

SCRIPPS E W CO /DE
Form 10-K
March 01, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

Commission File Number 0-16914

THE E. W. SCRIPPS COMPANY

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of

incorporation or organization)

31-1223339
(IRS Employer

Identification Number)

312 Walnut Street

Cincinnati, Ohio
(Address of principal executive offices)

45202
(Zip Code)

Registrant's telephone number, including area code: (513) 977-3000

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Title of each class
Securities registered pursuant to Section 12(b) of the Act:
Class A Common Shares, \$.01 par value

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Not applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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The aggregate market value of Class A Common Shares of the Registrant held by non-affiliates of the Registrant, based on the \$43.14 per share closing price for such stock on June 30, 2006, was approximately \$3,753,000,000. All Class A Common Shares beneficially held by executives and directors of the registrant and The Edward W. Scripps Trust have been deemed, solely for the purpose of the foregoing calculation, to be held by affiliates of the registrant. There is no active market for our common voting shares.

As of January 31, 2007, there were 127,097,873 of the Registrant's Class A Common Shares, \$.01 par value per share, outstanding and 36,568,226 of the Registrant's Common Voting Shares, \$.01 par value per share, outstanding.

Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the 2007 annual meeting of shareholders.

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As used in this Annual Report on Form 10-K, the terms Scripps, we, our or us may, depending on the context, refer to The E. W. Scripps Company, to one or more of its consolidated subsidiary companies, or to all of them taken as a whole.

Additional Information

Our Company Web site is www.scripps.com. Copies of all of our SEC filings filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on this Web site as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our Web site also includes copies of the charters for our Compensation, Nominating & Governance and Audit Committees, our Corporate Governance Principles, our Insider Trading Policy, our Ethics Policy and our Code of Ethics for the CEO and Senior Financial Officers. All of these documents are also available to shareholders in print upon request.

Forward-Looking Statements

Our Annual Report on Form 10-K contains certain forward-looking statements that are based on our current expectations. Forward-looking statements are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from the expectations expressed in the forward-looking statements. Such risks, trends and uncertainties, which in most instances are beyond our control, include changes in advertising demand and other economic conditions; consumers' taste; newsprint prices; program costs; labor relations; technological developments; competitive pressures; interest rates; regulatory rulings; and reliance on third-party vendors for various products and services. The words believe, expect, anticipate, estimate, intend and similar expressions identify forward-looking statements. All forward-looking statements, which are as of the date of this filing, should be evaluated with the understanding of their inherent uncertainty. We undertake no obligation to publicly update any forward-looking statements to reflect events or circumstances after the date the statement is made.

PART I

Item 1. Business

We are a diverse media concern with interests in national television networks (Scripps Networks), newspaper publishing, broadcast television, interactive media and licensing and syndication. All of our media businesses provide content and advertising services via the Internet.

Financial information for each of our business segments can be found under Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page F-5 and Note 18 on page F-48 of this Form 10-K.

Scripps Networks

Scripps Networks includes five national lifestyle television networks and their affiliated Web sites, HGTV, Food Network, DIY Network (DIY), Fine Living and Great American Country (GAC). We conceived of and launched HGTV, DIY and Fine Living. We acquired a controlling interest in Food Network in 1997, and we acquired GAC in the fourth quarter of 2004. Scripps Networks also includes our 12% interest in FOX Sports Net South, a regional television network, and our networks operate internationally through licensing agreements and joint ventures with foreign entities. Scripps Networks produced approximately 42% of our total operating revenues in 2006, up from 39% in 2004.

HGTV began telecasting in 1994 and is successfully attracting viewers and serving advertisers by airing a full schedule of quality, original programming related to home repair, real estate, decorating, design, remodeling, and crafts. HGTV is distributed to more than 91 million U.S. households and is one of cable's top-rated networks. The network's branded programming also can be seen in 25 other countries. HGTV.com is the nation's leading online home and garden destination that attracts an average of 4.5 million unique visitors per month.

Food Network, which began telecasting in 1993, is a unique lifestyle network that strives to surprise and engage its viewers with likable hosts, personalities, and the variety of things they do with food. Programming hits such as Iron Chef, Emeril Live! and 30-Minute Meals have raised the network's public profile and increased viewer interest and advertiser demand. Distributed to more than 91 million U.S. households and ten million Web site users, Food Network ranks first among food Web sites.

DIY began telecasting in 1999 and features detailed how-to, step-by-step programming and information on a variety of topics including auto repair, crafts, gardening, hobbies, home building, home improvement and woodworking. DIY's distribution is approaching 42 million homes and the DIY Web site averages two million unique visitors per month.

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Fine Living, which began telecasting in March 2002, features television programming and Web site content designed to appeal to viewers and Internet users looking for information on quality life experiences, consumer products and consumer services. Programming concentrates on a variety of related lifestyle categories including adventure, personal space, transportation, everyday living and favorite things.

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GAC is a country music video network that began telecasting in 1996. GAC's programming primarily features country music videos complemented by original programming, special musical performances and live concerts. GAC is available in more than 46 million households.

Our initial focus in launching a network is to gain distribution on cable and satellite television systems. To obtain long-term distribution contracts, we may make cash payments to cable and satellite television systems, provide an initial period in which a system's affiliate fee payments are waived, or both. We also create new and original programming and undertake promotional and marketing campaigns designed to increase viewer awareness.

As the distribution of our networks increases, we make additional investments in the quality and variety of programming and increase the number of original programming hours offered on the network. Such investments are expected to result in increases in viewership, yielding higher advertising revenues.

Once a network is fully distributed, our strategy primarily focuses on optimizing the network's ratings, revenue and profitability. We believe investments in high quality original programming and promotion of that programming are the primary drivers of ratings, revenue and profitability of a fully-distributed network.

HGTV and Food Network are generally distributed on the most widely available programming tiers offered by cable and satellite television systems. Each network reaches substantially all cable and satellite television households.

We continue to build the distribution of DIY, Fine Living and GAC. DIY and Fine Living are each among the top five cable television networks in terms of subscriber growth. GAC is among the top twenty. Distribution on the most widely available basic cable tier is limited and, accordingly, growth in the number of households reached by DIY, Fine Living and GAC is largely dependent on increases in the number of subscribers to the expanded digital programming tiers offered by cable and satellite television systems. We also continue to make investments in programming and promotional campaigns to increase viewer awareness of our developing networks.

Our relationships and agreements with cable and satellite television system operators are critical to our business as they provide us with both subscription revenue and access to an audience which we sell to advertisers. We believe we have good relationships with the cable and satellite television system operators that distribute our networks. We have been a leader in providing video-on-demand and similar programming services those systems use to enhance their digital programming tier offerings to subscribers.

We have also emerged as a leader in providing content specifically formatted for the growing number of video-on-demand and broadband services. We own approximately 95% of our original television programming, which gives us the capability to reformat archived video content for other uses, including the Internet. HGTVPro.com, our online channel for the building industry was launched in 2005 and has more than 700 videos and articles available on the site. The channel's content is designed to appeal to professional builders, remodelers and contractors and includes professional-level best practices, tips and techniques, new product information, and trends in the industry. We have also launched HGTVKitchenDesign.com and HGTVBathDesign.com, online broadband programming services. We expect to continue to develop and launch additional broadband vertical networks within the shelter and food categories.

Advertising provided approximately 80% of Scripps Networks segment operating revenues in 2006. Advertising purchased on our networks usually seeks to promote nationally recognized consumer products and brands. We sell advertising time in both the upfront and scatter markets. The mix between the upfront and scatter markets is based upon a number of factors, including the demand for advertising time, economic conditions and pricing. Due to increased demand in the spring and holiday seasons, the second and fourth quarters normally have higher advertising revenues than our first and third quarters.

Advertising is sold on the basis of audience size and demographics, price and effectiveness. We compete for advertising revenues with other local and national media, including other television networks, television stations, radio stations, newspapers, Internet sites and direct mail. Audience size and demographics are directly related to the number of homes in which our networks can be viewed and our success in producing and promoting programming that is popular with our target audience. In reaching our target audience, we compete for consumers' discretionary time with all other information and entertainment media. We believe we are a leader in providing advertisers with solutions to reach a range of audience demographics. Our lifestyle networks reach an audience that is highly interested in the products advertised on our networks. We also provide advertisers sponsorship opportunities and the availability to reach audiences through our broadband programming channels.

Cable and satellite television systems generally pay a per-subscriber fee in exchange for the right to distribute our programming. Network affiliate fees provided 19% of Scripps Networks' segment operating revenues in 2006.

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We compete with other national television networks for distribution on cable and satellite television systems. While no assurance can be given regarding renewal of our distribution contracts or our ability to negotiate renewals with similar terms, we have not lost carriage upon expiration in the past and have generally negotiated new agreements that provided an increase in the per-subscriber fee.

Programming accounted for approximately 36% of our networks' segment costs and expenses in 2006. We produce original programming and acquire programming from a variety of independent production companies. We also license certain programming that airs on our networks. We believe there are adequate sources of creative and original programming to meet the needs of our networks.

Our networks require traffic systems to schedule programs and to insert advertisements within programs. We transmit our programming to cable and satellite television systems via satellite. Transponder rights are acquired under the terms of long-term contracts with satellite owners.

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Employee costs accounted for approximately 23% of segment costs and expenses in 2006.

Multichannel video program distributors (MVPDs) such as cable television systems and direct broadcast satellite operators are subject to varying degrees of regulation by the Federal Communications Commission (FCC), and these requirements may directly affect the Company. The FCC, for example, requires that MVPDs close caption their programming for the benefit of hearing impaired viewers, and the Company is responsible for complying with this obligation.

New types of program requirements for MVPDs are being actively promoted. For example, some members of Congress have sought to apply the indecency regulations now applicable to broadcast programming to MVPD programming. Others have made efforts to require MVPDs to offer program channels on an a la carte basis or in smaller bundles, arguing that such offerings would give subscribers more choice to reject channels with indecent or otherwise objectionable content. The current FCC chairman has supported encouraging MVPDs to offer a la carte programming. In early 2006, the FCC's Media Bureau issued a report contradicting an earlier study's conclusions that a la carte sales would increase costs to most consumers and reduce program diversity. The regulation of programming is subject to the political process, and further changes in law and regulation may be anticipated. There can be no assurance that our business would not be adversely affected by new legislation or FCC regulations affecting MVPDs or their programming.

Newspapers

We operate daily and community newspapers in 18 markets in the United States. Three of our newspapers are operated pursuant to the terms of joint operating agreements (JOAs). We also own and operate the Washington-based Scripps Media Center, home to the Scripps Howard News Service, a supplemental wire service covering stories in the capital, other parts of the United States and abroad. All of our newspapers subscribe to the wire service.

Our newspapers contributed approximately 29% of our company's total operating revenues in 2006, down from 38% in 2004.

Newspapers managed solely by us Information regarding the markets in which we publish and solely manage daily newspapers and the circulation of these daily newspapers is as follows:

(in thousands) (1)

Newspaper	2006	2005	2004	2003	2002
Abilene (TX) Reporter-News	31	30	33	33	34
Anderson (SC) Independent-Mail	35	36	37	38	39
Corpus Christi (TX) Caller-Times	52	50	58	61	63
Evansville (IN) Courier & Press	66	66	66	69	69
Henderson (KY) Gleaner	10	10	10	10	11
Kitsap (WA) Sun	30	30	30	30	31
Knoxville (TN) News Sentinel	117	117	120	121	118
Memphis (TN) Commercial Appeal	156	165	172	173	172
Naples (FL) Daily News	58	58	57	57	56
Redding (CA) Record-Searchlight	34	35	35	35	35
San Angelo (TX) Standard-Times	25	25	26	27	28
Treasure Coast (FL) News/Press/Tribune	102	100	102	100	98
Ventura County (CA) Star	86	89	92	93	94
Wichita Falls (TX) Times Record News	30	30	32	32	32
Total Daily Circulation	831	842	869	878	879

Circulation information for the Sunday edition of our newspapers is as follows:

(in thousands) (1)

Newspaper	2006	2005	2004	2003	2002
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Abilene (TX) Reporter-News	39	40	42	42	44
Anderson (SC) Independent-Mail	40	41	43	44	44
Corpus Christi (TX) Caller-Times	71	71	76	78	80
Evansville (IN) Courier & Press	88	89	92	97	97
Henderson (KY) Gleaner	12	11	12	12	12
Kitsap (WA) Sun	33	33	33	34	36
Knoxville (TN) News Sentinel	147	150	153	155	154
Memphis (TN) Commercial Appeal	204	216	236	235	234
Naples (FL) Daily News	67	70	69	69	68
Redding (CA) Record-Searchlight	37	39	39	40	40
San Angelo (TX) Standard-Times	30	30	31	32	33
Treasure Coast (FL) News/Press/Tribune (2)	113	112	115	113	111
Ventura County (CA) Star	99	100	106	107	107
Wichita Falls (TX) Times Record News	34	35	36	36	37
Total Sunday Circulation	1,014	1,036	1,083	1,093	1,096

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- (1) Based on Audit Bureau of Circulation Publisher's Statements (Statements) for the six-month periods ended September 30, except figures for the Naples Daily News and the Treasure Coast News/Press/Tribune, which are from the Statements for the twelve-month periods ended September 30.
 - (2) Represents the combined Sunday circulation of the Stuart News, the Vero Beach Press Journal and the Ft. Pierce Tribune.

Our newspaper publishing strategy seeks to create local media franchises anchored by the market's principal daily newspaper. Each newspaper manages its own news coverage, sets its own editorial policies and establishes local business practices. Our corporate staff sets the basic business, accounting and reporting policies, and provides other services and quality control. Additionally, certain centralized functions such as newsprint and paper procurement activities and information technology processes provide support for all of our newspapers.

We believe each of our newspapers has an excellent reputation for journalistic quality and content and that our newspapers are the leading source of local news and information in their markets. This strong brand recognition attracts readers and provides access to an audience which we sell to advertisers.

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Over the years we have supplemented our daily newspapers with an array of niche products, including direct-mail advertising, total market coverage publications, zoned editions, youth-oriented and Spanish language specialty publications, and event-based publications. These product offerings allow existing advertisers to reach their target audience in multiple ways, while also giving us an attractive portfolio of products with which to acquire new clients, particularly small and mid-sized advertisers. While we strive to make such publications profitable in their own right, they also help retain advertising in the daily newspaper.

Our newspapers also operate Internet sites, offering users information, comprehensive news, advertising, e-commerce and other services. Online advertising, particularly classified advertising has become one of the fastest growing revenue sources at our newspapers. Together with the mass reach of the daily newspaper, the Internet sites and niche publications enable us to maintain our position as a leading media outlet in each of our newspaper markets.

To protect and enhance our market position we must continually launch new products, offer good, relevant local content, ensure quality service, invest in new technology and cross-brand our newspapers, Internet sites and niche publications. We expect to continue to expand and enhance our online services and to use our local news platform to launch new products, such as streaming video or audio.

Advertising provided approximately 80% of newspaper segment operating revenues in 2006. Newspaper advertising includes Run-of-Press (ROP) advertising, preprinted inserts, advertising on our Internet sites, advertising in niche publications, and direct mail. ROP advertisements, located throughout the newspaper, are classified into one of three categories: local, classified or national. Local ROP refers to any advertising purchased by in-market advertisers that is not included in the paper's classified section. Classified ROP includes all auto, real estate and help-wanted advertising and other ads listed together in sequence by the nature of the ads. National ROP refers to any advertising purchased by businesses that operate beyond our local market and who typically procure advertising from numerous newspapers by using advertising agency services. Preprint advertisements are generally printed by advertisers and inserted into the newspaper. Internet advertising ranges from simple static banners and listings appearing on a Web page to more complex, interactive, animated and video advertisements.

Advertising revenues on a given volume of local and national ROP advertisements are generally greater than the revenues earned on the same volume of preprinted and other advertisements. Most of our newspaper markets have experienced a consolidation of retail department stores and the growth of discount retailers. Discount retailers do not traditionally rely on newspaper ROP advertising to deliver their commercial messages. The combination of these trends has resulted in a shift in advertiser demand away from the purchase of local ROP advertising and to the purchase of pre-printed advertising supplements. In response to changing advertising trends, we have launched new products in each of our markets and continually work to upgrade our advertising sales force by providing them with advanced training and innovative sales strategies. These techniques have been effective in generating advertising sales from new customers and replacing some of the lost advertising revenue from our traditional customers.

Advertising is generally sold based upon audience size, demographics, price and effectiveness. Advertising rates and revenues vary among our newspapers depending on circulation, type of advertising, local market conditions and competition. Each of our newspapers operate in highly competitive local media marketplaces, where advertisers and media consumers can choose from a wide range of alternatives, including other newspapers, radio, broadcast and cable television, magazines, Internet sites, outdoor advertising, directories and direct-mail products.

Typically, because it generates the largest circulation and readership, advertising rates and volume are higher on Sundays. Due to increased demand in the spring and holiday seasons, the second and fourth quarters have higher advertising revenues than the first and third quarters.

Circulation provided approximately 17% of newspaper segment operating revenues in 2006. Circulation revenues are produced from selling home-delivery subscriptions of our newspapers and single-copy sales sold at retail outlets and vending machines. Our newspapers seek to provide quality, relevant local news and information to their readers. We compete with other news and information sources, such as television stations, radio stations and other print and Internet publications as a provider of local news and information.

Employee costs accounted for approximately 52% of segment costs and expenses in 2006. Our workforce is comprised of a combination of non-union and union employees. See Employees.

We consumed approximately 128,000 metric tons of newsprint in 2006. Newsprint is a basic commodity and its price is subject to changes in the balance of worldwide supply and demand. Mill closures and industry consolidation have decreased overall newsprint capacity and increased the likelihood of future price increases.

We also operate Media Procurement Services (MPS), a wholly-owned subsidiary company. MPS provides newsprint and other paper procurement services for both our newspapers and other non-affiliated newspapers and printers. By combining the purchasing requirements of several companies for newsprint and other services, MPS is able to negotiate more favorable pricing with newsprint producers. MPS purchases

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newsprint from various suppliers, many of which are Canadian. Based on our expected newsprint consumption, we believe our supply sources are sufficient.

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Newspapers operated under JOAs and partnerships Three of our newspapers are operated pursuant to the terms of JOAs. The Newspaper Preservation Act of 1970 provides a limited exemption from anti-trust laws, permitting competing newspapers in a market to combine their sales, production and business operations in order to reduce aggregate expenses and take advantage of economies of scale, thereby allowing the continued operation of both newspapers in that market.

Each newspaper maintains a separate and independent editorial operation.

In 2006, we formed a partnership with MediaNews Group, Inc. that operates certain of both companies' newspapers in Colorado, including their editorial operations. We receive a share of the partnerships' profits equal to our 50% residual interest.

Information regarding the markets in which we publish a daily newspaper pursuant to the terms of a JOA and the daily circulation of these newspapers are as follows:

(in thousands) (1)

Newspaper	2006	2005	2004	2003	2002
Albuquerque (NM) Tribune	11	12	13	15	16
Cincinnati (OH) Post	30	34	39	45	49
Denver (CO) Rocky Mountain News (2)	256	263	275	289	305
Total Daily Circulation	297	310	328	348	370

Sunday circulation information is as follows:

(in thousands) (1)

Newspaper	2006	2005	2004	2003	2002
Denver (CO) Rocky Mountain News (2)	694	725	751	786	789

(1) Based on Audit Bureau of Circulation Publisher's Statements for the six-month periods ended September 30.

(2) The Denver JOA publishes the Rocky Mountain News and the Denver Post Monday through Friday, and a joint newspaper on Saturday and Sunday. Reported daily circulation represents the Monday through Friday circulation of the Rocky Mountain News.

The JOAs generally provide for automatic renewals unless an advance termination notice ranging from two to five years is given by either party. Gannett Co. Inc. (Gannett) has notified us of its intent to terminate the Cincinnati JOA upon its expiration at the end of 2007.

The combined sales, production and business operations of the newspapers are either jointly managed or are solely managed by one of the newspapers. The combined operations of the Denver newspapers are jointly managed by the partners. We have no management responsibilities for the combined operations of the other two JOAs.

The operating profits earned from the combined operations of each newspaper in a JOA are distributed to the partners in accordance with the terms of the joint operating agreement. We receive a 50% share of the Denver JOA profits, a 40% share of the Albuquerque JOA profits, and about a 20% to 25% share of the Cincinnati JOA profits.

Our share of the operating profits of the combined newspaper operations in each JOA market and our newspaper partnerships is affected by similar operational, economic and competitive factors included in the discussion of newspapers managed solely by us.

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Broadcast Television

Broadcast television includes six ABC-affiliated stations, three NBC-affiliated stations and one independent. Our television stations reach approximately 10% of the nation's television households.

Our broadcast television stations provided approximately 15% of our total operating revenues in 2006, down from 18% in 2004.

Information concerning our broadcast television stations, their network affiliations and the markets in which they operate is as follows:

Station	Market	Network Affiliation/ DTV	Affiliation Expires in/ DTV Service Commenced	FCC License Expires in	Rank of Mkt (1)	Stations in Mkt (2)	Station Rank in Mkt (3)	Percentage of U.S. Television Households in Mkt (4)	Average Audience Share (5)
WXYZ-TV	Detroit, Ch. 7	ABC 41	2010 1998	2005(6)	11	9	1	1.7%	12
	Digital Service Status								
WFTS-TV	Tampa, Ch. 28	ABC 29	2010 1999	2013	12	12	4	1.6%	6
	Digital Service Status								
KNXV-TV	Phoenix, Ch. 15	ABC 56	2010 2000	2006(6)	13	15	4	1.5%	7
	Digital Service Status								
WEWS-TV	Cleveland, Ch. 5	ABC 15	2010 1999	2005(6)	17	11	1	1.4%	11
	Digital Service Status								
WMAR-TV	Baltimore, Ch. 2	ABC 52	2010 1999	2012	24	6	3	1.0%	6
	Digital Service Status								
KSHB-TV	Kansas City, Ch. 41	NBC 42	2010 2003	2006(6)	31	8	4	0.8%	8
	Digital Service Status								
KMCI-TV	Lawrence, Ch. 38	Ind. 36	N/A 2003	2014	31	8	6	0.8%	2
	Digital Service Status								
WCPO-TV	Cincinnati, Ch. 9	ABC 10	2010 1998	2005(6)	33	7	2	0.8%	13
	Digital Service Status								
WPTV-TV	W. Palm Beach, Ch. 5	NBC 55	2010 2003	2005(6)	38	9	1	0.7%	14
	Digital Service Status								
KJRH-TV	Tulsa, Ch. 2	NBC 56	2010 2002	2006(6)	62				
	Digital Service Status								&n