***before*** any changes to the rules are finalized. Second, it does not commit to completing the localism proceeding and rulemaking ***before*** changing the ownership rules. Finally, it does not commit to making any final decision in a comprehensive manner. Given the history of this proceeding, these failings are astonishing.

Our ill-fated June, 2003, decision was rejected by Congress, the courts and the public. The United States Senate voted on a bipartisan basis to reject the bulk of Order and have us start from scratch. The court found that the Commission fell "short of its obligation to justify its decisions to retain, repeal, or modify its media ownership regulations with reasoned analysis."[1] Three million citizens, from right to left and virtually everyone in between, weighed in to oppose our decision. It is my sincere hope that we can avoid failing the test again, but doing better will require a commitment to openness and the democratic process that is largely absent from today's Notice.

It is all the more inexcusable in the wake of the unprecedented rejection of the Commission's 2003 decision that we launch such a shallow process today. The Third Circuit gave us explicit suggestions on how to meet the challenge, which we ignore today at our own

[1] *Prometheus Radio Project v. FCC*, 373 F. 3d 373, 436 (3rd Cir. 2004), *cert. denied*, 73 U.S.L.W. (U.S. June 13, 2005).

peril. In its opinion, the court specifically decided to remand, in part, to give the Commission "an opportunity to cure its questionable notice."[2] In clear and certain terms, the court said "it is advisable that any new "metric" for measuring diversity and competition in a market be made subject to public notice and comment ***before*** it is incorporated into a final rule."[3]

I believe success or failure of this proceeding will depend to a large extent on the Commission's willingness to listen to American people. Consequently, I am deeply troubled by the majority's refusal to provide assurance that the public will have an opportunity to comment on specific proposals before new rules are finalized. The Court, common sense and simple fairness all demand that we allow public comment on the specific rules that are likely to change the media landscape for generations to come.

If the Commission had released its proposals in 2003 for further public comment, as I advocated at that time, we could have avoided many of the problems that led to the Court's rejection of our rules. This time, we have no excuse. This time, we have been warned. We cannot slip rule changes through quietly, based on a vague notice, to avoid controversy. It is too late for that. Our process for deciding these rules should be open and transparent. The goal of this proceeding should be to do the job right – not "pull a fast one" on the American people.

Second, it would be unacceptable to finalize any decisions regarding media ownership until we ***complete*** our localism proceeding, which began in 2003 in direct response to the millions of Americans who expressed outrage at the Commission's relaxation of media ownership rules. Then-Chairman Michael Powell said the Commission "heard the voice of public concern about the media loud and clear. Localism is at the core of these concerns."[4] Unanimously, the Commission launched the localism proceeding because we had failed to use the structural media ownership rules to address the public's concerns.

Now, three years later, the localism proceeding has languished in the bowels of the Commission. We have failed to complete the field hearings we promised the American people. We have failed to complete important research studies on the extent to which there is sufficient coverage of local civic affairs, music and programming on radio and television. We have failed to produce final rules on any aspect of localism, including minimum public interest standards or license renewal processing guidelines. Simply put, we have failed to protect the interests of the American people.

Third, the rules are intended to work together, regulating the ownership of media assets in all urban, suburban and rural markets in the United States. On this point, I am profoundly disappointed that there is no commitment to handle any final rule changes in a comprehensive manner. It is especially discouraging that this Notice does not specifically seek comment on how all the media ownership rules work together, in tandem. . If the Commission decides to allow further consolidation in one field, such as newspaper/broadcast cross-ownership, we need to know at the same time how we might move on, for example, the duopoly rule. To split them, and operate in a vacuum, is to willfully ignore our responsibility to regulate the number of outlets a

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[2] *Id.* at 411

[3] *Id.* at 412 (emphasis added).

[4] FCC Press Release, "FCC Chairman Powell Launches Localism in Broadcasting Initiative, August 20, 2003. http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-238057A1.pdf

single owner can control in any given community. Moreover, the courts have asked us to ensure the consistency of our rules, and we cannot do so without a comprehensive final order. Any attempt to modify the rules individually may be good politics, but it would be poor public policy and a great disservice to the American people.

There are many other infirmities in this Notice. Given the circuit court's admonishment that there must be a "rational connection between the facts found and the choice made,"[5] there is an urgent need for the Commission to complete research papers and reports, which provide professional and objective information about current market conditions, trends and future expectations of the radio, television and newspaper sectors. The urgent need for this research is much more pronounced in light of the compelling public interest in promoting diversity and localism the media marketplace.

There are many key issues that deserve their own separate hearing, including the impact of media consolidation on minorities, children, the elderly, Americans with disabilities, and those who live in rural areas. We should also hold hearings on the potential effects of rule changes on indecency and family-friendly fare, religious broadcasting, independent programming, coverage of campaign and community events, music and the creative arts and the growth of the Internet, to name a few.

It was my hope that by issuing this Notice today the Commission would seriously endeavor to review the media ownership rules, in accordance with the statutory mandate to promote diversity, localism and competition. Instead, we seem to be repeating past mistakes. Regrettably, this Notice contains major flaws that could set the stage for another destructive rollback of consumer protection rules.

The task ahead requires transparency, leadership, bipartisanship, consensus building, thoughtful deliberation, and genuine participation by the American people. Fortunately, there is still time to get it right. I remain hopeful the Commission will change course and conduct a process that fulfills our legal responsibilities and reflects the best interests of the public. The American people deserve nothing less.

[5] *Prometheus*, 373 F. 3d at 390 (quoting *Burlington Truck Ones, Inc v. U.S.*, 371 U.S. 156, 168 (1962)).

STATEMENT OF
COMMISSIONER DEBORAH TAYLOR TATE

Re: *2006 Quadrennial Regulatory Review and 2002 Biennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996, et al.,* MB Docket Nos. 06-121 and 02-277, MM Docket Nos. 01-235, 01-317 and 00-244.

With today's *Further Notice of Proposed Rulemaking* (*Further Notice*), we invite the public to comment on how to address the issues raised by the U.S. Court of Appeals for the Third Circuit in the *Prometheus* decision and concurrently initiate the next quadrennial review of the media ownership rules as required by Section 202(h) of the Telecommunications Act of 1996.

The future is under construction right now, and we need to be addressing issues like this one in order to create an environment that allows markets to work while still protecting the interests of consumers. My recent trip to China drove home how interconnected today's media world really is. As China prepares for the 2008 Olympic Games, I now realize how Americans will have the instantaneous experience of these games from a world away not just from the American media but from the global media. As we move forward, we must realize that the world is indeed interconnected and that American companies must be able to compete in order to continue to be global leaders in the media marketplace.

Moreover, I believe that it is critical that we, as policymakers, do not lose touch with how communications technology, and the decisions we make in this arena, may serve to improve, enhance, educate, and maybe even inspire the lives of all Americans. Media ownership will affect issues as diverse as the quality and quantity of children's television, the diversity of opinions in our nation's political discourse, or how we get important information in the event of an emergency. I look forward to the public's input on the issues presented by this *Further Notice*. In particular, I hope that we can help consumers understand the importance of the issues we are discussing and give them an opportunity to make their voices heard. I am committed to working with my FCC colleagues to ensure that our actions further competition, localism, and diversity in the global media marketplace.

STATEMENT OF
COMMISSIONER ROBERT M. MCDOWELL

Re: 2006 Quadrennial Regulatory Review and 2002 Biennial Regulatory Review – Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996, et al., MB Docket Nos. 06-121 and 02-277, MM Docket Nos. 01-235, 01-317 and 00-244

With this Further Notice, we embark on the Commission's next comprehensive review of the broadcast ownership rules. Our rules must take into account the dramatic changes that have occurred in the media landscape since the Commission adopted them. At the same time, we must ensure that the rules continue to promote the long-standing values of competition, diversity and localism that lie at the foundation of our nation's broadcasting system.

I hope that our review will result in a reasoned framework that answers the legal and evidentiary issues posed to us by the Third Circuit in the *Prometheus* decision and resolves the regulatory uncertainty that followed the appeal of the Commission's 2002 order through the courts. The questions asked in the Further Notice provide a solid start to our inquiry.

As our experience with the 2002 biennial review revealed, the debate over broadcast ownership is a debate about the vitality of our democracy and the appropriate balance among competitive efficiencies, diversity of voices and local focus. The debate elicits the opinions and passions of people from all walks of life from all over the country. I am eager to learn more about the issues from the perspectives of all of the interested parties, be they broadcasters, consumers, academics, artists or others.

I thank Donna Gregg and the Media Bureau staff for their hard work on this important proceeding. I support the Further Notice and commend the Chairman on his strong leadership in this area.