25th Hour Media

Business Plan

Nick Sehn, Simon Li, Sanjay Krishnamurthy, Adam Zwecker

Executive Summary

Traditional newspapers have experienced a decline in profits in the face of digitalized media and new competitors, led by the new convenience offered to consumers in the ability to choose what media they consume and how they consume it. The fragmentation of news sources, along with the utilization of new internet mediums in audio and video content, has restricted the ability of newspapers to maximize the value of their content. Traditional news organizations still produce high-value, unique content but have struggled to remain relevant with their end consumers.

25th Hour Media provides a solution that helps print and online news organizations capture the audio opportunity through a service that creates high quality, human-narrated audio for text articles published by the content provider. We believe that audio versions of daily news articles is an untapped channel for news organizations to repackage existing content and deliver it in a medium that will attract news users. This opportunity for traditional newspapers is enhanced by the fact that there are over 144 million daily commuters in the U.S. with an average one-way commute time of 24 minutes. News organizations will recognize benefits with new distribution channels, new revenue streams, and increased conversion of paid subscribers – all with little to no impact on existing operations.

The 25th Hour Media team consists of Nick Sehn, Simon Li, Sanjay Krishnamurthy, and Adam Zwecker. The team members possess a spectrum of skills and experiences that make them uniquely qualified to run a technology services company. In addition, through participation in Fuqua's Program for Entrepreneurs, the team has a strong advisor network including Jon Fjeld, Executive Director of Duke's Center for Entrepreneurship and Innovation, and David Samuel, founder of spinner.com and Crackle.

The competitive advantage of 25th Hour Media is the assembly of an on-demand workforce composed of pre-qualified newscasters who can skillfully present the news. The current competition in the text-to-audio market utilizes software technology which generates lower quality audio targeted to long tail publishers. The formation of this newscaster network will provide 25th Hour Media with a resource that is valuable to the end consumers and content providers and difficult to imitate through technology.

Many publishers currently offer both ad-supported content and subscription-only content. As such, 25th Hour Media is analyzing two business models, an ad-based model and a subscription-based model. 25th Hour Media would support the ad-based model by embedding audio ads into its newscasts. This would represent a new revenue stream for the publisher, as advertisers would pay the publisher for the right to advertise in the audio. In addition, there is a growing trend in the online publishing industry moving away from advertising-based revenue models to subscription-based ones. In the subscription-based model, the value provided by 25th Hour Media will directly translate into an improved value proposition for potential paid subscribers, as they will now have the added benefit of listening to content. The increased value proposition leads to additional free users converting to paid subscribers.

25th Hour Media has recently launched a partnership with Duke's student newspaper, The Chronicle, distributing audio versions of high-value Chronicle articles. This proof of concept partnership will establish the processes and systems 25th Hour requires to execute on this vision.

Problem Definition and Solution

Problem Definition

The decline in profits of traditional newspapers in the face of digitalized media and new competitors has been led by the new convenience offered to consumers in the ability to choose what and how they consume media. The content options available to individuals have exploded with the rise of blogs and non-traditional journalism outlets leading to fragmentation of the news consumer. This fragmentation erodes the client base of most traditional newspapers as consumers become more comfortable receiving their news from niche sources. In many cases, these niche blogs and other news sources are a more timely and trusted outlet of news, despite their often slanted biases.

In addition, there has been a fragmentation in the medium in which individuals consume their news. Traditionally, news organizations have been dedicated to one distribution channel for delivering their content – NY Times printed newspapers, ABC broadcasted on TV, and NRP stuck to the radio. In the age of the Internet, this is obviously no longer the case. In addition to website development, individuals now have choices of audio and video that do not require their radios and TVs. Most news organizations have tried, somewhat unsuccessfully, to expand their presence across multiple channels in order to maintain engagement with their consumers. Examples of this include audio podcasts of the day's top stories, posting comments and thoughts from individuals, and creating mobile versions of their websites.

Compounding these fragmentation problems, news organizations are severely resource constrained, with the main focus of resources on the development of news content. As such, they often lack the necessary infrastructure and personnel to develop innovative services to take advantage of the news conversation occurring on the Internet. This prevents news organizations from establishing a multiple channel distribution model that attracts additional users and increases user engagement, both supporting the economics of creating the news content.

On a positive note, the consumer demand for news content remains very strong. While consumers may not go to one traditional source to receive their news, they are often combining different content providers and mediums to stay informed. With the rise of services like Facebook and Twitter, individuals often strive to be the first to know a breaking story and post it to their social network.

The challenge for news organizations is to remain relevant with their consumers. Therefore, content providers must 1) continue to create content that engages the user and 2) distribute that content where the user goes to obtain news. At the foundation, this implies the news content must be available across all distribution channels in order to retain their existing users who are adopting new technologies and grow the base of users who expect instant access to all their news. No longer is simply having a website sufficient; news organizations and other content providers must embrace the mediums and platforms used by consumers to obtain information.

Solution

We believe that audio versions of daily news articles is an untapped channel for news organizations to repackage existing content and deliver it in a medium that will attract news users. Audio, while considered a traditional medium for news, is a platform where many newspapers do not have a strong presence. Some news organizations produce daily podcasts that simply republish the top stories of the day. However, this method is both not timely to the consumer and does not allow for personalization of the audio experience. In addition, discovered in a conversation with San Jose Mercury News, papers have tried to produce audio versions of each story, relying on the original author to create the audio.

This often fails due to the resource constraints of the authors and lack of necessary support systems to create a high quality product.

The audio opportunity for traditional newspapers is enhanced by the fact that there are over 144 million daily commuters in the U.S. with an average one-way commute time of 24 minutes. The available news in the car is dominated by radio stations like NPR and satellite radio services. This leaves the user with few choices for news content, which in turn results in the user often listening to music. When these same users arrive to work, they often spend a significant amount of time online visiting traditional news sites like Wall Street Journal and ESPN.

The 25th Hour Media solution helps print and online news organizations capture the audio opportunity through a service that creates high quality, human-narrated audio for text articles published by the content provider. Our service is targeted to the high value content that is the main reason users visit the publisher's website. The content is then distributed as streaming audio to any internet-enabled device, such as a computer, iPhone, or Blackberry. This solution provides content providers with a mobile offering that allows their readers to consume news during their daily drive to work.

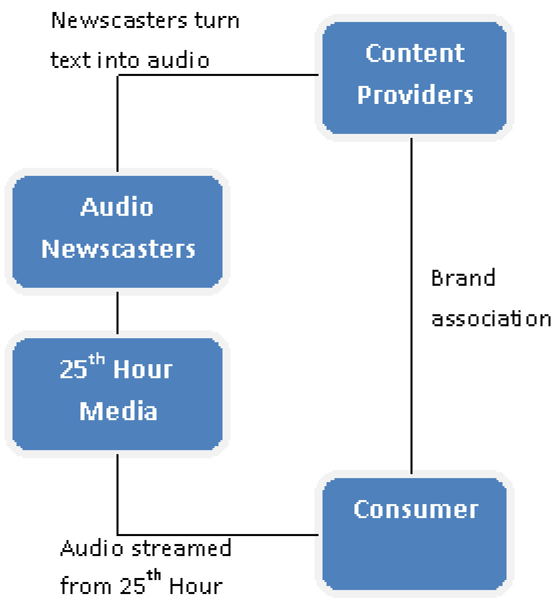
Content providers will recognize the following benefits from our service:

- New distribution channels – the audio version of their existing content provides access to new customers and helps the content provider stay relevant with its current user base.
- Little to no impact on existing operations – our service is a turnkey solution for content providers, which can be implemented with very little work on their part. It simply takes the existing content published online and creates high quality audio from it.
- New revenue streams – discussed in the business model section, the audio versions can be monetized using in-audio advertising which would be shared between the content providers and 25th Hour Media based on a percentage of revenue. This provides a new method of revenue for traditional newspapers that have seen large decreases in financial strength.
- Convert users to premium subscriptions – for content providers that offer premium content, the audio version can be used as a feature to help drive conversions to a paid subscription.

Our solution requires interaction and coordination between four stakeholders: content providers, audio newscasters, 25th Hour Media, and consumers. Content providers must allow 25th Hour Media to distribute their content in audio format. They do not need to modify the way they create their content in any way. When the content provider posts new content, the workflow management system at 25th Hour Media will automatically assign a pre-certified audio newscaster to convert the text to audio.

There must be a sufficiently large collection of audio newscasters in order to perform tasks allocated by 25th Hour Media in a timely fashion. A network of contractors that function as audio newscaster will be created by 25th Hour Media and compensated for their work.

Finally, the audio content will be streamed to the consumer's mobile device through either a widget on the content provider's website that links back to an audio file hosted on www.25thhourmedia.com or a 25th Hour Media mobile application. Using the content providers' websites directly will create awareness more quickly since our customers currently visit those websites. Additionally, this strategy creates a barrier to entry for our competitors since a content provider is unlikely to allow two different "listen" widgets on their sites. For these reasons, we will initially use widgets to deliver our content. When a certain level of customer awareness has been reached, however, a mobile application will provide greater personalization potential. The 25th Hour Media mobile application will enable the user to create customized playlists from multiple content providers, allowing for a hands-free experience and no downtime between audio clips.



Proof of Concept

On March 15, 2010, The Chronicle (www.dukechronicle.com) was launched as the first content provider, serving audio created by 25th Hour Media. At the current rate, 5-7 articles are delivered as audio via the website and available for streaming on an iPhone or Blackberry. We are currently focusing on the highest value articles as determined by the Chronicle's web analytics. This consists of the main news story for the day and editorial columns. Through this proof of concept, we expect to gain further information about actual consumer demand and how/when the consumers use the service. In addition, the proof of concept will give us insights into the operational aspects of building a network of audio newscasters and creating the daily audio articles.

Initial feedback from the Chronicle staff, writers, and consumers has all been very positive. Quotes from users via a feedback survey state "can't believe you didn't start this years ago. Fabulous" and "I listen to all the articles of the day while at work." We expect this proof of concept to continue throughout the remainder of the school year.

Market Opportunity

Within the news industry, the different markets are defined by three attributes of the news organization – size in terms of readership, type of organization, and the level of adoption for new media and business models. Applying these attributes generates three different segments based on the Technology Adoption Lifecycle – innovators, early adopters, and the majority.

- Innovators: These news organizations are typically personal blogs, small blog networks, and niche independent papers. While the growth in terms of readership is growing rapidly for the segment overall, there is little financial incentive to service these content providers. In addition, they sometimes already have an audio provider, typically using a low cost text-to-speech software technology. The growth of this segment is driven by the paradigm shift of users becoming comfortable with obtaining news and information from these services and the rise of some small-scale brands. Examples include www.avc.com, www.sixapart.com

- Early Adopters: This segment is composed of large blogs or blog networks and local, independent traditional newspapers. The growth of this segment is somewhat mixed as the blogs have typically seen larger increases in readership over the years. The growth of the blogs is driven by the establishment of the blogs' brands as trusted news sources for information about specific industries. In addition, the growth of the local papers has been driven by a local movement. The financial opportunity in this segment is significantly higher than the innovators as these types of content providers have steady, revenue producing customers and premium content. Examples include www.techcrunch.com, www.huffingtonpost.com, www.lasvegassun.com
- Majority: This segment is defined by large, national newspapers with larger readerships and somewhat bureaucratic organizations. These papers represent a large financial opportunity but are discounted because of a complicated sales process. They still maintain a powerful position in the industry as a one-stop provider of news. Examples include www.nytimes.com, www.wsj.com

The market that we have chosen to attack first is the early adopter segment. These news organizations have a large enough reader base that is stable over time to justify the economics of 25th Hour Media creating audio. The content produced by these news organizations more often provides an editorial or opinion view. In the experiences of 25th Hour Media, opinion articles, as opposed to fact-based articles, typically attract a larger percentage of users wanting to listen. In addition, these organizations are typically willing to try new methods of engaging their customers in their quest to increase readership. Some of these organizations also provide premium subscription content and are looking for ways to increase the conversion of users from free to paid services. They are often looking for incremental revenue sources, especially ones that do not require large commitments of personnel or financial resources. Finally, the reader base of these content providers are often interested in consuming media via new mediums such as audio, video, and mobile. As such, these users would be proper initial end consumers for the 25th Hour Media service.

The main risk of working with the early adopters is the lack of willingness to pay for an audio service. However, because many of these content providers produce niche content, a revenue share model might be applicable. Advertisers are typically attracted to the targeted nature of the content and therefore are willing to pay a premium price for the service.

Industry Analysis

The industry in which 25th Hour Media operates is audio news services. This includes radio news, such as NPR, satellite programming, podcasts, and audio magazines. The main barrier to entry is the availability of premium content. Because many traditional newspapers and large blogs do not currently offer audio editions of their content, with the exception of small-scale podcast efforts, we believe there are many premium content providers with whom we can establish strong relationships.

Competitor Analysis

Competitor	Strengths	Weaknesses	Opportunities	Threats
Radio	Ubiquitous, strong brands (e.g. NPR), available on mobile devices	No personalization, expensive for newspapers to distribute content	Partnerships with traditional newspapers	Personalized radio through Internet
BuzzVoice.com	Low cost, scalable model with text-to-speech technology. Long tail content, personalization	Limited premium content, no traditional newspapers, low quality	Growth of non-traditional news sources, recommendation engine	High quality service, difficult to monetize with only long tail content
Audible.com	Premium content, high quality, mobile solution, monetization	Higher cost structure, timeliness of available content	Produce on-demand content	Text-to-speech technology
Talking Issues	Strong branded content (The Economist), high quality, monetization	Limited content, no economies of scale	Extend content to other magazine offerings	Text-to-speech technology, lower cost human-reader networks

Additional Competitor Details

BuzzVoice is a strong competitor because it has a significant cost advantage over 25th Hour Media with its text-to-speech technology. BuzzVoice has the ability to add content providers without incurring marginal costs of audio production. However, in our analysis, BuzzVoice does not appear to have secured relationships with traditional newspapers. Their inventory of content providers is primarily comprised of blogs. In addition, in testing their service, it was determined that they do not try to establish a relationship with publishers before offering their content as audio. They simply take the content that is available as a RSS feed, which in most cases for traditional news sources is not the full article text. As such, we believe by positioning 25th Hour Media as high quality audio targeted to high-value content, there will be minimal competitive response from BuzzVoice. Long term, we believe there might be valuable synergies by combining the long tail approach of BuzzVoice with the high-quality focus of 25th Hour Media into a full audio solution.

Audible uses a similar model as 25th Hour Media, producing audio with human narrators. However, as their main focus is on long form journalism such as books and magazines, we do not believe they have the necessary infrastructure and systems to produce audio for online newspapers that require a fast turnaround. We believe 25th Hour Media will be able to develop a large network of amateur but high-quality narrators that can efficiently create audio in a timely fashion necessary for consumers on Internet-enabled devices.

The presence of both of these competitors, along with Talking Issues, in part verifies the consumer demand for audio news services. We believe 25th Hour Media can occupy a value segment between the long tail focus of BuzzVoice and the long format journalism strategy of Audible.

Team

The 25th Hour Media team consists of Nick Sehn, Simon Li, Sanjay Krishnamurthy, and Adam Zwecker. The four team members possess a spectrum of skills and experiences that make them uniquely qualified to run a technology services company like 25th Hour Media which will have extensive interaction with publishers and advertisers.

To succeed in technology services, the team needs technical expertise and experience in engineering. Nick Sehn, Simon Li, and Sanjay Krishnamurthy all have degrees in electrical engineering and/or computer science. They also have a combined 22 years of work experience in the technology industry, in segments such as online advertising, defense, and software.

Aside from being able to understand and maneuver the technical aspects of the industry, all four members are currently students at Duke University's Fuqua School of Business, giving them the business fundamentals to develop a workable business model for monetizing the service and providing value to the customer. Advertising is a business model that will be explored in detail for monetizing the service. Nick Sehn has worked for 3 years at Turn, Inc, an online advertising startup. His insight and connections in the online advertising space will be crucial in developing the business.

Finally, the company will need legal expertise in order to address the intellectual property and copyright issues associated with the business. Adam Zwecker is also currently enrolled in the Duke Law School, and he will be able to direct the legal actions of the company in its nascent stages.

All four members of the team are committed to 25th Hour Media, and their common motivation is to create a viable business that will generate profit for the team, increase distribution and revenues for the publisher, and improve the content consumption experience for the end users. Currently, the team members do not have specifically designated roles.

25th Hour Media does not have a formal advisory board, but it does receive weekly feedback through its participation in The Fuqua School of Business's Program for Entrepreneurs. The Program for Entrepreneurs (P4E) connects students with academic faculty and entrepreneurs in order to help them define, plan, establish, and finance new ventures. 25th Hour Media's P4E advisors are Jon Fjeld, Executive Director of Duke's Center for Entrepreneurship and Innovation, and David Samuel, founder of spinner.com, Crackle, and Freestyle Capital. The advisors provide plenty of advice on the direction of the company, and they are an invaluable source of industry contacts.

Business Model

Before the business model is explored in detail, a brief recap of the implementation and operations is provided. 25th Hour Media allows end users to consume content from their publisher of choice when there exists no suitable substitute. If an end user is on his commute and wants to consume a Wall Street Journal editorial, there is no station on the radio or podcast he can download that can substitute for the content he is looking for. 25th Hour Media fulfills this need by providing high-quality, human-narrated streaming audio that is easily accessible on mobile devices such as iPhones or Blackberries. Initially, users can listen to the audio by going to their favorite news sites and simply clicking on a "listen" widget button (much like the Facebook or Twitter buttons currently available) at the top of the article. Unlike podcasts, which require users to download them beforehand, streaming audio is a true on-demand capability for mobile broadband devices. Also, by distributing the audio content through the established publishers, it becomes far easier to create customer awareness, and a partnership with a publisher creates a high barrier to entry for others to establish similar relationships with the publisher.

The audio is produced by an on-demand workforce that 25th Hour Media will build. Pure crowdsourcing was explored as a possible way to power the network, but it quickly became apparent that the quality control costs would be prohibitive if total strangers were used as the newscasters. Instead, the new model calls for assembling a collection of pre-qualified newscasters. This requires some initial search costs, but these costs pale in comparison to the quality control costs associated with crowdsourcing. 25th Hour Media is exploring a partnership with the UNC School of Journalism that would allow access to qualified newscasters who have an interest in being the voices of the service. At the same time, 25th Hour Media is running a proof-of-concept with The Chronicle, Duke's widely-read student newspaper. This test can be used as a vehicle through which 25th Hour Media can recruit Duke students who want to have the exposure of being a newscaster. The workforce is non-trivial for competitors to duplicate (and will be a major source of our competitive advantage), and signing up certain publishers quickly will provide a first mover advantage, as any copycats will have to deal with the publishers that are less interested in audio services.

A human-powered workforce begs the question of scalability. Clearly, it is not as scalable as our competitors' software-generated audio solution. However, 25th Hour Media's goal is to target a few high-volume, high-value publishers as opposed to many, low-volume publishers. This way, each audio recording will have the greatest exposure and provide the most possible value. The initial workforce that 25th Hour Media assembles should be sufficiently large to serve the initial handful of publishers being pursued.

Before constructing a business model, the current content publishing/consumption ecosystem (and all the stakeholders involved) must first be defined and understood. As shown in Exhibit 1, there are two variations of the current content publishing/consumption ecosystem: the ad-based model and the subscription-based model.

In the ad-based model, the content provider or publisher (these terms will be used interchangeably) provides value to the end user through the information contained in its original content. The end user does not pay the publisher directly. Instead, the end user "pays" for the value-adding information by agreeing to be exposed to advertising provided by the publisher's partner advertisers. The advertiser pays the publisher, either as flat rate or a performance-driven payment model, for the right to access the publisher's consumers. In essence, all the value created in this ecosystem is divided between the end user, the advertiser, and the publisher.

In the subscription-based model, the transaction between the publisher and the end user is more direct. The publisher provides the end user with value-adding content, and the end user pays the publisher directly through a subscription fee. In this model, the value that is created is only divided between two stakeholders. Most publishers use a combination of the ad-based and subscription-based models.

In both models, the publisher is the stakeholder primarily responsible for creating the value. In order to increase profits, it must either claim a larger piece of the value pie or grow the total size of the pie. 25th Hour Media aims to help publishers grow the size of the pie.

As shown in Exhibit 2, 25th Hour Media can grow the value pie by enabling new distribution channels. The figure is meant to show only the new distribution channels, not any of the existing channels. In each case, 25th Hour Media addresses an under-served segment of end users (those who cannot consume text content) and increases the consumption of the publisher's content. However, considering the power of the publisher in the ecosystem and the fact that all of 25th Hour Media's revenues will come directly from publishers, 25th Hour Media considers the publisher as its target customer. In the following paragraphs, the business model for both the ad-based and subscription-based ecosystems will be discussed in detail.

Ad-based Model

The online advertising model is a game of numbers. Revenues are generated through high volumes of ads. A 2008 American Community Survey indicated that the average American commute was 48 total minutes per day. When expressed as a proportion of the total number of hours per day that a person may be receptive to advertising, this is a non-trivial number. Online advertisers are essentially forfeiting 48 minutes per day, and given the volume-based nature of their industry, this represents a major area for improvement.

25th Hour Media would support the ad-based model by embedding audio ads into its newscasts. This would represent a new revenue stream for the publisher, as advertisers would pay the publisher for the right to advertise in the audio. This additional revenue stream will be large enough such that revenues can be split between 25th Hour Media (covering its operating costs and providing a profit) and the publisher (translating into additional profit with little or no marginal cost). The publisher's existing, well-established advertiser relationships would be leveraged in attracting audio advertisers.

One potential hurdle could be the possible cannibalization of display advertising on a website. This argument assumes that the total amount of time spent consuming a publisher's content is fixed, so that if part of the time is spent consuming audio content, then the impact on text consumption will be equal and opposite. However, it is more likely that the availability of more distribution channels will simply increase the total amount of content consumed. In other words, the ad revenue pie will grow, as opposed to a case where the pie stays the same size and the revenues are simply distributed differently. Because of this expected phenomenon, 25th Hour Media expects to capture a 35% share of the total amount that audio advertisers pay publishers for the right to advertise. 25th Hour Media will be paid as ad revenues from audio advertisers are collected by the publishers.

Subscription-based Model

25th Hour Media is even more viable as part of a subscription-based model. There is a growing trend in the online publishing industry moving away from advertising-based revenue models to subscription-based ones. End users are becoming less responsive to online advertising, and publishers are looking to build a tighter financial relationship with their consumers. At the same time, the subscription model has inherent advantages, such as higher probability of recurring revenue and more stability.

Many publishers currently offer both ad-supported content and subscription-only content. Examples include The Wall Street Journal, ESPN, and GigaOm. All of these publishers offer their highest value, premium content through paid subscriptions. If there are end users who would be willing to pay the publisher directly in exchange for content, then why should advertisers take a share of the revenues? All three of these publishers, and many more like them, are exploring ways to convert their much larger base of ad-supported consumers into paid subscription consumers. 25th Hour Media can have a major impact on their conversion efforts by significantly improving publishers' value propositions to potential subscribers through the addition of new distribution channel.

There are two alternatives that publishers can use to deliver this added value to their end users, other than 25th Hour Media. The first is to have their columnists read the articles themselves. The second is to use computer software, e.g. BuzzVoice, to deliver audio content. The first alternative is infeasible because of the already limited resources of newspapers and because 25th Hour Media has a cost structure that will allow us to produce the audio at a lower marginal cost than the publishers themselves can manage.

25th Hour Media also has a competitive advantage over software-based audio services such as BuzzVoice because of the nature of the content that publishers would be providing to paid subscribers. Since paid content is generally high-value, premium content, publishers will be hesitant to pair it with commoditized, computer-generated audio. Instead, they will demand the high-quality audio experience that only 25th Hour Media can provide. In a survey of 313 individuals conducted by 25th Hour Media in November 2009, a statistically significant percentage of respondents preferred listening to a human-narrated news clip over a software-generated one.

In the subscription-based model, the value provided by 25th Hour Media will directly translate into an improved value proposition for potential paid subscribers, as they will now have the added benefit of being able to consume content when reading text is not feasible. The increased value proposition leads to additional free users converting to paid subscribers. The additional revenue generated by the publisher as a result of this shift represents the incremental revenue pie created by the partnership. A portion of these revenues will be shared with 25th Hour Media, covering operating expenses and generating a profit, and the rest will represent pure additional profit for the publisher. It will be difficult to identify the new subscribers who were swayed by the audio capability and those who were not. As a result, a new fixed price contract will be negotiated between 25th Hour Media and the publisher at the start of each quarter which captures the additional revenue from subscriptions that the publisher is forecasted to make as a result of the audio capability. Because any portion of the additional value created that is retained by the publisher will count as pure profit, 25th Hour Media should be able to capture over 50% of the value created.

Eventually, 25th Hour Media will build up enough user awareness and enlist enough publisher partnerships to launch an app for mobile devices. The application will give end users the added benefit of customized playlist creation, further simplifying access to content. At the same time, regardless of which revenue model the publisher uses, the revenue flow will stay unchanged as some audio will require a subscription password while others will have embedded advertising.

Finances

25th Hour Media's business will be entirely hosted in the cloud, its workforce will overwhelmingly consist of students earning hourly wages, and an office is not necessary (at least initially). As such, there will be minimal capital expenditures, low labor costs, and no rent expenses.

The revenue figures presented in the financial data is primarily based on three types of customers (publishers): small, medium, and large. An example of a small customer is GigaOm Pro, which we estimate has 10,000 subscribers, averaging $129/year per subscription. A medium customer is ESPN Insider, with 145,000 subscribers, averaging $45/year per subscription. A large customer is The Wall Street Journal, with 1,200,000 subscribers, averaging $103/year per subscription. As a point of reference, a 2% increase in the number of subscribers for these publishers represent a $25,000, $130,000, and $2,500,000 increase in revenue per year, respectively. All the financial projections presented are based upon a subscription model.

If 25th Hour Media increases subscriptions for these publishers, the additional revenues represent almost pure profit, as there is essentially no marginal cost for the publisher (since the content is already being created). As a result, 25th Hour Media will be able to capture a large percentage of these revenues. 25th Hour Media will target a handful of small, medium, and large publishers in its first few years, and the expected, worst-case, and best-case scenarios are presented in the Appendix in Exhibits 3 - 5. For simplicity, all payments are assumed to be in cash. Also, losses in the first year are carried forward, and the corporate tax rate is 40%.

In all three scenarios, the initial equity is $25,000, which is equal to the total cash that the founders can invest in the company. For the expected scenario, the balance sheet shows that an injection of $10,000 of cash in year 1 is necessary in order to keep the company from taking on debt. 25th Hour Media is hesitant to take on debt because of the very real possibility of going bankrupt. Not owning any liquid assets, 25th Hour Media would be subject to a very high interest rate on any debt that it takes on.

In valuing the company, four public-traded newspaper companies were used as comparables: Gannett, McClatchy, E.W. Scripps, and Media General. Unlevering their equity returns and averaging the resulting returns on assets yielded a return on assets of 11.21%, which is also the weighted average cost of capital for 25th Hour Media since it will be an all-equity firm. The firm's projected net income follows the expected scenario's income statement for the first 5 years and is expected to grow to $3.9M by year 8, at which point it grows at a rate of 5% per year. Discounting these free cash flows of the firm by the weighted average cost of capital yields a present company value of $31.9 million.

Appendix

Exhibit 1. Current ecosystems.

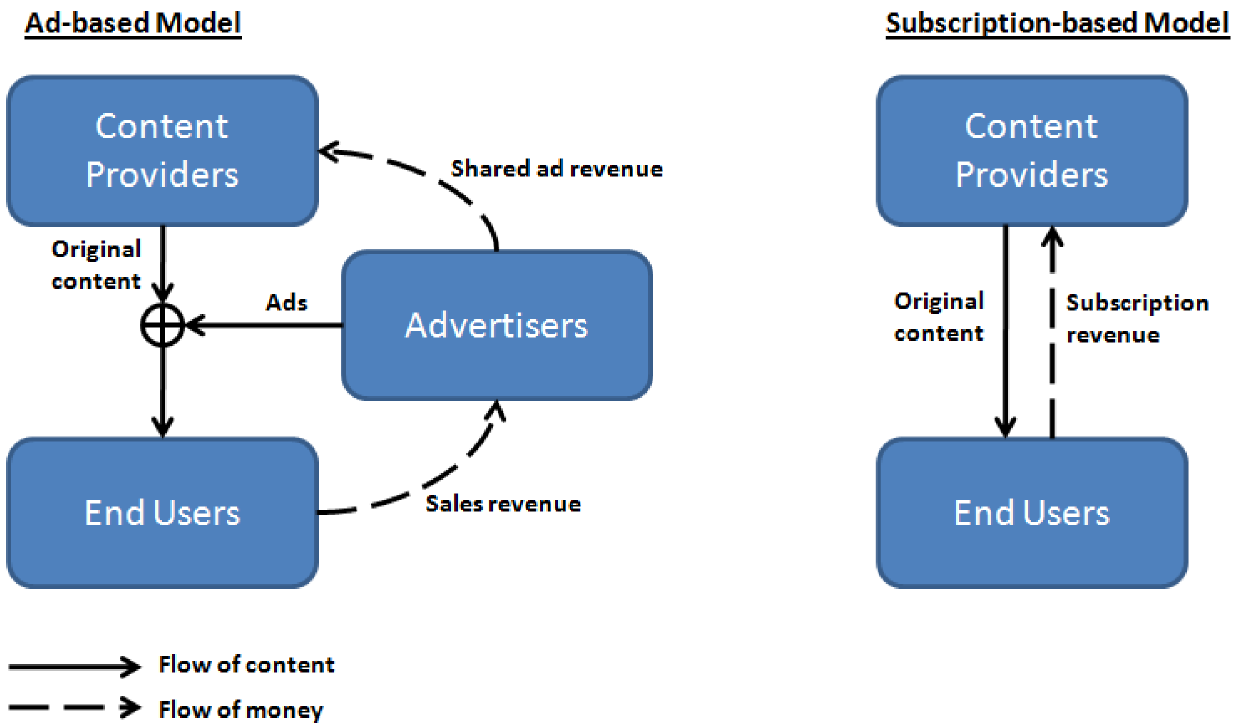


Exhibit 2. New ecosystems enabled by 25th Hour Media.

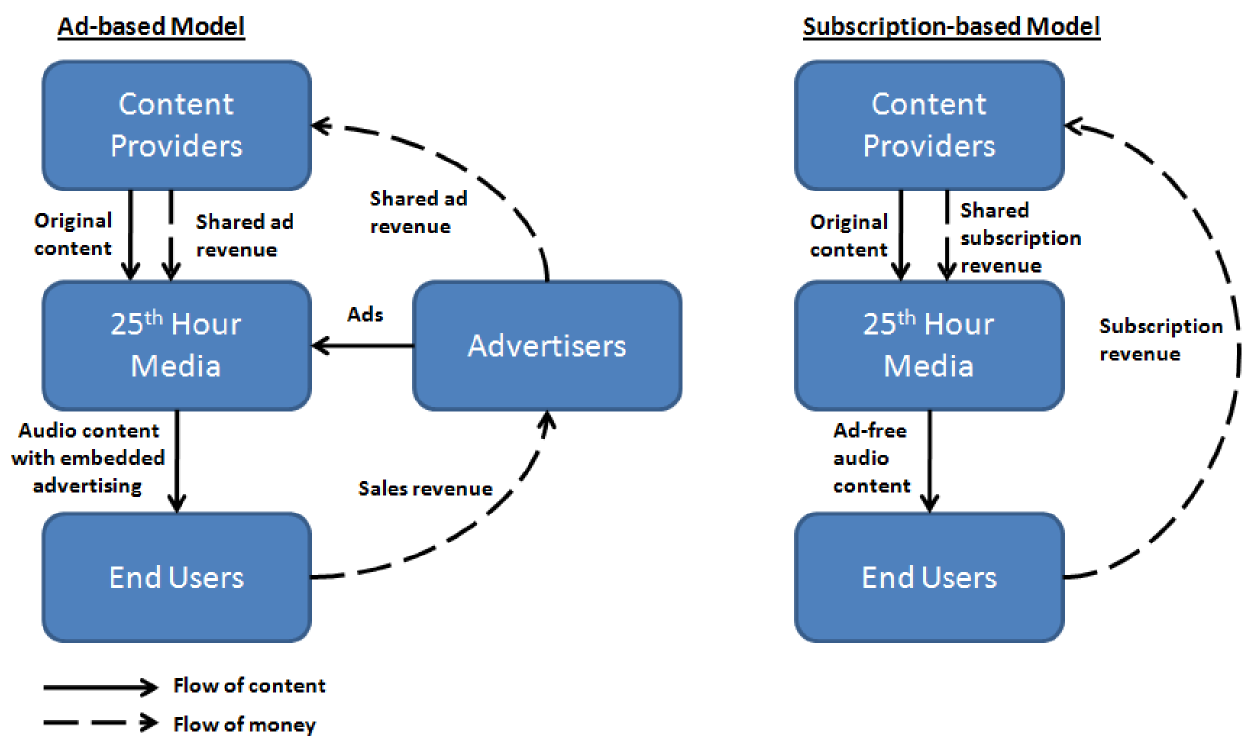


Exhibit 3. Expected scenario financial statements

Income Statement	**Year**				
in 000s	**1**	**2**	**3**	**4**	**5**
Revenue	$20.00	$140.00	$400.00	$800.00	$1,500.00
Cost of Revenue	$20.00	$40.00	$60.00	$75.00	$100.00
Gross Profit	$0.00	$100.00	$340.00	$725.00	$1,400.00
SG&A	$10.00	$30.00	$75.00	$120.00	$240.00
R&D	$20.00	$30.00	$80.00	$100.00	$120.00
Depreciation	$0.00	$0.00	$0.00	$0.00	$0.00
Other Expenses	$5.00	$6.00	$20.00	$30.00	$40.00
Total Operating Expense	$35.00	$66.00	$175.00	$250.00	$400.00
Operating Income	($35.00)	$34.00	$165.00	$475.00	$1,000.00
Taxes	$0.00	$0.00	$65.60	$190.00	$400.00
Net Income	($35.00)	$34.00	$99.40	$285.00	$600.00

Statement of Cash Flows	**Year**				
	1	**2**	**3**	**4**	**5**
Net Income	($35.00)	$34.00	$99.40	$285.00	$600.00
Depreciation	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Operating Activities	($35.00)	$34.00	$99.40	$285.00	$600.00
Capital Expenditures	$0.00	$0.00	$0.00	$0.00	$0.00
Other Investment Cash Flows	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Investing Activities	$0.00	$0.00	$0.00	$0.00	$0.00
Issuance (Retirement) of Stock, Net	$0.00	$0.00	$0.00	$0.00	$0.00
Issuance (Retirement) of Debt, Net	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Financing Activities	$0.00	$0.00	$0.00	$0.00	$0.00
Net Change in Cash	($35.00)	$34.00	$99.40	$285.00	$600.00

Balance Sheet	**Year**					
in 000s	**0**	**1**	**2**	**3**	**4**	**5**
Cash	$25.00	($10.00)	$24.00	$123.40	$408.40	$1,008.40
Receivables	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other Assets	$0.00					
Total Current Assets	$25.00	($10.00)	$24.00	$123.40	$408.40	$1,008.40
Long Term Assets	$0.00					
Total Assets	$25.00	($10.00)	$24.00	$123.40	$408.40	$1,008.40
Payables	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Debt	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Retained Earnings	$25.00	($10.00)	$24.00	$123.40	$408.40	$1,008.40
Stock	$0.00					
Total Equity	$25.00	($10.00)	$24.00	$123.40	$408.40	$1,008.40

Exhibit 4. Worst-case scenario financial statements

Income Statement	**Year**				
in 000s	**1**	**2**	**3**	**4**	**5**
Revenue	$20.00	$50.00	$50.00	$50.00	$50.00
Cost of Revenue	$20.00	$30.00	$30.00	$30.00	$30.00
Gross Profit	$0.00	$20.00	$20.00	$20.00	$20.00
SG&A	$10.00	$30.00	$30.00	$30.00	$30.00
R&D	$20.00	$30.00	$30.00	$30.00	$30.00
Depreciation	$0.00	$0.00	$0.00	$0.00	$0.00
Other Expenses	$5.00	$6.00	$6.00	$6.00	$6.00
Total Operating Expense	$35.00	$66.00	$66.00	$66.00	$66.00
Operating Income	($35.00)	($46.00)	($46.00)	($46.00)	($46.00)
Taxes	$0.00	$0.00	$0.00	$0.00	$0.00
Net Income	($35.00)	($46.00)	($46.00)	($46.00)	($46.00)

Statement of Cash Flows	**Year**				
	1	**2**	**3**	**4**	**5**
Net Income	($35.00)	($46.00)	($46.00)	($46.00)	($46.00)
Depreciation	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Operating Activities	($35.00)	($46.00)	($46.00)	($46.00)	($46.00)
Capital Expenditures	$0.00	$0.00	$0.00	$0.00	$0.00
Other Investment Cash Flows	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Investing Activities	$0.00	$0.00	$0.00	$0.00	$0.00
Issuance (Retirement) of Stock, Net	$0.00	$0.00	$0.00	$0.00	$0.00
Issuance (Retirement) of Debt, Net	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Financing Activities	$0.00	$0.00	$0.00	$0.00	$0.00
Net Change in Cash	($35.00)	($46.00)	($46.00)	($46.00)	($46.00)

in 000s	**0**	**1**	**2**	**3**	**4**	**5**
Cash	$25.00	($10.00)	($56.00)	($102.00)	($148.00)	($194.00)
Receivables	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other Assets	$0.00					
Total Current Assets	$25.00	($10.00)	($56.00)	($102.00)	($148.00)	($194.00)
Long Term Assets	$0.00					
Total Assets	$25.00	($10.00)	($56.00)	($102.00)	($148.00)	($194.00)
Payables	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Debt	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Retained Earnings	$25.00	($10.00)	($56.00)	($102.00)	($148.00)	($194.00)
Stock	$0.00					
Total Equity	$25.00	($10.00)	($56.00)	($102.00)	($148.00)	($194.00)

Exhibit 5. Best case scenario financial statements

Income Statement	Year				
in 000s	**1**	**2**	**3**	**4**	**5**
Revenue	$50.00	$800.00	$2,000.00	$4,000.00	$8,000.00
Cost of Revenue	$30.00	$75.00	$120.00	$200.00	$280.00
Gross Profit	$20.00	$725.00	$1,880.00	$3,800.00	$7,720.00
SG&A	$20.00	$120.00	$270.00	$400.00	$600.00
R&D	$20.00	$100.00	$150.00	$250.00	$350.00
Depreciation	$0.00	$0.00	$0.00	$0.00	$0.00
Other Expenses	$10.00	$80.00	$100.00	$150.00	$200.00
Total Operating Expense	$50.00	$300.00	$520.00	$800.00	$1,150.00
Operating Income	($30.00)	$425.00	$1,360.00	$3,000.00	$6,570.00
Taxes	$0.00	$158.00	$543.60	$1,200.00	$2,628.00
Net Income	($30.00)	$267.00	$816.40	$1,800.00	$3,942.00

Statement of Cash Flows	Year				
	1	**2**	**3**	**4**	**5**
Net Income	($30.00)	$267.00	$816.40	$1,800.00	$3,942.00
Depreciation	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Operating Activities	($30.00)	$267.00	$816.40	$1,800.00	$3,942.00
Capital Expenditures	$0.00	$0.00	$0.00	$0.00	$0.00
Other Investment Cash Flows	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Investing Activities	$0.00	$0.00	$0.00	$0.00	$0.00
Issuance (Retirement) of Stock, Net	$0.00	$0.00	$0.00	$0.00	$0.00
Issuance (Retirement) of Debt, Net	$0.00	$0.00	$0.00	$0.00	$0.00
Cash from Financing Activities	$0.00	$0.00	$0.00	$0.00	$0.00
Net Change in Cash	($30.00)	$267.00	$816.40	$1,800.00	$3,942.00

Balance Sheet	Year					
in 000s	**0**	**1**	**2**	**3**	**4**	**5**
Cash	$25.00	($5.00)	$262.00	$1,078.40	$2,878.40	$6,820.40
Receivables	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other Assets	$0.00					
Total Current Assets	$25.00	($5.00)	$262.00	$1,078.40	$2,878.40	$6,820.40
Long Term Assets	$0.00					
Total Assets	$25.00	($5.00)	$262.00	$1,078.40	$2,878.40	$6,820.40
Payables	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Debt	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Retained Earnings	$25.00	($5.00)	$262.00	$1,078.40	$2,878.40	$6,820.40
Stock	$0.00					
Total Equity	$25.00	($5.00)	$262.00	$1,078.40	$2,878.40	$6,820.40