Incentive Auction Opportunities for Broadcasters

Prepared for the Federal Communications Commission by

Greenhill

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Note: These slides present an unofficial summary of the Incentive Auction Report and Order and rules dated May 15, 2014. Should this summary vary from the Report and Order or rules as released, the official document governs. Final auction procedures have not yet been adopted by the Commission.
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What is the Incentive Auction?

The Incentive Auction Represents a Unique Opportunity for Broadcasters to Monetize the Value of their Spectrum

- The Incentive Auction is a market-based approach to repurposing the 600 MHz spectrum band that will provide Broadcasters the opportunity to sell their spectrum usage rights while retaining the flexibility to remain on the air
  - Participation is completely voluntary and provides the potential for significant cash proceeds to Broadcasters
  - Recent transactions suggest spectrum valuations could be substantial

- The Incentive Auction is comprised of a Reverse Auction and a Forward Auction, which together will create a structured spectrum marketplace for Broadcasters and Mobile Broadband Providers

- The FCC has the unique ability to unlock value for Broadcasters by reorganizing the 600 MHz spectrum band into contiguous blocks on a nationwide basis and reallocating it for wireless use
  - Broadcasters on their own lack the ability to unlock the kind of opportunity made possible by the Incentive Auction

Source: FCC
Why Should You Participate?

The Incentive Auction Offers a Compelling Opportunity for Broadcasters

Unique Opportunity

- The FCC has the unique ability to unlock spectrum value through its authority to repurpose broadcast spectrum for wireless use and reorganize the 600 MHz Band on a nationwide basis
  - Broadcasters cannot repurpose their spectrum for wireless broadband on their own
  - Only the FCC can reorganize the UHF spectrum into nationwide contiguous spectrum for wireless broadband
- A private sale of spectrum is not an option
- The FCC has no other Incentive Auctions planned or expected

Attractive Valuation Levels

- Recent transaction trends suggest attractive spectrum valuation levels
- Independent studies have estimated total Forward Auction proceeds could approach $45 billion(4)
  - AT&T alone estimates it will bid at least $9 billion in the Forward Auction(2)
- Broadcasters in large and small markets are pivotal to clearing spectrum on a nationwide basis
  - Estimated Maximum Compensation for Full Power Broadcaster in DMA #1 – New York City, NY: $490 million(3)
  - Estimated Maximum Compensation for Full Power Broadcaster in DMA #113 – Youngstown, OH: $95 million(3)

Voluntary with the Potential for Significant Upside

- Participation is strictly voluntary – Broadcasters decide whether to participate after they see the opening price offered by the FCC and have the flexibility to drop out in any subsequent round
  - Simplified “descending clock” auction format means that a Broadcaster never needs to reveal its drop-out price
- The FCC has committed to keep all information identifying Broadcasters who participate and drop out / are not chosen confidential for two years
- With multiple bidding options, participation does not mean a Broadcaster has to exit its business – Channel Sharing and moving to VHF are flexible ways to reap Auction proceeds and stay on the air
- The IRS has provided guidance on the tax implications for each bidding option(4)

(1) EOBC Notice of Oral Ex Parte (June 13, 2014)
(2) AT&T press release (May 18, 2014)
(3) Estimated projections by FCC staff for relinquishing a license, using auction methodology currently under development; DMA rankings per Nielsen 2013-2014
(4) Federal Tax Principles Applicable to the FCC’s Proposed Broadcast Incentive Auction, Internal Revenue Service (July 3, 2014)

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How the Incentive Auction Will Affect Broadcasters

Congress Authorized the FCC to Reorganize (“Repack”) Broadcasters That Are Not Selected or Do Not Participate in the Auction

<table>
<thead>
<tr>
<th>Stations that Participate and are Selected</th>
<th>Stations that Participate and are Not Selected</th>
<th>Stations that Choose Not to Participate</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Broadcasters receive cash proceeds for relinquishment of their spectrum usage rights based on final bids</td>
<td>– Broadcasters retain spectrum usage rights subject to repacking</td>
<td>– Broadcasters retain spectrum usage rights subject to repacking</td>
</tr>
<tr>
<td>– If a Broadcaster accepts a License Relinquishment or Channel Sharing bid, it is required to vacate its existing channel within 3 months of receiving proceeds</td>
<td>– Post the Incentive Auction, the final channel assignments will be released</td>
<td>– Post the Incentive Auction, the final channel assignments will be released</td>
</tr>
<tr>
<td>– If a Broadcaster accepts a UHF to VHF or High VHF to Low VHF transition bid, it must cease operations on its pre-Auction channel within 39 months</td>
<td>– Broadcasters will be treated as if they had not participated in the Auction</td>
<td>– If a Broadcaster’s channel is changed during the repacking process, it must cease operations on its pre-Auction channel within 39 months</td>
</tr>
<tr>
<td></td>
<td>– If a Broadcaster’s channel is changed during the repacking process, it must cease operations on its pre-Auction channel within 39 months</td>
<td>• Broadcasters will receive a portion of the $1.75 billion Relocation Fund to reimburse them for relocation costs</td>
</tr>
<tr>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: FCC

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How Broadcasters Should Prepare for the Auction

It is Important for Broadcasters to Understand and Prepare for the Unique Opportunity the Incentive Auction Presents

- While the Incentive Auction is designed by the FCC for simplicity, it is important to understand the options and prepare in advance
- Broadcasters should review materials prepared by the FCC and third parties, including the Report & Order and the LEARN website, to better understand the Incentive Auction and the opportunities it presents
- Broadcasters should determine the current value of their spectrum usage rights and establish an internal “walk away” price at which they would elect not to participate, which may guide auction strategy
  - Broadcasters may consider many factors including, but not limited to:
    - Current and future profitability of a Broadcaster’s television business
    - Trends in spectrum valuation and the impact of possible disruptive or new technologies that may affect the Broadcast business
    - Opportunities for channel sharing in their market
    - Population shifts and trends in a station’s coverage area
    - Competitive broadcasting and video landscape and viewership trends
    - Potential opportunities for content distribution through other mediums including programming agreements with remaining broadcasters
    - Intangible social value and community-wide branding from providing broadcast services
- Additionally, the FCC has committed to being available throughout the Reverse Auction to answer any questions and provide Broadcaster support

Source: FCC

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Table of Contents

1. Incentive Auction Highlights
2. Unique Opportunity for Broadcasters
3. How the Incentive Auction Works

Appendix

Estimated Potential Auction Compensation

IRS Guidance on Tax Implications

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Unique Opportunity for Broadcasters

The Incentive Auction Represents a Unique Opportunity for Broadcasters to Monetize their Spectrum

– The FCC has the unique ability to unlock broadcast spectrum value
  • A private sale of spectrum is not an option
– There are several advantages for Broadcasters participating in the Reverse Auction
  ✓ Value unlocked as a result of FCC-backed repurposing and reorganization of broadcast spectrum for wireless broadband use
    – Reallocation of 600 MHz spectrum for wireless use – Broadcast spectrum is not usable by wireless providers unless authorized for flexible use by the FCC
    – Reorganization – Repacking broadcast spectrum allows for contiguous blocks and a nationwide band plan which is highly attractive to wireless providers
  ✓ Ability to receive compensation by relinquishing spectrum, while retaining the flexibility to stay on air via Channel Sharing and Moving to VHF options
  ✓ The FCC will conduct the Auction, reducing deal-execution complexity as well as reducing burdens and fees to Broadcasters
    – The FCC has committed to full transparency on the rules surrounding the sale

Given the FCC’s one-time authorization for this Incentive Auction, Broadcasters who choose not to participate will miss this unique opportunity to unlock value
Your Low-Band Spectrum Usage Rights are Valuable

- Increased demand for wireless communication, greater coverage and increased speeds have driven wireless carriers to continue to build out their networks
  - Global mobile data traffic is forecasted to increase at a CAGR of 61% from 2013-2018(1)
- UHF spectrum currently being utilized by television Broadcasters is a rare and valuable resource
  - Low band spectrum, such as the 600 MHz band, has the ability to travel for longer distances and penetrate buildings better than higher-band spectrum – as such, low band spectrum transactions have drawn higher MHz-POP figures and have continued to trend upwards
- With the potential for unexpected technological shifts and uncertainty about future broadcast technical standards (e.g. Advanced Television System Committee (“ATSC”) 3.0), the Incentive Auction provides Broadcasters an opportunity to maximize value now

Last Auction of Comparable Spectrum Generated Record-Breaking Revenues(2)

<table>
<thead>
<tr>
<th>Block</th>
<th>MHz</th>
<th>Price ($/MHz-POP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block A</td>
<td>12</td>
<td>1.13</td>
</tr>
<tr>
<td>Block B</td>
<td>12</td>
<td>2.65</td>
</tr>
<tr>
<td>Block C</td>
<td>22</td>
<td>0.76</td>
</tr>
<tr>
<td>Block E</td>
<td>6</td>
<td>0.74</td>
</tr>
</tbody>
</table>

The 2008 700 MHz auction (Auction 73) raised $19 billion

- Average unit price for all blocks: $1.28 per MHz-Pop
- Average unit price for paired blocks (most comparable to 600 MHz band plan): $1.35 per MHz-Pop

(1) Cisco Visual Networking Index: Forecast and Methodology, 2013–2018 (June 10, 2014); Compound annual growth rate - year-over-year growth rate of mobile data traffic from 2013 to 2018
(2) Source for all Auction 73 data: FCC
Source: FCC

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Wireless Spectrum Prices Have Continued Trending Upwards

- Over $9 billion in secondary market transactions since the last two major auctions
- Major recent transactions include:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ATT-Qualcomm</td>
<td>Verizon-SpectrumCo</td>
<td>Verizon-Grain</td>
<td>T-Mobile-USCC</td>
<td>T-Mobile-Verizon</td>
</tr>
<tr>
<td>700 MHz Band</td>
<td>AWS Band</td>
<td>700 MHz Band</td>
<td>AWS Band</td>
<td>700 MHz Band</td>
</tr>
<tr>
<td>$1.9 Billion</td>
<td>$3.6 Billion</td>
<td>$189 Million</td>
<td>$308 Million</td>
<td>$3.3 Billion</td>
</tr>
</tbody>
</table>

- MHz-POP unit prices for spectrum licenses have increased at an approximately 6% CAGR over auction prices, or approximately 33% over a five-year period

$ / MHz-POP Figures from Recent Comparable Transactions – 700MHz and AWS

Source: FCC, Public press releases

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Robust Participation From All Sized Markets is Key to the Incentive Auction’s Success...

Due to the “Daisy Chain” Nature of Interference, Stations in Mid to Smaller-Sized Markets will be able to Drive Substantial Value

Illustrative Interference Effect Across Multiple Markets

- Interference from Broadcasters in smaller markets can affect nearby larger markets
- For example, relinquishment of spectrum usage rights by Station A would enable the repacking of Station B and thereby free up more channels in Station B’s market for sale in the Forward Auction
- That in turn could facilitate the repacking of Station C or other stations in Station C’s market
- Participation by Station D could have the same effect

Select Commentary

"...under the assumption of full participation, we learn that to clear 84 MHz of spectrum, a minimum of roughly 200 voluntary broadcaster exits are needed ignoring the domain constraints as identified by the FCC, and approximately 250 exits, if those constraints are considered"

AT&T Computational Study (June 18, 2014)

Participation of Over 200 Broadcasters is Needed

Source: FCC

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...Which Unlocks Value for Broadcasters in Markets of all Sizes

Compensation is Expected to Be Compelling for Full Power Broadcasters Across the Nation, Not Just in Top Markets

<table>
<thead>
<tr>
<th>Top 10 DMAs&lt;sup&gt;(1)&lt;/sup&gt;</th>
<th>DMAs Below the Top 30&lt;sup&gt;(1)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>DMA</td>
<td>FCC's Estimated High End Compensation Per Broadcaster ($mm)</td>
</tr>
<tr>
<td></td>
<td>Maximum - Median</td>
</tr>
<tr>
<td>New York, NY</td>
<td>$490 - $410</td>
</tr>
<tr>
<td>Los Angeles, CA</td>
<td>570 - 340</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>130 - 120</td>
</tr>
<tr>
<td>Philadelphia, PA</td>
<td>400 - 230</td>
</tr>
<tr>
<td>Dallas-Ft. Worth, TX</td>
<td>67 - 53</td>
</tr>
<tr>
<td>San Francisco-Oakland-San Jose, CA</td>
<td>140 - 110</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>140 - 93</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>140 - 130</td>
</tr>
<tr>
<td>Atlanta, GA</td>
<td>91 - 65</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>52 - 45</td>
</tr>
</tbody>
</table>

Estimated projections by FCC staff of the compensation for relinquishing a license, using auction methodology currently under development as applied to all auction-eligible television stations. Actual compensation may be higher or lower; opening bid prices may be higher in some markets. Markets and stations needed in the Reverse Auction will depend on which stations choose to participate; low VHF stations are least likely to be selected in the auction because of the availability of low VHF channels. Estimates assume the sale of 100 MHz of spectrum in the Forward Auction at an average price of $1.50 per MHz-pop; the amount of cleared spectrum and the price per pop may vary from these assumptions when the auction is run. The Appendix includes a chart showing the maximum and median estimated high-end proceeds per full power station for each television market.

<sup>(1)</sup> DMA rankings per Nielsen 2013-2014

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### Eligible Class A Stations Could Also Receive Significant Compensation in Many Markets

**Compensation is Expected to Be Compelling for Eligible Class A Broadcasters Across the Nation, Not Just in Top Markets**

<table>
<thead>
<tr>
<th>Top 10 DMAs&lt;sup&gt;(1)&lt;/sup&gt;</th>
<th>DMA</th>
<th>FCC’s Estimated High End Compensation Per Broadcaster ($mm)</th>
<th>Max</th>
<th>Med</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York, NY</td>
<td></td>
<td>$360 - $280</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Los Angeles, CA</td>
<td></td>
<td>370 - 310</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chicago, IL</td>
<td></td>
<td>120 - 100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philadelphia, PA</td>
<td></td>
<td>180 - 110</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dallas-Ft. Worth, TX</td>
<td></td>
<td>58 - 50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Francisco-Oakland-San Jose, CA</td>
<td></td>
<td>92 - 70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boston, MA</td>
<td></td>
<td>77 - 77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Washington, DC</td>
<td></td>
<td>98 - 67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Atlanta, GA</td>
<td></td>
<td>54 - 51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Houston, TX</td>
<td></td>
<td>38 - 36</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>DMAs Below the Top 30&lt;sup&gt;(1)&lt;/sup&gt;</th>
<th>DMA</th>
<th>FCC’s Estimated High End Compensation Per Broadcaster ($mm)</th>
<th>Max</th>
<th>Med</th>
</tr>
</thead>
<tbody>
<tr>
<td>34 Milwaukee, WI</td>
<td>$32 - $30</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38 West Palm Beach-Ft. Pierce, FL</td>
<td>47 - 29</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53 Providence, RI-New Bedford, MA</td>
<td>56 - 56</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54 Wilkes Barre-Scranton, PA</td>
<td>56 - 8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>71 Tucson, AZ</td>
<td>15 - 11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>86 Harlingen-Weslaco-Brownsville-McAllen, TX</td>
<td>28 - 13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>103 Johnstown-Altoona, PA</td>
<td>23 - 12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>125 Monterey-Salinas, CA</td>
<td>36 - 31</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>148 Palm Springs, CA</td>
<td>170 - 26</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>178 Harrisonburg, VA</td>
<td>17 - 6</td>
<td></td>
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</tr>
</tbody>
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<sup>(1)</sup> DMA rankings per Nielsen 2013-2014

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The Forward Auction is Expected to Raise Substantial Proceeds

Mobile Broadband Providers and Others Have Publicly Predicted Aggressive Bidding for Spectrum in the Forward Auction

Select Commentary

<table>
<thead>
<tr>
<th>AT&amp;T Intends to Bid At Least $9 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;The [DIRECTV] transaction does not alter AT&amp;T’s plans to meaningfully participate in the FCC’s planned spectrum auctions later this year and in 2015. AT&amp;T intends to bid at least $9 billion in connection with the 2015 Incentive Auction provided there is sufficient spectrum available in the auction to provide AT&amp;T a viable path to at least a 2x10 MHz nationwide spectrum footprint.”</td>
</tr>
<tr>
<td>AT&amp;T Press Release Regarding AT&amp;T’s acquisition of DIRECTV (May 18, 2014)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Significant Demand for Spectrum Exists</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;We expect that there will be vigorous bidding for spectrum across the entire country and the FCC’s action today is a win for competition, consumers, and companies of all sizes.”</td>
</tr>
<tr>
<td>U.S. Cellular CEO Kenneth Meyers (May 16, 2014)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DISH and New Entrants Expected to Participate Meaningfully</th>
</tr>
</thead>
<tbody>
<tr>
<td>“DISH...looks forward to meaningfully participating in the upcoming 600 MHz Broadcast Incentive Auction. The incentive auction offers opportunities for competitive providers and new entrants to bid on and win much-needed lowband spectrum, which will facilitate the deployment of mobile broadband services.&quot;</td>
</tr>
<tr>
<td>DISH Network (July 9, 2014)</td>
</tr>
</tbody>
</table>

Independent studies, including one conducted by the Expanding Opportunities for Broadcasters Coalition (“EOBC”), have estimated that total Auction proceeds could approach $45 billion

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Participation is Completely Voluntary and Flexible

– Initial participation in the Incentive Auction only commits Broadcasters to accept the opening bid price
  • If opening bid prices are not attractive, Broadcasters need not participate – the Incentive Auction is completely voluntary
  • Broadcasters who participate are free to reject a lower bid offer after the first round and drop out, with no penalties
  • Auction participation does not impact treatment with regards to the repacking or reimbursement process

– Multiple bidding options offer significant flexibility to Broadcasters in the Incentive Auction
  • Broadcasters may relinquish their spectrum license, but also have the option to share channels with another Broadcaster or move to VHF spectrum

– FCC has said it will maintain participation confidentiality for those who are not winning bidders
  • Pursuant to statute, the FCC will hold the identity of Broadcasters who participate in the Auction but do not submit winning bids confidential for two years following the Incentive Auction

Preparations for the Incentive Auction and the repacking of Broadcasters are proceeding as planned under the Congressional mandate to the FCC

Source: FCC

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### Significant Flexibility for Broadcasters Through Multiple Bidding Options

*The Reverse Auction is Structured so Broadcasters Can Receive Compensation, but also Retain the Optionality to Continue Broadcasting*

| License Relinquishment | Relinquish entire 6 MHz channel and go off the air  
|                        | Highest level of proceeds for winning bidders  
|                        | Enables Broadcasters to reallocate proceeds to support other operations, reinvest in more strategic markets or return capital to stakeholders  
|                        | Potential for long-term capital gains tax treatment<sup>[1]</sup>  
| Channel Sharing        | Relinquish entire 6 MHz channel and negotiate a commercial arrangement with another Broadcaster to share channels / facilities and stay on the air  
|                        | Winning bidders will receive the same level of Auction proceeds as in a License Relinquishment bid, prior to any effect of sharing arrangement  
|                        | Remain on the air and receive proceeds from the Auction with no loss of licensee status  
|                        | Maintain cable carriage rights  
|                        | Lower operating costs and capital expenditures through facility sharing  
|                        | Immediate value in markets in which commonly owned broadcasters can pair up  
|                        | Broadcasters in dozens of markets already transmit two top-4 network signals on the same 6 MHz channel, and Sinclair recently announced that it will transmit two network signals on the same channel<sup>[2]</sup>  
|                        | Channel sharing by two different licensees was successfully validated in a trial conducted in early 2014  
|                        | May qualify for tax deferral for the portion of the gain associated with moving to a shared channel<sup>[1]</sup>  
| UHF to VHF / High VHF to Low VHF Move | Relinquish 6 MHz UHF or high VHF channel in exchange for another channel  
|                                | Remain on the air and receive proceeds from the auction with no loss of licensee status  
|                                | Maintain cable carriage rights  
|                                | Flexibility to limit bids to a high or low VHF channel  
|                                | May be able to defer taxes on a portion of gain through like-kind exchange<sup>[1]</sup>  

“The framework established in the Report and Order offers a win-win for broadcasters to generate revenue and continue to broadcast over the air, while ensuring that consumers will benefit from more robust competition among wireless carriers.”

**DISH Network (July 9, 2014)**

<sup>[1]</sup> Federal Tax Principles Applicable to the FCC’s Proposed Broadcast Incentive Auction, Internal Revenue Service (July 3, 2014)


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The FCC Has Considered Broadcaster Business and Strategy Concerns

The FCC has Designed the Reverse Auction to Cater to the Unique Business Concerns of Broadcasters

- Ease of Participation
  - The FCC has designed the Incentive Auction for simplicity – the descending clock structure allows Broadcasters to react to prices that are provided, rather than having to formulate their own bids
  - The availability of mock-auction tools will allow Broadcasters to gain comfort with the auction bidding system in advance
  - The FCC has committed to being available throughout the Reverse Auction to answer any questions and provide Broadcaster support
  - Pursuant to statute, the FCC will provide two years of confidentiality for Broadcasters who participate in the Auction but do not submit winning bids

- Time and Transparency
  - Auction timeline is designed to ensure that Broadcasters have sufficient time and access to all the necessary information in advance of the Reverse Auction
  - The IRS has provided guidance on the tax implications for each bidding option

- Webinars and other resources are available to educate stakeholders about the Incentive Auction and assist in preparation
  - Webinar available at [www.wireless.fcc.gov/incentiveauctions/learn-program/](http://www.wireless.fcc.gov/incentiveauctions/learn-program/)
  - Tax guidance by IRS available in the Appendix
  - Template channel sharing agreements are being developed by third parties

Note: These slides present an unofficial summary of the Incentive Auction Report and Order and rules dated May 15, 2014. Should this summary vary from the Report and Order or rules as released, the official document governs. Final auction procedures have not yet been adopted by the Commission.

(1) Federal Tax Principles Applicable to the FCC’s Proposed Broadcast Incentive Auction (July 3, 2014)
Source: FCC
Why You Should Participate in the Auction

- Unique Spectrum Marketplace – Unlikely to Occur Again
- Spectrum Value Unlocked – FCC’s Sole Authority to Repurpose and Reorganize Spectrum
- Potential for Attractive Valuation Levels – Recent Transactions Have Been Driven by Unprecedented Spectrum Demand
- Multiple Bidding Options – Flexibility to Receive Compensation While Continuing to Stay on the Air
- Participation is Completely Voluntary and Provides the Potential for Significant Upside

Source: FCC

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Table of Contents

1. Incentive Auction Highlights
2. Unique Opportunity for Broadcasters
3. How the Incentive Auction Works

Appendix

Estimated Potential Auction Compensation

IRS Guidance on Tax Implications

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Overview of the Incentive Auction

The Incentive Auction has been Structured to Make Participation as Easy as Possible for Sellers and Buyers

– The Incentive Auction will combine two separate, but interdependent Auctions
  • A Reverse Auction where Broadcasters will offer to relinquish some or all of their spectrum usage rights
  • A Forward Auction where Mobile Broadband Providers will bid to buy new, flexible licenses utilizing the spectrum made available through spectrum relinquishment and nationwide repacking
– The Reverse and Forward Auctions will be integrated: proceeds from the Forward Auction will be used to pay Broadcasters who relinquish spectrum usage rights in the Reverse Auction
– Only Broadcasters who participate in the Reverse Auction, by either relinquishing all of their spectrum usage rights or by utilizing one of the bidding options that enables them to stay on the air, can share in the Auction proceeds based on the value of their spectrum
– Pursuant to statute, any excess Forward Auction proceeds\(^1\) that remain following the conclusion of the Incentive Auction will be deposited into the Public Safety Trust Fund

Source: FCC

\(^1\) “Excess” proceeds means proceeds in excess of payments to Broadcasters who are selected in the Reverse Auction, the $1.75 billion Broadcaster Relocation Fund, and any funding required for FirstNet

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Reverse Auction Description

The Reverse Auction will use a Descending Clock Format to Make Participation Easy and Transparent for Broadcasters

Illustrative Reverse Auction Example where 2 Stations are Needed
(Assumes technically identical stations)

<table>
<thead>
<tr>
<th>Round</th>
<th>Bid Price</th>
<th>Stations Accepting Bid Price</th>
<th>Stations in Excess of Clearing Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$$$$$$$</td>
<td><img src="image1" alt="Stations" /></td>
<td>3 stations</td>
</tr>
<tr>
<td>2</td>
<td>$$$$$$$</td>
<td><img src="image2" alt="Stations" /></td>
<td>1 station</td>
</tr>
<tr>
<td>3</td>
<td>$$$$$$$</td>
<td><img src="image3" alt="Stations" /></td>
<td>1 station</td>
</tr>
<tr>
<td>4</td>
<td>$$$$$$$</td>
<td><img src="image4" alt="Stations" /></td>
<td>0 stations</td>
</tr>
</tbody>
</table>

i. The Reverse Auction begins with a Clearing Target of 2 stations and an Opening Price of $$$$$$$
   ii. 5 stations accept this Opening Price
   iii. Since there are 3 stations above the Clearing Target, the market does not clear and the new round of bidding begins with a lower bid price

i. The second round begins with a price of $$$$$$$
   ii. Only 3 stations accept this price
   iii. Since there is 1 station above the Clearing Target, the market does not clear and the new round of bidding begins with a lower price

i. The third round begins with a price of $$$$$$$
   ii. All 3 remaining stations still bid to accept this bid price
   iii. Since there is 1 station above the Clearing Target, the market does not clear and the new round of bidding begins with a lower price

i. The fourth round begins with a price of $$$$$$$
   ii. 2 stations accept this price
   iii. Since there are no stations above the Clearing Target, the current stage of the Reverse Auction ends

Note: Not all stations willing to accept an offered price will be selected to relinquish their license. Since all stations are not technically identical, as is assumed in this slide, stations are not perfectly substitutable in the repacking process. The auction system will take into account bid amount and the feasibility of repacking stations into the broadcasting band when it selects stations to receive a relinquishment payment.

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Final auction procedures have not yet been adopted by the Commission.
## Forward Auction Description

**The Forward Auction is Designed to be Efficient and Fast in Order to Draw in Maximum Participation from Wireless Providers**

### Illustrative Forward Auction Example with 6 Blocks for Sale

<table>
<thead>
<tr>
<th>Round</th>
<th>Price per Block</th>
<th>Bidder 1</th>
<th>Bidder 2</th>
<th>Excess Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$\text{--}$</td>
<td>6 blocks</td>
<td>6 blocks</td>
<td>6 blocks</td>
</tr>
<tr>
<td>2</td>
<td>$$\text{--}$$</td>
<td>4 blocks</td>
<td>4 blocks</td>
<td>2 blocks</td>
</tr>
<tr>
<td>3</td>
<td>$$\text{--}$$</td>
<td>3 blocks</td>
<td>4 blocks</td>
<td>1 block</td>
</tr>
<tr>
<td>4</td>
<td>$$\text{--}$$</td>
<td>2 blocks</td>
<td>4 blocks</td>
<td>0 blocks</td>
</tr>
</tbody>
</table>

1. The Forward Auction begins with 6 blocks for sale and an opening Bid Price of $\text{--}$
2. Bidder 1 and Bidder 2 each demand 6 blocks
3. Since there are 6 blocks of excess demand, a new round begins with a higher price per block

### Notes

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Source: FCC
Eligibility for Participation in Reverse Auction

**The Reverse Auction Will Be Open to Full Power and Class A Licensees**

- Full power and Class A television stations that were licensed as of February 22, 2012
- Entities that obtain licenses on or before the Pre-Auction Licensing Deadline (to be announced by the Media Bureau at a later date) for the following facilities:
  - New full power television stations that were authorized by construction permits, but were not yet constructed or licensed, as of February 22, 2012, and certain digital Class A facilities that also were not licensed on that date
  - Full power facilities authorized in outstanding construction permits issued to effectuate a channel substitution for a licensed station
  - Modified facilities of full power and Class A stations that were authorized by construction permits granted on or before April 5, 2013, the date the Media Bureau issued a freeze on the processing of certain applications
  - Class A facilities authorized by construction permits to implement Class A stations’ mandated transition to digital operations
- Eligible stations that choose not to bid or that participate and subsequently drop out of the Incentive Auction will still be protected from additional interference, as provided by statute, in the nationwide repacking process

Source: FCC
Illustrative Reverse Auction Example

**During Auction**

- Broadcaster A elects to participate and remains in the Reverse Auction during each round at the offered price.
- If the Final Stage Rule is met, Broadcaster A will receive a payment at least as high as the final offer price it accepted\(^{\text{(1)}}\).

**Post Auction**

- Broadcaster A receives compensation for relinquishing its existing spectrum usage rights after the auction.
- License Relinquishment / Channel Sharing Bid
  - Vacate channel within 3 months of receiving compensation.
- UHF to VHF / High VHF to Low VHF Bid
  - File application for construction permit to modify facility within 3 months.
  - Cease operation on pre-auction channel within 39 months\(^{\text{(2)}}\).

**Station A**

- Participates, Selected

**Station B**

- Participates, Not Selected

- Broadcaster B elects to participate and remains in the Reverse Auction each round until the price offered is below the Broadcaster’s internal “walk away” price.
- Once price is below the “walk away” price, Broadcaster B drops out of the Reverse Auction.

**Station C**

- Does Not Participate

- Broadcaster C decides to not participate in the Reverse Auction and continues business while awaiting the results of the repacking process.

- Final channel assignments released
- Same rights in the repacking process as if it had not participated.
- Repacking process begins
  - If channel is changed, file application for construction permit to modify facility within 3 months.
  - Cease operation on pre-auction channel within 39 months\(^{\text{(2)}}\).
- Eligible for reimbursement of relocation costs from $1.75 billion TV Broadcaster Relocation Fund.
- FCC keeps information regarding participation confidential for two years post auction.

- Final channel assignments released
- Repacking process begins
  - If channel is changed, file application for construction permit to modify facility within 3 months.
  - Cease operation on pre-auction channel within 39 months\(^{\text{(2)}}\).
- Eligible for reimbursement of relocation costs from $1.75 billion TV Broadcaster Relocation Fund.

\(^{\text{(1)}}\) If Forward Auction proceeds are not sufficient to meet the Final Stage Rule, the Reverse Auction will be run again.

\(^{\text{(2)}}\) Includes 3 month period in which construction permit applications must be filed.

Source: FCC

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License Relinquishment Option

*Broadcasters Who Are Willing to Relinquish Their License Will Receive the Highest Level of Compensation for Their Spectrum*

- Under this option, a Broadcaster will completely relinquish its spectrum license in the Reverse Auction and go off the air in exchange for Auction proceeds
- A Broadcaster will have up to 3 months after it receives proceeds to cease operations
- Can use proceeds to strengthen its other broadcast operations

Source: FCC

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Channel Sharing Option

Enables Broadcasters to Remain on the Air While Receiving the Same Level of Compensation as in the License Relinquishment Option\(^{(1)}\)

- Under this option, a Broadcaster will relinquish its existing 6 MHz channel in the Reverse Auction and share a channel with another station
- Potential for Broadcasters to remain on the air, receive proceeds with no loss of licensee status, and lower operating costs and capital expenditures through facility sharing
- Immediate value in markets in which commonly owned Broadcasters can pair up
- Broadcasters in dozens of markets already transmit two top-4 network signals on the same 6 MHz channel, and Sinclair Broadcast Group recently announced that it will transmit two network signals on the same channel\(^{(2)}\)
  - Channel sharing by two different licensees providing 2 HD streams was successfully validated in a trial conducted in early 2014
- Each shared station remains a primary FCC licensee with all current licensee rights
  - The FCC guarantees that Channel Sharing Broadcasters will retain must carry rights
- Broadcasters privately negotiate financial, operational and technical arrangements regarding sharing of channel and transmission facilities
- A Broadcaster will have up to 3 months after it receives proceeds to cease operations on its pre-Auction channel

\(^{(1)}\) Prior to any sharing of Incentive Auction proceeds due to pre-negotiated channel sharing agreements
\(^{(2)}\) FCC 2014 Quadrennial Review Further Notice of Proposed Rulemaking; Sinclair press release (March 20, 2014)

Source: FCC

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UHF to VHF Band Change Option

Moving from UHF to VHF is Another Way for Broadcasters to Receive Auction Proceeds and Remain on the Air

- Under this option, a Broadcaster will bid to relinquish its UHF spectrum in the Reverse Auction and be assigned a frequency in the VHF spectrum
  - UHF to VHF bidders have the flexibility to limit their bids to a high or low VHF channel
- Broadcasters will remain on the air and receive proceeds with no loss of licensee status
- Pursuant to statute, Broadcasters will retain must carry rights at their new channel
- The FCC will work with winning UHF to VHF bidders seeking to modify their operations in order to mitigate any over-the-air reception issues
- A Broadcaster will have up to 39 months after the Incentive Auction ends to move to the new channel

Illustrative UHF to VHF Option

Source: FCC

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High VHF to Low VHF Change Option

Under this option, a Broadcaster will bid to relinquish its high VHF spectrum in the Reverse Auction.

- Broadcaster will stay on the air on a low VHF channel, while still receiving proceeds with no loss of licensee status.
- Pursuant to statute, Broadcasters will retain must carry rights at their new channel.
- A Broadcaster will have up to 39 months after the Incentive Auction ends to move to the new channel.

Illustrative High VHF to Low VHF Option

Source: FCC

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Table of Contents

1. Incentive Auction Highlights
2. Unique Opportunity for Broadcasters
3. How the Incentive Auction Works
Appendix
Estimated Potential Auction Compensation
IRS Guidance on Tax Implications
Integration of the Reverse and Forward Auctions

The Reverse and Forward Auctions Will be Integrated through a Series of Stages and a Reserve Price Mechanism

- Prior to the Incentive Auction, the FCC will determine an initial spectrum clearing target based on the number of Broadcasters willing to bid at opening prices
- The Reverse Auction bidding process will determine the total amount of incentive payments to Broadcasters required to clear that target level of spectrum
- The Forward Auction bidding process will proceed subsequent to the Reverse Auction, and will determine how much wireless providers are willing to pay for spectrum licenses corresponding to that target level of spectrum
  - If Forward Auction proceeds are able to cover the expense of Reverse Auction broadcaster bids, fund the TV Broadcaster Relocation Fund, and satisfy the other requirements of the Final Stage Rule, then the Incentive Auction will close at that spectrum clearing target
  - If not, the clearing target will be reduced and the Reverse and Forward Auction bidding process is repeated until the Final Stage Rule is met

Source: FCC

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Repack the Broadcast Television Bands

The FCC Will Preserve Coverage Areas and Population Served for Repacked Broadcasters as Provided by Statute

- Non-participating broadcast stations, or those that do not have bids accepted, will continue to operate in their pre-Auction spectrum bands following the Incentive Auction
  - Broadcasters who are eligible to participate in the Reverse Auction will be protected
- The FCC will reassign some TV stations that remain on the air so that the stations remaining on the air will occupy a smaller portion of the UHF band, enabling the reallocation of contiguous nationwide spectrum for the Forward Auction
  - Channel assignments would reduce a station’s population served by no more than a de minimis (0.5%) amount, considered on a station-to-station basis
- Remaining on-air stations, if moved, will have up to 39 months following the conclusion of the Auction to vacate their old channel
- Broadcasters may seek reimbursement of relocation costs from the $1.75 billion TV Broadcaster Relocation Fund

The Repacking Process is Designed to Preserve Population and Coverage

- Repack is designed to preserve actual population served as of February 22, 2012
- Channel assignment not permitted if population served loss exceeds 0.5% (yellow)
- Predicted areas of no change (black)
- New coverage area will replicate station’s contour on its new channel

Source: FCC

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## Post-Auction Transition and Payments

### The FCC Plans to Pay Funds to Winning Broadcasters As Soon As Practicable

<table>
<thead>
<tr>
<th>Payment Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>– The FCC has said it intends to disburse Incentive Auction proceeds as quickly and efficiently as possible after spectrum licenses have been granted to winning Forward Auction bidders</td>
</tr>
<tr>
<td>• Spectrum licenses post-Auction will be granted on a rolling basis as license applications become ready for grant</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transition Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Participating Broadcasters who relinquish spectrum or channel share will have three months from payment to go off the air</td>
</tr>
<tr>
<td>– Participants who change bands will have up to 39 months after the Incentive Auction ends to transition</td>
</tr>
</tbody>
</table>

Source: FCC

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Tax Implications Applicable to Incentive Auction Proceeds / Reimbursements

The IRS Has Provided a Letter Identifying Potential Tax Implications for Proceeds / Reimbursements from the Incentive Auction and Repacking Process

Relinquishment of Spectrum:
- If the relinquished spectrum usage rights are not depreciable or amortizable assets, the gain from the sale of the Broadcaster’s spectrum usage rights is treated as a long-term capital gain, if the rights were held for longer than one year
- If the spectrum usage rights are depreciable or amortizable assets, the gain is first subject to depreciation recapture, which would be treated as ordinary income; additional gain would be a § 1231 gain and net § 1231 gain is generally taxed as a long-term capital gain

Channel Sharing:
- Federal tax implications of Channel Sharing arrangements will depend on the agreement between the parties, their actions, and other facts and circumstances regarding their arrangement
- Two possible tax alternatives are that a Channel Sharing arrangement could be treated as a partnership between the sharing parties or as a cost-sharing arrangement
  - Cost-sharing arrangement would mean that the relocating party may qualify for deferral from tax for the portion of the gain associated with moving to a shared channel
  - The character for federal income tax purposes of the gain resulting from the receipt of the cash “boot” (payment from the FCC for relinquishing existing spectrum rights) would be determined in the same manner as the payment for relinquishing spectrum rights described above

UHF to VHF / High VHF to Low VHF Move:
- Broadcasters may be able to defer immediate taxation of a portion of the gain resulting from the relinquishment of existing spectrum usage rights in exchange for a VHF channel under the like-kind exchange provisions of the Internal Revenue Code
  - The payment from the FCC for relinquishing existing spectrum rights under this option would constitute “boot,” and any gain attributable to such “boot” must be reported in gross income by the Broadcaster
  - The character for federal income tax purposes of the gain resulting from the receipt of the cash “boot” by the Broadcaster would be determined in the same manner as the payment for relinquishing spectrum rights described above

Reimbursement for Repacking:
- Broadcasters who are repacked may not be required to include the reimbursement payments from the FCC in income, as the reimbursement provided by the FCC could be viewed as an amount realized by the Broadcaster from an involuntary conversion of the Broadcaster’s property
  - The cost of new equipment, capitalized modifications to existing equipment, engineering studies, and construction services in connection with the channel change may be treated as the cost of property that is similar or related in service or use to the property so converted

Source: Federal Tax Principles Applicable to the FCC’s Proposed Broadcast Incentive Auction, Internal Revenue Service (July 3, 2014). The full text of the letter is included in the Appendix. Neither the IRS letter nor the summary above constitutes tax advice. As the IRS notes, the federal income tax law is complex, and tax consequences depend highly on particular facts and circumstances, including how a broadcaster structures its particular transaction. Broadcasters will need to consult their tax advisers for specific advice.

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Summary of Channel Sharing Trial

– In early 2014, two Los Angeles market broadcast stations, PBS affiliate KLCS and Spanish language LATV Network affiliate KJLA tested the technical feasibility of having two different licensees share a single 6 MHz channel

– Data from the trial suggested:

• Channel sharing is feasible, as stations found that all the TVs and tuners tested were able to receive and correctly parse all the required information
  – This included a virtual channel, both major and minor, ratings, audio configuration, codecs, program titles and descriptions

• Testing demonstrated that one HD stream is possible with numerous SD programs
  – The trial tested 1 HD and up to 7 SD streams in a single ATSC channel with good results
  – The complexity of the content will determine the final program count

• Testing furthermore demonstrated that it is technically feasible for the two 720p high definition streams to be combined with several variations of additional SD program streams – participants observed that up to two additional SD streams are possible without major impact to the quality of experience of the overall material

• Testing also demonstrated that it is technically feasible for two 720p high definition streams to be combined into a single ATSC channel – results clarify that stations wishing to channel share must consider:
  – Whether to utilize fixed or dynamically allocated bitstreams between the parties
  – The relative “digital complexity” of the video content to be transmitted by two parties
  – How to govern the division of the bitstream based on those requirements
  – How to monitor and manage any agreement reached on sharing of the bitstream itself

• Bandwidth management (allocating the bitstream among a variety of services, metadata, video and audio) must be determined upfront for channel sharing to work properly
  – Testing demonstrated that new encoders not only are more efficient in bit utilization but also dramatically improved the QoE

Source: CTIA–The Wireless Association and Los Angeles television stations KLCS and KJLA, FCC

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Table of Contents

1. Incentive Auction Highlights
2. Unique Opportunity for Broadcasters
3. How the Incentive Auction Works

Appendix

Estimated Potential Auction Compensation
IRS Guidance on Tax Implications

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Estimated Potential Auction Compensation
($ in millions)

These are estimated high payouts that illustrate the economic potential of the auction. In the actual auction, prices will be bid down in many markets and payouts to many winning bidders will be lower as a result. On a nationwide basis, it is anticipated that forward auction revenues will exceed the winning bid amounts and the other requirements specified by the final stage rule. Those additional revenues will be deposited in the Public Safety Trust Fund to advance the financial goals identified by Congress in the Spectrum Act.

<table>
<thead>
<tr>
<th>DMA</th>
<th>FCC's Estimated High-End Compensation per Broadcaster</th>
<th>DMA</th>
<th>FCC's Estimated High-End Compensation per Broadcaster</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full Power</td>
<td></td>
<td>Full Power</td>
</tr>
<tr>
<td></td>
<td>Maximum - Median</td>
<td></td>
<td>Maximum - Median</td>
</tr>
<tr>
<td></td>
<td>Maximum - Median</td>
<td></td>
<td>Maximum - Median</td>
</tr>
<tr>
<td>1 New York, NY</td>
<td>$490 $410</td>
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<tr>
<td>2 Los Angeles, CA</td>
<td>570 340</td>
<td>32 Columbus, OH</td>
<td>41 36 20 14</td>
</tr>
<tr>
<td>3 Chicago, IL</td>
<td>130 120</td>
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<td>12 12 11 7</td>
</tr>
<tr>
<td>4 Philadelphia, PA</td>
<td>400 230</td>
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<td>68 53 32 30</td>
</tr>
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<td>5 Dallas-Ft. Worth, TX</td>
<td>67 53 58 50</td>
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<tr>
<td>6 San Francisco-Oakland-San Jose, CA</td>
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<td>36 San Antonio, TX</td>
<td>35 29 22 20</td>
</tr>
<tr>
<td>7 Boston, MA</td>
<td>140 93</td>
<td>37 Greenville-Spartanburg, SC-Asheville, NC</td>
<td>57 36 n.a. n.a.</td>
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<tr>
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<td>9 Atlanta, GA</td>
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<td>39 Grand Rapids-Kalamazoo-Battle Creek, MI</td>
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<td>16 Miami - Ft. Lauderdale, FL</td>
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<td>46 Greensboro-High Point-Winston Salem, NC</td>
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<td>48 Jacksonville, FL</td>
<td>27 23 16 15</td>
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<td>19 Cleveland-Akron, OH</td>
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</table>

Estimated projections by FCC staff of the compensation for relinquishing a license, using auction methodology currently under development as applied to all auction-eligible television stations. Actual compensation may be higher or lower; opening bid prices may be higher in some markets. Markets and stations needed in the Reverse Auction will depend on which stations choose to participate; low VHF stations are least likely to be selected in the auction because of the availability of low VHF channels. Estimates assume the sale of 100 MHz of spectrum in the Forward Auction at an average price of $1.50 per MHz-pop; the amount of cleared spectrum and the price per pop may vary from these assumptions when the auction is run.

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($ in millions)

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<td>84 Champaign-Springfield-Decatur, IL</td>
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<td>86 Harlingen-Laredo-Brownsville-McAllen, TX</td>
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<td>89 Colorado Springs-Pueblo, CO</td>
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<td>92 Savannah, GA</td>
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</tr>
<tr>
<td>94 Jackson, MS</td>
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<td>11</td>
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</table>

Estimated projections by FCC staff of the compensation for relinquishing a license, using auction methodology currently under development as applied to all auction-eligible television stations. Actual compensation may be higher or lower; opening bid prices may be higher in some markets. Markets and stations needed in the Reverse Auction will depend on which stations choose to participate; low VHF stations are least likely to be selected in the auction because of the availability of low VHF channels. Estimates assume the sale of 100 MHz of spectrum in the Forward Auction at an average price of $1.50 per MHz-pop; the amount of cleared spectrum and the price per pop may vary from these assumptions when the auction is run.

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## Estimated Potential Auction Compensation Compensation (cont’d)

($ in millions)

<table>
<thead>
<tr>
<th>DMA</th>
<th>FCC’s Estimated High-End Compensation per Broadcaster</th>
<th>DMA</th>
<th>FCC’s Estimated High-End Compensation per Broadcaster</th>
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<tbody>
<tr>
<td></td>
<td>Full Power</td>
<td>Class A</td>
<td>Full Power</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>Median</td>
<td>Maximum</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Corpus Christi, TX</strong></td>
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<td>$4</td>
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<td>0</td>
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<tr>
<td><strong>Wilmington, NC</strong></td>
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<td>17</td>
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<td><strong>Topeka, KS</strong></td>
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<td><strong>Columbia-Jefferson City, MO</strong></td>
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<td><strong>Duluth, MN-Superior, WI</strong></td>
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<td><strong>Medford-Klamath Falls, OR</strong></td>
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<td>n.a.</td>
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<tr>
<td><strong>Lubbock, TX</strong></td>
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<td>1</td>
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<td><strong>Wichita Falls, TX-Lawton, OK</strong></td>
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<td><strong>Minot-Bismarck-Dickinson, ND</strong></td>
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<td><strong>Anchorage, AK</strong></td>
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<td><strong>Sioux City, IA</strong></td>
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<td><strong>Palm Springs, CA</strong></td>
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<td><strong>Albany, GA</strong></td>
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<td><strong>Joplin, MO-Pittsburg, KS</strong></td>
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<td><strong>Bangor, ME</strong></td>
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<td>5</td>
<td>n.a.</td>
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<td>5</td>
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<td><strong>Biloxi-Gulfport, MS</strong></td>
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<td><strong>Idaho Falls-Pocatello, ID</strong></td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

*Note:* These estimates are based on the current methodology and assumptions and are subject to change based on final auction rules and regulations. Actual compensation may vary based on market conditions and other factors. The estimates are intended to provide a general idea of potential compensation. Estimated projections are subject to change as the auction process evolves. The final compensation may be higher or lower based on the actual auction results.
Estimated Potential Auction Compensation (cont’d)
($ in millions)

<table>
<thead>
<tr>
<th>DMA</th>
<th>FCC's Estimated High-End Compensation per Broadcaster</th>
<th>Full Power</th>
<th>Class A</th>
</tr>
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<td></td>
<td></td>
<td>Maximum</td>
<td>Median</td>
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<td>198 San Angelo, TX</td>
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<tr>
<td>199 Mankato, MN</td>
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<td>201 Ottumwa, IA-Kirksville, MO</td>
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</table>

Estimated projections by FCC staff of the compensation for relinquishing a license, using auction methodology currently under development as applied to all auction-eligible television stations. Actual compensation may be higher or lower; opening bid prices may be higher in some markets. Markets and stations needed in the Reverse Auction will depend on which stations choose to participate; low VHF stations are least likely to be selected in the auction because of the availability of low VHF channels. Estimates assume the sale of 100 MHz of spectrum in the Forward Auction at an average price of $1.50 per MHz-pop; the amount of cleared spectrum and the price per pop may vary from these assumptions when the auction is run.

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Estimated Potential Auction Compensation: Puerto Rico Supplement

($ in millions)

<table>
<thead>
<tr>
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<th>FCC's Estimated High-End Compensation per Broadcaster</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full Power</td>
</tr>
<tr>
<td></td>
<td>Maximum - Median</td>
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<tr>
<td>Puerto Rico</td>
<td>$46 - $38</td>
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</table>

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Description of Methodology for Estimating Potential Auction Compensation

The estimated maximum and median high-end compensation in the accompanying charts was developed by the FCC staff using a “top-down” methodology, under which each broadcast station in a market receives a share of expected forward auction revenue proportional to its value in the nationwide repacking process. The estimated compensation therefore reflects the salience of a particular station to the reverse auction with regard to clearing spectrum for mobile broadband use. As noted in the charts, the estimates are for the license relinquishment and channel sharing options; high-end compensation for the other auction options (UHF-to-VHF and high VHF-to-low VHF) may vary.

High-End Auction Revenue Methodology

Forward auction revenue-per-pop was calculated by multiplying an average nationwide $/MHz-pop forward auction price by an amount of spectrum sold in the Forward Auction, which was then multiplied by the total US population to get an estimate of gross forward auction proceeds. To arrive at the net auction proceeds available to pay broadcasters, this amount was reduced by an estimate of the amount of the costs, other than payments to broadcasters for relinquishing their spectrum usage rights, identified by the Spectrum Act and the Commission’s rules to be paid from auction proceeds.

The estimates presented in the attached spreadsheets assume the following: $1.50/MHz-pop; a 126 MHz clearing target (with 100 MHz of available spectrum for the forward auction); and auction costs, other than broadcaster payments, of $7 billion ($1.75B for the TV Broadcaster Relocation Fund; $250M for auction costs; and $5B to cover the costs of FirstNet that are not covered by the H Block and AWS-3 auctions).

A station’s impact on repacking is derived from its interference volume and the channel constraints that it generates. An adjusted TV coverage population estimate was developed to approximate each station’s interference volume and thus reflect its repack value. The estimate is a weighted average of a station’s coverage population and the total coverage population of all stations that it directly constrains, i.e., one link in the “daisy chain,” accounting for both adjacent and co-channel constraints. If a station has many constraints and blocks many other stations from being repacked, then it is likely to receive higher compensation to relinquish its spectrum. Stations with lower coverage populations may also be important to the repacking process insofar as their interference footprint prevents larger stations in critical areas from being repacked. Finally, each station’s interference-weighted population was adjusted to reflect the amount of spectrum scarcity in its home band in the market in which it operates. This adjustment captures the added difficulty of clearing where there are not many vacant channels available for repacking, which is not captured by coverage population or blocked channel constraints alone. The value of a station will depend in part on the ratio of stations to available channels.

To determine the rate at which to compensate stations, net forward auction proceeds are divided by the total adjusted coverage population of stations that relinquish spectrum in staff-run Reverse Auction simulations. The high-end dollar estimate for a station is then the dollar-per-adjusted coverage population multiplied by each station’s individual adjusted coverage population. This approach is applicable to all stations and not just those that relinquish spectrum. Since every station has an adjusted coverage population, a station’s high-end compensation reflects its individual repacking value priced at an average $/pop derived from the auction simulations. The methodology prices each station as if it were selected to relinquish spectrum.

Estimated High-End Compensation by Market

The accompanying charts show the estimated maximum and median high-end compensation per station for full power and Class A stations in each market, based on the methodology described above. The median is included to help illustrate the distribution of compensation in the market.

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1. Incentive Auction Highlights

2. Unique Opportunity for Broadcasters

3. How the Incentive Auction Works

Appendix

Estimated Potential Auction Compensation

IRS Guidance on Tax Implications
Scenario 1: Go off the air -- A broadcaster participating in the reverse auction renewsits spectrum usage rights in exchange for a payment from the FCC and federal income tax provisions most likely to be relevant to each of the four scenarios.

Federal income tax provisions most likely to be relevant to each of the four scenarios.

You ask specifically about the federal income tax consequences of new channels under the four scenarios outlined below. The federal income tax law is complex, and tax professionals are needed to analyze the consequences of each of the four scenarios.

FCC is authorized to reimburse broadcasters for reasonable and necessary costs for the acquisition of equipment or other assistance, including how the acquisition of new channels under the reverse auction provisions at $17.5 billion.

In addition, the FCC plans a reallocation (reallocation) of the broadcast television service from the licenses suitable for providing mobile broadband services.

As we understand the facts, the FCC is planning to expand the amount of UHF spectrum available for wireless broadband uses. The FCC will conduct a reverse auction.

We can help explain how the federal income tax provisions at $17.5 billion might apply to the reverse auction.

Broadcast Incentive Auction.

Washington, D.C. 20554

Federal Communications Commission

445 12th Street SW

FCC Mail Room

FCC Mail Room

Receives & Dispenses

Referent: Federal Tax Principles Applicable to the FCC's Proposed

Broadcast Incentive Auction

July 3, 2014

Washington, D.C. 20243

Internal Revenue Service

Department of the Treasury
Remuneration of those costs from the FCC.

Equipment for use in broadcasting on the new channel and will not receive
the VHF band ("low VHF") in exchange for a payment plus an assignment of the upper
portion of the VHF spectrum. Reimbursement is an assignment of the lower portion of the VHF
band in exchange for a payment from the FCC of their assigned frequency in the VHF
portion of the Reverse Auction Reimbursements is VHF spectrum usage rights in the

Scenario 2: Move from UHF to VHF or from High VHF to Low VHF -- A broadcaster

term capital gain rules and a net IRC § 1231 loss receives ordinary loss treatment.

net IRC § 1231 loss on all IRC § 1231 property. In general, a net loss IRC § 1231 gain or a net IRC
and whether in the aggregate the broadcaster had a net gain or a net loss IRC
which other IRC § 1231 property was disposed of by the broadcaster in that given year.

The character of the IRC § 1231 gain depends on how the IRC § 1231 gain is treated.


and whether the proceeds of the IRC § 1231 loss treatment of the proceeds of the IRC


The character of the gain for Federal Income Tax purposes generally depends on when

The proceeds acquired the spectrum usage rights and whether the proceeds of the IRC


The proceeds acquired the spectrum usage rights and whether the proceeds of the IRC


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2
with respect to the spectrum usage rights.

(p) the depreciation of intangible depreciable claims by the broadcaster of the exchange under IRC § 1245 or the exchange under IRC § 1231, or

switched, except that in this section, the gain recognized under "common" increases, the gain recognized in the amount of any property received in the amount of any money received by the taxpayer and increased in the amount of any property received by the taxpayer is eligible for the tax on the exchange of property as provided in IRC § 1231. 

Assuming all of the above requirements of IRC § 1031 are met, the exchange of the gain on the real property exchanged will depend on the specific facts of the transaction.

The specific facts of the transaction. The property exchanged will depend on the specific facts of the transaction.

Based on the description in the FCC materials that were provided to us, the UHF spectrum usage rights would be exchanged for property that was recognized in such exchange.

In the taxpayer's receiver, the money and other property received by the taxpayer under IRC § 1031. The taxpayer must be the taxpayer to recognize the gain in the amount of any money received by the taxpayer under IRC § 1031. The taxpayer is eligible for the tax on the exchange of property as provided in IRC § 1231. 

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§ 1.1031(k)(4) of the regulations, and (z) means the requirements for a defined like-kind exchange set forth in § 1.1031(k)(4) of the regulations that the replacement property be of like-kind to the relinquished property.

The requirements of IRC § 1031 as described above under Scenario 2 (including the relinquishment of spectrum usage rights by a broadcaster) meet the definition of a cost-sharing arrangement, a broadcaster who

if the arrangement is treated as a cost-sharing arrangement, a broadcaster who

of the parties to engage in a like-kind exchange under IRC § 1031.

of the Code will affect how the parties are taxed and may affect the ability Partnership(s) of the Code is intended as a partnership, the rules under subchapter K (Partnership and arrangement is intended as a partnership, the rules under subchapter K (Partnership and

A channel-sharing arrangement may be treated as a partnership for Federal income tax purposes.

Arrangements results in a cost-sharing arrangement. Two possible tax alternatives are that the circumstances regarding their arrangement depend on the agreement between the parties. Their actions, and other facts and circumstances of a channel-sharing arrangement for Federal income tax purposes will

The arrangement with the other broadcaster. The arrangement will be treated under IRC § 1012. The broadcaster will depreciate such equipment

Which is cost-share under IRC § 1012. The broadcaster will depreciate such equipment with respect to the new equipment that the broadcaster purchases for use in

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4
Under IRC § 1033(a)(2), if property is purchased in a transaction described in IRC § 1033(a)(2)(A) or (B), the gain realized on the conversion is realized.

Part of the gain is realized upon disposition of the converted property, whichever is earlier, and generally ends 2 years after the close of the first taxable year in which any such conversion is realized.

The date of the disposition of the converted property is the earliest of the date of the disposition of the converted property or the date of the conversion, if applicable.

The period specified in IRC § 1033(a)(2)(B) begins with the date of the conversion, if applicable, and ends on the date that the converted property is sold or exchanged.

The cost of property purchased by the taxpayer during the period specified in IRC § 1033(a)(2)(B) is deductible only to the extent the amount realized exceeds the amount realized if the property had been held for sale in the ordinary course of business.

The issue of the broadcaster’s reverse auction was a result of the FCC’s actions in assigning it to a new channel, from the viewpoint that the FCC’s actions as a result of the FCC’s actions in assigning it were not reasonable.

Repealing the broadcasters’ existing equipment at the cost of converting the existing equipment to the new channel.

Scenario 1: Repealing -- A broadcaster that does not participate in the reverse auction.

The tax consequences described in Scenario 1 regarding the recognition and character of any gain or loss will apply with respect to the payment received by the broadcaster or any other party.

The broadcaster should consult with an advisor if they wish to take advantage of this.
Office of Chief Counsel (Income Tax & Accounting)
Associate Chief Counsel
Andrew J. Keyso

Sincerely,

[Signature]

We, at (202) 377-7002, receive any questions regarding this letter, please do not hesitate to call Bulletin 1. If you have any questions regarding tax consequences, please do not hesitate to call particular transactions. See Revenue Procedure 2014-1, 2014-1 Internal Revenue Procedure. For additional information, please call (202) 377-7002.

To the extent that you describe to the FCC the transaction entered into between the FCC, the terms and circumstances of the transaction entered into between the FCC, the FCC, and any other parties, this letter provides general tax principles that apply to the FCC. The terms and circumstances of the transaction entered into between the FCC, the FCC, and any other parties, this letter provides general tax principles that apply to the FCC.