CABLE COMMUNICATIONS: THE PLANNED SOUTHWEST DAYTON OHIO SYSTEM A MODEL FOR BLACK CITIZEN ACTION

Thesis for the Degree of M. A.
MICHIGAN STATE UNIVERSITY
JACQUELINE RUTH CALLUM
1973

~~4~~ 37

0—043

ABSTRACT

CABLE COMMUNICATIONS: THE PLANNED
SOUTHWEST DAYTON OHIO SYSTEM A MODEL FOR
BLACK CITIZEN ACTION

By

JacQueline Ruth Callum

The potentials in ownership and program control in media of communication have been poorly realized by Blacks. Adequate educational preparation and strong financial capability do not exist in most Black communities. Recently, several leaders have focused their attention on problems involved in ownership of Cable Communications, but their involvement and information is very limited. Their restricted efforts are blamed on the complexity of the issues, each with alternatives difficult to define and measure; infeasibility and undesirability of undertaking large-scale independent operations; the inherently technical climate of cable; and inadequate financial resources.

Innovative solutions are seldom available and far less utilized. This thesis seizes the opportunity for useful service to Blacks and other minorities by offering an approach to ownership that may well prove to be the most practical for the immediate future.

The planned Southwest Dayton System of minority involvement in ownership and control in programming of Cable Communications is a 50/50 partnership between Citizens Cable Corporation and Cypress Communications Corporation of Los Angeles. The agreement holds a promising solution to

the central dilemma facing Blacks: how can White experience, capital and technical expertise in cable be utilized without subverting control?

Actual business operations have not begun; there is some slim basis for believing that the franchise may be awarded to another company. This however, need not occupy use here--it does not lessen the worth of the plan. Realistically it does serve to caution Black leaders as to the substantial scale of variables involved and the competitive nature of the cable industry.

The views and experiences expressed as background information were gathered from interviews with Black Dayton leaders: Richard Austin, Esquire and President of Citizens Cable Corporation (CCC); Reginald Dunn, of the Model Cities Planning Council and Vice President of CCC; Paul Pear, of the Model Cities Planning Council; State Legislator C. J. McLin, Jr.; and James H. McGee, Esquire and Mayor of Dayton.

Views expressed elsewhere do not necessarily represent those of the respondents consulted during the preparation of this paper. They reflect readings on the subjects of foreign aid and development; the crisis of development in Black communities; and the organization of businesses. These principles were re-defined in terms of the present issues.

The text continuously refers to the present problems of Blacks in Cable Communications; the author's intentions should not be misconstrued. This thesis applies to the basic problems of any minority or community. Subsequently the principles exhibited here can be re-defined for any community or individual.

CABLE COMMUNICATIONS: THE PLANNED SOUTHWEST DAYTON OHIO SYSTEM A MODEL FOR BLACK CITIZEN ACTION

By

JacQueline Ruth Callum

A THESIS

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

MASTER OF ARTS

Department of Television and Radio

1973

Accepted by the faculty of the Department of Television and Radio, College of Communication Arts, Michigan State University, in partial fulfillment of the requirements for the Master of Arts degree.

Director of Thesis

ACKNOWLEDGMENTS

I would like to express my gratitude to Citizens Cable Corporation and Cypress Communications Corporation for allowing me the opportunity to reproduce their innovative proposal for minority participation in Cable Communications in Dayton.

I am greatly indebted to my thesis advisor Dr. Thomas F. Baldwin for his patience in reviewing the manuscripts and providing me with valuable recommendations. The deficiencies of the final product, however, are certainly my own.

TABLE OF CONTENTS

CHAPTER | Page

INTRODUCTION. 1

I. THE ISSUE 4

II. THE DAYTON MODEL. 11

III. CONCLUSIONS 24

IV. SUMMARY AND RECOMMENDATIONS 30

Summary. 30
Recommendations. 41

INTERVIEWS, BIBLIOGRAPHY AND GENERAL REFERENCES. 43

APPENDICES 46

A. INFORMATION AND TECHNICAL ASSISTANCE. 46

B. MAGAZINES AND CATV PUBLICATIONS 51

C. PLAN FOR MINORITY PARTICIPATION IN A CYPRESS CABLE SYSTEM IN DAYTON, OHIO. 54

D. INVITATION TO SUBMIT PROPOSALS FOR CABLE TELEVISION SERVICE IN THE CITY OF DAYTON, OHIO 70

E. PROPOSED FRANCHISE FOR A CABLE TELEVISION SYSTEM IN THE CITY OF DAYTON, OHIO. 83

F. CYPRESS COMMUNICATIONS FINANCIAL STATEMENTS 117

G. WARNER COMMUNICATION INC. FINANCIAL STATEMENTS. 132

INTRODUCTION

This thesis focuses on the problem of getting the Black community of this country into the mainstream of the Cable Communications industry. It is designed to give the community leaders a model to understand and deal with the problems of developing Black awareness and investigating--in depth--alternatives to achieve the goals of the community.

I approach the subject from an environmental perspective, examining the interaction of issues, alternatives and a particular segment of American Society--the Black community in Dayton, Ohio. The format of this study combines views and experiences drawn from various Dayton leaders on specific aspects of the subject and organized to construct a model for informed citizen action.

It is appropriate to point out that the definition of Cable Communications is not the pressing issue. Description of historical, technical aspects and prospects of the industry here will be brief--extensive writings on the subject already exist.

For the purposes here Cable Communications can be defined as it is today--"Cable Television." CATV is a system whereby signals of over-the-air broadcast stations are received by special antennas located on high towers, amplified by electronic equipment and sent through a coaxial cable to subscribers for an installation fee and monthly service charge.

Originally, cable tv was developed to provide a clearer and stronger tv signal for small towns and rural areas where reception was poor or nonexistent. Since 1949 when operations began, the industry has grown to approximately 2,900 systems serving 6,500,000 homes, less than 2% of which are in metropolitan areas with over 150,000 population. In addition to a wider variety of television programs, about half of these are equipped to originate local programming.[1]

A second area of great promise is "Cable Communications." Industry spokesmen see cable tv--with technological advancements--making a transition from a mere extension of conventional tv services to a more sophisticated media. By way of the cable, CATV has the potential of being the entertainment/informational system of the future. Some of the development possibilities include a wide variety of uses for the home, school and business: two-way communication for educational, medical, political and legal consultation; safety devices, burglar alarms; electronic reproduction of newspapers and books; data transmission; armchair shopping; delivery of telegrams and mail.

Cable Television and the more sophisticated Cable Communications system that may develop later, interest Dayton's Blacks as they do other informed individuals. The need for a high-quality system and well-rounded sequence of programs designed for participation by residents is essential. Responsiveness for Blacks however must go beyond programming;

---

[1]National Cable Television Association, "Cable Television Fact Sheet," CATV News Release (February, 1973).

other potentially rewarding economic, social and political opportunities lie in owning and operating these systems. For the foreseeable future Cable Communications is the last stronghold of the communications industry.

CHAPTER I

THE ISSUE

Black business and programming efforts in Radio, Television and Cable Communications have in the past been very limited in number and scope. The widening gap of inequality in media control and programming are the central issues of concern. The most significant factors causing the under-representation of Blacks in the communications industry include the lack of exposure to business operations, lack of management skills, inadequate financial resources and little influence on programming.

Of the 7,000 radio stations now in operation only about .2% are owned by Blacks.[1] Generally these stations have been confined to small operations whose primary, if not exclusive, reason for existence has been to concentrate heavily on Black talents and services. Over 300 other "Soul" stations with basically the same format operate in Black communities across the country, the important difference is that these stations are owned by outside interests.

There are 906 television stations in this country none of which are owned by Blacks and none are programmed specifically for Blacks.[2]

---

[1]Urban Communications Group, "Black Caucus Holds Hearing on White Mass Media," Black Communicator (May, 1972), p. 15.

[2]Ibid.

In comparison, the present status of Black ownership and control of cable television is equally limited. Facts and figures indicate that more than 50% of CATV systems are owned by companies that have other media interests. Cross ownership patterns show that broadcasters own 38%, newspapers and other publishers own 9%, while telephone companies and motion picture companies own 13%.[3] These companies and other wealthy investors control most of the nation's cable systems.

Those are the bare statistics of the problem. Essentially, they describe the present ownership and programming access to instruments of communication and the trends speak very poorly for future access as well.

Now after having gone for so many years with a record like this, why is there so much apprehension about ownership and programming of cable television, and why is the fear of programming the greatest obstacle to the development of a community-oriented system? After all, isn't cable television required by law to operate in the "public interest, convenience or necessity?" But then, wasn't that law first designed to commit radio and television ownership to the same principles? So why is it necessary for Blacks to buy, for millions of dollars, a cable system for self-expression?

The fact is, the patterns of television and radio have taught minorities that they are programmed for "[mass] public interest, [mass] convenience [and economic] necessity." This is the popular association of private and absentee ownership with exploitation and inaccessibility.

---

[3]National Cable Television Association, "Cable Television Fact Sheet," CATV News Release (February, 1973).

Black owned radio stations are no exceptions to this rule, their programming reflect the same basic interests.

Now comes Cable Communications which for the foreseeable future is the last stronghold in the communications industry. Its potentials for minority participation is limited only by its ownership and control. Overall success of cable is not dependent upon revenue form advertising but subscriber fees.

The basic elements to be developed by Blacks and for Blacks can be defined in economic, social and political benefits. The following is a partial list of developmental possibilities:

Economic

....Black ownership
....promotion of services of Black owned businesses
....cash generated remaining in community
....revenue from sale of services to businesses
....revenue from leasing of channels and advertising fees
....revenue from sale of services to other cable companies

Employment

....employment on a non-discriminatory basis
....new professions for Blacks

Educational

....continuing education courses designed expressly for cable transmission and ranging from pre-school to university level
....special education for handicapped and unskilled individuals

Information and Safety

....job information
....medical and legal information

....social services
....emergency warning system
....two-way transmission
....continuing weather and time reports
....stock market and financial reports

Political

....exposure of national and local candidates' positions and ideas
....presentation of local meetings

With the prospects of profitable ventures in cities, cable investors are applying for franchises to develop and control these additional systems. Many of which will serve areas with a high concentration of Blacks. The need for these Black communities to challenge outside ownership and exclusive control of programming of cable systems is a fairly new idea, so new in fact that there are scarcely any models or experience to draw on--most leaders are still uninformed and uninvolved. Cable's growth has been so rapid that only through informed action about the complexity of the problem and opportunities present can leaders mobilize the human, professional and financial resources within the community for meaningful results.

Therefore Black leaders must begin by honestly and systematically assessing the differences that exist between their community and the companies they are challenging. They must admit that few Blacks are prepared to construct and operate a Cable Communications system without some assistance. With few exceptions, Black communities do not possess the technical knowledge, capital or the management skills that are essential.

Blacks are currently facing problems that require immediate attention if they are to develop a truly representative communication system.

At this stage in cable development, Blacks in the cities can prevent many outside investors from owning the systems which will serve their community, and where this type of ownership already exist initiate steps to challenge its right to continue. This is possible only if they are able to recognize what human and professional resources are available within their area and how they can be assembled and fully utilized to produce economic and political strength.

One solution to the problem being discussed is a program based on large-scale ownership within the community rather than private individual control. Very few communities however, would be able to support such a financial venture, even if the management resources were available. Cable systems for cities would average between $2 million and $20 million in construction costs. This is unrealistic for any Black community when more promising solutions are available. It is with one of these "other" solutions we are now concerned and ready to explore.

Our attention can now be directed to a concept which not only employs a large-scale ownership program in the predominately Black community but a partnership with the White business community as well.

Black leaders in evaluating prospective partners must realize that the crucial ingredient in all successful efforts is a sound organization on both sides and they are seeking a partner for the purpose of acquiring from that partnership, skills and resources they lack. A close and equal working relationship in areas of goals, finances and management is essential. With this in mind Black leaders must make every effort to identify and investigate only those alternatives that will result in a 50/50 partnership of ownership and management arrangement.

Before evaluating the prospective partner's organization however, leaders must evaluate their own. Without exception, goals and resources must be consciously determined, defining what ends must be attained, and on this foundation mobilize resources available. As a result of this systematic appraisal inadequate resources can be accurately assessed and goals to be achieved from a relationship with the White business community can then be defined and steps initiated to select a suitable partner.

Whatever the alternatives, negotiations must be preceded by a selection based on an investigation of each investment opportunity to accurately identify the company or individual, past business conduct, present and future negotiations that might affect the relationship, resourcefulness, possible problem areas, and what the prospective partner's objectives would be in such a partnership. Productivity depends on the contributions of each partner in a cooperative relationship that clearly defines the roles, needs of each partner and option to dissolve partnership in a climate of openness and mutual trust.

Inherent in all partnerships is a state of dependency on the other partner's resources, and it is this continued state of dependency that Blacks must guard against. Long term goals of any association should include the establishment of Blacks with managerial ability fully prepared to manage cable operations. The association will also provide Blacks with the necessary contacts with financial institutions that will later benefit future ventures of individuals and groups within the community. Multiple goals are necessary if Blacks are to develop those resources they now lack and need for future bargaining power on an equal basis in this and other businesses.

Having highlighted some of the limitations inherent in the Black community it is now helpful to provide leaders with a model employing what may be the most practical solution that has developed in such an environment. Still in the development stage, the planned Southwest Dayton, Ohio Cable System can provide such a model.

CHAPTER II

THE DAYTON MODEL

Over the last decades Dayton's Black leaders' interest in economic development, political power and the environmental pressures on Blacks have expanded rapidly. As needs have increased, leaders and organizations have begun to study and influence the changing aspect of their environment.

Until recently, most activity had been directed to areas other than ownership and operation of communication media. Now however, leaders realize that a stronghold in the communications industry is essential to the total development and interrelationships of all aspects of community life.

This realization came earlier from eminent leadership: George Washington, Paul Pear and Dr. Arthur Thomas of the Model Cities Planning Council obtained information through their association with the Urban Law Institute in Washington, D. C.; enlightment also came from J. E. Cromartie a surgeon, and the Honorable C. J. McLin, Jr. chairman of the executive committee of Cypress Cable TV of Dayton, Inc. Charles Tate, editor of <u>Cable Television in the Cities</u> advised the Southwest of cable's importance and potentials initially through close friends. Later there were additional sessions with Tate and other communications specialists, Ted Ledbetter, engineer and President of the Urban Communications Group and

Bill Wright, National Coordinator of (BEST), Black Efforts for Soul in Television.

It was only a short time before Blacks began to realize that the prospect of Cable TV for Dayton was well into the initial planning stages. A sequence of events that preceded the Rand Conference made the Southwest's response to its implications even more intense. Through the years Dayton has seen Blacks unite through various coalitions. The Citizens for Equal Services had been organized to oppose a city income tax shortly before the conference at Sugar Creek. Chairman Richard Austin Esquire, individuals and representatives from various groups formed this new coalition as their respective groups continued to work in their specific areas: SCLC with discrimination in the police department; the NAACP with the schools; and the Model Cities Planning Council with federal programs.

The Citizens for Equal Services' opposition was a very professional undertaking, monies had been collected for radio spots, newspaper advertisement, posters and mailers. After the campaign, the coalition decided to look at another issue that required immediate attention--regionalization. One-third of Dayton's population is Black, they have one-third the land and they are demanding one-third the jobs and involvement. Many services are going regional, including the transit authority, hospitals and parks. Blacks are only eight percent of the region and this trend toward regionalization poses a threat. The next endeavor was to oppose regionalization and where it did occur to make sure that Blacks would have a representative involvement.

The break for another effort came shortly after, when the Rand Study of Cable Communications in the Dayton Miami Valley was released.[1] Underlying the study was a proposal for a regional system with one operator--Area Finances had already earmarked $22 million to construct it. The failure of the researchers to consult Dayton City Commissioners during the study or provide for minority participation in ownership gave the opposition cause to organize its forces.

The existence of the coalition enabled the community to immediately seize the opportunity to voice their ideas publicly. Being activists they were not interested in a passive capacity of finding new employment opportunities or merely studying and understanding Cable Communications. One week before the Rand Conference at Sugar Creek, Dayton's Blacks held a conference of their own--the People's Conference--where the Model Cities Planning Council and the Alliances of Churches joined the coalition to consult Ted Ledbetter, Charles Tate and Bill Wright.

Participation at the Rand Conference was undertaken as another step toward showing that Blacks rejected a regional system. Leaders soon made it clear how Blacks were determined to relate to Cable TV in Dayton, and that their attention had been addressed to several facets of cable's growth potentials for some time. Black attorney James H. McGee, Mayor of Dayton, was quite adament in supporting the position that Dayton would not subsidize the suburban cable development through a regional system. Interestingly enough, it was at this point that others at the conference concerned with this and other problems began to speak.

---

[1]L. L. Johnson, W. S. Baer, and others, Cable Communications in Dayton Miami Valley: Basic Report (Santa Monica: Rand Corporation, 1972).

Having provided financial support for the Rand Study in conjunction with the Ford Foundation, the Charles F. Kettering Foundation later found itself in a position of apologizing to Black leaders for the implications of the study--no racism was intended.

The basic disputes for Blacks however, were by no means resolved. The Southwest section of the city, 85% of which is Black, would not have a representative voice in a cable system for Dayton.

Pressed by the lack of sufficient funds and information with which to work, Blacks found the prospect of an independently owned cable system for the Southwest neither feasible nor desirable. Eager leadership continued to search for creative solutions. Municipal ownership was discussed but it never developed. The reasons for rejection can be attributed to broad objections of possible ineffectiveness and lack of direct control.

Fortunately for the Southwest, there had not been any formal bids for the Dayton franchise, companies were still investigating possibilities. Cypress Cable TV of Dayton, Inc. was organized for just that purpose and its minority involvement was through State Legislator C. J. McLin, Jr. and Dr. J. E. Cromartie. Later they presented the coalition with a deal from Cypress--20% of the shares in the Dayton system.

The coalition, Citizens for a Better Dayton, representing the "total" Black community, refused to consider any arrangement that would not put them in a position of ownership control.

Unmistakable in the first stages of any negotiation is an air of skepticism and mistrust on both sides. In this case, they were resolved as the objectives of both sides were defined. As Cypress and the coalition began to look at other possibilities, the community was kept informed of each consideration to be voted upon. When the negotiations began to move too rapidly to obtain consensus on each issue, ten individuals were empowered to continue the negotiations. After three months, the Plan For Minority Participation in a Cypress Cable System in Dayton, Ohio was developed.

Before CCC was legally instituted, the coalition was changed into an Advisory Board. After the incorporation, the 35 members were sold a share of stock to allow them to select a permanent Board of Directors and Officers for CCC. The shareholders then authorized the issuance of 10,000 additional shares to be sold to the Southwest residents upon award of the franchise.

5-2-72

A G R E E M E N T

--ooOoo--

AGREEMENT made this 4th day of May, 1972, between CYPRESS COMMUNICATIONS CORPORATION, a Delaware corporation ("Cypress"), and CITIZENS CABLE CORPORATION, an Ohio Corporation ("CCC").

This Agreement is made under the following circumstances: Cypress is a publicly owned company which has been engaged for some time in the business of constructing and operating cable television systems throughout the United States and which desires to be involved in such business in the Dayton, Ohio area. CCC is a newly organized Ohio corporation to be owned primarily by blacks who are residents of southwest Dayton which also desires to be involved in the cable television business in the Dayton area. Cypress and representatives of CCC (Prior to its incorporation) entered into a general understanding covering their joint participation in the cable television business in the Dayton area as outlined in a Memorandum of Agreement dated April 11, 1972 and a "Plan for Minority Participation in a Cypress Cable System in Dayton, Ohio" (the "Plan"). Now that CCC has been incorporated, the parties wish to enter into a formal agreement specifically setting forth the basis upon which they shall attempt to jointly participate in such business.

NOW, THEREFORE, the parties agree as follows:

1. The parties shall organize a new Ohio corporation (hereinafter called "SW") to prepare and file an application to obtain a franchise authorizing the construction and operation of a cable television system for the southwestern portion of the City of Dayton which (according to the

1970 census) had a greater than 50% non-white population (see figure 4-8 of The Rand Corporation Study Report). Said southwestern portion is hereinafter called the "Territory".

2. CCC shall have sole and exclusive control of the studios and the program origination facilities which will be used to discharge the obligations of the franchisee and will be located in the Territory. The fees to be paid by SW to CCC for such services shall be determined by agreement from time to time and shall be competitive with the fees paid for similar services. Any amount paid pursuant to the next paragraph shall be considered part of such fees.

If no franchise fee is payable to the City of Dayton or if the franchise fee shall be less than 5% of the gross revenues of SW from cable subscribers in the Territory, Cypress and CCC shall cause SW to pay to CCC the difference between such 5% and the franchise fee payable, but in no event less then $20,000 per year for the first five years.

In addition, CCC will engage in the other activities described in Paragraphs 4 and 12 of the Plan and its charges for such services shall be determined by agreement with its customers.

3. It is contemplated that CCC shall raise the equity required of it hereunder by the sale of its common shares to the public in a so-called "intra-state offering" and that CCC shall have a reasonable time after the award of the franchise within which to raise such equity, that is, until such time as its failure to raise such equity shall prejudice SW in its efforts to retain the franchise for the Territory, but in no event more than twelve (12) months after the award. IF CCC fails to do so within such period, Cypress shall have the right to terminate this

Agreement and take such action with respect to the franchise for the Territory as it deems advisable to protect its interest, including, without limitation, the right to attempt to secure the franchise for itself or jointly with others.

In the event that CCC shall raise the required equity, it agrees promptly thereafter to call a meeting of its shareholders for the purpose of electing a new board of directors.

4. If CCC shall have shareholders equity (as defined below) of not less than $100,000, Cypress will lend to CCC the difference between $500,000 and the amount of its shareholders equity. The loan shall be evidenced by CCC's cognovit note providing for payment of principal ten (10) years after the date of the loan, and bearing interest payable quarterly at the prime rate charged by the largest commercial bank in Dayton, Ohio for 90-day unsecured loans, said rate to be adjusted quarterly. The note shall contain such other reasonable provisions as Cypress shall request and shall be secured by the pledge of 60% of the shares of SW owned by CCC, said pledge to contain such reasonable provisions as Cypress shall request. In addition, CCC and Cypress will enter into a loan agreement containing such warranties and covenants by CCC as are frequently found in bank or insurance company term loan agreements, including limitations on cash dividends, salaries or other expenses which might prejudice CCC's economic viability, and providing that the board of directors of CCC shall not exceed 11 members, 2 of whom shall be designated by Cypress.

Shareholders equity shall be determined in accordance with generally accepted accounting principles consistently applied and reasonably acceptable to Cypress and after deduction of all organization costs, start-up costs and costs (including underwriters commissions) of raising equity, it being the intention that CCC shall have available at the appropriate time not less than $100,000 in cash, which shall be in excess of the cash needed to discharge all liabilities, and which, when added to the proceeds of said loan to be made by Cypress, will enable CCC to purchase 50% of the common shares of SW for $500,000 as provided in Section 5 below.

5. The parties hereto will each buy 50% of SW's common shares for $500,000 cash. To the extent that SW is unable to do so, Cypress shall obtain credit for it in the amount of $1,000,000 in the form of bank loans, suppliers' credit or otherwise, on such terms and conditions as are usual and customary in the cable television industry and secured by such pledges and guarantees as may be required by the creditor and reasonably acceptable to Cypress. Such funds shall be used to construct the cable television system for the Territory.

Until such time as CCC shall have repaid the loan to be made to it by Cypress as provided in Section 4 above, CCC agrees that the board of directors of SW shall not exceed nine (9) directors and that a majority of the directors of SW shall be designated by Cypress, and CCC further agrees to vote its SW shares for the election of such designees.

6. For a period of two (2) years commencing upon such date as SW shall have paid in full all of its debts, other than normal current operating expenses, CCC shall have the option to purchase from Cypress all of the SW shares owned by it at the fair market value thereof. If the parties fail to agree upon such value, they shall mutually designate an

appraiser. If they do not agree upon an appraiser or if he will not serve, the matter shall be determined by arbitration in accordance with the Rules of the American Arbitration Association. The appraiser or the arbitrator, as the case may be, shall consider all relevant factors in attempting to determine the fair market value, including the market value of shares of other companies engaged in a similar business, provided that the franchise shall be deemed to have a remaining term of ten (10) years. The decision of the appraiser or the arbitrator, as the case may be, shall be final and conclusive on the parties. The expenses of the appraiser or the arbitrator, as the case may be, shall be divided equally between the parties.

7. If the cable television franchise for the remainder of the City of Dayton shall be granted to Cypress Cable TV of Dayton, Inc. ("Dayton"), CCC shall have the option to require the merger of SW and Dayton as herein provided. The merger shall be accomplished upon such terms and conditions as shall be agreeable to the parties, SW and Dayton, including agreement upon the fair market value of the shares of SW and of Dayton. In determining fair market values, the factors referred to in Section 6 above shall be used.

If the parties, SW and Dayton do not agree upon the terms and conditions of the merger, the parties, SW and Dayton shall designate an arbitrator to determine such terms and conditions. If they do not agree upon an arbitrator or if he will not serve, the matter shall be determined by arbitration in accordance with the Rules of the American Arbitration Association. The decision of the arbitrator shall be final and conclusive on the parties, SW and Dayton. The expenses of the arbitrator shall be divided equally among the parties, SW and Dayton.

This option shall exist until CCC shall own less than 40% of the outstanding shares of SW.

8. Cypress shall employ, at its expense, a full time training director who will be assigned solely to CCC for the purpose of developing and implementing a training program for residents of the Territory to develop skills useful in the cable television industry. Persons who successfully complete such program will either be employed directly by Cypress, CCC or a team of trainers which will be assisted by Cypress personnel, depending upon the need at the time for persons with the skills involved. It is anticipated that such a training program will permit CCC to employ persons qualified to enable it to sell its services as provided in Section 2 above.

9. In the construction and operation of a cable television system, many services and functions are required, including those listed in Paragraph 12 of the Plan. From time to time Cypress engages contractors to perform many of such services in its cable television business operations and it shall engage CCC to perform as many of such services as CCC is qualified to render on a timely and competitive basis.

10. The parties shall cause SW to establish a college scholarship fund of $2,500 annually for a minimum term of four (4) years to be awarded to or for the benefit of one or two residents of the Territory who, in the judgment of the Board of Directors of CCC, show the greatest promise of achievement and accomplishment in the cable communications industry. Cypress will establish a similar college scholarship fund to be similarly awarded.

Cypress will offer or cause to be offered to the recipients of the scholarships appropriate and responsible employment upon their graduation from college.

11. Cypress shall adopt affirmative fair employment practices in all of its cable television activities in the Dayton area for the purpose of eliminating discrimination and assuring full and equal employment opportunity to all persons. Cypress shall negotiate the specific provisions of such policies with CCC and shall apply such policies throughout the area.

12. This agreement shall not be assignable by either party hereto. Nothing in this Agreement, expressed or implied, is intended to confer upon any person, other than the parties hereto, any rights or remedies under or by reason of this Agreement.

13. All notices hereunder shall be in writing and shall be delivered or sent by registered or certified airmail to CCC or c/o Richard Austin, 323 Salem Avenue, Dayton, Ohio 45406 and to Cypress c/o Leon N. Papernow at 10880 Wilshire Boulevard, Los Angeles, California 90024 or to such other address as such party may designate in a writing sent to the other party.

14. This agreement embodies the entire agreement between the parties with respect to the subject matter hereof and there have been and are no agreements, representations or warranties between the parties other than those set forth or provided for herein, and this Agreement may not be modified or terminated orally.

15. Each party agrees to fully cooperate with the other party, to use its best efforts and to proceed with the utmost good faith and all

reasonable speed in the performance of and compliance with the obligations imposed upon it and the exercise of the rights granted to it by this Agreement, to the end that the intent and purposes of this Agreement shall be carried out in a lawful and appropriate manner.

16. The certificates for shares of SW shall bear an appropriate legend stating, in substance, that such shares are subject to the provisions of this Agreement.

17. Except for Sections 1, 11, 12, 13, 14, 15 and 16 hereof, this Agreement shall not be binding upon the parties unless and until a cable television franchise shall be awarded on or before December 31, 1973 by the City of Dayton (a) to SW for the Territory, upon such terms and conditions as shall be satisfactory to CCC and Cypress and (b) to Dayton for the remainder of the City of Dayton, upon such terms and conditions as shall be satisfactory to Cypress.

IN WITNESS WHEREOF, the parties hereto have executed this agreement on the day and year first above written.

CYPRESS COMMUNICATIONS CORPORATION

By ______________________________
Leon N. Papernow
Executive Vice President

CITIZENS CABLE CORPORATION

By______________________________
Richard Austin
President

CHAPTER III

CONCLUSIONS

Looking toward the future, it is difficult to form a clear concept of the possible operations under the preceding plan without experience and the actual proposal. At the time of this writing, the proposal was still confidential and will continue to be until the opportunity is presented to submit it to the five city commissioners. Speculation as to its future difficulties can only be discussed in broad terms--we can only reflect on attitudes.

In the beginning, progress will probably be slow due to specific business arrangements between the partners not yet established. Inevitably, there will be many disappointments and mistakes due to changing business conditions. Whatever the obstacles, I am impressed by the leadership qualities of both partners. Having been exposed to the problems discussed, I have greater confidence in this approach than others that are now available. The initial challenge to formulate a plan to allow Dayton's Blacks to own and operate a Cable TV Corporation and provide other communities with a model agreement has been met.

For simplification, throughout the preceding chapter, I have purposely referred to the business partner of CCC as Cypress without any indication of its acquisition by Warner Communications Corporation of Los Angeles. This must now be dealt with as a possible problem area. The agreement finalized in September 1972 was being negotiated at the time of the contract with CCC. Black Communicator reported in its June 1972 issue the comments of Richard Austin, President of CCC who at the time of the proposed acquisition had no indication of any changes in their contract with Cypress.[1] After Cypress had been merged into Warner's subsidiary, Tele-Vision Communications Corporation, CCC was again assured that Warner would comply with the original contract.

While there may be no changes in the broad written provisions, there will undoubtedly be difficulties in outlining and interpreting the specifics of the contract. Upon award of the franchise the partnership will be faced with all the problems of any new corporation: franchise regulations, detailed business arrangements, election of officers, personnel, penetration of the system, payment of debts, and constantly re-defining the roles of each partner. These and other problems are why a single, satisfactory agreement covering every aspect of the partnership is not possible or realistic, conditions vary too much and far too often.

A brief examination of some of the salient features and implications of the Plan[2] and Agreement will reveal the roles of each partner. The role of Cypress can be summarized in four principal forms:

1. Financial resources--including capital to promote system before and after award of franchise;

2. Experience as a multiple systems owner with technical expertise;

3. Scholarship and training programs for residents;

---

[1]Black Communicator (June, 1972), p. 5.

[2]Plan for Minority Participation in a Cypress Cable System in Dayton, Ohio, Appendix C.

4. Unwritten commitment to utilize services of the Black-owned Unity State Bank and other Black-owned businesses throughout the partnership.

The Black partner will in return:

1. Provide political support toward obtaining the Dayton franchise;

2. Manage and control the Southwest system;

3. Involuntarily create an image for Cypress in other urban communities across the country.

Earlier in Chapter I Blacks were cautioned to guard against a state of dependency on the resources of the White business community. The Plan for Minority Participation in a Cypress Cable System in Dayton, Ohio provides for scholarships and training programs for Southwest residents, out of which will emerge new professions for Blacks. The training for Black managers should be of the same intensity and duration as the training program for managers in other businesses. Principles and theories must be learned, the success and failures of past practices must be analyzed, and company policies must be explored during actual business operations. Prospective managers, under experienced guidance, must have the opportunity to express their own theories and have them evaluated.

Emphasis should be placed on a training program of at least one year but no longer than three years. The program can be divided into two phases: internship in one or more of the partner's companies and residency in the partnership company.

Ideally, the interests of both partners should be represented and understood by management. To accomplish this, especially in the initial stages of development, it would be necessary for part of the training to be conducted inside the companies of the White business partner and finally in the partnership company in the midst of their own problems and situation.

For the observer unfamiliar with the motivations of business, the Agreement and Plan might imply that Cypress' involvement with the Black community was first one of social responsibility. On the contrary, it is one of self-interest. Social rewards will be a by-product. The real motivation was the realization that the chances of obtaining a franchise for the southwest would be nil without the participation of Blacks, who on the other hand, had their own ideas of how they would "participate."

The following are excerpts from Cypress' "Annual Report 1971" expressing their basic philosophy:

TO OUR SHAREHOLDERS

> ... During the past fiscal year, management has devoted its time to strengthening the financial position of the Company, consolidating operations, strengthening its management team, and undertaking a major effort to obtain CATV franchises in a sizeable number of large cities. These actions should have profound effect on the Company's long-term revenues and profits.
>
> We also have been aggressively seeking to acquire other existing cable systems in order to enlarge our subscriber base and to increase our earnings per share....

Acquisitions

> Cypress has entered into an agreement, through an exchange of stock of the companies, to acquire Kern Cable Company, Inc., which owns and operates CATV systems in Bakersfield, Delano, McFarland, Shafter and Wasco, all in California. The systems encompassing 45,000 homes, presently serve approximately 20,000 subscribers. The Kern acquisition is significant both in terms of its present size and because we believe that the area served by Kern will continue to grow substantially in the coming years.
>
> Cypress recently announced an agreement in principle to acquire 80% of a company which has already started construction of a system in Columbus, Ohio, the nation's 21st largest city. The franchise area

comprises over 200,000 homes. Construction of an 800 mile, two-way cable system commenced a few months ago and will pass over 80,000 homes.

The Lake Arrowhead CATV system, approximately 80 miles from Los Angeles, serving over 2,000 subscribers in a renowned winter and summer recreation area, was purchased by Cypress for cash and notes, from Skyline TV Cable, Inc., on July 1, immediately after the close of our fiscal year. The resort community now consists of over 6,000 homes. The developers of the Lake Arrowhead area project an additional 5,000 dwelling units within the cabled area in the near future.

An agreement in principle has been signed to acquire, for cash and notes, two cable systems in Niceville and Crestview, Florida. These systems serve approximately 2,000 subscribers and are adjacent to the Company's system in Fort Walton Beach. This acquisition is an example of our policy of acquiring smaller systems near to larger systems already operated by the Company.

Cypress has agreed to joint venture the construction and operation of a new cable system in Hanford, California and its surrounding areas which will encompass approximately 15,000 homes. This area should provide us with a substantial number of additional subscribers when the importation of distant signals is authorized by the Federal Communications Commission.

Upon consummation of announced acquisitions, total homes in the Company's franchise area will increase from approximately 207,000 to over 407,000.

Franchise Development

It is anticipated that the Federal Communications Commission will soon allow cable systems in large urban areas to provide viewing of several distant television stations not normally available to viewers using household antennas. We feel that these additional signals together with other locally originated services will attract a sufficient number of subscribers to allow for the operation of economically sound systems in such large markets.

Our renewed confidence in the impending authorization by the FCC has encouraged us to expand our franchising activities. Cypress is an applicant for CATV franchises in 40 major cities, including Chicago, New Orleans, Dallas, Indianapolis, St. Paul, Dayton, Miami, Louisville, Memphis, Stockton and Sacramento....

Subscriber Services

... Cypress shares the oft-repeated and widely-voiced belief that the CATV industry stands on the brink of an enormous expansion of its communications capability moving toward a wired nation....

> As we look ahead, we believe that antenna service will become only one of many sources of revenue for a cable system. Other sources will include burglar alarm system, computer access in the home, non-broadcast entertainment features, newspaper printing in the home, two-way communication, and many other services. These cable services will become "standard" fare in our industry; i.e., automatic shift, power brakes, FM radio, etc., are standard today.... [We've planted 43 CYPRESSES in 100 communities and ... we're just starting to grow.]

The following are excerpts from Warner's "Annual Report 1971" to its shareholders:

> ... We want you to know why we set our new corporate direction and why cable television is an essential part of this new direction.
>
> When we acquired Warner Bros. Inc. in 1969 it was with three basic objectives in mind. First of all, Warner Bros. Inc. had a fine recording and music business growing at a tremendous pace....
>
> Secondly, it was our belief that motion picture production could be organized within the current market structure on a profitable basis--and this we proved conclusively by the summer of '71.
>
> Third, we were convinced that there would be a new market potential for motion pictures by reason of the development of new technologies. Hence, in 1969, we commenced the exploration of the new technology, principally audio-video cassettes and cable television. By mid-1971 we had concluded that cable television was manifestly destined to be an important home communications medium in the future.
>
> ... Principal studies of future cable growth have concluded that one of the major thrusts for growth will be the ability of cable television to provide on a fee basis special entertainment programs such as first-run motion pictures. The advantages of our expanding into cable television were thus apparent. Motion picture production would benefit as cable television grew and cable television would grow in part as a result of motion picture.... We are confident, ... that when the cable business begins to generate meaningful earnings we will be more than amply rewarded for our investment of time and money.

CHAPTER IV

SUMMARY AND RECOMMENDATIONS

Summary

Most Blacks would agree to the necessity of seeking and accepting assistance from established sources in some form to develop inadequate resources for future bargaining power in Cable Communications. The shortage of financial resources, management and technical skills make this imperative. The widening gap of inequality in media control and programming are the central issues of concern. The central dilemma underlying these issues is based on a single percept: how can Blacks utilize White experience, capital and technical expertise in cable without subverting control?

There are no simple answers, but we do have access to the Plan and Agreement between CCC and Cypress that outline one solution to the problem. Essentially, the model says a full treatment of the subject requires lengthy and systematic investigation of all aspects of cable resources and alternatives. The statements that follow outline the organizational and developmental tasks:

I. Organize a coalition with individuals and representatives from various organizations representing the "total" community--while their respective groups continue to work in their specific areas.

Let me clarify the problem of representing the "total." The fact is, the term is very misleading; the dennotative meaning cannot possibly be fulfilled. If we look at the population of a community we would discover that only a small portion is "active" in economic, social and political reforms. Blacks' objectives for Cable Communications include development in all three areas. The implications are that we are primarily concerned with the "total active" organizations and individuals in these areas who attempt to represent their segment of the "total."

Prepare a list of voluntary and professional organizations in the community and classify them according to their specific endeavor. Next categorize the members according to their occupations. For professional organizations this will be relatively easy. In the case of those of a voluntary nature each group should be asked to supply the information.

For analytical purposes to be described later in determining the needs of the community in finances, management and technology, the following occupational categories in public and private businesses and institutions should be recognized:

1. Professionals such as lawyers, accountants, consultants, engineers, doctors, educators, financial and property advisors, judges, certified life underwriter, columists, etc.

2. Political leaders in city, county and state government.

3. Technical personnel such as engineer assistants, administrative assistants.

4. Entrepreneurs, contractors, bankers, managers and administrators, etc.

Invite these organizations to send representatives to form this new coalition. The foregoing list should be prepared early in the organizational activities--it may be necessary to draft additional professionals who are available.

After having formed the coalition, the second step is to choose leaders. Candidates must be selected on the basis of having demonstrated an understanding of the problems facing the community, professional competence, executive ability, and administrative talent aside from a capacity to grasp additional knowledge. They must be individuals who will research subjects and issues and initiate steps to discover alternatives. The candidates more than any of their associates, must have personal appeal and be able to "sell" the overall program at all times.

The next step is to select members to form different committees according to present and future tasks, including advertising and fund raising. The committee that requires special attention at this point is one whose members are selected on the basis of having knowledge and experience in areas related to the problems and issues to be discussed:

1. Select a homogeneous group of business and professional men and women (lawyers, government officials, managers, consultants, engineers, others);

2. Provide them with basic materials about cable obtained from organizations in APPENDIX A;

3. Ask each professional to review material and seek to answer the following basic questions based on experience:

   In what ways is the business of Cable Communications different?

   What additional knowledge is necessary?

   When might this knowledge be needed:

II. Determine the status of cable development.

The following questions should be asked of government officials to determine the present of Cable Communications in the area:

1. Has an ordinance been adopted?

2. Are there companies applying for franchises in the area?

3. Has a franchise been awarded?

4. If so, to whom?

5. When is the system scheduled to be completed?

The answers to these questions will indicate the starting point and what future actions are most appropriate.

III. Obtain a copy of the city and/or county ordinance/franchise provisions.

It is crucial for Blacks to understand that the basic documents of regulation for cable in a territory include the ordinance and franchise agreement. If these documents are available obtain a copy and look for the following:

1. Duration of the franchise

2. Boundaries of territory to be served

3. Franchise fee and its use

4. Regulatory agency

5. Channel capacity

6. Channel allocation

7. Equipment for local program origination and public service programming

8. Interconnection to other cable systems

9. Employment practices

10. Franchisor's rights.

If these documents do not exist the following will serve as a brief description of general requirements that should be included. Sample documents are provided in the back of this text: (1) APPENDIX D--Invitation to Submit Proposals for Cable Television Service in the City of Dayton, Ohio and (2) APPENDIX E--Proposed Franchise for Cable Television System in the City of Dayton, Ohio.

1. Duration of franchise--the franchise should be limited to a term of not less than 5 years and no more than 15 years.

2. Territory to be served--definite boundaries in the form of districts should be established with reasonable dates for completion of facilities to connect residents.

3. Franchise fee and its use--methods of assessing and increasing franchise fees should be established. The proceeds of which should be used as a budget for the regulatory agency and provide funds for programming by subscribers.

4. Regulatory agency--this agency should be established before a franchise is awarded. Selection of members should be based on equal representation of residents. The initial budget would be a fee required of all applicants. In the case of one applicant the fee may be prorated over a period of 2 or 3 years. The rights of the agency must be explicit.

5. Channel capacity--the minimum initial capacity of a system must not be less than 30 channels. Provisions for additional channels and experimental services are to be included.

6. Channel allocation--in addition to broadcast signals required and permitted by FCC regulations, specify the minimum number of channels for local program origination, educational purposes, informational channels, experimental services and other community-oriented channels.

7. Equipment for local program origination and public service programming--require written statements in proposals of intentions to provide technical assistance and a reasonable number of quality equipment on a non-discriminatory basis.

8. Interconnection--candidates should include in their proposals written commitment to interconnect with other cable systems to promote regional and national programming of Blacks.

9. Employment practices--discrimination on the basis of sex, race, religion, creed or national origin should not be tolerated. Candidates are to be required to include in their proposal an outline of recruiting and training programs that will indicate their intention as to how the franchise area will be represented by their employee work force.

10. Franchisor's rights--documents must specify the rights of the franchisor including specific conditions under which franchise is to be revoked. These must include: failure to conduct business under the terms of the agreement either because of insolvency or attempts to transfer ownership without prior consent; the practice of fraud or deceit upon franchisor or subscribers; and discriminatory practices.

IV. Obtain information and technical assistance by contacting organizations in APPENDIX A.

V. Diagnose the needs of the community in relation to finances, management and technology.

Reference was made earlier in organizational task I to categorize members of voluntary and professional organizations according to their occupations. This quantitative data can serve to accomplish two principal objectives. The first is to estimate the number of persons in strategic professions of finances, management and technology. The second is to estimate the number of possible investors among these and other occupational categories within the community.

Another indicator of available resources is the placement office in colleges, universities and technical institutions which will readily supply such information. Other relatively inexpensive methods include advertising in school newspapers and professional publications. A more direct method is to tour these campuses as a team and exchange ideas with instructors and students.

Estimates of a community's financial capabilities is far less reliable and more expensive than the diagnosis of its technical and management resources. One approach to such an estimate requires the

professional guidance of a brokerage firm--perferably one that is a member of a major exchange. (Later, this firm can be instrumental in providing information on prospective partners and municipal ownership.)

This approach has two major aspects: (1) a prospectus and (2) a subscription application. In accordance with legal requirements the prospectus will state for the potential investor:

1. The prospective incorporators and their business affiliation and/or position in the community
2. Minimum or maximum number of shares committed for incorporators
3. Brief discription of proposed business and market needs to be served
4. Proposed capitalization, distribution structure, subscription price and maximum number of shares per subscriber
5. Final date for acceptance of subscription
6. Statement of conditions under which payment for subscription may be called.

The subscription application will in turn supply the incorporators with information including:

1. Applications for a said number of shares
2. An estimate of capital that will be available
3. Indications of general acceptance and support.

VI. <u>Conduct conferences and workshops with communications specialists to inform residents, estimate cost of system and re-evaluate objectives</u>.

The "ownership" concept in Black America is a growing one. Now, Cable Communications is a part of that concept. Education and involvement of residents are necessary conditions for achieving this goal. Conferences have a dual purpose in this process. There must be an exchange

between residents and individuals, who have researched the topics surrounding cable, to correct any misinformation and misunderstanding. During the process of transmitting this information the issues and problems must be defined in a way which will clearly define the commitment of the leaders and their need for support to attain these goals.

The first conference may be held to give general information about Cable Communications including its social, political and economic implications for the community. Later, when a communications specialist is available, another conference may be held to share additional information and ideas.

To facilitate effective use of time available and necessary exchange of ideas, workshops with communications specialists should be limited to 15 participants. These sessions will be helpful in discussing many facets of Cable Communications that will otherwise be neglected during conferences.

VII. Transfer objectives into a proposal and submit it to the city or county government for inclusion in the ordinance.

The local regulatory process depends chiefly on ordinance and franchise agreements. Provisions to be included in these documents must be stated in legal and explicit terms. The basis for these provisions should focus directly on issues and objectives of the Black community formulated during conferences and workshops.

A thorough knowledge of FCC regulations and guidelines is necessary. They can be obtained by writing or telephoning the federal agency directly:

Federal Communications Commission
1919 M Street, N.W.
Washington, D. C. 20554

(202 655-4000 or (202) 632-6480

The urban Law Institute and legal departments of organizations listed in the back of this text can assist in the interpretation of these documents. They can also be helpful in translating the objectives of the community into legal terms of minority concerns. "An Invitation to Submit Proposals for Cable Television Service in the City of Dayton, Ohio" will serve as a guide to outlining specific questions to be answered by franchise applicants.

Once the proposal has been submitted to the local government it will be necessary to exert political pressure in varying degrees to assure that the needs of Blacks are amply provided for. An outline of the strategy of such pressure must be planned well in advance to include the participation of all active organizations and individuals. Conditions will dictate the dimensions of such efforts.

VIII. Conduct studies to identify, evaluate and compare prospective partners.

There are a number of sources from which a community can seek assistance in identifying prospective alternatives ranging from government agencies to private concerns. All of these should be utilized before a partnership agreement is signed.

A brokerage firm affiliated with a major exchange can provide a wide range of valuable services including facts on municipal ownership. A broker can assist you in preparing a prospectus which would serve the same purposes for the prospective partners as it does for individual investors. He will look at your present situation and evaluate ways of presenting the facts to your advantage.

These advisors also have easy access to the annual reports of publicly owned stock companies which not only state the financial condition of the business but its philosophy as well. These reports are prepared at the end of the company's fiscal year. Dun and Bradstreet reports are also essential.

Excerpts from the Annual Report 1971 of Cypress Communications Corporation and Warner Communication, Inc., are on pages 27-29 of this thesis. Financial statements from the same reports are in APPENDICES F and G for inspection.

Business contacts of prominent members of the community should not be overlooked. These contacts may be the result of an association in professional organizations. The performances and principles exhibited by these companies are constantly being scrutinized by the public and other businesses.

Another possibility is a partnership with other cable companies that have already initiated steps for a franchise as in the Dayton model.

IX. Agree upon an appropriate course of action.

Once alternatives have been identified negotiation can begin. Local leaders, however, should not stand alone in conducting these negotiations. A representative experienced in cable operations and regulations should participate. The Urban Communications Group of Washington, D. C., can assist in recommending a consultant.

The appropriateness of a solution for a community will depend on the resources in the community and the companies it has been able to attract. Few communities will be as fortunate as southwest Dayton in its initial efforts and this is why it is so important for leaders to seek professional help in all areas of cable and business. The cost of these advisors will be more than justified by the end results. Even when the franchise has not been awarded to the local company Blacks will have at least seized the opportunity to provide for their interests in local documents.

For communities that are fortunate to enter into a partnership agreement the following steps should be carried out immediately:

1. Specify provisions to be included in a formal agreement
2. Translate these provisions into a newsletter or pamphlet to acquaint residents with the basic agreement (A sample pamphlet "Plan for Minority Participation in a Cypress Cable System in Dayton, Ohio" is provided in APPENDIX C)
3. Continue varying degrees of political pressure to obtain franchise
4. Begin the training of area residents for cable operations.

X. Questions of where to build studios and locate other equipment will complete the "getting started stage."

The location of studios, antenna tower and other equipment shall be determined by many factors. Cities and counties have ordinances regulating the height and location of antenna towers in their boundaries. A thorough knowledge of these statutes is necessary. To inspect available commercial property within these limits consult a real estate firm that specializes in commercial property.

Studio locations should also be chosen with care and primarily on the basis of easy access by residents. Housing units must provide ample space to facilitate programming in as many studios as necessary.

The foregoing organizational and developmental tasks are all part of a systematic attempt to produce sound Black organizations.

Recommendations

The author has concentrated heavily on reproducing available information about the planned Southwest Dayton system without comparing it to other alternatives. This is the challenge I leave to fellow graduate students and Black leaders.

I challenge graduate students in Business Administration and Communication to utilize the freedom of choice afforded them in undertaking a thesis or dissertation, to apply established principles exhibited in other business disciplines to Cable Communications and re-define them to formulate other alternatives.

Hopefully, Black leaders will accept the same challenge. Out of a sense of urgency they should consider the preceding model a preliminary effort and not wait indefinitely for supplementary material. The basic principles and objectives here are the same as in any other business. Knowledge of problems and policies in partnerships, proprietorship, corporations and aid in developing foreign countries are as much a model as the Dayton model--they need only be re-defined in the context of the present problems.

A new business is based on the concept that it can do a job equally as well or better than its competitors. Black business efforts in

Cable Communications must be developed out of a sense of self-defense of underrepresentation in ownership and programming.

I can give no better concluding advice than to recommend that leaders read the supplementary material in the APPENDICES and contact the experts in the field of communications (listed in APPENDIX A) for further assistance.

INTERVIEWS, BIBLIOGRAPHY AND GENERAL REFERENCES

INTERVIEWS

Richard Austin, Esquire and President of Citizens Cable Corporation, December, 1972, Dayton, Ohio.

Reginald Dunn, Model Cities Planning Council and Vice president of Citizens Cable Corporation, March, 1973, Dayton, Ohio.

James H. McGee, Esquire and Mayor of Dayton, January, 1973, Dayton, Ohio.

C. J. McLin, Jr., State Legislator, March, 1973, Dayton, Ohio.

Paul Pear, Model Cities Planning Council, December, 1972, Dayton, Ohio.

BIBLIOGRAPHY

Books

Tate, Charles editor. Cable Television in the Cities: Community control, public access, and minority ownership. Copyright 1971. The Urban Institute, Washington, D. C.

Articles

Black Communicator. "Black Caucus Holds Hearing on White Mass Media." Urban Communications Group, May 1972, p. 15.

________. "Warner to Merge with Cypress Cable." Urban Communications Group, June 1972, p. 5.

Documents

Agreement--Cypress Communications Corporation and Citizen Cable Corporation, May 4, 1972.

Invitation to Submit Proposals for Cable Television Service in the City of Dayton, Ohio.

Proposed Franchise For a Cable Television System in the City of Dayton Ohio, January 1973.

Annual Reports

Cypress Communications Corporation, Annual Report, 1971.

Warner Communications, Inc., Annual Report, 1971.

GENERAL REFERENCES

Books

Principles of Management: An Analysis of Managerial Functions. Fifth edition. Harold Koontz and Cyril O'Donnell. Copyright 1972. McGraw-Hill, New York.

Planning-Programming-Budgeting: A Systems Approach to Management. Second edition, edited by Fremont J. Lyden and Ernest G. Miller. Copyright 1972. Markham Publishing Co., Chicago.

The $30 Billion Negro. D. Parke Gibson. Copyright 1969 (by the author). The Macmillian Company, London.

Cable Communications in Dayton Miami Valley: Basic Report. L. L. Johnson, W. S. Baer and others, Santa Monica: Rand Corporation, 1972.

Technology for Developing Nations. Rutherford M. Poats. Copyright 1972 by The Brookings Institute, Washington, D. C.

The Challenge of Foreign Aid. Jacob J. Kaplan. Copyright 1967 Frederick A. Praeger, Inc., New York.

The Crisis of Development. Lester B. Pearson. Copyright 1970 by Council on Foreign Relations, Inc. Praeger Publishing, New York.

Partners In Development. Lester B. Pearson. Copyright 1969 by Praeger Publishers Inc., Praeger Publishers, New York.

World Dynamics. Jay W. Forrester. Copyright 1971 Wright-Allen Press, Inc., Cambridge, Mass.

Staffing Systems: Managerial and Professional Jobs. Ruth G. Shaeffer, Copyright 1972 by The Conference Board, Inc.

Confessions of a Wall Street Insider. C. C. Hazard. Copyright 1972 by Max Gunther Playboy Press, Chicago.

The Reality of Foreign Aid. Williard L. Thorp, Praeger Publishers, New York. Copyright 1971 by Council on Foreign Relations, Inc.

Black Entrepreneurship, James M. Hunt. Copyright 1970 by Wadsworth Publishers, Inc., Belmont, California.

The Over-the-Counter Securities Markets. Leo M. Loll, Jr. and Julian G. Buckley. Second edition, Copyright by Prentice-Hall, 1967, Englewood Cliffs, New Jersey.

Articles

Bell Journal of Economics and Management Science. Copyright by American Telephone and Telegraph Co., New York.

(1) "Televisions Second Change: A Retrospective Look at the Sloan Commission" by Harvey J. Levin, Vol. 6, No. 1 (Spring 1973), pp. 343-364.

(2) "The Appropriate Scope of Regulation in the Cable Television Industry" by Richard A. Posner, Vol. 3, No. 1 (Spring 1972), pp. 98-127.

(3) "Prospects for Cable in the 100 Largest Television Markets" by Rolla Edward Park, Vol. 3, No. 1 (Spring 1972), pp. 130-149.

APPENDICES

APPENDIX A

INFORMATION AND TECHNICAL ASSISTANCE

APPENDIX A

INFORMATION AND TECHNICAL ASSISTANCE

NAME:	Black Efforts for Soul in Television (BEST)
LOCATION:	1014 North Carolina Avenue, S.E. Washington, D. C. 20003
PHONE:	(202) 547-1286
NATIONAL COORDINATOR:	Bill Wright
PUBLICATIONS:	"Guide to Community Demands in License Challenges" "Law About Television" (all free)
INFORMATION:	BEST was established in September 1969 to advise individuals and community groups of their rights in the broadcast media. BEST also provides technical assistance in license challenges, programming complaints or employment discrimination.

NAME:	Citizens Communication Center
LOCATION:	1812 N Street, N.W. Washington, D. C. 20036
PHONE:	(202) 296-4238
DIRECTOR:	Albert H. Kramer
PUBLICATIONS:	"Primer on Citizen Access to the Federal Communications Commission. (free)
INFORMATION:	The Citizen Communication Center was established in August 1969 to provide the public with legal advice and representation before the FCC and Federal Courts on communication issues of social importance.

NAME:	National Mexican-American Anti-Defamation Committee (NMAADC)
LOCATION:	1346 Connecticut Avenue, N.W. Washington, D. C. 20036
PHONE:	(202) 833-2667
DIRECTOR:	Domingo Nick Reyes
INFORMATION:	NMAAC was established to fight the media's frequently false sterotype of Spanish-speaking Americans. The organization's focus is on citizen action in broadcasting, increasing training and employment opportunities, and ascertaining community needs.

NAME:	Urban Law Institute
LOCATION:	1145-19th Street, N.W. Washington, D. C. 20036
PHONE:	(202) 833-1700
DIRECTOR:	Jean Camper Cahn
INFORMATION:	The Urban Law Institute aids communities in their efforts to develop more responsive service from the broadcast industry. Legal advice is given on license challenges, programming complaints, and ordinance requirements for cities to insure greater minority access into programming content and employment.

NAME:	NAACP Legal Defense and Educational Fund (LDF)
LOCATION:	10 Columbus Circle New York, New York 10019
PHONE:	(212) 586-8397
INFORMATION:	The Division of Legal Information and Community Service of LDF assists in organizing community groups, conducting workshops on analyzing renewal applications, monitoring media services, and assisting in the preparation of formal and informal complaints.

NAME:

LOCATI

PHONE:

DIRECT

INFORM

NAME:

LOCAT

PHONE

DIREC

PUBLI

INFOR

NAME:	PUBLICABLE
LOCATION:	c/o Dr. Harold Wigren National Education Association 1201-16th Street, N.W. Washington, D. C. 20036
PHONE:	(202) 833-4120
DIRECTOR:	Acting Director, Dr. Harold E. Wigren
INFORMATION:	PUBLICABLE was established in July 1971 in an attempt to stimulate public interest in cable television. The organization seeks to identify issues in cable communication and provide information and assistance to varied public interest groups. PUBLICABLE is represented by individuals from many national educational, public service and community organizations.

NAME:	Office of Communication, United Church of Christ
LOCATION:	289 Park Avenue South New York, New York 10010
PHONE:	(212) 475-2121, ext. 266
DIRECTOR:	Dr. Everett C. Parker
PUBLICATIONS:	Lawyer's Sourcebook for Citizen Action in Radio and TV (free) A Guide to Understanding Broadcast License Application by Dr. Ralph M. Jennings ($1.00 per copy) In Defense of Fairness (free) Racial Justice in Broadcasting (free) Guide to Citizen Action in Radio and TV by Marsha O'Bannon Prowitt (free) Cable Television A manual by John Wicklein and Monroe Price, $2.95. Community groups may obtain a single copy free on request by writing to the preceding address.
INFORMATION:	The Office of Communication was established to assist minorities in programming and employment in the broadcast field. It offers community groups advice by mail or telephone, provides staff assistance in the field and legal assistance in preparing petitions to deny license renewals.

NAME: Stern Community Law Firm

LOCATION: 2005 L Street, N.W.
Washington, D. C. 20036

PHONE: (202) 695-8132

DIRECTOR: Tracy Weston

INFORMATION: Stern Community Law Firm offers legal advice in broadcasting and CATV matters. Emphasis is on fairness doctrine, right to access, and other First Amendment issues.

NAME: Urban Communications Group

LOCATION: 1730 M Street, N.W.
Washington, D. C. 20036

PHONE: (202) 223-4916

DIRECTOR: Ted Ledbetter

INFORMATION: Urban Communications Group (UCG) is the sole Black consulting firm with technical expertise in Cable Television. UCG also provides consultant services to federal, state and local agencies, community organizations, business, foundations and others who want to increase public, diversified ownership, and greater responsiveness to minority concerns in the broadcast media community.

NAME: Cable Communications Resource Center

LOCATION: 1900 L Street, N.W.
Washington, D. C. 20036

PHONE: (202) 296-5810

DIRECTOR: Charles Tate

INFORMATION: The Cable Communications Resource Center was established specifically to aid Blacks in obtaining CATV franchises.

APPENDIX B

MAGAZINES AND CATV PUBLICATIONS

APPENDIX B

MAGAZINES AND CATV PUBLICATIONS

*<u>BLACK COMMUNICATOR</u>
1730 M Street N.W.
Suite 405
Washington, D.C. 20036
(202) 223-4916

<u>BLACK ENTERPRISE</u>
Earl G. Graves Publishing Co. Inc.
295 Madison Avenue
New York, New York 10017
(212) 889-8220

<u>BROADCASTING MAGAZINE</u>
1735 DeSales Street N.W.
Washington, D.C. 20036
(202) 638-1022

<u>BROADCAST MANAGEMENT/ENGINEERING</u>
Broadcast Information Services
200 Madison Avenue
New York, New York 10016
(212) 685-5320

<u>CABLECAST</u>
Paul Kagan Associates, Inc.
P. O. Box 2732
New York, New York 10001
(212) 826-9725

<u>CABLECASTING</u>
10 Poplar Road
Ridgefield, Connecticut
(203) 438-6880

<u>CABLE TV LINES</u>
<u>CATV NEWS RELEASE</u>
National Cable Television Association, Inc.
918 Sixteenth Street, N.W.
Washington, D. C. 20036
(202) 466-8111

<u>CABLE NEWS</u>
Cable Communications Corporation
5700 North Portland Avenue
Oklahoma City, Oklahoma 73112
(405) 842-9766

*Publication has been suspended pending a joint venture arrangement with a major publishing company.

<u>CATV WEEKLY</u>
Communications Publishing Corporation
1900 West Yale
Englewood, Colorado 80110
(303) 761-3770

<u>COMMUNICATIONS NEWS</u>
402 West Liberty Drive
Wheaton, Illinois 60187
(312) 653-4040

<u>EDUCATIONAL/INSTRUCTIONAL BROADCASTING</u>
Technology Publishing Corporation
825 South Barrington Avenue
Los Angeles, California 90049

<u>MARKETING COMMUNICATIONS</u>
Decker Communications, Inc.
501 Madison Avenue
New York, New York 10022

<u>TELECOMMUNICATIONS REPORT</u>
1208-1216 National Press Building
Washington, D. C. 20004
(202) 347-2654

<u>TELEVISION AGE</u>
1270 Avenue of the Americas
New York, New York 10020
(212) 757-8400

<u>TELEVISION DIGEST</u>
<u>TELEVISION FACTBOOK</u>
1836 Jefferson Place N.W.
Washington, D. C. 20036
(202) 872-9200

<u>TV COMMUNICATIONS</u>
Communications Publishing Corporation
1900 West Yale
Englewood, Colorado 80110
(303) 761-3770

<u>VIDEO PUBLISHER</u>
Knowledge Industry Publications
Tiffany Towers
White Plains, New York 10602

APPENDIX C

PLAN FOR MINORITY PARTICIPATION IN A CYPRESS CABLE SYSTEM IN DAYTON, OHIO

APPENDIX C

PLAN FOR MINORITY PARTICIPATION IN A CYPRESS CABLE SYSTEM IN DAYTON, OHIO

February 23, 1972

CYPRESS COMMUNICATIONS CORPORATION

Cypress Communications Corporation, headquartered in Los Angeles, California owns, constructs and operates cable television systems throughout the United States. Cypress is a public company whose common stock is owned by approximately 3500 shareholders and is traded on the national Over-The-Counter market. Its revenues exceed $10.0 million annually. It presently serves more than 100 communities in 17 states and has pending proposals for cable TV franchises in a number of major U. S. cities.

Among these is the greater Dayton, Ohio area comprising 192,000 homes of which 85,000 are within the City of Dayton.

Early in 1971 Cypress, in association with a group of ten prominent Daytonians, organized a subsidiary, Cypress Cable TV of Dayton, Inc. for the purposes of constructing and operating the proposed cable services.

The local group includes:

Honorable David Hall--Chairman, Board of Directors
(Former Mayor and City Commissioner, Dayton 1962-1970)

Don F. Shuler--President
(President, Cypress Cable TV of Ohio, Inc.; President, Ohio Cable Television Association)

Honorable C. J. McLin--Chairman, Executive Committee
(Ohio State Legislator and Special Advisor to the Governor)

Honorable David L. Ladd--Vice President
(Counsel to Marechal, Biebel, French & Bugg, Attorneys; former U. S. Patent Commissioner)

W. Walker Lewis Jr.--Secretary
(Senior Partner, Smith & Schnacke, Attorneys; director of the Mead Corporation)

J. E. Cromartie, M.D.
(Surgeon and Chief of Staff of Miami Valley Hospital)

Charles W. Danis
(President of B. G. Danis Co., Inc.; past president of Dayton
Better Business Bureau)

Maurice R. Graney
(Dean, School of Engineering--University of Dayton; president of the
Eugene Kettering Engineering & Science Institute)

Robert Margolis
(President of the Metropolitan Company; trustee of the University
of Dayton and Sinclair Community College Foundation)

Lloyd O'Hara
(Partner in the law firm of Smith & Schnacke; former chairman of
board of trustees of Miami University, Oxford, Ohio)

Paul Tipps
(Realtor and president of Property Management Consultants, Inc.)

Background & Introduction

Early in 1971 Cypress Communications Corporation through an Ohio subsidiary, Cypress Cable TV of Dayton, Inc., announced plans to construct and to operate a cable TV system serving the greater Dayton area. The subsidiary was organized in association with a group of prominent Daytonians and includes as stockholders, directors or officers Honorable C. J. McLin and J. E. Cromartie, M.D. among others. Subsequent to the organization of Cypress Cable TV of Dayton, Inc. The Rand Corporation study was undertaken. Cypress was asked by Rand and others to postpone its efforts to establish its business operations.

In the succeeding year considerable local interest developed in finding ways to facilitate the involvement of Dayton's minority population, especially its black citizens, in the City's cable TV system. As seen by its black leadership such involvement includes participation in ownership, creation of employment opportunities, access to program origination channels and opportunities for entrepreneurial involvement in the creation of a new business.

In view of these legitimate and reiterated demands Cypress proposes the following plan to achieve the stated goals of the city and of its black citizens:

1. City of Dayton To Be Divided Into Two Cable Franchise Areas

The City will be divided into two areas consisting of (a) that portion in the southwest section containing census tracts which in 1970 had greater than 50% non-white population. (See Rand Report Figure 4-8, attached) and (b) the remainder of the City of Dayton.

The City will concurrently grant separate but essentially identical franchises for each of the two areas.

2. Cypress of Dayton Service Area

Cypress Cable TV of Dayton, Inc. will apply to the City for the franchise to operate in the remainder area which excludes the southwest section.

3. Organization of Cypress Cable of Southwest Dayton, Inc.

Cypress Communications Corporation will organize a new corporation (hereinafter for convenience referred to as "Cypress Southwest") which will apply for the City's cable franchise authorizing operations in the southwest region. Cypress Southwest will be equally owned by Cypress Communications Corporation (50%) and Citizens Cable Corporation (50%).

4. Organization of a New Black-Owned Cable Corporation

Cypress Communications Corporation, at its expense, will organize a new corporation for the benefit of, controlled and owned by blacks and southwest Dayton residents. For convenience that new entity is herein referred to as Citizens Cable Corporation (CCC). CCC will engage in the following business activities:

(A) It will own 50% of Cypress Southwest and its cable system serving the southwest area.

(B) It will have sole and exclusive control of the studios and program origination facilities to be located in the southwest district. It will originate programs determined and developed by its own board of directors addressed to the southwest section of the City of Dayton as well as to the entire city and to the entire metropolitan thirteen city area which will be served by the proposed regional cable system(s).

(C) It will be a training center for the development of new employment skills by southwest area residents.

(D) By contract with the other companies holding franchises in the Dayton area it will sell services to the area's cable systems, thereby creating gainful employment for southwest area residents.

(E) As a contractor it will be free to sell services in the open market to any cable TV system wherever located; such services potentially to include services related to cable system construction, installation, maintenance, programming, sales promotion, billing, etc.

5. Financing the Construction of the Southwest Cable System

We estimate that the cost of constructing the Southwest cable system will be $2.0 million. We propose that Cypress Southwest raise this sum by the sale of $1.0 million of its common voting stock and through borrowings totalling an additional $1.0 million in the form of bank loans, vendor credit and other third party debt financing which Cypress Communications Corp. will arrange. Cypress Southwest will obtain its equity financing by the sale of $500,000 of its common stock to Cypress Communications Corporation and $500,000 to CCC.

6. Funding Citizens Cable Corporation

CCC is called upon to raise $500,000 for its 50% ownership of the southwest district system. Cypress proposes to assist CCC by lending CCC $400,000 for ten years at a low rate of interest and with no principal payments until maturity. CCC will raise the remaining $100,000 from the sale of its own voting stock to persons residing in the southwest franchise area. It is recommended that an additional $50,000 be raised by CCC at the same time to finance its startup and initial activities.

7. Public Stock Sale by CCC

We recommend that in a public offering limited to persons residing in the southwest district Citizens Cable Corporation sell 10,000 shares of its common voting stock at $15.00 per share. Cypress recommends the widest possible distribution so that, hopefully, 10,000 families in the southwest area become shareholders of CCC. In any case, no single person should be permitted to purchase more than a stated maximum number of shares, perhaps 1000.

As a special inducement to the prospective purchasers of CCC's shares Cypress Southwest will offer to the purchaser a $15.00 credit that may be applied against the purchaser's cable TV bill when he becomes a subscriber. (Only one $15.00 credit will be allowed to the residents of any address irrespective of how many shares are purchased by persons residing at that address.)

8. Program Origination In the Southwest District

The Rand Corporation Report recommended that the entire metropolitan Dayton area be divided into six cable districts incorporating therein the thirteen cities. Each such district is to have its own program origination facilities. The southwest district herein proposed becomes the seventh district in the region and it is planned that it will have program origination facilities identical to those installed in the suburban districts. The program facilities will be under the full and unrestricted control of CCC.

9. Directors, Officers and Management of Citizens Cable Corporation

Cypress recommends that CCC be governed by an 11-man Board of Directors and desires to have the right to nominate 2 of the Directors. It proposes as its initial nominees Messrs. McLin and Cromartie. It makes no recommendation concerning the manner of selection of the remaining nine directors provided they comprise a representative group of area residents. In any event, it is recommended that the initial Board of Directors resign upon the completion of the public sale of CCC's stock and that a new board be elected by the shareholders of the corporation. CCC's Board of Directors will be free to elect its own officers and to engage management personnel.

10. Funding the On-Going Operations of Citizens Cable Corporation

CCC will derive revenues from its business operations as later described. In addition, and as a guaranteed base, Cypress Southwest offers to pay to CCC in lieu of any franchise fee payment to the City of Dayton 5% of its gross revenues derived from Southwest's cable subscribers with a guaranteed minimum payment for five years of $20,000 per annum.

11. Security Agreements for CCC Financing

CCC's $400,000 ten year indebtedness to Cypress Southwest shall be secured by the pledge of 60% of CCC's stock in Cypress Southwest. As long as the indebtedness remains outstanding CCC must agree to make no distributions through the payment of cash dividends or to incur unreasonable expenses for salaries or other outlays the effect of which would be to prejudice CCC's economic viability.

12. Other Business Opportunities for CCC

The cable systems serving the southwest district of the City, the remainder of the City of Dayton and the other five suburban districts (as proposed by The Rand Corporation) must either employ persons on their own payrolls or may contract with independent organizations for the rendering of certain services. Following is a partial list of some of the service functions that must be performed:

(A) Pole line construction (installation on utility poles of the steel messenger that will support the cable and associated electronics).

(B) Installation of cable and electronics, aerial and underground.

(C) Alignment, tuneup and balancing of newly installed system.

(D) Installation of subscriber house drops.

(E) Outside sales and marketing.

(F) System maintenance.

(G) Customer billing.

(H) Operation of program facilities.

(I) Collection of past due amounts; disconnection of non-paying customers.

(J) Continuing construction in new housing.

(K) Advertising; public relations.

In a rapidly expanding cable communications industry ample employment opportunities exist for organizations that are able to train and field reliable personnel for the performance of many of the enumerated functions. Cypress engages contractors from time to time and is prepared to contract with CCC for the purchase of as many of the foregoing services as CCC is qualified to render. Similar opportunities for CCC exist with other non-affiliated cable companies in other regions of the United States.

13. Development of an On-Going Training Program

Cypress will employ a full-time training director who will be assigned solely to Citizens Cable Corporation to develop and implement an on-going training program to develop employment skills on the part of community residents. Persons who successfully complete such training will either be employed directly by Cypress or by CCC. Others will join an augmented team of trainers, assisted by Cypress personnel. This arrangement will permit CCC to sell various of the foregoing services as a contractor and to derive a reasonable profit from such operations.

The intimate relationship of CCC with one or more of Cypress' area cable systems will strongly improve its ability to find Federal, State and private financial support for its own training programs. Agencies such as OEO, HEW and private foundations prefer to fund those training programs whose trainees are most likely to find permanent employment. Employment opportunities for southwest and other minority persons will also be substantially improved by the initiation of the training program before the cable system is constructed and before all of the employment vacancies are filled. The program proposed herein has a high probability of success because it will commence and be undertaken before the available jobs in Dayton's cable system are filled.

14. Control of Cypress Southwest

Cypress Southwest will be half owned by Cypress Communications Corporation and half by Citizens Cable Corporation. Inasmuch as CCC will have only a $100,000 investment in a $2.0 million company Cypress Communications Corporation will insist upon the right to nominate and elect a majority of the directors of Cypress Southwest until the $400,000 indebtedness of CCC to Cypress Communications Corporation has been paid in full. At that time it would be appropriate to restructure the board so that CCC and Cypress Communications Corporation have equal representation.

When Cypress Southwest has fully paid off *all* of its corporate indebetedness incurred in connection with the initial or subsequent financings then Cypress Communications Corporation is prepared to transfer control of Cypress Southwest to CCC in the manner described in the next following section.

15. Option of CCC to Purchase Remaining 50% of Cypress Southwest

During a reasonable period of time following the date on which Cypress Southwest has fully repaid all of its debts CCC shall have the option to purchase all of the 50% interest owned by Cypress Communications Corporation at a price determined by independent appraisal. In making such appraisal the appraisers shall be instructed to determine value as if the franchise had a remaining term of ten years.

16. Fair Employment Practices

Cypress agrees that it will adopt affirmative fair employment practices in all of its Dayton area cable system activities to assure non-discrimination and full and equal employment to all persons. It offers to negotiate the specific provisions of such policies with representatives of CCC and to apply the policies throughout the market area.

17. College Scholarship Fund

Cypress Southwest will establish a college scholarship fund of $2,500 annually for a minimum term of four (4) years to be paid to the one or two southwest area persons designated by the CCC Board of Directors who show the greatest promise of achievement and accomplishment in the cable communications industry.

Cypress Communications Corporation will provide appropriate and responsible employment to the scholars upon their graduation.

18. Contingency

The plan outline in this memorandum is contingent upon its general approval by the City of Dayton as evidenced by its enactment of appropriate franchise ordinances.

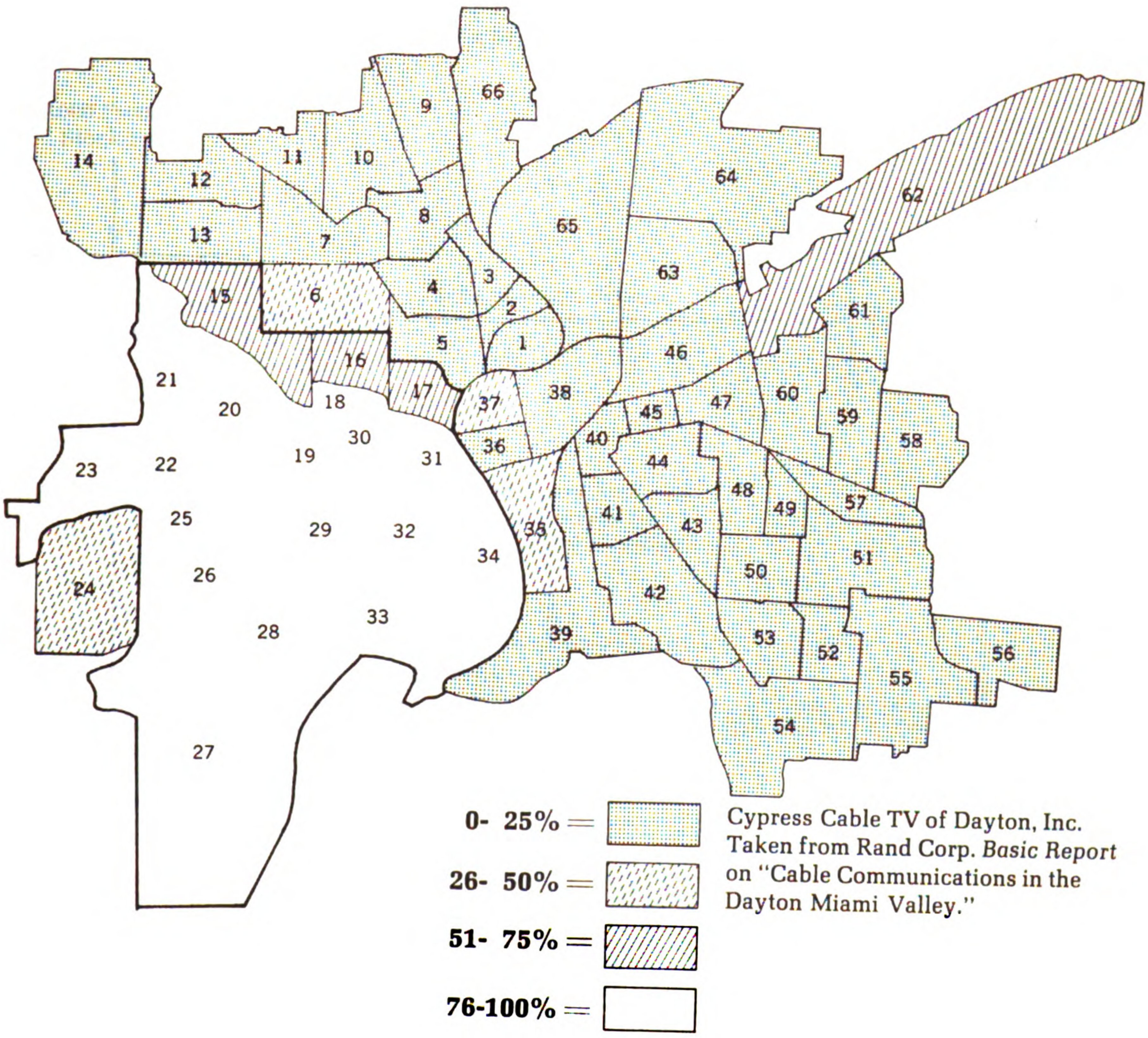
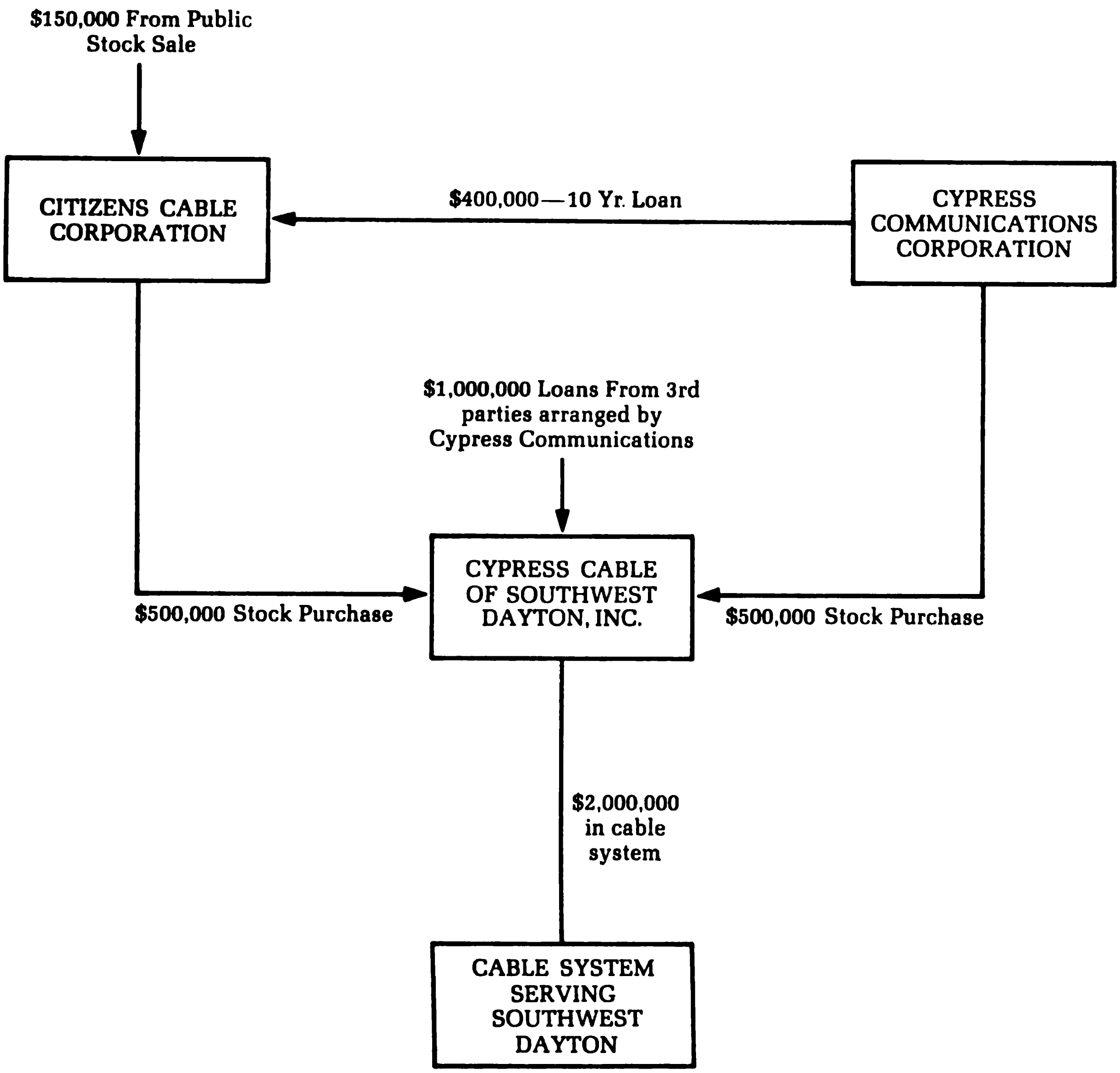
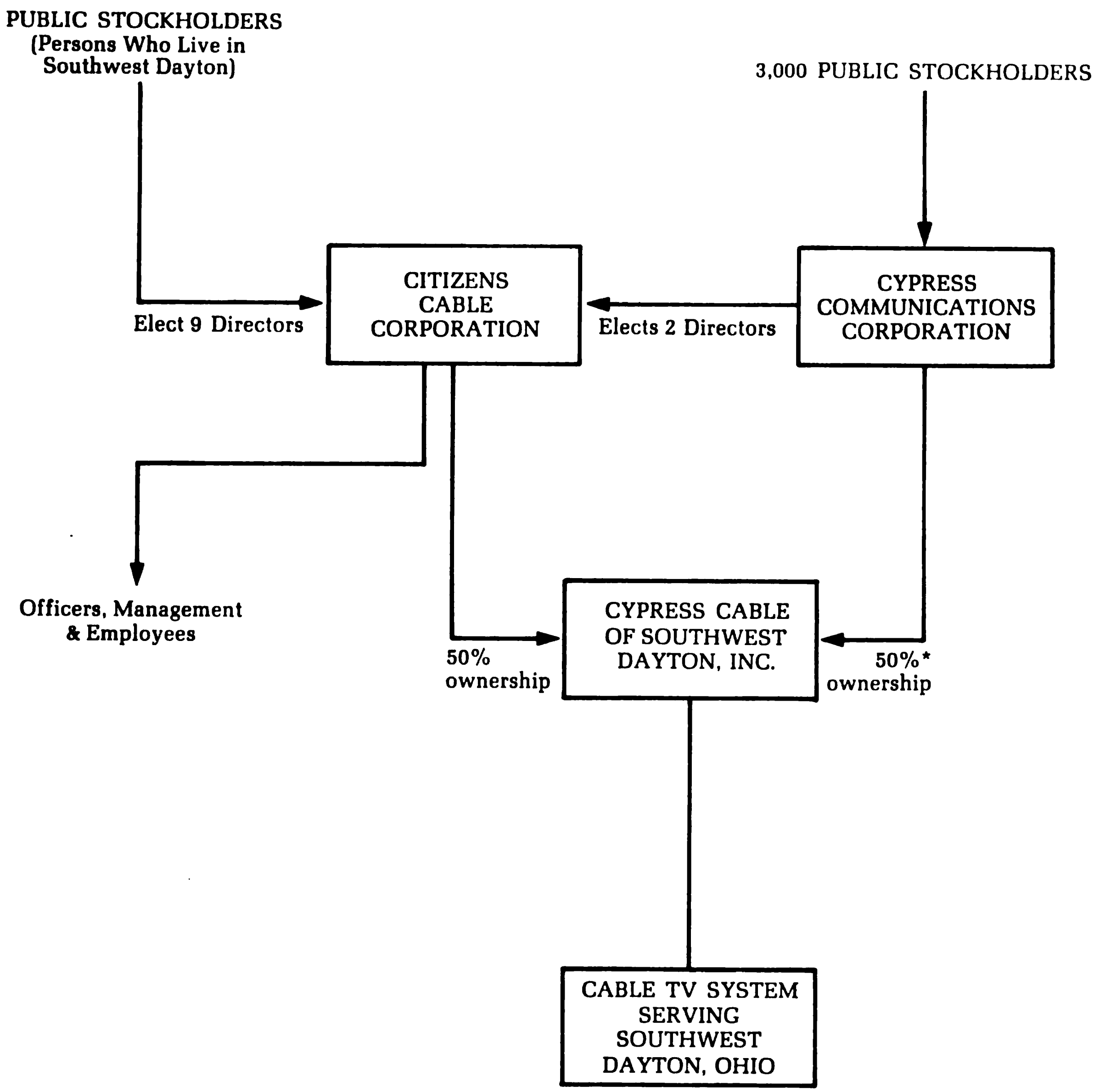


Fig. 4-8 — Percent nonwhite, 1970 census
Areas Outlined Contain Non-White
Population in Excess of 50%.

FUNDING THE CONSTRUCTION OF SOUTHWEST DAYTON CABLE SYSTEM

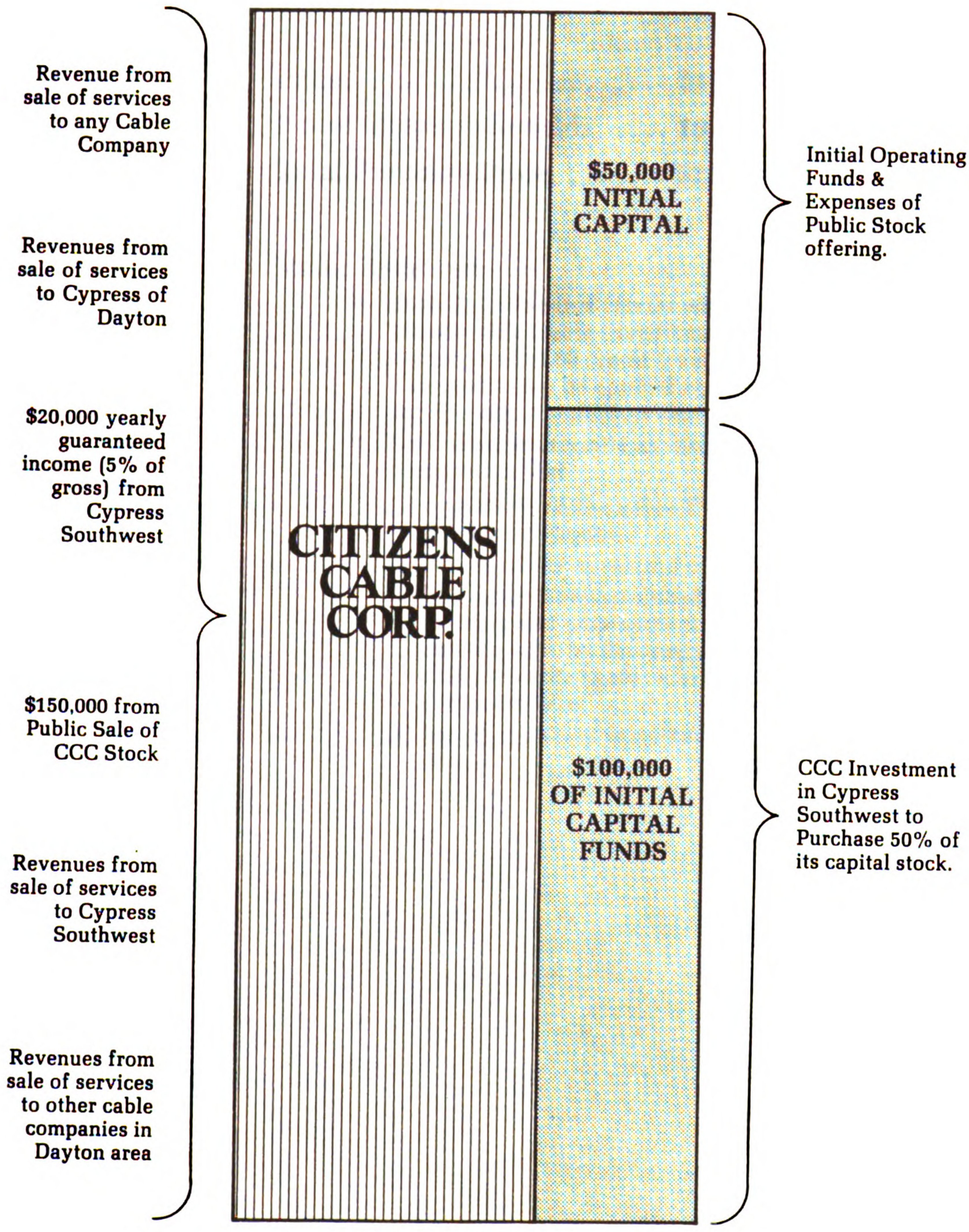


PLAN OF ORGANIZATION
CITIZENS CABLE CORPORATION &
CYPRESS SOUTHWEST



*Cypress Communications Corporation elects majority of Board as long as Citizens Cable Corporation is indebted to it.

INCOME SOURCES
CITIZENS CABLE CORPORATION



VALUE OF ONE (1) SHARE OF STOCK OF CITIZENS CABLE CORPORATION

Price: .... **$15.00 per share**

No. of Shares to be sold: ..... **10,000 shares**

Total Purchase Price: **$150,000**

Value Received

- Each $15.00 shares carries with it a non-transferable *Cable Certificate* entitling its owner to a $15.00 credit from the cable system. The credit may be applied against cable service and installation charges.
- Each share represents an interest in a corporation that
  - (1) owns 50% of the cable TV system serving southwest Dayton
  - (2) has an initial operating capital of $50,000
  - (3) has income opportunities arising from the training and employment of area residents and the sale, by the corporation, of their skills to cable systems in metro Dayton and elsewhere
  - (4) has an option to purchase the remaining 50%.

SUPPLEMENT

On April 12,1972 Citizens Cable Corporation was duly incorporated under the laws of the State of Ohio. The Corporation was created for the expressed purpose of implementing the foregoing plan. The Cypress proposal described in this brochure, supplemented by the two additional provisions stated below, was accepted and agreed to by a representative group of black persons residing in Dayton who had previously organized themselves as the Coalition For A Better Dayton. Citizens Cable Corporation was organized by the Coalition which will thereafter conduct its affairs and business through that corporation.

Subsequent to its incorporation Citizens Cable Corporation elected the following officers and directors:

OFFICERS:	ADVISORY BOARD:		
Richard Austin,	Richard Austin, Esq.	Rev. David Gilbert	Donald W. Ogletree, M.D.
president	Ruben L. Bell	Rev. Marshall Gilmer	Minnie Peterson
Reginald Dunn,	Calvin Crawford	Rev. U. A. Hughey	Ted Bice, Esq.
vice president	J. E. Cromartie, M.D.	Jimmy Jones, Jr.	Joseph W. Shaw, Sr.
Floyd Johnson,	Gerald Davis	Taylor Jones, Jr.	Sander Stone
secretary	Reginal Dunn	Floyd Johnson	Leonard Swanigan
Taylor Jones, Jr.,	Rev. Egbert J. Figaro	Lloyd Lewis, Jr.	James Sweeney
treasurer	Judge Arthur O. Fisher	Alyce Lucus	Arthur Thomas, Ph.D.
	Lovie Foster	Rev. David McFarland	George D. Tuck, Jr.
	W. Franklin, Jr., M.D.	Honorable C. J. McLin, Jr.	George Washington
	Thomas S. Galloway	Posie Miliner	Donald L. Weathers
	James Gardner	Ronald Miller	Deloris Winslow

ADDRESS: Citizens Cable Corporation, 323 Salem Avenue, Dayton, Ohio

It should be noted that the principals of Citizens includes essentially all of the persons in Dayton's black community who have for more than a year actively and vigorously sought to develop a black-owned and controlled cable television enterprise in their own community. Their efforts have included active participation in CATV conferences and seminars, travel, visitation and negotiations with agencies of government, financial institutions, and others, sponsorship of Dayton conferences that informed the black community, city officials and the public at large of the opportunities, aspirations and intentions of that community to play a significant role in the development of the cable communications medium.

The two supplemental agreements made on April 11, 1972 are as follows:

A. Merger of Cypress Cable of Southwest Dayton, Inc. into Cypress Cable TV of Dayton, Inc.

The existing patterns of population distribution in the City of Dayton are certain to change with the passage of time. Furthermore, future events may make it desirable to consolidate in a single entity the cable operations conducted in the City of Dayton by Cypress Southwest and Cypress Cable TV of Dayton, Inc. for the greater benefit of each and of the general public. Accordingly, we are agreed that upon reasonable advance notice given by CCC to Cypress Communications Corporation at any time CCC may, provided it is then the owner of at least 40% of the outstanding shares of the stock of Cypress Southwest, institute proceedings to effect a merger of Cypress Southwest into Cypress of Dayton. Upon receipt of such notice, Cypress Communications Corporation will cause its nominees who are Directors of Cypress Southwest and Cypress of Dayton, to negotiate a merger agreement containing terms and provisions that are fair and equitable to the shareholders of both companies and that appropriately balance their respective values.

The terms of such a merger shall be acceptable to Citizens Cable Corporation. If the companies cannot agree on such terms, or if they be unacceptable to Citizens, then the terms and provisions thereof shall be established by a third party acceptable to Citizens and Cypress, or if a third party cannot be agreed upon or will not serve, then by the American Arbitration Association.

B. Increased College Scholarship Program

Paragraph 17 of the Plan is amended so as to double the size of the program and its fundings with the costs thereof to be equally divided between Cypress Southwest and Cypress of Dayton.

APPENDIX D

INVITATION TO SUBMIT PROPOSALS FOR CABLE TELEVISION SERVICE IN THE CITY OF DAYTON, OHIO

by T

of a

from

Mana

will

prop

stud

that

form

full

on a

techn

City,

ments

Pract

inter

neede

will

avail

APPENDIX D

INVITATION TO SUBMIT PROPOSALS FOR CABLE TELEVISION SERVICE IN THE CITY OF DAYTON, OHIO

You are hereby invited to submit a written proposal for the issuance by The City of Dayton, Ohio of a Franchise to authorize the establishment of a Community Antenna Television System (CATV) in the City. Proposals from interested persons shall be addressed to James E. Kunde, City Manager, Municipal Building, 101 W. Third Street, Dayton, Ohio 45401 and will be accepted until ___(day, date and time)______at which time the proposals will be opened publicly for identification and then held for study and further action by the City Commission as it may deem advisable.

Applicants will be required to show to the satisfaction of the City that they are a responsible person, firm or corporation, capable of performing the work to be done under the Franchise, that they have successfully completed contracts equivalent in scope and comparable in magnitude or are able to do so, and that they have the necessary financial and technical resources to perform the work in a manner satisfactory to the City. Applicants must demonstrate their understanding of the requirements of sound development financing, good engineering and construction practices, basic customer services, services to the community and public interest groups, and an installation plan that provides the flexibility needed for adapting new applications of CATV in the future. Proposals will be evaluated on system capability, production facilities and services available to local government and non-profit institutions, provision of program telecasting for neighborhoods and districts on an exclusive basis, facilities and personnel allocated to service customer complaints, financial capacity, service commencement, experience of employees, and rate schedules. Also, and very important, in the evaluation will be your proposal for the involvement and opportunities for local ownership, employment, and access for all neighborhood groups and individuals including minority persons, minority training, minority employment and minority group access to facilities for local programming.

If you have founded a corporation so as to allow local ownership, submit its Articles of Incorporation, Bylaws, and all contracts and agreements that bear upon its (and its shareholders) rights, powers, privileges and obligations in relationship to the applicant corporation. State the name of its stockholders and management personnel and fully describe its existing and planned capitalization and the nature of its relationship and participation in the affairs of grantee. If you are in the process of founding such a corporation, provide the above requested information that is presently available and describe in detail your intent for that which is not presently available but will be required and must be approved prior to award of franchise. Related to the above, are you planning a stock offering publicly to encourage local ownership? If you already have local shareholders, will you make stock available to newly interested people on the same basis as the present local shareholders?

In making an award of a franchise, additional consideration will be given to a proposal which would bring corporate headquarters to the city of Dayton. Serious additional consideration would be given an applicant that would place a cable in the Central Business District for dedicated business uses with a plan and sales program for early utilization. Such plan and sales program to be outlined and submitted with the application.

All applications are to be submitted under sworn statement by the applicant as to the validity and completeness of the information contained therein.

Each proposal shall contain a summary in addition to other matter setting forth the following information:

(1) The name, address and telephone number of the applicant.

(2) (a) If the applicant is a corporation, state the full and correct legal name of the corporation and list the names and addresses of its officers, directors and principal stockholders. Also list the name, address and telephone number of the person to whom inquiries concerning the application may be directed.

(b) If the applicant is a partnership, state the full and correct legal name of the partnership, and list the names and addresses of the members thereof together with their interest in the partnership. Also list the name, address and telephone number of the person to whom inquiries concerning the application may be directed.

(3) The names and addresses of management personnel for the Dayton operation.

(4) Information pertinent to applicant's officers' directors' and principal stockholders' experience in CATV, including systems now operated, systems previously built and operated, systems or franchises acquired and/or sold.

(5) Audited financial statements, including a balance sheet and profit and loss statement most current. A list of banks with whom the applicant has its principal banking relationships.

(6) For each of the first five years state:

(a) Capital required for construction.

(b) Anticipated annual revenues from operations, operating expenses and working capital needed in excess of (a). Please fill in the following:

	YEAR				
	1	2	3	4	5
REVENUES					
Installation					
Basic Services					
Leased Channels					
Advertising					
TOTAL					
OPERATING EXPENSES					
OPERATING INCOMES					
INTEREST					
DEPRECIATION					
PRE TAX INCOME					

(c) Sources of funds to be provided for (a) and (b) - Submit written evidence of enforceable financing commitments from all persons who will provide such funds, detailing the terms and conditions thereof.

(d) As to any person who will be a source of funds and who has not yet furnished the sums committed, submit an audited balance sheet of recent date and profit and loss statements for each of the three most recent years, showing the identity, nature and basis of valuation of any asset that will be used or converted to provide the committed funds.

(7) Description of the proposed system that covers such items as:

(a) How many channels will be used for mandatory transmission in the system you are proposing? Describe the channel number, call letters, and the type of station (e.g., educational, independent, etc.) that will be carried on the cable.

(b) How many channels will you be providing in addition to those listed above? How many of these channels will be dedicated channels; and dedicated for what purpose? What will the maximum channel capacity of your system be?

(c) If you intend to supply FM programming, please describe the channel number, call letters, and the type of station that will be carried.

(d) The total number of hook-ups forecast 12 months after the start of installation, and a forecast of the number of hook-ups each year for the next four years. Provide the rationale for your forecasts so estimates can be evaluated.

(e) Specific future development proposals in customer services with estimated year of development.

(f) State the technical specifications on your design for frequency stability, visual levels, aural levels, frequency response, receiver isolation, radiation, hum, intermodulation, crossmodulation, envelope delay, and signal-to-noise. The last few items above should be measured at the home receiver and not the specifications on the components. What procedures will you take to guarantee that the specifications stated above are achieved.

(8) Description of management organization for system installation and maintenance including practices that will be employed in servicing customer complaints and inquiries, and in customer billing procedures.

Include in above the titles and minimum number of employees with each title.

(9) The timetable by which construction will be commenced, completed and service offered, following award of franchise. If the system is to be constructed in sections, describe the time schedule for each section, including maps showing the section.

Will the system be constructed by the operator or a subcontractor and if the latter, will it be turnkey?

(10) A map of the proposed basic service area.

(11) (a) The operator may be required to interconnect the system with any other broadband communications facility operating in an adjacent territory. Such interconnection, if required, shall be made within sixty days of request made by the City. For good cause shown, the operator may request, and the City may grant reasonable extensions of time to comply with the interconnection request. In order to facilitate interconnection, the communities in the Dayton Television Market will require that all applicants agree to participate in the ownership, operation, and financing of an interconnection company which would be formed to finance, construct, operate, and maintain a super cable or microwave interconnection, or a combination thereof.

Between the systems which do not share a common head end, if a waiver of the rules is required for interconnection, the responsibility for securing such a waiver and the cost of the waiver application should be borne by the CATV operator.

Submit as part of your proposal a general plan, and technical design that will meet with requirements of this section. Give specific indications of the mode or method of interconnection, channel capacity both forward and reverse, capacity for FM and data transmission, and projected costs of construction and maintenance.

(b) For the purpose of permitting simultaneous transmission into any one or more neighborhoods or adjacent territories; the company shall upon request of the appropriate designated official of the City, arrange the system so that it is capable of transmission to sub-districts or adjacent territories.

(12) Statement and plan for involvement of neighborhood groups including minority groups in ownership, training and access to channels for local programming.

(13) The proposed annual payment to the City contained in Section 13 of the attached Franchise.

(14) A schedule of rates for installation charges, monthly service fees and relocation charges. State whether there is an additional charge for converters, or for A/B switch, if so how much? State the conditions under which any of above charges may be modified from time to time together with any specific proposals for rate modification that are anticipated after the system is inaugurated.

(15) TWO-WAY

(a) Under present Federal Communications Commission rules, all systems must include provisions for two-way communications equipment, or will make provisions to install it in the future.

(b) If you are planning to install two-way facilities at the present time, please describe in detail the type of two-way facilities to be installed, and to how many homes in each of the first 5 years. Describe its capabilities, to what points it will be connected (such as school to school, municipality to municipality); and the type of programming and service for which it will be used.

(c) If a two-way communication system is being planned, advise how much additional the subscriber will be required to pay monthly, and who will pay for the peripheral equipment at the subscriber's location.

(16) (a) It is the wish of the community to have the best system, both in terms of technical capabilities and production capabilities. Therefore, an understanding of how you plan to up-date the system, and to meet future state of the art techniques should be described. It should be anticipated that some mutually agreeable plan for this shall be provided for in the language of the franchise.

(17) Describe the method by which you plan to analyze the needs and resources of the community with regard to cable services and programming cable services.

(a) What would the staff composition be for assisting and doing local origination?

(b) What funds will go into the purchase of local origination from outside vendors?

(c) How much will go into the development of local origination in Dayton?

(d) How many hours of local origination will be shown in a week?

(e) Provide a sample schedule for a week.

(f) Describe how you expect to meet the above needs considering the legal obligations under which you will operate and financial resources which you are prepared to commit to the community.

(18) Public Interest Programming

(a) Detail your plan for serving community groups and public institutions, e.g., schools, hospitals, etc. Will you set aside funds to support public interest programming (see franchise Section 13) and, if so, what percentage of <u>gross</u> revenue will these funds amount to.

(b) Will you make an allocation of a portion of the corporate stock or an option on the stock to the Franchisor or its designee for the purpose of additional revenues to be used in public interest programming? If so, how much?

(c) In addition to, or in lieu of, funds, what provisions will you make for studio television equipment for the public interest programming on the public access channel(s) and on training neighborhood personnel in the use of studio equipment.

(19) Studio(s) and equipment

(a) If you are planning to construct more than one originating studio or to supply one or more mobile studios, indicate the general location of each studio and a list of the major equipment that you plan to use in your originating studio, provide technical information on capability of the equipment. Provide the same for any mobile studio equipment you plan to supply.

(20) Wiring

(a) Please state your plans for wiring downtown Dayton with connection to hotels, the convention center, service facilities in the downtown area, etc.

The successful applicant shall comply with all FCC regulations and shall apply for all FCC licenses and/or permits that may be required by The State of Ohio, or any Governmental Subdivision or Agency for the operation of a Cable Antenna Television System.

A Franchise, if issued, will be approved by Ordinance. A copy of the proposed Franchise is attached hereto and to be treated as basic specifications and conditions for the granting of the final Franchise. The terms and conditions of said Franchise are made the basis of and a part of this invitation to submit proposal. The City invites for inclusion in the proposal, variations from the basic specifications and conditions contained in the attached, and any additional matter or information deemed pertinent. Such materials will be carefully considered in evaluating the proposals submitted. The City of Dayton reserves the right to reject any and all proposals as said City may deem in the best public interest and to award a Franchise upon terms and conditions different from the proposal (but accepted by the applicant).

The City may, in its sole judgment, choose to hear oral presentations from some or all of the applicants prior to making a final award.

Each proposal must be accompanied by a certified or cashier's check on a solvent bank in the amount of $5,000.00 payable to The City of Dayton, Ohio, to secure the applicant's good faith. Checks will be promptly returned upon the final issuance of a Franchise. Each check shall be furnished on the condition that if the applicant is awarded the Franchise, and shall fail to accept the award, the amount of such check shall be forfeited as liquidated damages, losses, costs and expenses incurred by the City by reason of such failure.

THE CITY OF DAYTON, OHIO

By______________________
James E. Kunde
City Manager

AFFIDAVIT OF APPLICANT

The undersigned____________________________being duly sworn does hereby depose and say:

(1) that I am the ______________________of_______________________ ____(herein the applicant);

(2) that I have read the proposal submitted herewith and am familiar with the content thereof;

(3) that to the best of my knowledge and belief, the statements made in this proposal are true, correct, and complete statements of the matters purported to be described therein and do not omit any information pertinent to consideration by the City of Dayton, Ohio;

(4) that I am familiar with the proposed Franchise to be enacted by the City of Dayton, Ohio, the information requested of each applicant and the procedure being followed in consideration of the applications:

(5) that in making this application I take no exceptions to the proposed Franchise, the information requested, or the procedure being followed, except as follows:

Signed______________________________

Date________________________________

Subscribed and sworn to before me this________day of________________, 1972.

____
Notary Public

SEAL

My Commission Expires:_______________

APPENDIX E

PROPOSED FRANCHISE FOR A CABLE TELEVISION SYSTEM IN THE CITY OF DAYTON, OHIO

APPENDIX E

PROPOSED FRANCHISE FOR A CABLE TELEVISION SYSTEM IN THE CITY OF DAYTON, OHIO

WHEREAS (name of grantee) (hereinafter referred to as the "grantee") by proposal dated ______________________________ has applied to the (name of franchisor) (hereinafter referred to as the "franchisor") for a franchise to install, operate, and maintain a Community Antenna Television System; and to install, operate, and maintain a Community Antenna Television System; which proposal is incorporated herein by reference.

WHEREAS, the grantee has agreed that the cable distribution system shall have an initial capacity for the transmission of 40 channels of TV signals on its trunk and distribution cables; and

WHEREAS, the grantee has agreed to participate in the ownership, operation, and financing of an Interconnection Company which is to finance, construct, operate, and maintain a supercable interconnection, a microwave interconnection, or a combination thereof, between said system and all cable systems in the Dayton television market area, with which it does not share a common head-end, in accordance with the specifications set forth by the franchisor in the Request for Proposal and in such manner that subscribers to said system will be able to receive a minimum of eighteen (18) channels from such cable systems interconnected with said system; and

WHEREAS, the grantee has agreed to comply with the requirements specified by the franchisor in the request for proposal incorporated herein by reference; and

WHEREAS, said agreements constitute a material portion of the consideration for the grant of this franchise; and

WHEREAS, the franchisor held a public hearing on _______________ to consider the merits of said proposal; and

WHEREAS, the franchisor after said public hearing has approved said proposal;

NOW, THEREFORE, the (name of grantee) and the (name of franchisor) do hereby mutually agree as follows:

Section 1: Defined Terms

Unless the context clearly indicates that a different meaning is intended, the following definitions shall govern the interpretation of this franchise and its introductory stipulations:

(A) "Channel" means a band of frequencies, six (6) MHz wide in the electromagnetic spectrum that is capable of carrying one audio-video signal, or a large number of frequency modulated audio signals or several thousand digital signals.

(B) "Broadcast channel" means a channel provided by the cable system to relay to subscriber terminals television broadcast programs that are received off-the-air or by direct connection to a television broadcast station.

(C) "Non-broadcast channel" means a channel provided by the cable system to deliver to subscriber terminals programs which are not television broadcast programs received off-the-air or by direct connection to a television broadcast station.

(D) "Local origination channel" means a channel carrying a non-broadcast signal whose programming is subject to the exclusive control of the grantee and is produced either by the grantee or by another person with assistance from the grantee.

(E) "Cable distribution plant" and "distribution plant" are used interchangeably to mean that portion of the system authorized by this franchise which carries, by means of cable or wire, programming to subscriber terminals in the franchise area.

(F) "Community antenna television system," "cable system," and "system" are used interchangeably to mean the broad-band communications facility that is to be constructed, operated, and maintained by the grantee pursuant to this franchise, and such a facility operating in another area, as the context requires.

(G) A "converter" means an electronic device which permits the subscriber to view all channels that the cable system is capable of delivering to the subscriber.

(H) The "Dayton television market area" means that area described in the request for proposal for which the grantee has agreed to provide an interconnection capability by means of both the sharing of common head-end facilities and its participation in the ownership, operation, and financing of the Interconnection Company.

(I) "Dedicated cable" means any cable installed by the grantee in accordance with Section 31 of the franchise for the sole use of the institutions therein names at whose request and cost such cable was installed.

(J) "Specially designated channel" means a channel set aside for a specific, specialized purpose, other than a local or regional program origination channel, in accordance with subsections (C) and (D) of Section 10 of this franchise.

(K) "First-come, first-served basis" refers to an allocation of resources or other matters that determines the order of priority according to the order of request.

(L) "F.C.C. Regulations" means those valid rules and regulations promulgated by the Federal Communications Commission and applicable to the cable system authorized by this franchise, presently in force and as hereafter amended.

(M) "Franchise" means this agreement under which the franchisor permits the grantee to use the streets of the franchisor in the operation of a community antenna television system.

(N) "Franchisor" means the City of Dayton, Ohio, the governmental entity granting permission herein for the use of streets in the establishment of a community antenna television system.

(O) "Grantee" and "Franchisee" both mean the ______________ Company, the entity receiving permission herein for the use of streets in the establishment of a community antenna television system.

(P) "Gross Subscriber Revenues" means all revenue derived directly or indirectly by the grantee, its affiliates, subsidiary, parents, and any person in which the grantee has a financial interest from, or in connection with the operation of this system constructed pursuant to this franchise, that are received from the subscriber for the service.

(Q) "Gross operating revenues" means all revenue derived directly or indirectly by the grantee, its affiliates, subsidiaries, parents, and any person in which the grantee has a financial interest, from or in connection with the operation of the system constructed pursuant to this franchise, including but not limited to subscriber fees, lease fees, advertising revenue, and pay television receipts.

(R) "Head-end" means a central point from which signals are passed into the cable distribution plant for distribution to subscribers.

(S) "Interconnection" means the direct or indirect linkage of the cable system authorized by this franchise with another cable system by the sharing of a common head-end facility, or by means of a supercable interconnection, or by means of a microwave cable television relay service, or by any combination thereof, as agreed to in the grantee's proposal dated ______________________.

(T) "Interconnection corporation" means the corporation described in the request for proposal which is to finance, construct, operate, and maintain the interconnection among all cable systems in the Dayton television market area other than those which are interconnected by sharing a common head-end facility.

(U) "Local" means pertaining to the franchise area in the City of Dayton.

(V) "Regional" means pertaining to the Dayton television market area. For the purpose of this document, the cable companies shall limit their response to those 13 communities in the Dayton television market, and any contiguous unincorporated areas which were the subject of the Rand Corporation study, "Cable Communications in the Dayton-Miami Valley: Basic Report."

(W) "Pay Television" means the delivery of audio-video signals over the system in intelligible form to subscribers for a fee or charge (over and above the charge for basic service) on a per-program, per-channel, or other subscription basis.

(X) "Person" means person, firm, corporation, or association, and any other legally recognized entity.

(Y) "Franchise Area" means the corporate boundaries of the City of Dayton, Ohio.

(Z) "Separate Service Areas" means the following areas located within the boundaries of the franchise area:

(i) The area bounded by ______ on the north, _________ on the east, _________ on the south, and _________ on the west;

(ii) The area bounded by _________ on the north, _________ on the east, _________ on the south, and _________ on the west:

(iii) The area bounded by _________ on the north, _________ on the east, _________ on the south, and _________ on the west; and

(iv) The area bounded by _________ on the north, _________ on the east, _________ on the south, and _________ on the west.

(AA) "Request for proposal" means that document, issued by the franchisor and dated ____________________________, establishing certain requirements requisite of any cable system proposed to be built by any person seeking a franchise from the franchisor, and stating the consideration required before a franchise would be granted and the grantee's responses thereto.

(BB) "Streets" means streets, avenues, roads, highways, boulevards, concourses, driveways, bridges, tunnels, parks, parkways, waterways, docks, bulkheads, wharves, piers, and public grounds or waters within or belonging to the franchisor.

(CC) "Subscriber" means a purchaser of regular cable television services, i.e., the carriage of broadcast signals and such regular non-broadcast services simultaneously furnished to all purchasers.

Section 2: Grant

The franchisor hereby grants to the grantee, under the terms, conditions, and consideration of this franchise, permission for the occupation or use of the streets within the franchise area for the construction, operation, and maintenance of a community antenna television system.

Section 3: Duration of the Franchise

The franchise and the rights, privileges, and authority hereby granted shall take effect and be in force from and after its adoption by the franchisor, as provided by law, and shall continue in force and effect for a term of 15 years, provided that, within ten (10) days after the effective date of this franchise, the grantee shall file with the franchisor its unconditional acceptance of this franchise and its provisions, terms, and conditions and the consideration as specified in the introductory stipulations and request for proposal. Such acceptance shall be written, duly executed, and sworn to by or on behalf of the grantee before a notary public or other officer authorized by law to administer oaths.

Section 4: Non-exclusive Franchise

The right to use and occupy the streets of the franchisor for the purposes herein set forth shall not be exclusive, and the franchisor reserves the right to grant a similar use of said streets to any person at any time during the period of this franchise.

Section 5: Geographic Coverage of the System

(A) The grantee shall construct a cable distribution plant capable of providing service within five (5) years to all dwelling units located within the prime service area, as defined in subsection (B) below, of the franchise area. The grantee shall construct a separate trunk cable from a head-end facility for each Separate Service Area in order that separate programming may be provided when requested by the City Commission or its duly authorized agents to each Separate Service Area distinct from the remainder of the cable system.

(B) The prime service area shall be that area with a density of eighty (80) dwelling units or more per cable mile as measured along any mile of the system. The commencement of a cable mile shall be at a head-end facility or at a point on a cable which is a multiple of 5280 feet distant from a head-end facility.

(C) Any person within the franchise area who is not in the prime service area shall be given service if that person is willing to pay the extra installation cost associated with the provision of service outside the prime service area.

Section 6: Right and Obligation of the Grantee to Connect

(A) The grantee shall have the right and obligation to provide cable television service to any member of the public in any publicly or privately owned buildings that are in the grantee's franchise area without paying a service charge to the building owner. Any dispute between the grantee and any building owner shall be heard and resolved by the franchisor in a public hearing.

(B) Any damage caused to the property of building owners or users, or to any other person, by the grantee shall be repaired fully by the grantee.

(C) Subject to subsection (a), the grantee shall, upon request, provide service to all dwelling units to which it is capable of providing service in accordance with Section 5, although the grantee may withdraw such service upon a showing that the subscriber has failed to honor his financial obligations to the grantee. Service will not be withdrawn until the grantee has notified the subscriber of its intent to withdraw service.

Section 7: Franchise Fee

The grantee shall pay to the franchisor semi-annually an amount equal to five per cent (5%) of the grantee's annual gross subscriber revenues. This payment shall be placed in a separate fund to be used by the franchisor to defray its cost of regulating and supervising the cable television system provided for herein, providing funds for local public service programming and matters related thereto and for other uses determined by the franchisor or its designee. This fee shall be adjusted periodically by the franchisor to reflect more accurately the true cost of such regulation, supervision, and local public service programming and other uses by the franchisor or its designee.

If at such time the FCC should modify its regulations to permit franchise fees to include revenues other than from gross subscriber revenues to be a part of the franchise fee, then the franchise fee shall be the percentage designated based upon all allowable gross operating revenues. At no time, however, will the fee exceed the guidelines permitted by FCC regulations.

Section 8: Regulation of Rates and Profits

(A) The rates and charges for the distribution of audio-video and audio signals to subscribers by means of connection of the cable system to subscriber terminals and related services, (for the installation of cable outside the prime service area to cover the extra installation cost associated with the provision of such service) and for any additional services that the grantee may render to subscribers shall be fair and reasonable and no higher than necessary to meet all costs of such service (assuming efficient and economical management), including a fair return on the capital invested in the enterprise.

(B) The franchisor shall have the power, authority, and right to cause the grantee's rates and charges to conform to the provisions of this section, and for this purpose it may order, approve or deny increases or reductions in such rates and charges when it determines that in absence of such action on its part the grantee's rates and charges or proposed increased rates and charges will not conform to Subsection "A" and are deemed not to be fair and reasonable.

(C) No action shall be taken by the franchisor with respect to the grantee's rates and charges under this section until the franchisor has given the grantee reasonable notice of such proposed action and an opportunity to be heard in a public proceeding with regard thereto.

(D) The following rates and charges are hereby authorized for service under this franchise and shall not be changed by the grantee without prior approval by the franchisor:

Description of Service	Installation	Monthly Service Rate
1. Original primary service connection, including tapping device, lead-in cable, transformer and fitting for one television receiver.	$________	$____________
2. Each additional active outlet installed for a primary subscriber within a single dwelling unit receiving primary service, including cable, cable divider transformer, and fitting for one additional television receiver.	$________	$____________
3. Move or rearrangement of a subscriber's drop and/or the associated wiring within the premises. Relocation charge per outlet.	$________	
4. Reconnection of the existing service at a premise after disconnection of said service requested by the subscriber or after disconnection by the operator for non-payment.	$________	

5. Reinstallation of primary service for a previous subscriber at a new premise concurrent with or following said subscriber's moving to said premise. $__________

(E) Any additional rates and charges for services rendered by the grantee to its subscribers, except for rates and charges for subscription or other pay television services, shall not be established by the grantee without prior approval by the franchisor if such approval is consonant with the authority designated to the franchisor by the Federal Communications Commission.

(F) The grantee shall receive no deposit, advance payment, or penalty from any subscriber or potential subscriber without approval of the franchisor.

(G) The grantee shall receive no consideration whatsoever for or in connection with its services to its subscribers other than that received in accordance with this section, except for the consideration which grantee receives for subscription or other pay television services and which is not subject to this section.

Section 9: Differentiated Rates

Except as the franchisor may otherwise permit upon justification shown by the grantee, the grantee shall not make or grant, with respect to rates, charges, service, service facilities, rules, regulations, or any other matter, any preference or advantage to any person, nor subject any person to any prejudice or disadvantage.

Section 10: Channel Allocation

(A) The grantee shall carry all broadcast signals required and permitted under regulations of the Federal Communications Commission (F.C.C.) as such regulations may be amended from time to time.

(B) The location on the dial of both broadcast and non-broadcast channels shall be determined in such a fashion as to be consistent with that of all cable systems with which there is an interconnection in the Dayton television market area. For this purpose, the grantee will be required to receive the approval of the Interconnection Corporation concerning the dial-location of all broadcast and non-broadcast channels.

The broadcast channels, the local origination channel or channels, the three channels specially designated for free access in accordance with subsection (C) and the three channels specially designated for regional access in accordance with subsection (D) shall be carried on the cable distribution plant in such a manner that the subscriber will not need a converter or will not pay a monthly converter charge to receive them. The regional program origination channel provided for in subsection (D) may be carried on the cable distribution plant in such a manner that the subscriber will need a converter in order to receive such channel.

(C) In accordance with F.C.C. regulations, at least one channel shall be set aside for local program origination by the grantee, one non-broadcast channel shall be specially designated for the use of local educational authorities, one such channel shall be specially designated for local government use, and one such channel shall be specially designated for use by the public at large. Such specially designated channel for the public at large shall be made available on a non-discriminatory first-come, first-served basis. There shall be no charge for the use of such specially designated access channels; provided, however, that the grantee may charge the user, to the extent permitted by F.C.C. regulations, for the cost of producing programs carried on said channels.

(D) In coordination with other cable systems in the Dayton television market area, the grantee shall specially designate three non-broadcast channels, one each for the use of educational authorities, government, and the public at large, for regional access throughout the Dayton television market area. In further coordination with other cable systems in the Dayton television market area, the grantee shall set aside one channel for regional distribution of the local origination programming of the various cable television systems in the Dayton television market area. The obligation in this subsection will not arise until the grantee interconnects this system with another cable system in the Dayton television market.

Access to these channels shall be on the same basis as the channels discussed in subsection (C); however, such access and the choice of programming on the channel set aside for regional distribution of local origination programming shall be coordinated by the Interconnection Corporation.

(E) All remaining non-broadcast channels shall be made available on a leased access basis to any user on a non-discriminatory first-come, first-served basis. The grantee may charge a fee for the use of these channels.

(F) Nothing in this section shall prohibit the grantee from utilizing, or making available on a fee basis, channels specially designated for use by education, local governments, or the public, or assigned as broadcast channels whenever time on such specially designated or assigned channel is not being used for the specially designated or assigned purpose.

(G) At such times as permitted by the F.C.C. regulations, the franchisor may approve the establishment of a differentiated rate structure by the grantee for the use of non-broadcast channels based on the type programming or the user, but in no event shall any preferential rate be less than the cost to provide such service.

Section 11: Interconnection

The grantee has in its proposal agreed to interconnect this system with other cable systems in the Dayton television market in accordance with the requirements of the request for proposal in such a fashion that subscribers to this system will be able to receive a minimum of eighteen (18) channels of systems with which there is an interconnection on the same frequency on which they are received elsewhere in the Dayton television market area. The grantee may also interconnect this system with systems outside the Dayton television market area and with any cable television networks that might be established, so long as these interconnections do not interfere with the interconnections that the grantee is required to maintain or with any other obligations of the grantee under this franchise. The signal quality levels specified in Attachment "A" shall include any interconnection links utilized by the cable systems.

To the extent that the grantee's agreement requires an interconnection entailing a microwave cable television relay service (as specified in Part 78 of the F.C.C. regulations), it shall be interpreted to require the grantee or a person designated by the grantee with the approval of the franchisor to comply with F.C.C. regulations governing such relay service and to seek a license therefor from the F.C.C.

Section 12: Capacity

The grantee has in its proposal agreed that the cable TV system shall have an initial capacity for the transmission of 40 channels of TV signals on its trunk and distribution cables and that, upon payment of the rates specified in Section 8, paragraph (D) herein, each subscriber shall be able to receive ______ channels of service.

Section 13: Local Program Origination and Public Service Broadcasting.

(A) The grantee shall originate such local programming as is required by the F.C.C. regulations.

(B) The grantee has in its proposal agreed that it shall set aside _____% of its gross subscriber revenues semi-annually and pay over such amount to such entity as the franchisor designates to be used by such entity for public service programming and matters related thereto.

Section 14: Use of Equipment and Technical Assistance

(A) The grantee shall have available production equipment in quantities reasonably sufficient to satisfy the demonstrated and reasonable needs of such persons or groups who are prepared to originate programs. This equipment shall include, but not be limited to, low cost video tape recording equipment and equipment capable of dubbing (transferring) all sizes of video tape (1/4", 1/2" 3/4", 1", 2", etc) into an acceptable picture on the designated channels.

(B) The grantee's production facilities, equipment and personnel shall be made available to persons or groups on a first-come, first-served basis for their origination of programs. The grantee shall be reasonably and fairly compensated by said persons or groups for this use of equipment, facilities and personnel.

(C) A program originator shall not be required to use the equipment of the grantee, but may use other equipment that is compatible with grantee's facilities.

Section 15: Set Leasing and Service

(A) The grantee shall not engage in the business of selling, repairing, or installing television receivers, radio receivers, or accessories for such receivers, except converters, within the franchise area.

(B) Failure of the grantee to honor its obligation under subsection (A) above shall be a material breach of this franchise.

(C) The provision in subsection (A) above may be renegotiated after five years at the option of the franchisor to allow the grantee the non-exclusive right to sell, lease, and service television receivers and/or radio receivers.

Section 16: Emergency Use

In the case of an emergency or disaster, the grantee, upon request of the chief executive officer of the franchisor, shall make its facilities available for emergency use during the emergency or disaster period at no cost to the franchisor except to the extent of any costs incurred by the grantee from such use.

Section 17: Pay Television Services

The cable operator shall offer to lease all excess capacity for subscription television, or pay television services on a non-discriminatory basis and shall provide the same services to all program producers if he provides special services to any producer or operates his own channel for such purposes.

Section 18: System Maintenance

(A) The grantee will maintain a local business office in order to provide all necessary maintenance on the cable system.

(B) The grantee shall maintain all parts of the cable system in good condition at all times. The grantee shall provide, and shall contract with its subscribers to provide, all necessary maintenance on the cable system free of additional charge to the subscribers. Such maintenance service shall be performed to the reasonable satisfaction of the subscriber.

(C) Whenever it is necessary to interrupt area-wide service for the purpose of making repairs, adjustments, or installations, the grantee shall do so between the hours of 1:00 a.m. and 7:00 a.m. in order to minimize inconvenience to subscribers, and for repairs outside of these hours unless such interruption is unforeseen and immediately necessary, it shall give 24 hours notice thereof to its subscribers.

(D) In the event that the subscribers cannot receive more than half of the normally available channels for eight hours or more, between the hours of 8:00 a.m. and midnight, or that the signal-to-noise ratio is degraded by more than three dB below the value specified in Attachment "A" Technical Requirements, for eight hours or more, or that the cross-modulation distortion is degraded by more than three dB from the value specified in Attachment "A" for eight hours or more, then each such subscriber shall receive a rebate of one-thirtieth (1/30th) of the monthly subscriber fee for each such eight hour or more period between the hours of 8:00 a.m. and midnight.

(E) The requirements for maintenance of equipment contained in this provision shall not apply to the subscriber's television receiver.

(F) Provision shall be made for taking complaints outside of the normal working day. The grantee shall service any subscriber who complains of faulty service within the next full working day following the complaint. In the event that a subscriber does not receive a service call during the next full working day, he shall receive a rebate for that and each succeeding day of delay amounting to one-thirtieth (1/30th) of his monthly subscriber fee.

Section 19: Reporting

(A) The grantee shall file with the franchisor true and accurate maps or plates of all existing and proposed installations and shall keep said maps and plates current.

(B) Annually, the grantee shall file with the franchisor not later than ninety (90) days after the end of the grantee's fiscal year a copy of its report to its stockholders (if it prepares such a report), an income statement applicable to its operations during the preceding fiscal period, a balance sheet, and a statement of its properties giving its investment in such properties on the basis of original cost less applicable depreciation. These reports shall be prepared or approved by a certified public accountant. There shall also be submitted along with these reports such other reasonable information as the franchisor shall request with respect to the grantee's properties and expenses related to its cable television operations within the franchise area.

(C) The grantee shall keep on file with the franchisor a current list of its officers, directors, shareholders, bondholders, and employees.

(D) All complaints sent to the grantee by subscribers or others shall be kept on file for inspection by franchisor; copies of all complaints and orders of Government agencies shall be sent to the franchisor within ten (10) days of receipt, together with the grantee's response thereto. All formal written complaints to the franchisor shall be forwarded to the grantee and answered by him within ten (10) days of their receipt by him.

(E) The grantee shall file a quarterly report of all complaints and trouble calls received, and shall include in that report a breakdown of the calls by category, the number of second or subsequent calls on the same complaint, and an average of the period of time required to satisfy each complaint reported.

(F) Copies of all petitions, applications, and communications submitted by the grantee to the Federal Communications Commission, the Securities and Exchange Commission, or any other federal or state regulatory commission or agency having jurisdiction with respect to any matters affecting the cable television operation authorized pursuant to this franchise shall also be submitted to the franchisor within five (5) days of their filing with the designated regulatory agency or commission.

(G) At least once a year, the grantee shall provide each of its subscribers with a questionnaire to be devised by the franchisor and grantee and to include all reasonable questions submitted to the franchisor by subscribers. The grantee and the franchisor shall give all subscribers one month public notice of the compiling of the questionnaire. The answers to the questionnaire shall be compiled by the grantee and shall be published within three months, after the questionnaire is sent to the subscribers. This publication shall be available without charge and this fact shall be given public notice. At least one question of the questionnaire shall request evaluative comments from the subscribers.

(H) The grantee shall appear at public hearings called by the franchisor to discuss and evaluate the performance of the grantee. Such hearings may be held at any time, but shall be held at least every two years.

Section 20: Hiring Practices

(A) The grantee shall not discriminate on the basis of sex, race, national origin, religion, or creed in hiring and promoting employees. The grantee shall seek out and train employees in order that minority groups are represented in its employee work force in approximately the same relative proportion as they are represented in the population of the franchise area.

(B) The grantee shall file an affirmative action plan for the achievement of the end described in subsection (A) above annually with the franchisor. This plan shall include a report of persons employed, together with their positions and salaries, by categories listed in the first sentence of subsection (A) above.

(C) The franchisor may also require the grantee to establish affirmative standards for the hiring and promoting of employees with arrest or conviction records.

Section 21: Technical standards

See Attachment "A".

Section 22: Construction Timetable

(A) The grantee shall construct one head-end and the necessary antenna and studio facility to permit the reception of broadcast signals and the origination of programming within twelve (12) months of the date of issuance of the Certificate of Compliance by the Federal Communications Commission. The grantee further shall complete construction of at 20% of the cable distribution plant during the first year after obtaining the necessary Certificate of Compliance from the Federal Communications Commission, and shall, during such year, commence construction of a separate trunk cable from a head-in facility for each separate service area as provided in Section 5, paragraph (A). Thereafter, the grantee shall complete construction annually of at least 20% of the distribution plant and any remaining uncompleted portion of the cable television system necessary to fulfill the obligations of this franchise or of the Federal Communications Commission Regulations.

(B) Construction of the system shall proceed in a non-discriminatory manner that provides relatively equivalent service to each Separate Service Area and that meets with the approval of the franchisor.

Section 23: Condition of Streets

(A) The grantee is granted the right, privilege, and franchise to enter upon the streets, avenues, and other public ways to construct, maintain, and repair poles, wires, and structures, in, under, and over said streets, avenues, and other public ways as may be reasonably necessary for the maintenance and operation of the system. Whenever the grantee is able to obtain the necessary consent from the owners, the grantee's wires and structures may be attached to any and all poles now in place on and along the said streets, avenues, and other public ways. All new poles erected shall be an approved pole located at such points along said streets, avenues, and other public ways as are approved by the Director of Service and Buildings of the City of Dayton and shall be located so as to interfere as little as possible with the use of the streets and sidewalks for travel. No wires shall be less than eighteen (18) feet above the grade-line of the street except where they pass under any elevated crossing or crossings now existing or which may later be constructed. Said poles shall be kept adequately painted by the company but under the direction of the Department of Service and Buildings.

(B) The grantee shall comply with all regulations of the City in force from time to time in regard to excavations and construction in public ways, including the duty to obtain and pay for permits required by such regulations. The grantee, at its own expense, shall carefully guard and protect all public ways entered and opened hereunder by it so as to prevent injury to persons or damage to property while work therein is being performed by the grantee or its agents and all public ways entered and opened thereunder, as soon as practical after completion of the work, shall be restored to their former condition of usefulness by the grantee all to the approval of the Director of Service and Buildings in accordance with the rules and regulations for making openings in a public way. The grantee shall indemnify and save harmless The City of Dayton, or any other government authority, against all claims, charges, losses, damages, and actions of every kind for or on account of any injury, or damage to persons or property, or both, because of, arising out of, or incident to any work performed under this section.

(C) The grantee agrees to cause its poles, wires, and other equipment to be relocated and reconstructed at its own expense when same, in the judgment of the Director of Service and Buildings, is rendered necessary on account of a public improvement or by the proper exercise of the police power of the City. In construction, installation, maintenance, removal or repair of any of its poles, wires, or other equipment, the grantee shall exercise reasonable care and shall comply with all the regulations now existing or which may hereafter be made by the City relating thereto, and shall be liable for any damage that may arise by reason of the failure or neglect of the grantee to use reasonable care and to comply with such regulations. The grantee shall save and keep the City free and harmless from any and all claims for damages caused by, arising out of, or incident to such failure or negligence except that when poles are ordered moved by the Director of Service and Buildings of the City in order that a public improvement may be made, the permits that are usually required for permission to move a pole shall not be required.

(D) The grantee shall, on the request of any person holding a building moving permit issued by the franchisor, temporarily raise, lower, or remove its wires to permit the moving of buildings. The expense of such raising, lowering or removal of wires shall be paid by the person requesting the same, and the grantee shall have the authority to require such payment in advance. The grantee shall be given not less than forty-eight (48) hours advance notice to arrange for such temporary wire changes.

(E) The grantee shall have the authority to trim trees upon and overhanging streets, sidewalks, and other public places in the franchise area so as to prevent the branches of such trees from coming in contact with the wires and cables of the grantee, except that, at the option of the franchisor, such trimming may be done by it or under its supervision and direction at the expense of the grantee.

(F) In all sections of the franchise area where the franchisor shall require, and where cables or like facilities of public utilities are placed underground, the grantee shall place its cables, wires, or other like facilities underground.

(G) If the grantee breaches its obligations under subsections (A), (B), (C), or (D) herein, the franchisor may elect to make the necessary adjustments and/or repairs in order to fulfill the obligations of the grantee and may bill the grantee for the cost thereof.

Section 24: Franchisor's Rights

(A) The franchisor hereby reserves the right to adopt, in addition to the provisions contained herein and existing applicable ordinances, such additional regulations as it shall find necessary in the exercise of its police power provided, however, that such regulations, by ordinance or otherwise as provided by law, shall be reasonable and not in conflict with the rights herein granted.

(B) The franchisor shall have the right to inspect the books, records, maps, plans, income tax returns, and other like material of the grantee at any reasonable time during normal business hours.

(C) The franchisor shall have the right during the life of this franchise to install and maintain, free of charge, upon the poles of the grantee any wire and pole fixtures necessary for a police alarm system, fire alarm system, traffic control system, or other similar system or systems for other governmental functions, on the condition that such wire and pole fixtures do not interfere with the cable television operations of the grantee.

(D) The franchisor shall have the right to supervise all construction or installation work performed under the provisions of this franchise and to make such inspections as it shall find necessary to ensure compliance with the terms of this franchise and other pertinent provisions of the law.

(E) At the expiration of the term for which this franchise is granted, or upon its termination and cancellation as provided for herein, the franchisor shall have the right to require the grantee to remove at its own expense all portions of the cable television system from all public ways within the franchise area and restore the public ways to a condition satisfactory to the Director of Service and Buildings.

(F) At the expiration of the term for which this franchise is granted or any renewal thereof, the franchisor reserves the right to acquire the system. The purchase price for the system shall be its then fair value as determined by appraisals and negotiations between the parties. If the parties cannot agree upon a fair value, then such value shall be determined by a panel of three arbitrators, one to be selected by the franchisor, one to be selected by the grantee, and one to be selected by the Presiding Judge of the Court of Common Pleas for the County of Montgomery. The franchisor shall have the option of whether to purchase at the price determined by the arbitration panel. Upon the termination or cancellation of the franchise as provided for herein for cause, the franchisor, at its election, and upon payment to the grantee, of an amount equal to the book value, (i.e., original cost less accumulated depreciation) of the cable television system, according to generally accepted accounting principles, with a reduction for any damages incurred by the franchisor in connection with such cancellation, shall have the right to purchase and take over the cable television system in its entirety. The above price shall not include, and the grantee shall not receive, anything for the valuation of any right or privilege appertaining to it under this franchise. Such book value, if not agreed upon by the franchisor and grantee shall be determined by a panel of three arbitrators selected as outlined above.

Upon the exercise of this purchase options by the franchisor and upon the service of an official notice of such action upon the grantee, the grantee shall immediately transfer to the franchisor possession and title to all facilities and property, real and personal, of the cable television system, free from any and all liens and encumbrances not agree to be assumed by the franchisor in lieu of some portion of the purchase price set forth above. The grantee shall execute such warranty deeds or other instruments of conveyance to the franchisor as shall be necessary for this purpose. The grantee shall make it a condition of each contract entered into by it with reference to its operations under this franchise that the contract shall be subject to exercise of the option herein provided for by the franchisor and that the franchisor shall have the right to succeed to all privileges and obligations thereof upon the exercise of such option.

(G) After the expiration of the term for which this franchise is granted, or after its termination and cancellation, as provided for herein, the franchisor may determine whether the grantee shall continue to operate and maintain the cable television system pending the decision of the franchisor with respect to the future maintenance and operation of such system. Under these conditions, the franchisor reserves the right to draft a new franchise agreement, and to revise Attachment "A", Technical Requirements. Renewal is not automatic. Franchisor may arrange for competitive award of the succeeding franchise. If the franchisor determines that the grantee shall so continue, the grantee shall do so; and failure on its part to do so will be a breach of this franchise and will entitle the franchisor or its designee to operate and maintain the cable television system pending the decision of the franchisor with respect to the future of said system.

Section 25: <u>Franchise Revocation</u>

The franchisor reserves the right to terminate and cancel this franchise and all rights and privileges of the grantee hereunder in the event that the grantee:

(A) Violates any provision of this franchise or any rule, order, or determination of the franchisor made pursuant to this franchise, and such violation has not been promptly remedied after written notice thereof, except when such violation is without fault or through excusable neglect;

(B) becomes insolvent or unable or unwilling to pay its debts, or is adjudged a bankrupt;

(C) attempts to dispose of any of the facilities or property of its cable television system to prevent the franchisor from purchasing the same, as provided for herein;

(D) attempts to evade any of the provisions of this franchise or practices any fraud or deceit upon the franchisor;

(E) fails to complete construction under this contract as specified herein; or a mutually agreed extension granted for cause;

(F) breaches any promise or agreement made as part of the consideration given by the grantee in return for the grant of this franchise, as specified in the stipulations introductory to this franchise and in Sections 11 and 12 hereof.

Such termination and cancellation shall be by ordinance duly adopted after ninety (90) days notice to the grantee; provided, however, that before this franchise may be terminated and cancelled under this section, the grantee must be provided with an opportunity to be heard and, on reasonable grounds, to appeal an adverse findings.

Section 26: Transfer, Transactions Affecting Owners and Changes in Grantee

(A) The grantee shall not transfer or otherwise alienate this franchise to another person without prior approval of the franchisor by ordinance.

(B) In order that the franchisor may exercise its option to take over the facilities and property of the cable television system authorized herein, upon expiration or forfeiture of the rights and privileges of this grantee under this franchise, as is provided for herein, the grantee shall not make, execute, or enter into any deed, deed of trust, mortgage, conditional sales contract, or any loan, lease, pledge, sale gift, or similar agreement concerning any of the facilities and property, real or personal, of the cable television system without prior approval of the franchisor upon its determination that the transaction proposed by the grantee will not be inimical to the rights of the franchisor under this franchise. ". . . or if such encumbrances, contracts or agreements are made in the ordinary course of business and on terms and conditions then prevalent or customary in like transactions in the same or similar business. Franchisor acknowledges that the financing of the construction and operation will require the extension of credit and the making of loans to franchisee which will require collateralization or the pledge of property or securities. Franchisor's consent thereto shall not be unreasonably withhold." Provided, however, that this section shall not apply to the disposition of worn out or obsolete facilities or personal property in the normal course of carrying on the cable television business.

(C) It shall be a breach of this franchise and, notwithstanding any provision of this franchise to the contrary, cause for revocation of the franchise whenever more than thirty per cent (30%) of the right of control of the grantee is acquired or attained by a person or group of persons acting in concert, none of whom already own or control thirty per cent (30%) or more of such right of control, individually or collectively, without receiving the prior approval of the franchisor. A restriction on the transfer of shares in the grantee sufficient to fulfill the proscription of this subsection shall be included in the grantee's Articles of Incorporation and incorporated in the stock certificates in a manner consistent with Ohio law.

Section 27: Performance Bond

The grantee agrees to maintain for the first five (5) years of this franchise a faithful performance bond running to the franchisor, written by a surety company authorized to do business in Ohio, cashier's or certified check, or other negotiable security in the sum of $1,000,000 acceptable to the City.

For the years six (6) through ten (10) inclusive, the amount of the bond shall be $500,000.

For the years eleven (11) through fifteen (15) inclusive, the amount of the bond shall be $250,000.

The bond shall be conditioned that the grantee shall well and truly observe, fulfill, and perform each term and condition of this franchise and that in case of any breach of condition of the bond, the amount thereof shall be recoverable from the principal and surety thereof by the franchisor for all liquidated damages, for the failure of the grantee well and faithfully to observe and perform any provision of this franchise, and for any amount billed to the grantee by the franchisor for the cost of the franchisor's performing the grantee's obligation, as provided for herein.

Section 28: Liability, and Indemnification

(A) The grantee shall indemnify and save harmless the franchisor, its officers, and employees from and against any and all injury, loss, damage, cost, expenses, claims, attorney fees, demands, actions, suits, judgments, or other proceedings or liability including, but not limited to any liability for failure to secure consents for programs delivered by the grantee's CATV system, arising out of, or in any way connected with the grant, exercise or enjoyment of grantee's franchise, and regardless of any negligence or other acts or omission on the part of the franchisor, its officers, and employees.

(B) The grantee shall, at all times, during the existence of any franchise granted hereunder, maintain in full force and effect at its own cost and expense, a general comprehensive liability insurance policy protecting the franchisor and all persons against liability for loss or damage for personal injury, death, and property damage, occasioned by the operations of grantee under this franchise, with minimum liability limits of $300,000 for personal injury or death of any person, and $500,000 for personal injury or death of two or more persons in any one occurrence, and $100,000 for damage to property resulting from any one occurrence. The grantee shall concurrently with the filing of an acceptance of award of this franchise, file with the Clerk of the City Commission, either a copy of such policy, or a certificate of insurance, evidencing the same in a form satisfactory to the franchisor. Such policy of insurance, and any certificate evidencing the same, shall name the franchisor, its officers, and employees as additional insured and shall also provide that thirty (30) days prior written notice of intention not to renew, cancellation, or material change be given to the franchisor.

Section 29: Safety Requirements

(A) The grantee shall at all times employ ordinary care and shall install and maintain in use commonly accepted methods and devices for preventing failures and accidents that are likely to cause damage, injuries, or nuisances to the public.

(B) The grantee shall install and maintain its wires, cables, fixtures, and other equipment in accordance with the requirements and applicable codes of the State of Ohio and of the franchisor, and in such manner that they will not interfere with any installations of the franchisor or of a public utility serving the franchisor.

Section 30: Separability, Compliance with Applicable Laws

(A) If any section, subsection, sentence, clause, phrase, or portion of this franchise is for any reason held invalid or unconstitutional by any court of competent jurisdiction, or the Federal Communications Commission, such portion shall be deemed a separate, distinct, and independent provision and such holdings shall not affect the continued effectiveness or validity of the remaining portions hereof.

(B) At all times during the life of this franchise, the grantee shall be subject to all lawful exercise of the police power by the franchisor and to such reasonable regulation as the franchisor shall hereafter provide, pursuant to the exercise of such police power.

(C) In addition to any provision of this franchise, and notwithstanding any provision thereof, the grantee shall comply with all applicable state and federal laws and with all applicable regulations of the Federal Communications Commission.

(D) This franchise shall incorporate any modifications made by the Federal Communications Commission in its regulations concerning franchise standards, if such incorporation is required by said regulations. Should such modification require a substantive provision not delineated in the regulations, the grantee and the franchisor shall negotiate such additional term. If agreement is not reached, the provision shall be determined in accordance with the procedure in Section 24 (F).

Section 31: Dedicated Cable

(A) At the option of the institutions names in subsection (B) below and at said institution's cost, the grantee shall install one or more additional cables, which shall be for the sole use of the institution or institutions requesting the installation and shall not be connected with the homes or private subscribers.

(B) The institutions referred to in subsection (A) above, shall be one or more of the following: One or more school districts, the Dayton Art Institute, the Dayton Museum of Natural History, local colleges, municipalities served by cable systems with which this system is interconnected, the franchisor, and other similar institutions.

(C) The grantee shall connect the dedicated cable with all head-ends of its system, and shall provide the capability to transmit programming, from the dedicated cable system, to the non-dedicated cable system, connecting subscribers. Any expense incurred by the grantee in providing such capability shall be paid by the institution(s) requesting the installation of the additional cable.

(D) The grantee shall make available to institutions using the dedicated cable, the production equipment necessary for effective program origination. This equipment shall be made available on a non-discriminatory, first-come, first-served basis with other persons or groups seeking such equipment under Section 14.

(E) All of franchisee's obligations under this section are subject to the following conditions:

> (1) Not more than one dedicated cable referred to in (A) above shall be installed in the space or on the messenger that is employed by the franchisee on utility poles or in utility ducts; and it shall be installed by franchisee only if ordered by the institution in proper time to allow for its installation concurrent with the franchisee's own original construction.
>
> (2) Any dedicated cable installed at a later date, shall be separately attached to or placed in utility space. Such later installation shall be pursuant to the terms of agreements with the affected public utility. Rights and obligations arising from said agreement or agreements shall inure solely to the institution and not to the franchisee.
>
> (3) The installation and use of a dedicated cable shall not in any manner interfere with or conflict with the performance by the franchisee of all of his obligations under this franchise nor cause any material disruption of or interference with service rendered by franchisee to any subscriber.
>
> (4) All expenses both direct and indirect arising from franchisee's installation of a dedicated cable or from its subsequent use or presence shall be borne in their entirety by the institutions.

Franchisee may require reasonable whole or partial prepayment, indemnification of and against such expenses and risks arising from the placement, presence or use of a dedicated cable.

(5) The institution's use or intended use of its dedicated cable shall in no manner deprive the franchisee from existing or potential revenues resulting from the ordinary conduct of its business as permitted by this ordinance or any amendment thereof.

(F) The grantee shall be compensated under Sections 10 and 14 of this ordinance for use by the institutions listed in subsection (B), above, of non-dedicated channels and for their use of production equipment.

Section 32: Obligation of Good Faith

Both the franchisor and the grantee agree to abide by an obligation of good faith in the interpretation, observance, and administration of the terms of this franchise in order to achieve the goals of a cable system fully serving the communications need of the franchise area and of an interconnected network of systems serving the communications need of the Dayton television market area.

*****
***
*

ATTACHMENT "A" - TECHNICAL REQUIREMENTS

REQUEST FOR PROPOSAL FOR CATV SYSTEM - DAYTON TELEVISION MARKET

SCOPE

This exhibit sets forth the guidelines for the technical, engineering performance, installation and construction requirements which shall be met by the CATV contractor in fulfilling his obligation under the Franchise Agreement.

Since these specifications are only a guideline to the type of installation required by the cities, the contractor may request a waiver from these specifications where local conditions render a waiver necessary.

APPLICABLE DOCUMENTS

Specified sections of the following documents are incorporated by reference and made a part of this exhibit. Where the contents of these documents conflict with the instructions of this exhibit, the requirements of this exhibit shall govern. In no case, however, will the rules of the Federal Communications Commission be waived.

STANDARDS

Federal: Federal Communications Commission (FCC) Rules and Regulations (R&R), Vol. III, Part 73. American National Standards Institute, C1-1971. Electronic Industry Association, (EIA) RS-170, RS-189. National Cable Television Association (NCTA) Standards. National Electrical Safety Code. Dayton Television Area Zoning Requirements and applicable building standards.

REQUIREMENTS

Engineering

The system furnished in accordance with this exhibit shall comply with the engineering requirements stated herein and shall distribute NTSC-TV signals within the standard 6 MHz channel bandwith, as designated by FCC, R&R, Vol. III, Part 73, Section 73.603 and 73.682, and/or specified in supporting documentation.

General Systems Concepts

The CATV system shall have a minimum television broadcast channel capability of 20 channels. A capacity in excess of 40 channels is preferred. The CATV systems shall have the minimum two-way capability specified in FCC, R&R, Section 76.251.

It is desired that the system employ the "hub" concept. This "hub", which may be either the head-end of the entire system or a main hub inter-connected to the hub-end of the system by coaxial cable or microwave retransmitters, shall be located at a site selected by the CATV operator with the approval of the franchisor, which shall adhere to the necessary zoning restrictions and building codes. Feeds shall emanate from the hub to logically divided sectors of the city to permit sector program distribution and to facilitate solely in-area origination and distribution. The operator shall propose a plan for districting which when approved shall become a part of the franchise document.

It is anticipated that the system shall be constructed with dual outgoing plant as a minimum. All coaxial cable used in such a system shall be capable of transporting the full television spectrum to 300 MHz. Amplifiers used in such a system shall be solid state, with passive equipment designed for two-way response.

Antennas & Towers

Antenna towers shall comply with all FAA, CAA and local zoning and antenna operational requirements concerning lighting, marking and analogous features. Each antenna shall be of sufficient gain and directivity to provide adequate reserve signal to noise ratio and suppression of adjacent channel interference. Co-channel interference levels shall be computed, and each antenna selected and orientated for a theoretical minimum of 55 dB suppression of the undesired co-channel station. If necessary, the antenna height may be adjusted (reduced) to achieve the required ratios. More than one station may be received on an individual antenna, provided all specifications are met, including co-channel suppression. All portions of the antenna shall be ruggedized in construction with ample heavy duty supports, cross arms and welded joints. All exposed metal parts shall be adequately treated and protected from corrosion due to weather and geographical location.

Converters and Preamplifiers

All active tower mounted devices shall be designed to operate continuously and to meet full specifications under the most adverse weather and temperature conditions anticipated. The frequency stability of the visual carriers at the subscriber terminals shall be ± 25 KHz or better.

Heterodyne Processing Devices

All processing amplifiers shall be of solid state design and modular construction permitting ease of maintenance, installation and alignment, and shall meet or exceed the following parameters:

Amplitude vs. Frequency Response:	Variations shall not exceed 2 dB over the desired channel.

Sensitivity:	-15 dBmv input level for +60 dBmv output.
Adjacent Carrier Rejection:	50 dB
Image Rejection:	60 dB
Output Level:	Adjustable to $\pm$57 dBmv.
AGC Range:	$\pm$0.5 dBv output level variation for input levels of -20 dBmv to +30 dBmv.
Ambient Temperature Range:	-20° F to +120° F
Frequency Stability:	On Channel: Phase locked to TV Station
	Off Channel: $\pm$25 KHz of assigned frequency.

Combining Networks, Couplers, Etc.

Single channel processing amplifier outputs shall be combined in a network which shall result in isolation between channels that will assure no cross-channel interference. The network shall be designed so that a correct impedance match to each signal processor is maintained regardless of the condition of other processors in the system. A return loss of 18 dB or better shall be maintained at all times.

General

All cabling shall be of a size and construction that will assure that the system functions as specified herein. The plant should be constructed using two discrete outgoing cables. (NOTE: Where not required for initial operation, and if approved by the cities, unused cable ends shall be sealed and protected from moisture and other possible damage. All cabling installed shall be wholly suitable for the conditions to which it may be exposed.)

Trunk

All trunk cable shall be extruded shield, aluminum seamless tubing, with the following dimensions: (0.750"/0.500"). Maximum attenuation of the trunk cable shall be:

Frequency	0.750"	0.500"
50 MHz	0.47 dB/100 ft.	0.64 dB/100
216 "	0.95 "	1.35 "
240 "	1.00 "	1.43 "
300 "	1.13 "	1.60 "

Return loss shall be: 30 dB or better, 50 - 260 MHz and 28 dB from 5-300 MHz.

Cables larger than 3/4" O.D. with correspondingly reduced attenuation may be used where good engineering practices dictate.

Distribution

The distribution cable should have a dimension no smaller than 0.412 inches measured at the outside diameter of the aluminum shield.

Maximum attenuation of distribution cable shall be:

50 MHz	0.75 dB/100 ft.
216 "	1.65 "
240 "	1.75 "
300 "	1.95 "

Return loss shall be: 30 dB or better, 50 - 260 MHz and 28 dB from 5-300 MHz.

Underground Cable

All underground cable (trunk and distribution) installed in buried conduit, shall contain an additional moisture barrier in the form of a flooding compound interspersed between the outer jacket and the aluminum tubing. Trunk or distribution cable shall not be directly buried unless it contains protective steel outer covering (spiral wrap or corrugated), a second suitable jacket protecting the steel from corrosion, plus a moisture barrier flooding compound inside both the inner and outer jackets.

Subscriber Drop Cables

Overhead dual drop cables shall be continuously bonded together to present a clean appearance; underground installations may be separate cables. However, in either case, 100% shielded type cable is required. Where a dual drop is installed underground, it shall either be in plastic conduit or a cable type specifically designed for direct burial for the soil conditions indigenous to the area. Direct burial drop cables shall be a dual jacket type with steel outer wrap and moisture protective flooding compound. General subscriber drop cable attenuation shall be less than 2.7 dB/100 ft. at 54 MHz and less than 5.5 dB/100 ft. at 216 MHz.

Amplifiers (Trunk and Distribution)

All amplifying equipment installed shall be capable of normal operation between 50 and 260 MHz. In locations where wide temperature variations are anticipated, a dual pilot AGC system or the equivalent in performance shall be installed with AGC amplifiers located at every other location, as a minimum.

To prevent power line (or cable induced) surges from causing component failure, individual 60 Hz power transformers shall be an integral part of each amplifier's internal power supply. This transformer shall be wired so that it serves as an effective isolation device between the coaxial cable and the power supply rectifying, regulatory and filtering components. Additional power surge protective devices shall be designed into input and output circuits to protect amplifier components.

General specifications for amplifiers shall be as follows:

Trunk		Distribution	Extender
Gain (min)	25 dB (AGC) 23 dB (man)	As required	As required
Response	$\pm$ 0.25 dB (50-260 MHz)	$\pm$ 0.75 dB	$\pm$ 1.0 dB
AGC compression	$\pm$ 0.6 dB for input change of -3 to +5 dB		
Hum Level (Max)	-60 dB	-60 dB	-55 dB
Impedance Match Return Loss	16 dB	16 dB	16 dB
Noise Figure (max) (Full Gain)	10 dB	10 dB	12 dB
Cross Modulation at Operating Levels 20 chan. operation	-90 dB	-60 dB	-60 dB

Passive Electronic Devices (Spitters, couplers, taps, etc.)

All passive equipment shall have a passband of from 10 to 300 MHz. All taps shall be of the directional coupler type. Minimum isolation between desired and undesired signal paths shall be 30 dB. The device shall be mechanically and electrically secure.

General Specifications

Impedance Match Return Loss	20 dB
Bandwidth	10 - 300 MHz

Subscriber Installation Material

Cable fittings, grounding blocks, etc., shall be of a quality that will provide secure and safe construction. Where grounding wire, rod, clamps, etc., are used, they shall be selected to conform to pertinent National

Electric Code and local electrical safety specifications. Subscriber terminal 75/300 ohm balun shall have an insertion loss of 0.7 dB or less over spectrum of 50 to 260 MHz.

Dual cable drops shall be identified as A-B. Cable A-B switches shall be designed to:

(1) Insert electrically a terminating 75 ohm resistor on the output of the unused cable; and

(2) Provide a minimum of 60 dB of isolation between the desired and undesired signal.

Performance Specifications

The following technical performance specifications, which shall be met by the CATV contractor, cover specified transmissions regardless of location or distance. The specifications that follow relate to factors affecting picture quality in the carriage of NTSC-TV signals within standard 6 MHz bandwidth channels, as designated in FCC R&R, Sec. 73.682.

Signal to Noise Ratio

Signal to noise ratio of the head-end processing equipment is not specified separately, but included in the overall system data.

Multiburst Frequency Response

Multiburst frequency response of single channel equipment (at the head-end or origination points) shall conform with FCC R&R, Sec. 73.687(a), as follows:

White Level	0 dB Reference
0.5 MHz	+0, -2 dB
1.5	+0, -2
2.0 - 3.0	+0, -2
3.58	+0, -2
4.18	+0, -6*

*Not more than 4 dB below the level of the 3.58 MHz burst.

Video Modulation

TV channel modulators used either as part of the system or as test instruments shall be adjusted to 87.5% ±2.5% downward modulation at reference white level with FCC standard composite video waveform as indicated in FCC R&R, Sec. 73.699, Figure 6 or 7, as applicable.

Transfer Linearity

Transfer linearity shall be adjusted for optimum practicable performance at 10%, 50%, and 90% of APL. However, differential gain shall not exceed 2 dB, and differential phase shall not exceed 5° for R-F input, or 10° for video input.

Transient Response

Transient response to a 2T sine-squared pulse (HAD 0.250 miscro-seconds) shall fall within the limits indicated by a 5K-rating.

Chrominance Delay

Chrominance delay relative to luminance, as indicated by response to the modulated 20T pulse, shall not exceed ±150 nano-seconds. Measurement accuracy shall be ±20 nano-seconds or better.

Low and Mid-Frequency Distortions

Low and mid-frequency distortions, as indicated by response to the 60 Hz "window" signal, with a 2T transition, shall not exceed 5 IRE units in tilt, rounding or overshoot.

Frequency of Visual Carriers

The frequency of each visual carrier shall be 1.25 ± .025 MHz above the lower boundary of channel assignment.

Center Frequency of FM Radio Carriers

The center frequency of all FM radio carriers shall be maintained within ± 10 KHz of the center.

FM Aural Signals

FM aural signals shall meet all the requirements of FCC R&R, Sec. 73.687(b) for signals associated with TV channels; Sec. 73.317(a) subparagraphs (1) through (5) for FM radio monaural signals, and with Sec. 73.322 stereophonic signals.

Best Engineering Effort

The contractor shall employ a best engineering effort in antenna design, limited only by restrictions imposed by the state of the art and zoning limitations, to avoid or to minimize co-channel interference, electrical noise interference, multipath signals, or excessive fading.

Distribution System

The signal level of the visual carrier at the 75-ohm service drop terminator at any subscriber's TV (or at the drop terminal serving multiple dwellings with distribution system) on any channel at 70° F shall not be less than +6 dBmv at each receiver input (TV set) installed.

Levels below 6 dBmv, but not less than 0 dBmv, will be acceptable, provided direct pick-up interference or excessive noise resulting from low levels are corrected.

The difference in level between visual carriers in any two TV channels contiguous in frequency at any particular subscriber terminals shall not exceed 2 dB.

Signal level of FM radio carrier shall be between -14 dBmv and 0 dBmv, provided that FM carriers between 88 and 90 MHz shall be at least 10 dB below the Channel 6 visual carrier, if any.

Visual carrier to rms termal noise power ratio on any channel, overall, with the antenna or video input terminals terminated, shall be no less than 40 dB (4MHz noise bandwidth) at any location.

Cross-modulation ratio on the visual carrier in any TV channel shall not exceed -48 dB as defined by NCTA Standard 002.0267, at any location. The generation of spurious signals, particularly inter-modulation products and harmonics, shall be maintained as low as the state of the art permits, but in no case greater than -60 dB, unless it can be shown that a particular spurious signal at higher level is not perceptible on a commercial TV set. There shall be no visible cross-modulation products generated within the cable system on any channel carried on the system and any location, time, or temperature.

Hum Modulation shall be no more than 2% at any time, regardless of location, temperature, and with a primary voltage. (NOTE: Hum modulation is the ratio of one-half the peak-to-peak hum to the average carrier envelope.)

The peak-to-valley radio frequency amplitude frequency response of the trunk distribution system measured at the output of any trunk amplifier shall not exceed 3 dB between 54 and 252 MHz, at any temperature between o° and 100° F.

AGC shall be installed at not fewer than one trunk location in every three in cascade.

Direct pick-up causing leading ghosts or blanking bars shall not be visible on a thoroughly shielded test receiver or converter connected to any service drop. Ghosts, ringing, or reflections of any sort shall be eliminated, subject to limitations imposed by the technical state of the art. The design, construction, and operation of the entire system from antenna or video input to service drops shall be such as to minimize reflections; all unused taps shall be terminated.

All specifications shall be met for any primary supply voltage between 105 and 135 volts.

Isolation between any two TV sets, on the same or different premises, shall be a minimum of 18 dB with either set tuned to any channel on the system.

Dual cable switches located at subscriber TV terminals shall provide isolation between cables of at 60 dB, and shall have 75 ohm return loss of 16 dB or greater. No evidence of cross-coupling between the two cables shall be visible on any subscriber's TV set.

All relevant FCC technical performance rules shall be complied with.

Incidental radiation from any part of the system or service outlets shall conform with Subpart D, of Part 15 of FCC Rules, or such modifications thereof as may subsequently be adopted.

Measurement Methods

Signal level measurements shall be made with a properly adjusted and accurately calibrated selective RF voltmeter, or signal level meter.

Video Testing shall be performed in accordance with NCTA or IEEE standard methods, where available, or by methods generally accepted in the TV and CATV Industries. Video tests may be made at the input to the IF amplifier of the heterodyne processor unless evidence exists indicating defective performance of preamps, converters, strip amplifiers, or tuners.

Noise levels shall be measured in accordance with NCTA Standard No. 005-0669.

Cross-modulation may be tested by substituting a CW carrier for each of the normally carried visual carriers in turn and inspecting the raster of a TV receiver connected to the cable. Measurements made in accordance with NCTA Standard 002-0267 shall be considered to be more reliable, but need not be performed unless the foregoing method produces results inconsistent with subscriber complaints or direct viewing in homes.

Spurious Signals may be detected and measured with a spectrum analyzer or other suitable instrument.

Frequency shall be measured with suitable equipment having overall accuracy of 10^{-6} (1 ppm) or better.

CONSTRUCTION STANDARDS

Overhead

The installation shall conform to the roads and rivers. All aerial coaxial cables shall be laced with lashing wire to messenger cables by means of a suitable lashing machine. Lashing wire shall be 0.045-inch stainless steel of the type used to lash aerial telephone cables. The pitch of lashing wire may be from 10 to 15 inches but shall be consistent throughout the system.

Ground Clearance

The installation of all CATV cabling shall not conflict with or cause any other cabling (i.e. communications, power, etc.) to violate established ground clearance criteria (existing and/or future).

Underground

Under paved areas and roadways, the cables shall be installed in conduit not less than two inches in size. Conduit shall be zinc-coated, rigid steel. Conduit shall be extended not less than two feet beyond pavements and roadways, when such roadway is utilized for vehicular traffic.

Trenches in which direct burial cables are placed shall have a minimum depth of 18 inches below grade, shall be not less than six inches wide, and shall generally be in straight lines between cable connections except as otherwise necessary. Bends in trenches shall have a radius of not less than 36 inches. Rock, where encountered, shall be removed to a depth of not less than three inches below the cable depth and the space filled with sand or clean earth, free from particles that would be retained on a quarter inch sieve. Cables shall be unreeled in place at the bottom of the trench. Cables normally shall not be unreeled and pulled into the trench from one end. Cables shall be in one piece without splices between connections except where the distance exceeds the length in which the cable is manufactured.

*****
***
*

APPENDIX F

CYPRESS COMMUNICATIONS FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET June 30, 1971 and 1970

ASSETS	1971	1970
Current assets:		
Cash (including time certificates of deposit of $400,000 in 1971)	$ 2,378,603	$ 1,256,190
Commercial paper, at cost which approximates market	--	501,253
Accounts receivable less allowance for doubtful accounts of $30,400 in 1971 and $53,874 in 1970	290,010	234,805
Prepaid expenses and other current assets	427,161	324,897
Total current assets	3,095,774	2,317,145
Property, plant and equipment, at cost less accumulated depreciation of $5,205,838 in 1971 and $3,618,155 in 1970 (Notes 2 and 4)	11,904,735	12,152,277
Intangible assets (Notes 3 and 4):		
CATV system franchises, at cost less amortization of $3,412,854 in 1971 and $2,674,046 in 1970	9,665,782	10,409,537
Excess of purchase price over amounts allocated to tangible assets and franchises	2,994,684	3,144,684
	12,660,466	13,554,221
Deferred costs and other assets	383,220	353,003
	$28,044.195	$28,376,646

LIABILITIES AND STOCKHOLDERS' EQUITY	1971	1970
Current liabilities:		
Accounts payable	$ 245,125	$ 114,972
Accrued liabilities:		
Interest	352,472	432,125
Other	318,740	445,833
Subscribers' advance payments	343,907	318,785
10% unsecured notes payable to stockholders	--	3,000,000
Long-term debt due within one year (Note 4)	2,543,855	2,587,227
Total current liabilities	3,804,099	6,898,942
Long-term debt due after one year (Note 4)	14,827,175	15,440,297
Commitments and contingencies (Notes 6 and 8)		
Stockholders' equity (Notes, 4, 5 and 7):		
Preferred stock, $1 par value, 500,000 shares authorized; no shares outstanding	--	--
Common stock, $1 par value, 3,000,000 shares authorized, 2,384,253 shares issued less 995 shares held in treasury (1,887,626 issued in 1970)	2,384,253	1,887,626
Capital in excess of par value	7,773,235	5,101,196
Retained earnings (deficit)	(744,567)	(951,415)
Total stockholders' equity	9,412,921	6,037,407
	$28,044,195	$28,376,646

See accompanying notes.

CONSOLIDATED STATEMENT OF OPERATIONS
Years ended June 30, 1971 and 1970

	1971	1970
Service and other revenues	$8,698,890	$6,157,722
Operating costs and expenses (except items shown below):		
Direct operating	1,980,579	1,173,295
Selling, general and administrative	2,627,426	1,864,525
	4,608,005	3,037,820
Operating income before depreciation, amortization and interest	4,090,885	3,119,902
Depreciation, amortization and interest:		
Depreciation of plant and equipment (Note 2)	1,615,542	1,252,395
Amortization (substantially of franchise costs) (Note 3)	848,171	727,276
Interest	1,488,624	975,445
	3,952,337	2,955,116
Income before federal and state income taxes and extraordinary items	138,548	164,786
Provision for federal and state income taxes (Note 6)	44,100	50,200
Income before extraordinary items	94,448	114,586
Extraordinary items:		
Provisions for estimated loss on investment in and receivables from former subsidiary (Note 7)		(499,700)
Loss on abandonment of certain assets replaced, net of $2,800 credit for federal and state income taxes		(41,867)
Reduction of federal income taxes and charges in lieu thereof through utilication of net operating loss carryovers (Note 6)	112,400	28,200
	112,400	(513,367)
Net income (loss)	$ 206,848	$ (398,781)
Income (loss) per common share (Note 9):		
Before extraordinary items	$.05	$ .03
Extraordinary items	.05	(.30)
Net income (loss)	$.10	$(.27)

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years ended June 30, 1971 and 1970

	1971	1970
Source of financial resources:	$ 94,448	$ 114.586
Current operations:		
Income before extraordinary items		
Charges not involving the use of funds during the period:		
Depreciation and amortization	2,463,713	1,979,671
Funds provided from operations for the period, exclusive of extraordinary items	2,558,161	2,094,257
Extraordinary items, less $86,400 of gain in 1971 and less $541,567 of losses in 1970 not involving funds	26,000	28,200
	2,584,161	2,122,457
Additions to long-term debt and notes payable to stockholders	4,209,308	12,295,408
Sale of common stock	2,168,795	--
Conversion of short-term debt into common stock	1,000,000	--
Decrease in cash and commercial paper	--	267,010
Other--net	--	421,960
	$9,962,264	$15,106,835
Application of financial resources:		
Additions to property, plant and equipment	$1,391,821	$ 7,525,037
Additions to CATV system franchises and excess of purchase price over amounts allocated to tangible assets and franchises	--	5,136,155
Principal payments on long-term debt	4,715,802	2,066,643
Reduction of short-term notes payable to stockholders	3,000,000	--
Cash contribution to Cypress Broadcasting Corporation (Note 7)	--	379,000
Increase in cash and commercial paper	621,160	--
Other--net	233,481	--
	$9,962,264	$15,106,835

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Years ended June 30, 1971 and 1970

	Preferred stock $1 par value, Series A		Common stock (Note 5)		Capital in excess of par value	Retained earnings (deficit)
	Number of shares	Amount	Number of shares	Amount		
Balance--June 30, 1969	190,000	$ 190,000	1,679,293	$1,679,293	$5,673,854	$(465,551)
Conversion of preferred stock to common stock	(190,000)	(190,000)	208,333	208,333	(18,333)	--
Distribution of common stock of Cypress Broadcasting Corporation (Note 7)	--	--	--	--	(554,325)	--
Net loss for year ended June 30, 1970	--	--	--	--	--	(398,781)
Cash dividends declared on preferred stock	--	--	--	--	--	(87,083)
Balance--June 30, 1970	--	--	1,887,626	1,887,626	5,101,196	(951,415)
Purchase of stock held in treasury	--	--	--	--	(129)	--
Proceeds from stock sold in a public offering less expenses of $218,205	--	--	350,000	350,000	1,818,795	--
Stock issued -pon conversion of notes payable to stockholder	--	--	146,627	146,627	853,373	--
Net income for the year ended June 30, 1971	--	--	--	--	--	206,848
Balance--June 30, 1971	--	$ --	2,384,253	$2,384,253	$7,773,235	$(744,567)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1971

NOTE 1--BASIS OF FINANCIAL STATEMENTS The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries.

On March 31, 1970 a subsidiary of the Company acquired United Transmission, Inc., in a transaction accounted for as a purchase, for $11,310,835, including assumption of $8,000,000 of United's debt to its former parent company. The excess of the cost of the investment over the underlying net assets acquired was $2,676,493 (see Note 3). Results of operations of the acquired business, including revenues of $691,413 and a net loss of $45,799 in the year ended June 30, 1970, are included in the accompanying financial statements from the date of acquisition.

NOTE 2--PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment consists primarily of CATV transmission and distribution systems.

Depreciation of CATV transmission and distribution systems is computed by the straight-line method using a ten year life. Depreciation of other equipment and leasehold improvements is computed principally on the straight-line method over the estimated useful lives of the assets.

NOTE 3--INTANGIBLE ASSETS In connection with the acquisition of existing CATV systems in transactions accounted for as purchases, the Company has allocated the purchase price between tangible and intangible assets.

Of the amounts originally allocated to intangible assets, $13,078,636 was allocated to franchises and is being amortized on a straight-line method over the lives of the related franchises except for a portion ($1,810,000) which is being amortized only to the extent of tax benefits received as a result of its amortization for tax purposes. The Company believes the remaining $2,994,684, representing the excess of purchase price over amounts allocated to tangible assets and franchises, is not subject to diminution in value and therefore is not being amortized.

Prior to January 1, 1970 a subsidiary was amortizing the cost of its franchises over an estimated beneficial life of fifteen years. Effective January 1, 1970 the subsidiary commenced amortizing the cost of its franchises on a straight-line method over their remaining lives. The effect of the change in amortization period was to reduce net loss in the year ended June 30, 1970 by approximately $80,000 ($.05 per common share) and increase net income in the year ended June 30, 1971 by approximately $160,000 ($.08 per common share).

NOTE 4--LONG-TERM DEBT Long-term debt at June 30, 1971 consists of the following:

Secured by pledge of common stock of certain subsidiaries, certain franchises, and mortgages on substantially all property, plant and equipment:	
Notes payable to banks with interest between 5.5% and prime rate plus 1 1/4% due in varying installments through December 31, 1977	$ 6,848,236
8.5% note due in annual installments through December 31, 1979	7,460,738
6% debentures convertible into 12,600 shares of common stock at $25 per share, due in 1979	315,000
6% to 6 1/2% notes to others due in varying installments through 1979	1,435,129
Unsecured:	
5% to 9% subordinated notes payable to stockholders, $905,250 due July 1975, the balance due in 1978	1,025,250
6% to 8% subordinated notes due in varying installments through 1975	286,677
	17,371,030
Less amounts due within one year	2,543,855
	$14,827,175

Principal payments required with respect to the long-term debt outstanding at June 30, 1971 in each of the five years ending June 30, 1976 are as follows: 1972--$2,543,855; 1973--$2,839,304; 1974--$2,671,952; 1975--$2,522,188; 1976--$1,703,449.

Agreements in connection with indebtedness of the Company and its subsidiaries contain, among the covenants, restrictions on payments of dividends (other than dividends payable in their own common stock) and a requirement that consolidated net worth (which as defined includes certain subordinated indebtedness) be maintained at not less than $8,500,000.

NOTE 5--COMMON STOCK Under terms of the Company's qualified stock option plan, options for 100,000 shares of common stock may be granted to key employees. The option price must be not less than 100% of the fair market value on the date of grant. At June 30, 1971, there were outstanding 78,600 options on shares of common stock at prices from $6.47 to $11.17 per share which become exercisable in varying annual amounts commencing two years from the date of grant and expire five years after the date of grant. No options were exercisable at June 30, 1971.

At June 30, 1971, 5,212 shares of common stock were reserved for issuance at a price of $6.82 per share in connection with subscriptions received under the terms of an employee stock purchase plan which has terminated.

At June 30, 1971, 16,062 shares of common stock were reserved for an option granted to an officer of the Company in 1968 of which options on 9,635 shares were exercisable at June 30, 1971. The option is exercisable at $10.85 per share and expires in 1973.

In addition, 13,492 shares of common stock are reserved for issuance in connection with the acquisition of a subsidiary and conversion of debentures of that subsidiary.

NOTE 6--FEDERAL INCOME TAXES The disproportionate relationship between income before federal income tax and the provision for federal income tax for the year ended June 30, 1970 is due, in part, to the filing of separate tax returns by certain subsidiaries prior to their affiliation with the Company and during both 1970 and 1971 is due to the amortization of certain intangible costs for financial statement purposes only to the extent of tax benefits received as a result of their amortization for tax purposes. The charge, which is, in effect, a charge in lieu of a tax provision, is included in amortization expense. (Note 3.)

In connection with an examination of the federal income tax returns of a subsidiary of the Company for the years ended December 31, 1967 through 1969, the Internal Revenue Service has issued its report disallowing the amortization of franchise costs totaling approximately $666,000. The Company is contesting the disallowance.

In a United States Tax Court case, decided in March 1971, it was held, with two dissents, that the CATV franchises involved had an indeterminable useful life and, therefore, the amortization of the costs allocated to such franchises was not deductible. The taxpayer in that case is currently appealing the Tax Court's decision. The decision of the Tax Court was based primarily on the facts of the particular case and is not determinative with respect to the Company's franchises as the useful life of a CATV franchise is a question to be determined by the facts of each individual case.

The Company believes that the franchises involved have a determinable life and that the amortization of its franchise costs is deductible for federal income tax purposes. The Company's independent certified public accountants who reviewed and signed the Company's tax returns, as filed, believe that, based upon their interpretation of the applicable tax rules, the amortization of the franchise costs involved in this matter should be deductible.

If the IRS proposed disallowance were to be sustained, amortization deductions taken by the subsidiary subsequent to December 31, 1969 would also be allowed, and the Company would incur a liability for federal income taxes of approximately $468,000 at June 30, 1971 and the revised net income (loss) for the years ended June 30, 1970 and 1971 would be approximately as follows: 1970--$(519,000)--$(.30) per share; 1971--$(43,000)--$(.02) per share. In addition, the disallowance would cause the elimination of investment tax credit carryovers totaling approximately $61,000.

Similar deductions for the amortization of franchise costs, other than that cited above, have been taken by certain subsidiaries through June 30, 1971, either in their separate federal income tax returns or, beginning with the year ended June 30, 1970, in the Company's consolidated federal income tax return. These returns have not been examined by the Internal Revenue Service. If a disallowance of all the amortization of franchise costs taken by the Company and its subsidiaries for periods through June 30, 1971 were proposed and sustained, the revised net income (loss) would be approximately as follows: 1970--$(590,000)--$(.34) per share; 1971--$(248,000)--$(.12) per share. The Company believes that the related franchises have a determinative life and that the amortization of their cost is deductible for federal income tax purposes.

If the Company is successful in contesting the proposed disallowance, it will have net operating loss carryforwards and investment tax credit carryovers at June 30, 1971, which expire in future years as follows:

	Net operating loss carryforwards	Investment tax credit carryovers
1972	$ 190,000	$ 10,000
1973	320,000	30,000
1974	510,000	60,000
1975	70,000	40,000
1976	250,000	20,000
	$1,340,000	$ 160,000

Of the above net operating loss carryforwards and investment tax credit carryovers, $557,000 and $96,000, respectively, are available for use only against future taxable income or future taxes applicable to certain subsidiaries. The utilization of approximately $590,000 of net operating loss carryovers will require a provision for deferred taxes and charges in lieu of taxes equivalent to the reduction in federal income taxes payable.

NOTE 7--CYPRESS BROADCASTING CORPORATION AND CAMELLIA CITY TELECASTERS, INC.
On May 8, 1970, the Company distributed all the common stock of its wholly owned subsidiary, Cypress Broadcasting Corporation, as a dividend to its shareholders. The amount of the dividend, representing the cost, $554,325, of the Company's investment in the common stock of Broadcasting, has been treated as a return of capital and charged to capital in excess of par value in the accompanying financial statements. The accounts of Cypress Broadcasting Corporation and its 60% owned subsidiary, Camellia City Telecasters, Inc., have not been consolidated in the Company's financial statement for the year ended June 30, 1970. Neither Broadcasting nor Telecasters had significant operations in the year ended June 30, 1970.

After the distribution of the Cypress Broadcasting Corporation stock, the Company's remaining investment in Camellia City Telecasters, Inc., consisting of preferred stock and notes receivable, amounted to $499,700. Camellia operates a UHF commercial television station and has incurred significant start up costs. It is the Company's opinion that the recovery of its investment is dependent primarily upon the ability of Camellia to achieve a level of operations, not yet attained, which would permit recovery of its assets and payment of its liabilities. Accordingly, the Company considers the recovery of its investment to be doubtful and provided $499,700, in the year ended June 30, 1970, for the estimated loss on the Company's investment.

NOTE 8--COMMITMENTS Subsequent to June 30, 1971 the Company acquired a CATV system for $278,000 in cash and the assumption of a liability in the amount of approximately $300,000. In addition, the Company has signed a letter of intent to purchase the assets of two CATV systems for cash and notes totaling approximately $681,000.

The Company has agreed in principle to acquire all of the outstanding stock of Kern Cable Company, Inc. in exchange for a minimum of approximately 323,500 shares of common stock and cash of $250,000. In addition, the agreement provides for the possible issuance of additional shares of the Company's common stock, the maximum amount of which, if any, is to be determined at the closing date. The acquisition is subject to the approval of the Federal Communications Commission.

NOTE 9--INCOME (LOSS) PER COMMON SHARE Income (loss) per common share has been computed on the basis of the weighted average number of shares outstanding during the year after giving retroactive effect to shares issued in poolings of interests and providing for dividends earned on preferred stock of $71,250 during the year ended June 30, 1970. Shares issuable under stock options and a stock purchase plan, considered to be common stock equivalents, have been excluded from the calculation of net income per common share because the effect of their inclusion would be anti-dilutive.

The proceeds from the sale of 293,255 shares of the Company's common stock in March 1971 was used to retire $2,000,000 of 10% notes payable. In addition, $1,000,000 of 10% notes payable to a stockholder was converted into 146,627 shares of common stock in March 1971. If the retirement and conversion of the notes had taken place on July 1, 1970, income per share for the year ended June 30, 1971 would have been as follows:

Before extraordinary items	$.08
Extraordinary items	.09
Net income	$.17

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Cypress Communications Corporation

We have examined the accompanying consolidated balance sheet of Cypress Communications Corporation at June 30, 1971 and the related consolidated statements of operations, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the consolidated financial statements for the prior year.

In our opinion, subject to the final disposition of the federal income tax matter described in Note 6, the statements mentioned above present fairly the consolidated financial position of Cypress Communications Corporation at June 30, 1970 and June 30, 1971 and the consolidated results of its operations and changes in its consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Beverly Hills, California
August 31, 1971

ARTHUR YOUNG & COMPANY

CYPRESS COMMUNICATIONS CORPORATION

EXECUTIVE OFFICE
10880 Wilshire Boulevard
Los Angeles, California 90024
213/475-8555

REGIONAL OFFICES
100 North La Salle Street
Chicago, Illinois 60602
312/368-1193

333 West 1st Street
Dayton, Ohio 45402
513/223-8472

NON-CATV SUBSIDIARY OFFICES
LoPeCo, Inc.
(Burglary and security systems)
1600 Cowart Street
Chattanooga, Tennessee 37408
615/266-2241

Garden State Micro Relay, Inc.
(Microwave common carrier)
106 East Hollywood Avenue
Wildwood Crest, New Jersey 08260
609/884-8433

COMMUNITIES SERVED BY CATV SYSTEMS

ARIZONA
- Flagstaff

CALIFORNIA
- Avenal*
- Bakersfield (county area)**
- Delano**
- Hanford*
- Kern Co.**
- Lake Arrowhead
- Malibu
- McFarland**
- Palm Springs
- Running Springs
- Shafter**
- Snow Valley
- Wasco**

FLORIDA
- Cinco Bayou
- Crestview***
- Eglin A.F.C.
- Fort Walton Beach
- Lake City
- Longwood-Poquito Bayou
- Mary Ester
- Niceville***
- Ocean City
- Okaloosa Island
- Shalimar
- Valparaiso
- Wright

INDIANA
- Kosciusko Co.
- Union City
- Warsaw
- Winona Lake

IOWA
- Albia
- Guthrie Center

KANSAS
- Hiawatha
- Russell

MISSISSIPPI
- Boyle
- Cleveland
- Drew
- Ruleville

MISSOURI
- Atchinson Co.
- Fairfax
- Rockport
- Tarkio
- Warrensburg
- Warsaw
- Waynesville
- Windsor

NEW HAMPSHIRE
- Berlin
- Conway
- Gorham
- Lancaster

OHIO
- Columbus***
- Cridersville
- Delphos
- Fort Shawnee
- Kenton
- St. Marys
- Sidney
- Union City
- Wapakoneta

---

*Cypress in a joint venture has consummated the purchase of 35% of the Hanford, California franchise. When the system is constructed, it will be managed by Cypress. The Avenal cable system does not come under Cypress' management until the Hanford system is built.

**Proposed acquisition which is presently managed by company.

***Proposed acquisition.

OREGON
- Hood River

PENNSYLVANIA
- Allegheny Twp.
- Altoona
- Antis Twp.
- Bellwood
- Blair Twp.
- Chambersburg
- Claysburg
- Duncansville
- East Hampfield
- Elizabethtown
- Fayettesville
- Frankstown Twp.
- Hollidaysburg
- Junita Twp.
- Lancaster Co.
- Landisville
- Logan
- Marietta
- Martinsburg
- Maytown
- Mt. Joy
- Mountville
- Newport
- Reedsville
- Rheems
- Roaring Springs
- Salunga
- W. Donegal Twp.
- W. Hempfield Twp.

TENNESSEE
- Churchill
- Erwin
- Gates City
- Greeneville
- Kingsport
- Mt. Carmel

TEXAS
- Dublin
- Hico
- Navasota
- Stephenville

VERMONT
- Brattleboro

VIRGINIA
- Abington
- Galax
- Saltville
- Sullivan Gardens
- Weber City

WASHINGTON
- Bingen
- White Salmon

APPENDIX G

WARNER COMMUNICATION INC.
FINANCIAL STATEMENTS

WARNER COMMUNICATIONS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1971	September 30, 1970 (Note 1)
Current assets:		
Cash (Note 7)	$ 32,830,000	$ 34,400,000
Marketable securities at cost (market value $60,500,000)	58,664,000	--
Accounts and notes receivable, less allowances for doubtful receivables and magazine and record returns (1971--$29,233,000; 1970--$23,078,000)	119,366,000	110,823,000
Future income tax benefits (Note 6)	--	10,996,000
Inventories, at lower of cost or market (Note 2)	129,577,000	103,238,000
Other current assets	9,989,000	5,089,000
Total current assets	350,426,000	264,546,000
Investment in and amounts due from National Kinney Corp. (Note 3)	41,461,000	57,073,000
Investment in Garden State National Bank (Note 4)	14,638,000	11,816,000
Investments--other	12,707,000	940,000
Accounts and notes receivable due after one year (Note 5)	51,745,000	49,810,000
Fixed assets, at cost:		
Land	20,222,000	22,773,000
Buildings and improvements	17,925,000	19,547,000
Furniture and equipment	26,686,000	22,383,000
Cable television equipment	16,827,000	15,268,000
Leaseholds and leasehold improvements	3,502,000	6,866,000
	85,162,000	86,837,000
Less accumulated depreciation and amortization	20,065,000	21,364,000
	65,097,000	65,473,000
Other assets:		
Music copyrights, artists' contracts, cable television franchises and distribution rights at cost, less accumulated amortization (1971--$11,722,000; 1970--$7,907,000) (Note 11)	26,521,000	29,993,000
Excess of cost over net assets of businesses acquired, less accumulated amortization (Note 11)	28,571,000	25,462,000
Deferred charges and other assets	14,697,000	9,245,000
	$605,863,000	$514,358,000

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 1971	September 30, 1970 (Note 1)
Current liabilities:		
Notes payable	$ 18,700,000	$ 18,529,000
Accounts payable and accrued expenses	87,788,000	71,558,000
Long-term debt due within one year (Note 7)	8,444,000	10,355,000
Accrued taxes on income	17,712,000	17,213,000
Dividends payable	1,973,000	2,029,000
Total current liabilities	134,617,000	119,684,000
Long-term debt due after one year (Note 7)	108,261,000	118,472,000
Accounts payable due after one year	28,550,000	20,867,000
Deferred income (Note 2)	3,229,000	10,661,000
Deferred income taxes (Note 6)	44,001,000	36,220,000
Convertible debt due after one year (Note 8)	33,775,000	36,975,000
Shareholders' equity (Notes, 7, 8, 9 and 10):		
Convertible Preferred shares, par value $1 per share, 20,000,000 shares authorized (excess of preference upon involuntary liquidation over par value of outstanding Preferred shares--$63,474,000):		
Series A	--	743,000
Series B	341,000	384,000
Series C	4,651,000	4,518,000
Series D	1,832,000	2,496,000
Common shares, par value $1 per share, 40,000,000 shares authorized	15,125,000	11,546,000
Paid in capital	101,971,000	63,769,000
Retained earnings	129,510,000	88,023,000
Total shareholders' equity	253,430,000	171,479,000
	$605,863,000	$514,358,000

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 1971	Year Ended September 30, 1970 (Note 1)
Revenues:		
Records and music publishing	$169,240,000	$114,903,000
Theatrical and television film rentals	124,310,000	114,905,000
Publishing and related distribution (Note 1)	61,167,000	48,557,000
Other (Note 5)	19,123,000	22,584,000
	373,840,000	300,949,000
Costs and expenses:		
Cost of revenues	236,199,000	178,524,000
Selling, general and administrative expenses	73,742,000	61,022,000
Depreciation and amortization of fixed assets (Note 11)	4,448,000	3,894,000
Other deductions, net (principally interest)	3,527,000	4,897,000
Provision for income taxes (including deferred taxes: 1971--$14,573,000; 1970--$13,985,000) (Note 6)	22,436,000	25,162,000
	340,352,000	273,499,000
	33,488,000	27,450,000
Equity in income of National Kinney Corp. (Note 3)	5,456,000	4,851,000
Equity in income of Garden State National Bank (Note 4)	2,267,000	1,797,000
Income before extraordinary items	41,211,000	34,098,000
Extraordinary items, net of applicable income taxes (Note 12)	350,000	--
Net income	$ 41,561,000	$ 34,098,000
Earnings per Common and Common equivalent share (Note 13):		
Income before extraordinary items	$ 2.11	$ 1.83
Extraordinary items	.02	--
Net income	$ 2.13	$ 1.83
Earnings per share-assuming full dilution (Note 13):		
Income before extraordinary items	$ 1.98	$ 1.69
Extraordinary items	.02	--
Net income	$ 2.00	$ 1.69
Average number of shares outstanding (Note 13):		
Common and Common equivalent shares	18,790,457	17,630,285
Assuming full dilution	21,173,630	20,722,637

CONSOLIDATED STATEMENT OF PAID IN CAPITAL

	Fifteen Months Ended December 31, 1971	Year Ended September 30, 1970 (Note 1)
Balance at beginning of period, as previously reported	$ 57,002,000	$ 51,563,000
Effect of poolings of interests	6,767,000	5,154,000
Adjusted balance at beginning of period	63,769,000	56,717,000
Effect of sale by National Kinney Corp. of 1,500,000 shares of Common stock (Note 3)	24,777,000	--
Excess of proceeds over par value of shares issued under stock option plans (Note 10)	4,106,000	3,269,000
Excess of par value of Common shares issued over par value of Preferred shares converted into Common shares (Note 9)	(1,658,000)	(1,424,000)
Excess of market value over par value of shares issued under Key Employees' Restricted Stock Plan and stock agreements (Note 10)	1,751,000	2,034,000
Excess of principal amount of convertible debt obligations over par value of Common and Preferred shares issued in exchange therefor	3,056,000	3,564,000
Amounts paid under stock agreements	--	(2,721,000)
Tax benefit arising from disqualifying dispositions of shares issued under stock option plans	585,000	610,000
Excess of market value over par value of Common shares issued in acquisitions accounted for as purchases	4,876,000	--
Contributions to capital--pooled company	100,000	1,613,000
Other	609,000	107,000
Balance at end of period	$101,971,000	$ 63,769,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Fifteen Months Ended December 31, 1971 (Note 1)	Year Ended September 30, 1970
Balance at beginning of period, as previously reported	$ 88,568,000	$ 62,781,000
Effect of poolings of interests	(545,000)	(515,000)
Adjusted balance at beginning of period	88,023,000	62,266,000
Net income for the year	41,561,000	34,098,000
Net income for the three months ended December 31, 1970 (Note 16)	10,276,000	--
Cash dividends paid or accrued (Note 9):		
Common shares:		
Warner Communications Inc. (per share $.25 per annum)	(4,119,000)	(2,530,000)
Pooled company	(270,000)	(246,000)
Preferred shares	(5,870,000)	(5,565,000)
Adjustment resulting from use of different fiscal year of pooled company	(91,000)	--
Balance at end of period	$129,510,000	$ 88,023,000

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fifteen Months Ended December 31, 1971	Year Ended September 30, 1970 (Note 1)
Sources of funds:		
Operations:		
Income before extraordinary items:		
For the year	$ 41,211,000	$ 34,098,000
For the three months ended December 31, 1970	10,276,000	--
Add (deduct) items not affecting working capital:		
Depreciation and amortization (fixed and intangible assets)	11,367,000	8,029,000
Deferred income taxes	7,781,000	4,822,000
Equity in income of unconsolidate subsidiary and affiliate (Notes 3 and 4)	(9,681,000)	(6,648,000)
Working capital provided from operations before extraordinary items	60,954,000	40,301,000
Extraordinary items net of applicable income taxes (Note 12)	350,000	--
Amounts included in extraordinary items not affecting working capital (principally resulting from sale of Funeral Companies)	(12,949,000)	--
	48,355,000	40,301,000
Distributions received from Garden State National Bank	1,854,000	--
Distributions received from National Kinney Corp	13,530,000	2,000,000
Disposal of fixed assets	6,075,000	1,308,000
Non-current assets of Funeral Companies sold	8,236,000	--
Sale of investment in net assets of Construction Services Companies	23,211,000	--
Capital stock issued (Note 9):		
Upon conversion of convertible debt and Preferred stock	4,841,000	5,155,000
All other issuances	11,206,000	6,066,000
Increase in long-term debt	12,133,000	52,081,000
Increase (decrease) in accounts payable due after one year	7,683,000	(1,021,000)
Decrease (increase) in accounts and notes receivable due after one year	9,165,000	(4,872,000)
Decrease (increase) in amounts due from National Kinney Corp	11,144,000	(9,807,000)
Total funds provided	157,433,000	91,211,000

Application of funds:		
Additions to fixed assets	$ 19,816,000	$ 15,914,000
Decrease in long-term debt	21,950,000	9,345,000
Conversions of convertible debt and Preferred stock	4,841,000	5,155,000
Cash dividends	10,259,000	8,341,000
Decrease (increase) in deferred income	7,432,000	(3,060,000)
Increase in excess of cost over net assets of businesses acquired	3,595,000	8,303,000
Purchases of additional shares of Garden State National Bank (Note 4)	4,875,000	--
Increase in advance royalties due after one year	4,381,000	--
Other, net	9,337,000	5,074,000
Total funds applied	86,486,000	49,072,000
Increase in working capital (Note 15)	$ 70,947,000	$ 42,139,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Principles of consolidation: On February 10, 1972 the shareholders approved a change in the corporate name from Kinney Services Inc. to Warner Communications Inc. (WCI) and a change in the state of incorporation from New York to Delaware. In addition, during 1971, the Board of Directors authorized a change in fiscal year from September 30 to December 31.

The consolidated balance sheet includes the accounts of WCI and its subsidiaries, except for Garden State National Bank (Garden State) and National Kinney Corp. (NKC), a 50% owned affiliate (Notes 3 and 4) both of which are carried at equity and except for certain insignificant operations in foreign countries where currency restrictions exist. The consolidated balance sheet and the consolidated statement of changes in financial position at September 30, 1970 have been restated to reflect the accounts of NKC at equity and also reflect retroactively the purchase by NKC of the Construction Services Companies of WCI. The consolidated statement of income includes the income at equity of NKC and the Construction Services Companies based upon WCI's percentage of Common stock ownership during the periods presented. Such companies were effectively wholly-owned by WCI until September 30, 1971 at which time WCI's Common stock interest therein was reduced to 50%. The 1971 results include $338,000 of NKC Preferred dividends.

The consolidated statement of income was restated to reflect distribution fees received by WCI's publishing distribution subsidiary on a net basis. The result of this restatement, which had no effect on net income, was to reduce revenues and cost of revenues by $54,639,000 in 1971 and $54,155,000 in 1970. The net assets of consolidated foreign subsidiaries and branches, which are not material in relation to consolidated net assets, have been translated into U.S. dollars at appropriate rates of exchange. Revenues from foreign operations were $88,402,000 in 1971 and $57,005,000 in 1970. Minority interests in consolidated subsidiaries are not material.

During the fifteen months ended December 31, 1971, WCI acquired all the outstanding stock of Sterling Group, Inc. and related companies and the cable television business of Continental Telephone Corporation for 92,500 and 600,000 shares of WCI Common stock, respectively. Such transactions have been accounted for as poolings of interests, and accordingly, the 1970 consolidated financial statements have been restated to reflect these acquisitions.

In addition, during 1971, acquisitions were made by WCI in transactions accounted for as purchases for a total consideration of 152,713 Common shares, cash and notes aggregating approximately $5,000,000 in value.

2 Inventories: Inventories at December 31, 1971 and September 30, 1970 consist of the following:

	1971	1970
Film productions for theatrical and television exhibition:		
Released, less amortization......	$ 24,954,000	$ 20,888,000
Completed, not released, and in process....................	45,393,000	27,314,000
Film rights for television exhibition, less amortization........	33,134,000	37,560,000
Records, magazines and books, etc....	26,096,000	17,476,000
	$129,577,000	$103,238,000

The production cost applicable to the theatrical and television release of each film production is amortized based upon income to date and management's estimate of the total income that will be realized. Such estimates are revised when appropriate; losses are provided for in full when known.

Film rights for television exhibition include (1) a portion of the cost of released feature productions which is allocated to television exhibition based upon the income expected to be derived therefrom and (2) exclusive licenses acquired to distribute certain feature motion pictures for television exhibition.

It is the practice of the motion picture industry to include film productions among current assets. For financial statement purposes, television film exhibition licenses and related expenses are included in income upon execution of the contract and, in the case of network licenses, upon delivery of prints and related material at the request of the networks.

3 Investment in National Kinney Corp.: NKC, previously a wholly-owned subsidiary of WCI engaged in furnishing services to the real estate industry, sold 1,430,000 shares of its Common stock in a public offering pursuant to a registration statement that became effective on September 22, 1971. In addition, NKC sold 70,000 Common shares to WCI. The proceeds (approximately $43,500,000) received from these transactions were used to purchase the Construction Services Companies of WCI for $9,750,000 (Note 12) and to pay existing indebtedness of NKC and the Construction Services Companies to WCI. In a separate agreement prior to the NKC public offering, WCI sold 70,000 shares of its investment in the Common stock of NKC to four executive officers of NKC. After giving effect to the above transactions, WCI owned 50% of the outstanding Common stock of NKC. In addition WCI owns beneficially 1,500,000 shares (100%) of NKC Convertible Preferred stock, which pay an annual dividend of $.90 per share and are convertible into 1,500,000 NKC Common shares; the Preferred shares were

deposited by WCI in a voting trust which terminates on September 30, 1973 and while held in such trust can be voted only by the trustees (officers of NKC).

The condensed pro forma combined financial statement of NKC from which WCI's equity interest has been determined, are as follows:

PRO FORMA COMBINED BALANCE SHEET*	December 31, 1971	September 30, 1970
Current assets	$ 64,305,000	$ 47,478,000
Fixed assets, net	16,907,000	12,670,000
Other assets	6,594,000	18,274,000
	$ 87,806,000	$ 78,422,000
Current liabilities	23,663,000	13,899,000
Due to WCI	6,492,000	17,636,000
Long-term debt	4,827,000	7,450,000
Shareholders equity	52,824,000	39,437,000
	$ 87,806,000	$ 78,422,000

PRO FORMA COMBINED STATEMENT OF INCOME*	Year Ended December 31, 1971	Year Ended September 30, 1970
Revenues	$207,087,000	$168,432,000
Costs and expenses	194,105,000	157,433,000
Pro forma income before provision for income taxes	12,982,000	10,999,000
Pro forma provision for income taxes	6,780,000	6,148,000
Pro forma net income	$ 6,202,000	$ 4,851,000

*The pro forma combined financial statements for the years ended December 31, 1971 and September 30, 1970 have been prepared as if the sale of the Construction Services Companies of WCI to NKC had taken place on October 1, 1969. The revenues and pro forma net income of the Construction Services Companies for the years ended December 31, 1971 and September 30, 1970 were $93,165,000, $2,801,000, and $72,606,000, $2,069,000, respectively.

4 Investment in Garden State National Bank: At September 30, 1970, WCI owned approximately 99% of Garden State. On February 1, 1971, Garden State combined with North Jersey National Bank (North Jersey); as a result of such combination and a subsequent acquisition of additional stock. WCI's ownership in Garden State was approximately 61% on December 31, 1971. WCI has accounted for the combination as a purchase, and has thus reported its equity in income based upon its percentage of ownership during the period. WCI's investment in the outstanding capital stock of Garden State is carried at an amount equivalent to WCI's equity in the underlying net assets of Garden State after giving effect to certain adjustments relating

principally to the purchase of North Jersey and to the amortization of realized gains and losses from the sale of investment securities. The condensed financial statements of the Bank, which are prepared in accordance with the rules and regulations of the Comptroller of the Currency, are as follows (financial statements for the prior year have been restated to reflect the combination of North Jersey and Garden State, which has been accounted for by Garden State as a pooling of interests):

Statement of Condition	December 31, 1971	September 30, 1970
		(unaudited)
Assets:		
Cash and due from banks	$ 46,037,000	$ 41,046,000
Investment securities*	140,254,000	95,492,000
Loans	218,341,000	203,469,000
All other assets	8,363,000	7,054,000
	$412,995,000	$347,058,000
Liabilities:		
Deposits	$369,490,000	$306,184,000
Other liabilities	6,005,000	4,708,000
Deferred income	4,732,000	4,680,000
Total liabilities	380,227,000	315,572,000
Reserve for possible loan losses	5,462,000	5,456,000
Capital funds	27,306,000	26,030,000
	$412,995,000	$347,058,000

*Market value (1971--$140,311,000; 1970--$87,501,000)

Statement of Income	Year Ended December 31, 1971	Year Ended September 30, 1970
		(unaudited)
Operating income	$ 21,734,000	$ 19,559,000
Operating expenses	17,599,000	14,855,000
Income before federal income taxes, gains and losses on sales of securities and mortgages and extraordinary charge	4,135,000	4,704,000
Federal income taxes	427,000	1,129,000
Income before gains (losses) on sales of securities and mortgages and extraordinary charge	3,708,000	3,575,000
Gains (losses) on sales of securities and mortgages, less federal income taxes	241,000	(1,173,000)
Income before extraordinary charge	3,949,000	2,402,000
Extraordinary charge, less federal income taxes	285,000	--
Net income	$ 3,664,000	$ 2,402,000

Statement of Changes in Capital Funds	Fifteen Months Ended December 31, 1971	Year Ended September 30, 1970
		(unaudited)
Balance at beginning of period, as previously reported..................	$10,239,000	$ 8,976,000
Effect of pooling of interests.........	15,791,000	15,616,000
Adjusted balance at beginning of period	26,030,000	24,592,000
Net income for the year................	3,664,000	2,402,000
Net income for the three months ended December 31, 1970....................	362,000	--
Provision for possible loan losses, exclusive of amounts charged to income, net of federal income taxes..	(4,000)	(40,000)
Cash dividends.........................	(2,746,000)*	(924,000)
Balance at end of period...............	$27,306,000	$26,030,000

*Includes $1,854,000 paid to WCI.

5 Sale of Funeral operations: On September 22, 1971, WCI sold the net assets and business of its Funeral operations to Service Corporation International (SCI) for (a) $5,000,000 in cash, (b) $13,425,000 of notes which were paid on October 4, 1971, (c) $11,100,000 (included in accounts and notes receivable due after one year) of 8% Subordinated Mortgage Notes (Notes) payable on demand at any time on or after April 1, 1973 (between October 1, 1972 and April 1, 1972, SCI may exchange the Notes for an 8% Subordinated Convertible Debenture, as defined in the agreement), (d) Warrants to purchase 500,000 shares of SCI's Common stock at prices ranging from $22 to $30 per share, and (e) 100,000 shares of SCI's Series A Preferred stock, which is redeemable over a period of five years according to a formula as defined in the agreement. In addition the Funeral Companies paid a dividend of $1,500,000 to WCI on September 23, 1971. The extraordinary gain on the sale of the Funeral operations (Note 12) is based upon the fair market value of the consideration received.

The agreement further provides that WCI will not directly or indirectly compete with SCI in the funeral business. As consideration for this Covenant, SCI has agreed to pay WCI $983,333 per year over a twelve year period. For the period January 1, 1971 to September 22, 1971 and the year ended September 30, 1970, the revenues of the Funeral operations were $14,005,000 and $18,771,000 (included in other revenues in the consolidated statement of income) respectively, and income before corporate administrative charges, debt expense and provision for income taxes was $2,677,000 and $4,142,000, respectively.

6. Income taxes: Deferred income taxes represent principally (1) taxes applicable to income arising from television exhibition contracts and other transactions reflected in income for financial statement purposes, but not yet reportable for tax purposes, (2) excess of depreciation, amortization and other deductions for tax purposes over amounts recorded for financial statement purposes, and (3) amounts not expected to be paid within one year. Future income tax benefits at September 30, 1970 relate to the write-down in 1969 of $59,366,700 ($27,000,000 after taxes) of the asset values of motion picture films and story properties.

The provision for income taxes in 1971 includes $1,800,000 of current year investment tax credits, and $1,500,000 of investment tax credits relating principally to motion pictures produced prior to September 30, 1969. Investment credits are recognized under the flow-through method.

7 Long-term debt: Long-term debt (excluding Convertible debt) at December 31, 1971 consists of the following:

	Current	Long-Term
Fixed loan by banks; due in installments to 1973 interest at 1/2% above prime interest rate....................................	$4,700,000	$ 4,055,000
Revolving loans by banks under credit agreement expiring March 31, 1975..............	--	52,000,000
7 5/8% Subordinated Debentures due 1994.....	--	21,117,000
5% Subordinated Debentures due in installments to 1979............................	2,000,000	11,000,000
Sundry indebtedness (various terms).........	1,744,000	20,089,000
	$8,444,000	$108,261,000

The terms of the revolving loan agreement, as amended, permit borrowings, primarily for the financing of motion picture investments, up to $85,000,000 maturing March 31, 1975, subject to certain limitations. Borrowings under this agreement bear interest at 1/4 of 1% above the prime interest rate on the first $52,000,000 of borrowings and 3/4 of 1% per annum on the unused available borrowings. At WCI's option, the outstanding revolving loan balance at March 31, 1975 can be converted into a term loan payable in equal quarterly installments from 1975 to 1979. Compensating cash deposits equivalent to 20% of the borrowings outstanding under both the fixed loan and the revolving loan are required to be maintained; such deposits amounted to $12,151,000 at December 31, 1971.

The 7 5/8% Debentures are due on December 1, 1994 and are, at WCI's election, redeemable (with accrued interest) after December 1, 1974, at 107.625% of the principal amount and at decreasing prices thereafter. The Debentures may also be redeemed, in part, through the operation of a sinking fund, at 100% of principal amount, together with unpaid interest to date of redemption. WCI is required to make annual sinking fund payments of $773,000 commencing December 1, 1979.

The 5% Debentures are payable $2,000,000 in both 1972 and 1973 and $1,500,000 in each year from 1974 to 1979. In 1971, the original conversion privileges applicable to these Debentures were separated therefrom and warrants bearing the same conversion privileges were substituted. The warrants are for the purchase of 325,000 shares of WCI Common stock at a price of $40 per share (an aggregate of $13,000,000); 50,000 of such warrants expire in both 1972 and 1973 and 37,500 warrants expire in each year from 1974 to 1979.

8 Convertible debt: Convertible debt at December 31, 1971 consists of the following:

6 3/4% Convertible Subordinated Debentures, due 1990...	$20,000,000
5 3/8% Convertible Subordinated Debentures, due 1980 to 1985..	7,000,000
5% Convertible Subordinated Debentures, due 1988.......	3,492,000
Other convertible obligations..........................	3,283,000
	$33,775,000

The 6 3/4% Debentures are (1) currently redeemable, at WCI's election (with accrued interest), subject to the market price of WCI's Common stock, at 106.75% of the principal amount and at decreasing prices at later dates, and (2) convertible into one Common share for each $32.50 of principal amount, or a total of 615,384 Common shares. WCI is required to make annual sinking fund payments commencing April 1, 1981, equal to 7 1/5% of the then outstanding Debentures.

The 5 3/8% Debentures are (1) payable $1,167,000 in each year from 1980 to 1985, and (2) convertible into one Common share for each $32 of principal amount of the Debentures, or a total of 218,750 Common shares.

The 5% Debentures are (1) at WCI's election redeemable (with accrued interest) at 104% of the principal amount and at decreasing prices at later dates, and (2) convertible for each $100 principal amount, into 2.42 shares of Series C stock and 2.45 shares of Series D stock.

All conversion rates are subject to the usual antidilution provisions.

9 Capital shares: Transactions involving capital shares during the periods and authorized shares at December 31, 1971 were as follows:

	Common Shares $1 Par Value		Preferred Shares Issued, $1 Par Value			
	Issued	Treasury	Series A	Series B	Series C	Series D
Shares at September 30, 1969, as previously reported	8,134,117	(395,812)	881,607	420,974	4,101,350	3,266,266
Adjustment resulting from poolings of interests	867,500	--	--	--	--	--
Balance at September 30, 1969, as adjusted	9,001,617	(395,812)	881,607	420,974	4,101,350	3,266,266
Shares issued during year:						
Upon exercise of stock options	48,345	--	1,947	--	74,156	75,073
Conversions of Preferred shares into Common shares	2,793,532	--	(140,578)	(37,030)	(16)	(1,191,758)
Conversions of debt obligations into Preferred shares	--	--	--	--	109,863	111,210
Under Key Employees' Restricted Stock Plan and stock agreements	93,500	3,500	--	--	231,914	234,813
Other	(7,350)	9,197	--	326	541	549
Shares at September 30, 1970, as adjusted	11,929,644	(383,115)	742,976	384,270	4,517,808	2,496,153
Shares issued during period:						
Upon exercise of stock options	43,309	--	5,200	--	94,642	95,829
Conversions of Preferred shares into Common shares	3,245,697	--	(746,582)	(44,097)	--	(799,537)
Conversions of debt obligations into Preferred shares	100,391	--	--	--	21,222	21,491
Under Key Employees' Restricted Stock Plan	80,000	--	--	--	--	--
Companies acquired in purchase tr transactions	--	152,713	--	--	--	--
Other	(43,500)	--	(1,594)	631	17,379	17,596
Shares at December 31, 1971	15,355,541	(230,402)	--	340,804	4,651,051	1,831,532
Shares authorized	40,000,000		--	700,000	10,000,000	6,500,000

Each Series B share is (1) entitled to earn cumulative quarterly dividends at an annual rate of $4.25, (2) convertible into 3.48 Common shares, and (3) entitled to a $50 preference upon liquidation plus accrued and unpaid dividends. After January 1, 1974, WCI may redeem these shares, in whole or in part, at a price of $104.25 a share, which is reduced each year to a minimum of $100 in 1982 and thereafter, plus accrued and unpaid dividends.

Each Series C share is (1) entitled to earn cumulative annual dividends of $.05 a share, (2) convertible until January 8, 1980 into one Common share with the surrender of one share of Series C stock together with $37 or, alternatively, is convertible at any time into one Common share with the surrender of one share of Series C stock together with certificates representing 15 additional shares of Series C stock, and (3) entitled to a $2.74 preference upon liquidation plus accrued and unpaid dividends. After July 7, 1979, WCI may redeem these shares, in whole or in part, at a price of $2.50 a share, plus accrued and unpaid dividends.

Each Series D share is (1) entitled to earn cumulative quarterly dividends at an annual rate of $1.25, (2) convertible into two Common shares, and (3) entitled to a $22.12 preference upon liquidation plus accrued and unpaid dividends. After July 7, 1974, WCI may redeem these shares, in whole or in part, at a price of $100 a share, plus accrued and unpaid dividends.

The aggregate excess of preference upon involuntary liquidation of the outstanding Preferred shares over par value thereof ($63,474,000 at December 31, 1971) does not, in the opinion of counsel, constitute a restriction on the payment of dividends.

At December 31, 1971, Common shares reserved for future issuance for specified purposes were as follows:

Conversions of Preferred shares outstanding--		
Series B......................................	1,185,996	
Series C......................................	4,651,051	
Series D......................................	3,663,064	9,500,113
Conversion of 84,512 shares of Series C and 85,500 shares of Series D stock to be issued upon conversion of outstanding 5% Convertible Subordinated Debentures (due 1988)............................		255,632
Issuance upon conversion of 6 3/4% Convertible Subordinated Debentures (due 1990), 5 3/8% Convertible Subordinated Debentures (due 1980 to 1985) and certain contractual obligations and warrants......		1,363,614
Issuance under WCI's Common Stock Option and Key Employees' Restricted Stock Plans.................		1,131,184
Issuance upon conversion of Preferred shares to be issued under the Series C and D Stock Option Plans		976,299
Other...		41,749
		13,268,591

Certain of these classes of securities were used in computing earnings per Common and Common equivalent share (see Note 13).

10 Option plans: Common Stock Option Plan: At September 30, 1970, options to purchase 560,664 Common shares were outstanding and 310,609 shares were reserved for future grants under WCI's Common Stock Option Plan. During the year ended September 30, 1970 options as to 48,345 shares were exercised at prices of $4.28 to $24.97 per share.

Options for 128,700 shares were granted during the fifteen month period ended December 31, 1971 at option prices of $25.00 to $36.94 per share and options as to 34,850 shares were cancelled. Options for 43,309 shares were exercised during the period at option prices of $4.28 to $35.63 per share, an aggregate of $750,000.

At December 31, 1971, options as to 611,205 shares were outstanding (of which 84,152 were exercisable) at prices of $4.28 tp $39.50 per share; options as to 210,859 shares are reserved for future issuance under the plan.

Series A Stock Option Plan: At September 30, 1970, options to purchase 5,420 Series A shares were outstanding. During the year ended September 30, 1970 options as to 1,947 shares were exercised at prices of $19.85 to $25.97 per share. Options for 220 shares were cancelled and options as to 5,200 shares were exercised during the fifteen month period ending December 31, 1971 at option prices of $23.34 to $33.81 per share, an aggregate of $149,000. At December 31, 1971, no options were outstanding and no further options can be granted under this plan.

Series C and D Stock Option Plans: At September 30, 1970, under a qualified plan, options to purchase 87,275 shares of Series C stock and 88,369 shares of Series D stock were outstanding. During the year ended September 30, 1970 options as to 51,098 shares of Series C stock and 51,733 shares of Series D stock were exercised at an aggregate option price of $2,317,000. Options for 44,570 shares of Series C stock and 45,130 shares of Series D stock were exercised during the fifteen month period ended December 31, 1971 at an aggregate option price of $2,133,000; options as to 5,600 shares of Series C stock and 5,670 shares of Series D stock were cancelled. At December 31, 1971, options as to 37,105 and 37,569 shares of Series C and Series D stock, respectively, were outstanding and exercisable at an aggregate option price of $2,029,000. No further options can be granted under this plan.

At September 30, 1970, under a restricted plan, options for 145,102 shares of Series C stock and 146,922 shares of Series D stock were outstanding. During the year ended September 30, 1970 options as to 23,058 shares of Series C stock and 23,340 shares of Series D stock were exercised at an aggregate option price of $605,000. Options for 50,074 shares of Series C stock and 50,710 shares of Series D stock were exercised during the fifteen month period ended December 31, 1971 at an aggregate option

price of $1,322,000; options as to 7,742 shares of Series C stock and 7,837 shares of Series D stock were cancelled. At December 31, 1971, options as to 87,286 and 88,375 shares of Series C and Series D stock, respectively, were outstanding at an aggregate option price of $2,291,000 and options as to 83,884 Series C and 84,931 Series D shares, respectively, were exercisable. The excess of the fair market value of such stock options granted to individuals currently employed over the option price thereof is being deferred and charged to income over the term of the employees' service. No further options can be granted under this plan.

On February 10, 1972, WCI's shareholders approved a Key Employees' Series C Qualified Stock Option Plan. The plan permits the granting of an aggregate of 600,000 options to purchase Series C stock at the fair market value thereof at the time of grant. A total of 75,000 options were granted under this plan prior to December 31, 1971 at an option price of $10.88 per share and are outstanding but not exercisable at December 31, 1971.

Key Employees' Restricted Stock Plan: The plan permits the issuance and sale of 500,000 Common shares to key employees and directors at prices to be determined. The key employees and directors will be required to offer to resell such shares to WCI at fixed prices if their employment terminates, other than by reason of death, prior to a certain date which is fixed for each such sale. A total of 190,880 Common shares (80,000 shares in the fifteen month period ended December 31, 1971 and 97,000 shares in the year ended September 30, 1970) has been issued under this plan for $1 per share; the excess (1971--$1,879,000; 1970--$2,034,000) of the fair market value of such shares sold to individuals currently employed over the proceeds received has been deferred and is being charged to income over the term of the employees' service.

11 Depreciation and amortization policy: Music copyrights, artists' contracts and distribution rights in the amount of $29,866,000 are being amortized over a ten to fifteen year period, and $1,148,000 over a two to five year period; $3,863,000 is not being amortized until such time as the value thereof may become impaired.

Cable television franchise costs in the amount of $3,366,000 are being amortized over the life of the franchises, ranging from six to forty years.

Excess of cost over net assets of businesses acquired in the amount of $25,039,000 is not being amortized because, in the opinion of management, it is not considered to have a limited term of existence.

Depreciation and amortization of fixed assets are generally provided on the straight-line method.

12 Extraordinary items: Extraordinary items for the year ended December 31, 1971 consist of the following:

Gain on sale of Funeral operations, net of $5,430,000 of income taxes (Note 5)	$13,126,000
Costs in connection with discontinuance of independent merchandise distribution operations, net of $5,199,000 of income taxes	(5,081,000)
Loss on sale of Construction Services Companies, net of $1,574,000 of income taxes (Note 3)	(4,716,000)
Provision for anticipated costs applicable to relocation of Corporate headquarters and other related charges, net of $2,387,000 of income taxes	(2,529,000)
Costs in connection with acquisition of the cable television business of Continental Telephone Corporation	(450,000)
Extraordinary income, net	$ 350,000

13 Earnings per Common and Common equivalent share: Earnings per share in 1971 and 1970 are based on the wieghted average of Common shares (1971--13,550,894; 1970--10,441,872) and give effect to the conversion of Series A and Series D Preferred shares into Common shares (1971--4,966,329; 1970--6,833,932) and the conversion of applicable Convertible Subordinated Debentures into Common shares (1971--182,563; 1970--328,125) and the addition to net income of the interest, net of taxes, on such Debentures (1971--$93,000; 1970--$159,000) and the exercise of applicable stock options (1971--399,235; 1970--112,075) and the use of the cash funds thereby obtained to acquire Common treasury shares (1971--308,564; 1970--85,719); such per share amounts were determined after deducting dividend requirements on the Series B and Series C Preferred shares (1971--$1,702,000; 1970--$1,909,000).

Earnings per share on a fully diluted basis further assume (a) the conversion of the Series B Preferred shares (and the elimination of the dividend requirements thereon) and (b) the conversion of all Convertible Subordinated Debentures (and the addition to net income of the interest, net of taxes on such Debentures) and gives effect to the possible issuance of additional WCI securities under stock option plans and other stock agreements (and the use of the cash funds thereby obtained to acquire Common treasury shares).

14 Commitments and contingencies: Minimum annual rentals aggregate $7,200,000 under long-term leases expiring from 1974 to 2035. WCI is obligated to pay real property taxes, insurance, etc., on certain of these properties. Minimum royalties under certain licensing and artists' agreements aggregate $13,680,000 at December 31, 1971 and are payable over an eight year period. In addition, at December 31, 1971 WCI has guaranteed the performance of certain NKC subsidiaries under various long-term construction contracts and surety bonds aggregating approximately $33,000,000 and has also guaranteed $6,-00,000 of annual rentals under long-term leases and $5,000,000 of long-term debt.

In the ordinary course of business, WCI and its subsidiaries enter into commitments with respect to the acquisition of properties and other matters. Pending legal proceedings against the companies not covered by insurance or other indemnity are limited to routine litigation incidental to the business of the companies, certain stockholders' derivative actions and damages in connection with anti-trust suits. The companies have denied liability with respect to such actions and, while the ultimate result is not determinable at this time, it is believed in the opinions of counsel and management that the companies have meritorious defenses thereto or that the sums which may be paid to satisfy such actions will not be material in relation to consolidated shareholders' equity.

15 Working capital changes: The details of the changes in the elements of working capital are as follows:

	Fifteen Months Ended December 31, 1971 (Note 1)	Year Ended September 30, 1970
Increase (decrease) in current assets:		
Cash	$(1,570,000)	$(2,831,000)
Marketable securities	58,664,000	--
Accounts and notes receivable	8,543,000	31,199,000
Future income tax benefits	(10,996,000)	(13,474,000)
Inventories	26,339,000	13,468,000
Other current assets	4,900,000	(177,000)
Decrease (increase) in current liabilities:		
Notes payable	(171,000)	2,095,000
Accounts payable and accrued expenses	(16,230,000)	6,007,000
Long-term debt due within one year	1,911,000	15,687,000
Accrued taxes on income	(499,000)	(9,944,000)
Dividends payable	56,000	109,000
Increase in working capital	$70,947,000	$42,139,000

16 Results of operations for the three months ended December 31, 1971 and 1970: During 1971, the Board of Directors authorized a change in fiscal year from September 30 to December 31. The comparative condensed consolidated statement of income for the three months ended December 31, 1971 and 1970, follows:

	Three Months Ended December 31, 1971 (Note 1)	1970
Revenues	$105,687,000	$ 88,764,000
Income before income taxes and equity in income of unconsolidated subsidiary and affiliate	15,280,000	$ 15,891,000
Provision for income taxes	6,198,000	7,573,000
	9,082,000	8,318,000
Equity in income of National Kinney Corp.	1,084,000	1,472,000
Equity in income of Garden State National Bank	630,000	486,000
Income before extraordinary charge	10,796,000	10,276,000
Extraordinary charge (costs in connection with acquisition of cable television business of Continental Telephone Corporation	(450,000)	--
Net income	$ 10,346,000	$ 10,276,000
Earnings per Common and Common equivalent share:		
Income before extraordinary charge	$ .55	$ .54
Extraordinary charge	(.02)	--
Net income	$ .53	$ .54
Earnings per share--assuming full dilution:		
Income before extraordinary charge	$ .52	$ .50
Extraordinary charge	(.02)	--
Net income	$ .50	$ .50
Average number of shares outstanding for the three months:		
Common and Common equivalent shares	18,935,320	18,298,903
Assuming full dilution	21,252,584	21,008,375

17 TeleVision Communications Corporation acquisition: On January 31, 1972 WCI consummated a merger with TeleVision Communications Corporation (TVC) into a subsidiary of WCI through an exchange of approximately 1,200,000 shares of WCI Common stock for all the then outstanding shares of Common stock of TVC. This acquisition will be accounted for as a pooling of interests in 1972 and prior years' financial statements will be restated in subsequent reports to retroactively reflect inclusion of the consolidated financial statements of TVC. Had the merger been completed

prior to January 1, 1972, the accompanying consolidated statement of income would have been restated to reflect combined operations as follows:

	Year Ended December 31, 1971 (unaudited)	Year Ended September 30, 1970
Revenues............................	$381,172,000	$306,617,000
Net income..........................	$ 41,882,000*	$ 34,160,000
Earnings per Common and Common equivalent share..........................	$ 2.01*	$ 1.72
Earnings per share--assuming full dilution............................	$ 1.91*	$ 1.60
Average number of shares outstanding for the year:		
Common and Common equivalent shares	20,002,457	18,814,936
Assuming full dilution.............	22,385,630	21,907,288

*Net income and earnings per share are after extraordinary income of $350,000 and $.02, respectively.

AUDITORS' REPORT

ARTHUR YOUNG & COMPANY
277 Park Avenue, New York, N. Y. 10017

The Board of Directors and Shareholders
Warner Communications Inc.

We have examined the accompanying consolidated balance sheet of Warner Communications Inc. (formerly Kinney Services, Inc.) and subsidiaries at December 31, 1971, the related consolidated statement of income for the year then ended and the related consolidated statements of paid in capital, retained earnings and changes in financial position for the fifteen months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Warner Communications Inc. and subsidiaries at December 31, 1971, consolidated results of operations for the year then ended and the changes in consolidated financial position for the fifteen months ended December 31, 1971, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated.

(SIGNED) ARTHUR YOUNG & COMPANY

February 28, 1972