

Digital Radio Discussion of Options

August 29, 2005

Outline

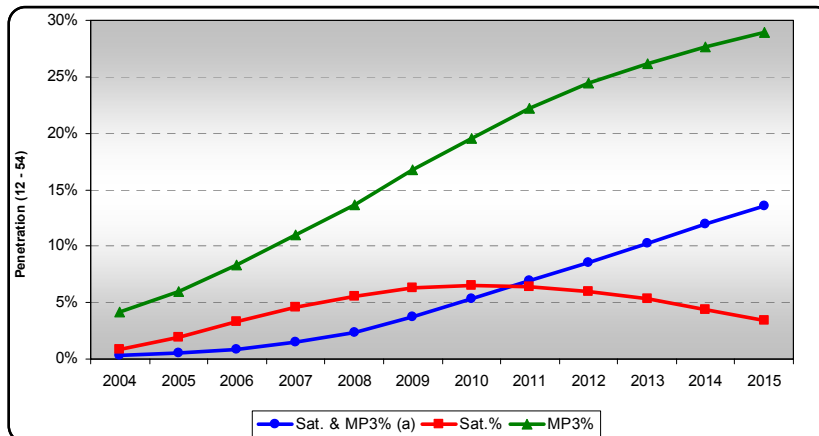
- 1. Current Landscape of Terrestrial Broadcasting**
- 2. Current PR Plan Update**
- 3. Digital Radio: Delivery Issues**
- 4. Digital Radio Subscription Business Model**
- 5. Alternatives**

Outline

1. Current Landscape of Terrestrial Broadcasting
2. Current PR Plan Update
3. Digital Radio: Delivery Issues
4. Digital Radio Subscription Business Model
5. Alternatives

Building Blocks of AQH Forecast

New Media Penetration Forecasts

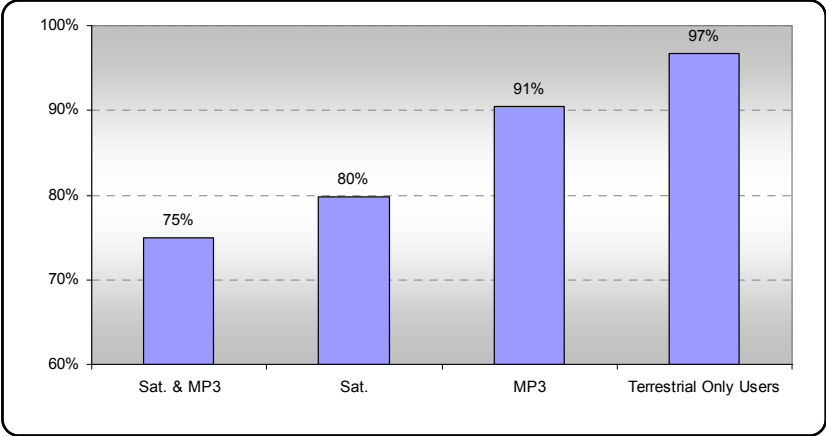


(a) Listeners who use both satellite and MP3 devices or listeners who use devices that have both capabilities

Source: Forrester, Lehman Brothers, and Internal Estimates

Building Blocks of AQH Forecast

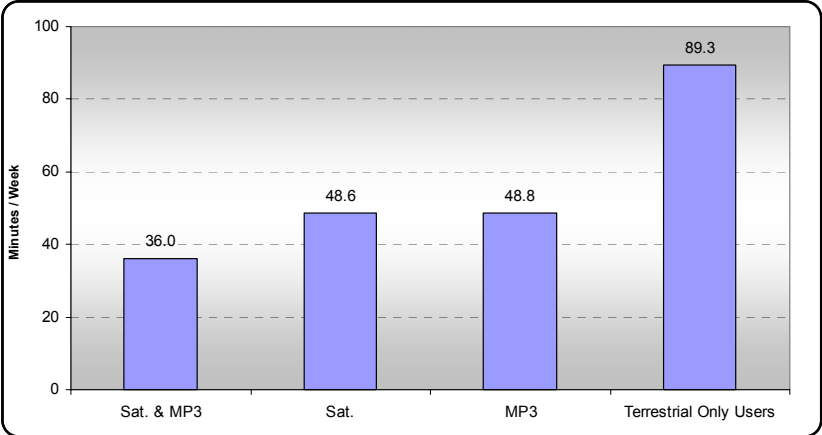
New Media Owner Cumes for Terrestrial Radio Listening



Source: Internal estimates based on 2004 terrestrial radio studies

Building Blocks of AQH Forecast

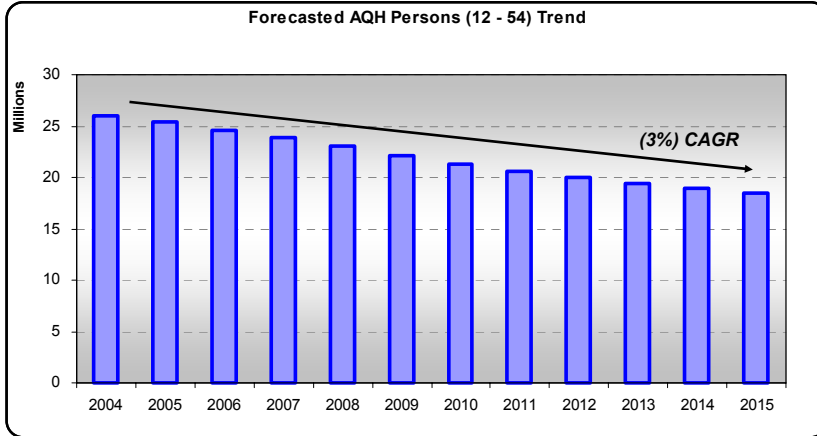
New Media Owner TSL's for Terrestrial Radio Listening



Source: Internal estimates based on 2004 terrestrial radio studies

10 Year AQH Forecast (12-54)

Based on new media penetration forecasts and their impact on terrestrial cume and TSLs, AQH persons would fall 3% CAGR over the period.



Output based on penetration, cume, and TSL assumptions in prior slides

Outline

1. Current Landscape of Terrestrial Broadcasting
2. **Current PR Plan Update**
3. Digital Radio: Delivery Issues
4. Digital Radio Subscription Business Model
5. Alternatives

PR Plan

◆ Business to Consumer Influencer Launch

- Concept: *Viral program places radios in high-profile influencers' hands*
- Event: *Radios are hand delivered to key influencers who are then trained*
- Follow up: *Check in with influencers to solicit feedback*
- Time Line: *Distribution begins upon arrival of radios (Approx. Sept. 15)*

◆ Business to Business Influencer Launch

- Concept: *Unexpected invitation to industry executives and calls from radio CEOs entitle a guest to a ride and an introduction to Digital Radio by an expert and a celebrity.*
- Event: *In-car introduction to Digital Radio and exclusive lunch events in select cities*
- Follow up: *Thank-you letters to guests*
- Time Line: ...

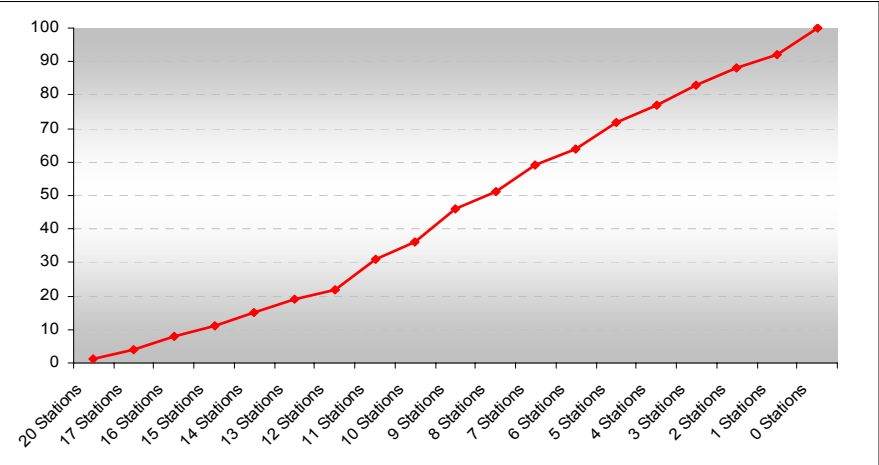
PR Time Line

B to C influencer list compiled	15-Jul
B to C influencer campaign start date	15-Aug
B to B influencer list completed	22-Aug
Budget submitted for approval	1-Sep
B to B influencer lunch dates set	1-Sep
Research from CCCM	9-Sep
DR name chosen	12-Sep
Digital logo design	15-Sep
Radios available for distribution	15-Sep
Dedicated industry website	15-Sep
Press conference Philadelphia Sept. 21 – 23	21-Sep
B to B influencer invitations / phone calls	TBD
B to B influencer lunch date / location NY	TBD
B to B influencer lunch date / location LA	TBD
B to B influencer breakfast date / location SF	TBD
B to B influencer lunch date / location Dallas	TBD
B to B influencer lunch date / location Washington DC	TBD
B to B influencer lunch date / location Detroit	TBD

Outline

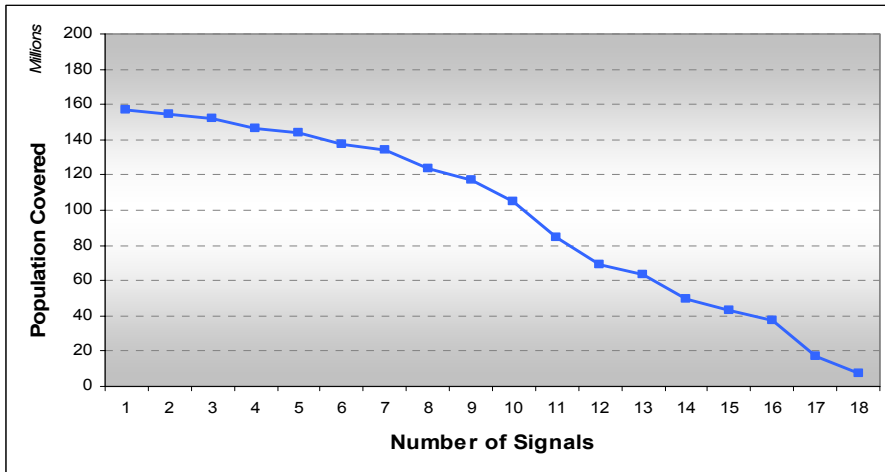
- 1. Current Landscape of Terrestrial Broadcasting
- 2. Current PR Plan Update
- 3. Digital Radio: Delivery Issues**
- 4. Digital Radio Subscription Business Model
- 5. Alternatives

Number of Full Market HD2 Signals in Top 100 Markets



Stations where the predicted 60 dBu contour (also known as the 1 millivolt contour) covered at least 90% of the high density population areas. 60 dBu is the amount of signal that is needed to receive HD2 on a consistent basis. This study used a simple FCC contour and does not account for terrain issues.

Top 100 Market Population Covered by HD2 Signals



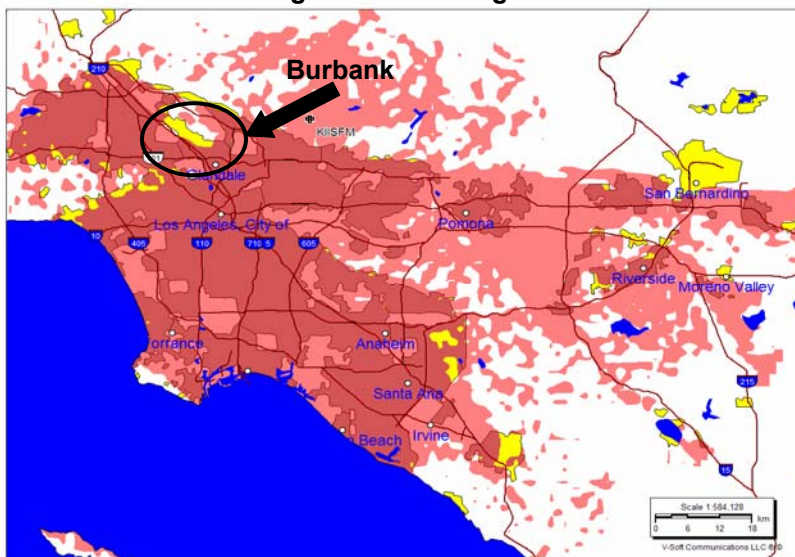
Population refers to total population in the top 100 markets.

Population Coverage in Top 10 Markets

<u>Rank</u>	<u>Market</u>	<u>Total Metro Population</u>	<u>HD2 Coverage</u>	<u>Coverage %</u>
1	New York	18,855,621	12,488,387	66.2%
2	Los Angeles	12,358,310	10,312,336	83.4%
3	Chicago	8,929,177	7,013,994	78.6%
4	San Francisco	6,781,025	4,409,360	65.0%
5	Dallas	5,191,787	4,933,931	95.0%
6	Philadelphia	5,037,735	3,704,799	73.5%
7	Houston	4,752,411	4,569,693	96.2%
8	DC	4,567,180	3,569,187	78.1%
9	Boston	5,066,024	3,415,309	67.4%
10	Detroit	4,598,542	3,535,497	76.9%

Population Coverage refers to the number of people that receive 60dBu or greater and reside inside of a Metro County. This study takes into account terrain issues.

Coverage Holes in Rough Terrain



Dark red areas represent metropolitan areas with 60 dBu or greater signal strength

Light red areas represent non-metropolitan areas with 60 dBu or greater signal strength

Yellow areas represent metropolitan areas with less than 60 dBu signal strength

White areas represent non-metropolitan areas with less than 60 dBu signal strength

Outline

1. Current Landscape of Terrestrial Broadcasting
2. Current PR Plan Update
3. Digital Radio: Delivery Issues
4. **Digital Radio Subscription Business Model**
5. Alternatives

Digital Radio Subscription Business Model

Digital Subscription Service would offer several potential benefits

- At low subscription prices, it could act as the low-cost alternative to satellite
- It could generate revenue from subscription fees
- It could recover some of the more price-sensitive members of the Satellite listener community
- It could offer audio quality superior to terrestrial AND satellite
- It could attract non-radio listeners by offering unique programming

Digital Radio Subscription Business Model

but also some potential detriments

- Cannibalization of current broadcast primary formats
 - More choices, more fragmentation
 - Lower ratings and rank positioning
- Slow adoption due to high cost of receivers
 - Consumer value proposition is not aligned (it's not "free")
- No current carmaker support
 - Not a passive purchase
 - 45% of all radio TSL is in automobiles
- Broadcast versus narrowcast utilization
 - Programming of channels and competitive agreement among industry

Digital Radio Subscription Business Model

Summary Recommendations

We do not believe that a Digital Subscription Service is a viable business model

- The technical footprint for a national service has “holes” and would be limited to about 10 channels.
- Consumers have demonstrated little interest in or willingness to pay for a subscription based service at various price points (demand curve).
- Even at a low subscription price point, given the data and logical consumer behavior, we can assume that someone would not pay \$5 a month for 10 channels when for \$13 they can get hundreds.
- The “cannibalization” effect (digital subscribers mainly coming from the broadcast radio listening group) would likely be greater than the incremental subscription revenue.
- With or without the effects of “cannibalization”, this is not likely to be a profitable business, even over time

Outline

1. Current Landscape of Terrestrial Broadcasting
2. Current PR Plan Update
3. Digital Radio: Delivery Issues
4. Digital Radio Subscription Business Model
- 5. Alternatives**

Digital Radio: Four Partnership Alternatives

1. **Market Forces** (*Let it Run Wild*)
2. **National Partnership** (*Run by CCU / Infinity*)
3. **National Partnership** (*Run by New Entity*)
4. **Local Partnerships**

Alternative 1: Market Forces (*Let it Run Wild*)

Attributes	Comment
◆ Management	◆ Each station / entity manages its own spectrum independently
◆ Funding	◆ Each station / entity funds its own operations
◆ Voting and Profit Sharing	◆ NA
◆ Spectrum	◆ Each station / entity manages its own spectrum
◆ Programming	◆ Each station / entity provides its own programming
◆ Sales	◆ Each station / entity uses its own sales force

Alternative 1: Market Forces (Let it Run Wild)
Pros and Cons

Pros

- ▲ Every owner would have flexibility in usage, formats, inventory
- ▲ May create deeper and ultra “niche” formats for listeners
- ▲ No initiative or cooperation required
- ▲ Likely the quickest way to use spectrum

Cons

- ▼ Overall dilution of existing advertising potential
- ▼ Would not provide a clear and compelling value proposition to consumers
- ▼ Higher overall costs due to duplication of marketing, programming, and other initiatives
- ▼ Negative perception due to industry's inability to create unified effort (vis-à-vis satellite)

Alternative 2: National Partnership (Run by CCU / Infinity)

Attributes		Comment
◆ Management	→	◆ CCU / Infinity to manage the partnership and its assets
◆ Funding	→	◆ Pro-rata (based upon 12+ coverage of spectrum committed) from each partner over the first two years
◆ Voting and Profit Sharing	→	◆ Profits and votes would be based upon 12+ coverage of spectrum committed
◆ Spectrum	→	◆ From each partner with right to pull with 90 days notice
◆ Programming	→	◆ Everyone has a voice on a local market level, including creative local programming as well as nationally produced programs provided to each local market on a menu basis
◆ Sales	→	◆ CCU / Infinity to provide and manage sales staff

Alternative 2: National Partnership (Run by CCU / Infinity)
Pros and Cons



- ▲ Mitigates risk that multicast channels are used for redundant programming
- ▲ Very efficient
- ▲ Agile organization; has ability to move quickly
- ▲ Many programming choices
- ▲ Cost effective (lower marketing and programming costs)



- ▼ Individual station owners have less control of multicast programming
- ▼ Potential perception of "conflict of interests"

Alternative 3: National Partnership (Run by New Entity)

Attributes	Comment
◆ Management	◆ Newly formed entity to manage the partnership and its assets
◆ Funding	◆ Pro-rata (based upon 12+ coverage of spectrum committed) from each partner over the first two years
◆ Voting and Profit Sharing	◆ Profits and votes would be based upon 12+ coverage of spectrum that is committed
◆ Spectrum	◆ From each partner with right to pull with 90 days notice
◆ Programming	◆ All produced / purchased by new entity
◆ Sales	◆ New entity to provide and manage sales staff

Alternative 3: National Partnership (Run by New Entity)
Pros and Cons

Pros

- ▲ Mitigates risk that multicast channels are used for redundant programming
- ▲ Avoidance of “conflict of interests” perceptions
- ▲ Independent entity focused solely on digital multicasting
- ▲ Potential to seek independent financing

Cons

- ▼ Potential for great bureaucracy (slow and political)
- ▼ Start-up risks
- ▼ Individual station owners have less control of multicast programming

Alternative 4: Local Partnerships

Attributes	Comments
◆ Management	◆ Each locality forms a partnership which manages the use of spectrum
◆ Funding	◆ Pro-rata (based upon 12+ coverage of spectrum committed) from each partner over the first two years
◆ Voting and Profit Sharing	◆ Profits and votes would be based upon 12+ coverage of spectrum that is committed
◆ Spectrum	◆ From each partner with right to pull with 90 days notice
◆ Programming	◆ National providers could provide menu of choices in coordination with local markets
◆ Sales	◆ Each local broadcaster responsible for sales

Alternative 4: Local Partnerships

Pros and Cons

Pros

- ▲ Provides local owners with higher degree of flexibility than national partnership
- ▲ Smaller number of broadcasters needed in each locality to reach agreement
- ▲ Potentially quickest way for local broadcasters to act / respond in unison to market conditions

Cons

- ▼ Very difficult to develop a unified industry effort
- ▼ Duplicative costs in each locality
- ▼ Would create disparate value propositions and branding for Digital Radio by market

Action Plans

- 1. Investigate which alternatives that comply with DOJ practices**
- 2. Determine if any alternatives are acceptable to the group**
- 3. Potential in-person meeting on September 8th in Indianapolis at CEDIA, a consumer electronics show for manufacturers and retailers**
- 4. Future updates on CCU / Infinity PR plan**