On Quitting WZZM-TV, Grand Rapids

Owner Makes Millions, News Takes A Beating

By Mark Lagerkvist

WZZM-TV in Grand Rapids, Michigan, was once a success story that could warm a newsman's heart. Now, it's a tale of how the station's journalistic soul was sold for a price—Robert Price and his namesake, Price Communications Corporation.

Handicapped since it went on the air in 1962 by a broadcast signal that reaches only two-thirds of the Grand Rapids market, WZZM trailed its competitors for nearly two decades. By 1980, however, Channel 13 had risen to dominance in news ratings and reputation.

"WZZM has a quality news operation that should be the envy of many stations in larger markets," wrote a panel of Associated Press contest judges in 1981. "No one could help but be impressed with the ability of its personnel or the depth of the stories they turn out .... There was an obvious concern for the quality of life for the station's viewers."

Channel 13 won numerous local and national honors, including awards from Investigative Reporters & Editors and United Press International. In fact, UPI named WZZM Michigan's "News Station of the Year" for six consecutive years—1980 through 1985.

"We had the philosophy that to be the number one station, we had to be number one in news," says William Dantuma, WZZM's former business manager. "The commitment to news is what turned the station around."

"We had the best news, but it was investigative reporting that put us over the top," says former general manager George Lyons.

Lyons resigned and Dantuma was fired on the day Price Communications took over WZZM in 1986. A couple of weeks later, I resigned as the station's investigative reporter. Since then, I've witnessed how western Michigan has paid the price.

The entire $62 million purchase of WZZM was a leveraged buyout, almost totally financed with borrowed money. To pay the interest on the debt, Robert Price became "Bob The Ripper." His management team slashed budgets, personnel, salaries and employee benefits.

Investigative reporting is "the type of journalism that I don't want in my company," Price, the company's president, chairman and CEO, said in an interview with Grand Rapids radio station WLAV-FM earlier this year. In keeping with that ideology, he had abruptly killed WZZM's tradition of investigative reports.

WZZM's two-person public affairs department was also axed, along with its weekly show. The station's twice-a-week editorials were carved from the programming schedule. The early morning newscast fell victim to budget cuts.

A veteran news staff quickly lost more than its morale. During the next two years, roughly half of WZZM's on-air personnel either quit or were fired.

The changes led to a turnabout in news ratings. According to the A.C. Nielsen survey for February 1986, WZZM's 6 p.m. newscast led the market with a 28 percent share of the audience, compared with a 25 percent share for WOTV, Channel 8. By May 1988, WOTV's 6 p.m. newscast enjoyed a 33 share while WZZM's share had dwindled to 24 percent. At 11 p.m., the story was the same; WOTV had replaced WZZM as the dominant station.

"It is understandable when new owners come into any recently acquired property and clean house, but the dismantling of WZZM's news organization is not an example of that type of management," stated an editorial last February in *Grand Rapids Business Journal*. "It is an example of all that is wrong with merger mania—an absentee landlord who buys a successful property for the sole purpose of skimming as much profit as possible before unloading the remains."

"Don't call me cheap, call me prudent," Price told *Forbes* magazine in 1985.

Robert M. Price, 56, once worked as an assistant U.S. attorney and as a deputy mayor of New York City under John Lindsay. On Wall Street, he paid his dues as executive vice president of the Dreyfus Corp. and as a general partner at Lazard Freres & Co.

Behind those credentials is an unusual character.

Former assignment editor Jim Riekse recalls a conversation with current WZZM General Manager Jack Mazzie. According to Riekse, Mazzie said, "Bob Price is a wild man. He goes off half-cocked, loses

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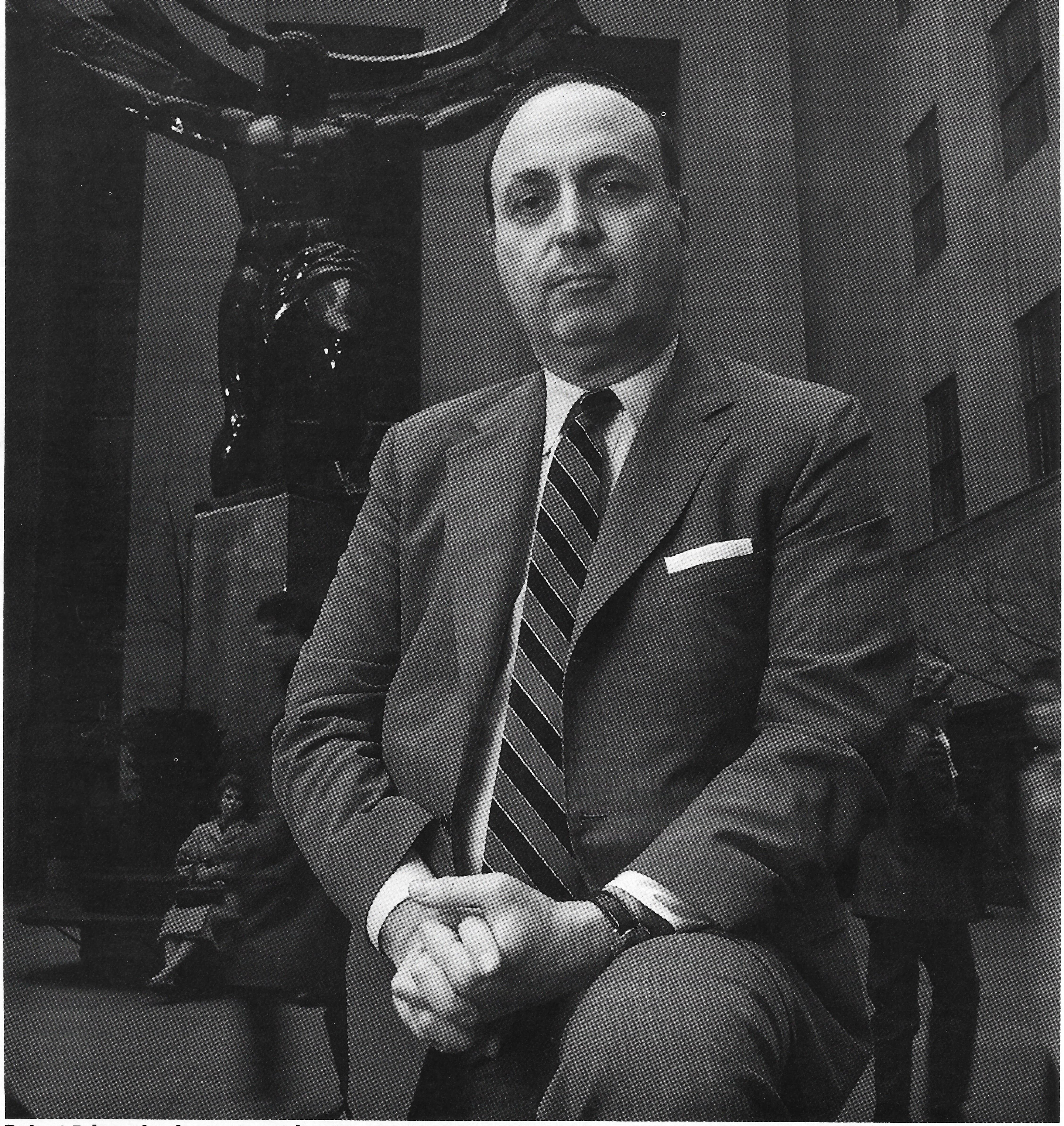

Robert Price: Like its leader, Price Communications Corporation has a style that's lean and mean.

control like a little kid and then goes and stands in the corner wondering to himself why he did it."

Others, such as New York media broker Gary Stevens, have a different perspective on Price. "When he came on the scene, he had a lot of disparaging things to say about professional broadcasters, and I was prepared not to like him," Stevens told *Broadcasting* last April. "But I found him to be one of the most entertaining, humorous, engaging characters I've ever known."

One WZZM reporter threatened to sue Price after she was fired during a round of budget cuts. "Your client is nothing more than a common slut," Price told Jim Stokes, an attorney for the reporter. "Your client will never work in broadcasting again."

The matter was later resolved with Price paying an out-of-court settlement.

During the 1988 presidential primaries, Price struck again. An avid Republican, Price called from New York to inquire about the GOP caucus being held in Grand Rapids. The call came minutes before the station's 11 p.m. newscast.

"I don't care whether you're on the air," he told a reporter. "When I call, you excuse yourself from the audience and take the call."

Price was unhappy with the station's delegate count and threatened to fire the entire news staff. Eleven days later, he fired Riekse and news director Jack Hogan.

Hogan had been the only news director in the station's 25-year history. His voice had been the first ever broadcast by WZZM. Riekse, a 16-year veteran, had once been in charge of the station's award-winning public affairs programming. For their 41 years of service, each received one month's severance pay.

Like its leader, Price Communications Corporation (PCC) has a style that's lean and mean. The firm has dictated strict bottom-line mandates to the 28 broadcast stations it has owned.

In 1982, PCC made its first broadcast purchase: WOWO-AM of Ft. Wayne, Indiana, a venerable 50,000-watt powerhouse. It was the first of 18 radio stations acquired by Price.

To increase cash flow, Price quickly cut the station's budget to the bone. During the next four years, WOWO lost 42 percent of its listeners. Its share of the Ft. Wayne radio audience dropped from a 20.2 percent share to an 11.7 percent share.

Last year, *Forbes* examined the ratings trends of a dozen radio stations then owned by PCC. It found that 11 of the 12 steadily lost ratings points under PCC's management.

But even when the stations lose, Price wins.

Since 1987, PCC has sold 14 radio stations for a gross profit of nearly $100 million in cash and equity. Meanwhile, PCC shifted its focus to television. The company bought seven stations for $91 million, upping its TV holdings to 10.

Price's corporate strategy is clearly stated in documents the company has filed with the SEC. PCC attempts to buy stations with no money down and 100 percent financing. That financing scheme has included $375 million in "junk bonds."

Junk bonds are used to raise money for high-risk business ventures. Because those notes offer limited security, PCC attracts investors with a promise of high interest. Some Price junk bonds have paid as much as 14⅝ percent.

PCC plans to repay the debts by using the stations as corporate cash cows. When budgets are squeezed, extra income is pulled. But there is little long-term commitment to the welfare of the stations.

Robert Price did not respond to repeated interview requests for this article. However, he did not quarrel with the "cash cow" analogy in his interview with WLAV: "That's one of our basic goals. To run it in a highly prudent fashion, maximum economies, use all excess money to repay debt—that's absolutely correct."

To cut costs, PCC plans an exodus of employees from newly acquired stations. "The company has usually been successful in prudently reducing the number of station employees," states PCC's annual report.

Prudence is an ironic description of PCC's financing practices. At the end of 1987, Price Communications owed roughly $400 million in long-term debt. Last year, the interest alone cost $52 million, according to its 10-K annual report filed with the SEC.

In 1987, the company reported a loss of $12 million. During the past six years, it has posted consecutive losses totaling $50 million. PCC disclosed a negative net worth of $105 million as of the end of last year. That's how much the company's debts and liabilities exceeded its assets.

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"The company's goal is to realize media cash flow in excess of the cash interest costs associated with the acquisition from its newly acquired broadcasting properties, commencing in the 12 months following acquisition . . . ." states PCC's report to the SEC.

If the cash cows dry up, Price can put them on the block and sell to the highest bidder.

What Price Communications Corporation is doing is neither new nor unique. Many broadcast and print media properties are purchased with borrowed money. Many run on lean budgets while the debt is being repaid. But before Price, no one attempted to wheel and deal so many stations with so much debt and so little regard for the public trust of broadcasting.

Price's practices were made possible by the FCC's deregulation of the broadcast industry. The three-year minimum ownership rule was dropped. The number of stations a single owner could control was raised. Public affairs programming also fell by the regulatory wayside.

Ironically, Price brags about his corporation's commitment to news.

"We broadcast more local news in all of our markets than our competitors," Price said in last April's issue of *Channels*.

None of the PCC-owned TV stations led their markets in the amount of air time devoted to local news, according to program listings from regional editions of *TV Guide*. In fact, five of the nine Price stations aired considerably less local news than their competitors did.

Another measure of community commitment is the length of time a firm chooses to own its local stations.

Price Communications kept WWAY-TV in Wilmington, North Carolina, for just one year. In May 1987, the company agreed to buy the station for $16 million. In May 1988, Price cut a deal to sell it for $26 million.

Earlier this year, Price also peddled WEEK-TV, in Peoria, Illinois, and KRCG-TV, in Jefferson City, Missouri. In 1985, PCC had paid $26 million for the two stations; the resale price was $57 million.

Price currently owns 11 of the 28 broadcast stations it has purchased. Of the 17 stations sold, 12 were owned by Price for less than three years.

The PCC empire currently consists of seven TV stations: WAPT, Jackson, Mississippi; KSNF, Joplin, Missouri; KJAC, Port Arthur, Texas; KFDX, Wichita Falls, Texas; WSEE, Erie, Pennsylvania; WNAC, Providence, Rhode Island, and WZZM.

Its radio properties include WOWO-AM and WIOE-FM in Ft. Wayne, Indiana, and WPBG-AM and WIRK-FM in West Palm Beach, Florida.

Price has also dabbled in print media properties. The company owns the *National Law Journal* and the *New York Law Journal*. PCC also briefly owned two New Jersey newspapers, the *Register* in Red Bank and the *Ocean County Reporter* in Toms River.

Behind the corporate strategies of Price Communications are the personal ambitions of Robert Price. His annual salary of more than $325,000 is cattle feed compared with his stock incentives.

Price owns 860,000 shares in the company, according to a mid-1987 proxy statement. That's more than 12 percent of the firm's common stock. He also owns 500,000 shares of "junior common stock," which the company allowed him to buy for 25 cents a share.

If the price of PCC stock averages at least $9.18 a share for 180 consecutive days, Bob Price hits the jackpot. His special 25-cent agreement permits him to convert his junior stock into 1.9 million shares of common stock. At that point, his 2.76 million shares would be worth at least $25 million on the American Stock Exchange.

For most of this year, PCC stock has bounced between $7 and $9 a share.

WZZM is a prime example of how public service is lost in Price's pursuit of profits.

Before Price, investigative reporting was a trademark and tradition at the Grand Rapids station. The station's special reports exposed fraud, corruption, consumer rip-offs, government waste and other public concerns.

The subjects of WZZM's investigations were often rich and/or powerful.

Many of them threatened to sue the station; a half dozen actually did. WZZM did not lose any of the suits.

That changed with the new ownership.

In 1983, Wometco Broadcasting Co., a Miami-based family concern, sold WZZM to an investment group, Kohlberg Kravis Roberts & Co., for $43 million. Two years later, KKR agreed to sell the station to Price for $62 million, pending FCC approval.

Several subjects of past WZZM investigative reports challenged the sale. All had refused requests to be interviewed for those reports. Now, they alleged that WZZM had violated the Fairness Doctrine and other FCC rules by not offering equal time to respond.

The challenge had an obvious flaw: The Fairness Doctrine applied to editorials, political forums and non-news programming. But the FCC had repeatedly ruled that the doctrine did not apply to news reports.

Nonetheless, Price and KKR, in confidential settlements, paid off six doctors who, in turn, withdrew their complaints to the FCC.

One payoff went to Dr. Robert Lado, head of Lado & Lado—formerly the largest chiropractic clinic in Michigan.

In May 1985, one of WZZM's investigative reports had alleged that Lado was gouging patients and insurance companies. The story revealed that a routine first visit to Lado cost $700. Patients typically received extensive tests and X-rays, but only four minutes with a chiropractor.

In one case, WZZM reported, the clinic had made a deadly mistake. Lado & Lado somehow overlooked its own X-rays, which showed a patient's lung had a tumor the size of an orange. The clinic never told the patient. Meanwhile, the malignant tumor tripled in size, and by the time the patient was examined by a specialist, the tumor was inoperable. The patient later died of lung cancer.

The evidence in the report included Lado & Lado's own documents plus statements from former employees, patients and expert witnesses. I repeatedly invited Robert Lado to respond to the charges in a videotaped interview. He refused.

One month after the initial five-part series, Lado complained to the FCC, claiming that he had not been offered an opportunity to respond to the charges. On that basis, Lado asked the FCC to stop the sale of WZZM.

PCC and KKR were afraid the complaint would delay their deal; so they offered Lado a settlement. Under the compact, WZZM gave Lado 11 minutes of free program time, 19 minutes of free commercial time, up to $900 to produce those commercials and up to $15,000 for Lado's legal fees.

WZZM also forgave Lado for a past unpaid advertising debt of $7,075.

In return, Lado agreed to drop his petition to the FCC.

Another payoff went to Dr. Grant Born, an osteopath. Jim Riekse, then WZZM's public affairs director, had examined Dr. Born's practices in 1985, particularly his use of chelation therapy. (Chelation is an established treatment for removing lead and other heavy metals from the circulatory system.)

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In violation of federal Food and Drug Administration rules, however, Born was promoting chelation as a cure for arteriosclerosis (hardening of the arteries). Medical experts interviewed by Riekse for the report stated that Born's use of chelation was endangering patients.

Riekse offered Born an interview to respond. He refused. Then, when the station was being sold, he filed a complaint with the FCC.

In a secret settlement, Price Communications and KKR gave Born 40 free minutes of commercial time, up to $2,000 to produce commercials and up to $20,000 for legal fees.

In exchange, Born agreed to drop his petition and keep the settlement confidential.

Price Communications and KKR also gave 10 minutes of WZZM's program time to four Michigan osteopaths who had advocated chelation treatment for arteriosclerosis. In return, complaints from those physicians were withdrawn as well.

The deals were made over the objections of WZZM's management. Through my position at the station, I was unhappily aware of the details.

The investigative reports were intended to warn viewers about the questionable practices of certain local doctors. But suddenly, without any explanation, the station was giving free commercials and program time to those same doctors.

As it turned out, the settlements were unnecessary. In 1985, the FCC ruled that all of the complaints against WZZM were groundless. Although the six doctors had withdrawn their petitions, the FCC had decided to consider the complaints anyway.

The opinion, issued by the FCC's Mass Media Bureau, stated: "These petitions have been withdrawn. We, however, have fully considered the matters set forth in these petitions and conclude that there are no substantial and material questions of fact that would require further inquiry."

Robert Price reached a different conclusion. "I don't care about the merit of those pieces," he told WLAV. "The fact is, to the best of my knowledge, no court or medical review board or investigative authority ever brought charges against the victims, I mean the people featured in those cases, those series. That troubles me as an American, as a lawyer and as a civil libertarian. I don't think we ought to be banging those doctors as independent arbiters of the public good."

WZZM's tradition of tough investigative journalism was killed by a junk-bond tycoon, an absentee owner who rarely saw the station or its programs.

Within a month after Price Communications officially took control of WZZM in January 1986, I quit to join a TV station in Tampa, Florida. My personnel file at WZZM still contains my resignation letter, plus a corporate document stating I left voluntarily and am eligible to be rehired.

Two years later, I started writing about Bob Price and his company. Now he claims that I was dismissed from WZZM.

"He got fired," Price said on WLAV. "He got fired for doing the type of journalism that I don't want in my company .... I'm not so comfortable with that form of journalism."

The people who led WZZM to prominence are long gone. Former general manager George Lyons is now president and general manager of WJBK-TV in Detroit. Ex-news director Jack Hogan is public affairs director at WXMI-TV in Grand Rapids. Former business manager Bill Dantuma pursued business interests outside of broadcasting. Jim Riekse recently lost a bid for a seat in the Michigan legislature.

According to sources close to WZZM, the station is for sale. They say Price listed the station with a broker at an asking price of more than $90 million—about $30 million more than PCC paid in 1986.

The cost is borne by the people of western Michigan. Price's gains are clearly at the expense of a first-class news operation that once served the area without fear or favor. ●