to target the largely African-American urban listeners because their income generally lagged behind listeners to mainstream radio stations, resulting in power ratios substantially less than one. Radio One, however, was able to increase the power ratios of most of its stations by demonstrating to advertisers that the growing African-American population purchased more of certain goods and services than the general population despite their lower average income.

Exhibit 4 summarizes rising power ratios for urban radio, and Exhibit 5 details Radio One's turnaround record.

Performance

Liggins assumed day-to-day control of Radio One in 1997 and led the company to its initial public offering in May 1999. In its 1999 fiscal year, ended December 31, 1999, Radio One recorded $81.7 million in net revenue, defined as revenue from local and national advertising less agency commissions—equivalent to an average annual growth rate of 51% over three years. Broadcast cash flow (BCF), which equals operating income before depreciation, amortization, local marketing arrangement fees, and corporate expenses, reached $37.4 million—a 56% average annual growth rate over three years. After-tax cash flow equaled $16.3 million—a 125% increase since 1998. During 1999, Radio One's same station net broadcast revenue and broadcast cash flow both increased almost 40%. Exhibits 6 and 7 present Radio One's Income Statements and Balance Sheets for 1997 through 1999.

The Radio Industry

Although the FCC historically imposed tight controls on the radio industry, it began to relax its rules in the 1990s. In 1992, the FCC relaxed existing regulations to allow one company to own two FM stations in one market or 36 stations nationwide (18 AM and 18 FM). The Telecommunications Act of 1996 lifted nearly all of the limitations on ownership.[7] Significant consolidation occurred within a few years of the passage of the Act, which allowed stations to realize economies of scale through pricing power, capacity utilization, and cost reduction.

Radio had always been attractive to advertisers because it was the only medium that reached audiences at work and in the car.[8] Consolidation enhanced the appeal of radio advertising because broadcasters that controlled numerous radio assets could deliver TV-like reach and offer attractive "packages" to advertisers.[9] These packages included sale of advertising inventory across their "network" of stations. Rather than making sales on a station-by-station basis, network sales allowed the transfer of an advertisement from one station to the next, thereby ensuring that each was fully using its advertising capacity. The highly competitive radio network business doubled following the passage of the Act, reaching over $1 billion in early 1999.[10]

Consolidation significantly decreased expenses as companies enjoyed cost savings from programming syndication and purchasing from vendors, reduction in duplicate staffing in markets where multiple stations were owned, and the creation of national representation agreements.

[7]The Act reserved power in the FCC to approve or deny all applications for ownership of stations.
[8]Radio grew its share of all ad spending in 1999 to 8.2% from 7.5% in 1998 and 6.4% in 1992. Radio had consistently taken market share from all other traditional media.
[9]Credit Suisse First Boston, Radio One, Inc., Equity Research Report dated March 9, 2000.
[10]Morgan Stanley Dean Witter, Radio One, Inc., Equity Research Report dated March 14, 2000.