

PUBLIC RADIO CAPITAL



Creating partnerships to enrich lives and expand perspectives

Annual Report 2007

Broadening the reach of public radio



Why expand public radio?

Radio is the most accessible, reliable and functional form of media in the world and public radio makes the best use of the airwaves, delivering news and information, along with music and cultural programming that enriches lives and expands perspectives. Strong and diverse public radio service helps to build community and ultimately strengthen democracy.



Too many communities are missing out on the depth, variety, quality and civic asset that expanded public radio choices could provide.

Unless public radio stations are strong and sustainable, they underserve their communities and are at risk of being sold, foreclosing the opportunity for true public service on the public's airwaves.

Since its founding in 2001, Public Radio Capital (PRC) has worked across the country as a trusted partner and advisor in the planning, acquisition and financing of new public radio channels. By collaborating with visionary individuals, organizations and foundations, PRC creates and manages projects to strengthen local public media ownership.

This report outlines just a few of the accomplishments made possible through the valuable partnerships PRC has established over the past seven years. None of these accomplishments would have been possible without the generosity of donors, funders and the dedicated leadership of the PRC board of directors.

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FROM THE BOARD CHAIRMAN

Great public radio stations are a reference point for local communities, gathering listeners to news, ideas, music and events from across the street and around the world.

In an era when reflective reporting and thoughtful analysis have become scarce, fewer viewpoints are heard and democracy suffers. When music on the radio is strictly commercial and fails to celebrate the new, the diverse and the classical, the fiber of our culture is weakened. But where public radio thrives, it is a steady presence in communities and in our society.

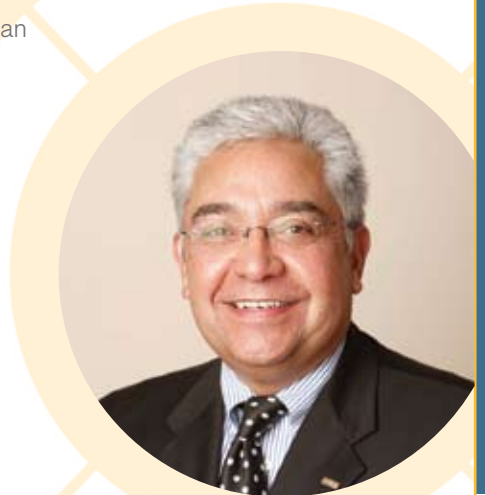
This 2007 report to the community illustrates the ways in which PRC has advanced a national strategy for local public radio impact, engaging multiple partners to strengthen the public asset value of noncommercial radio service for communities across the country.

Thank you for your support of PRC in the past year. We are deeply indebted to the vital core of individuals, families, foundations and public radio leaders who understand the need for the work we do and provide the leadership and resources to make an impact.

We hope you will share our pride in the success stories highlighted here. Please join with us in congratulating our public radio clients and licensees on their successes. Together, we make an enduring difference for people through access to radio they can trust to inform, enrich and connect their communities.



Leo Martinez, Chairman
Public Radio Capital
Board of Directors





MESSAGE FROM THE MANAGING DIRECTORS AND CO-FOUNDERS

At Public Radio Capital, we believe that the need for strong public media has never been greater. Media consolidation over the last 10 years has deprived many communities of locally owned media as well as multiple, independent voices and in-depth journalistic coverage of issues that matter.

Our complex world leads more people to gravitate to public radio where they can get the full story rather than sound bites or headlines that fragment good communication. We know that many communities could support additional public radio services to offer more choices for news coverage, arts and cultural programming, and to introduce new audiences to public radio.

These core beliefs drive our work at Public Radio Capital and our partnerships with those who want to help preserve, protect and expand public radio services. In 2007, we could not have accomplished this work successfully without the leadership of our outstanding board of directors, which was ably chaired by Jan Nicholson; joined by the enthusiastic and capable efforts of our fine staff; supported by incredible funding partners, with special thanks to Orlando Bagwell of Ford Foundation and Vince Stehle of Surdna Foundation; and energized each and every day by the exceptional people who make up the public radio industry—our colleagues and clients.

One special example is the partnership forged to mount a successful campaign to take advantage of the FCC's Noncommercial Filing Window—a one-time opportunity to apply for new radio frequencies. Another is the partnership to capitalize the Public Radio Fund. As you

read through these 2007 highlights, we hope you will see in them both milestones of growth and signs of direction for the future.

We thank you for your partnerships and contributions that have allowed us to make great progress in 2007. As we look ahead, we see an urgent need to protect public radio station assets that could be sold off to other broadcasters and to help secure new channels that can be used for broadcasting formats to attract younger and more diverse listeners. We believe this vision ensures the best outcome for our society, not just for the next 12 months, but for the foreseeable future.

Susan Harmon
Managing Director

Marc Hand
Managing Director



About Public Radio Capital

Since its founding in 2001, PRC has secured public radio services for more than 30 million people nationwide through transactions valued at more than \$142 million. PRC builds assets for public radio in these distinct ways:

- conducting market analyses to assess opportunities in the commercial and noncommercial radio bands,
- offering education and consultation to stimulate the public radio appetite for expansion,
- improving access to capital through the Public Radio Fund and providing financial advisory services,
- acquiring radio channels with and for public radio providers,
- providing outreach to colleges, universities and school boards to help maximize the public service of their noncommercial radio outlets,
- delivering proprietary business modeling for radio acquisitions and operating strategies, and
- building national and local “networks of concern” to mobilize greater participation in the future growth of public radio.



OUR MISSION

Public Radio Capital is a 501(c)(3) organization dedicated to improving public radio through strategies that protect, innovate, finance and expand services in local communities nationwide.

OUR VISION

Public Radio Capital seeks to have a transformational impact on public radio and be an essential resource for stations contemplating expansion, for institutions considering the sale of public radio assets and for public radio organizations that are looking for innovations in service—innovations that improve sustainability, reach new audiences and maximize their impact on local communities.



How we work

Public Radio Capital's staff includes nine professionals with expertise in public and commercial radio, encompassing multiple disciplines and leadership experience from the station level to a national scope.

PRC brings a team approach to client challenges and opportunities, drawing on a portfolio of skills including strategic planning and governance, leadership, negotiation, financial analysis and business modeling, radio programming, operations, development and legal.

PRC is a virtual company, headquartered in Denver, but with employees working from sites geographically spread across the country. Clients benefit from PRC's experience in conducting business with the benefit of technology and techniques that support work in multiple locations and with diverse constituents.

In addition to our mission, vision and approach to work, PRC's values instill confidence, build relationships and create the foundation for success. PRC and its staff members are:

- passionate about public radio,
- innovative and entrepreneurial,
- trusted brokers,
- fiscally prudent,
- committed to a team approach,
- sensitive to the client's perspective,
- dedicated to being a national resource for local impact, and
- a high value investment for clients, donors and investors.

PARTNERSHIP STORIES

PRC and its partners helped more than 300 public and community radio organizations file license requests for FM noncommercial radio channels during the Federal Communication Commission's (FCC) Noncommercial Filing Window in October 2007. As a result of this collaborative effort, there is potential for more than 100 new public radio stations across the country.

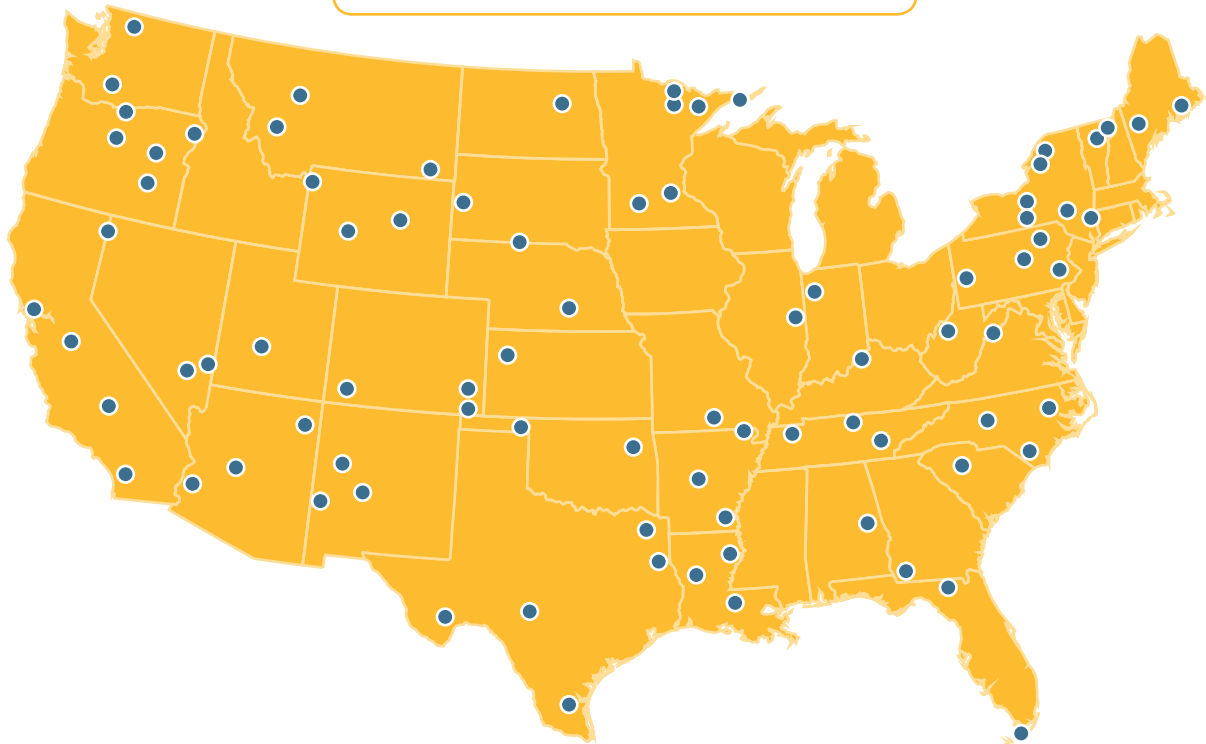
At the beginning of the project, PRC commissioned engineering studies to identify frequencies with high potential. Nationwide maps denoting the potential signal coverage of available channels were shared within the public radio community to generate awareness and assist organizations in selecting effective channels.

Once valuable channels were identified, PRC and its partners worked directly with organizations to file license request applications. Nearly half of these applicants were new to public radio. As the FCC awards channels during 2008, PRC will be working with recipients to help them develop sustainable business models for growing public radio audiences.

PRC provides assistance for the Noncommercial Filing Window

Generous support for this project was provided by the Annenberg Foundation, Doris Duke Charitable Foundation, Ford Foundation, Otto Haas Charitable Trust #2, Rockefeller Brothers Fund and Surdna Foundation. To increase public radio audience diversity, PRC re-granted funds to four partner organizations: Future of Music Coalition (FMC), Native Public Media (NPM), Pacifica Foundation and Radio Bilingüe.

Community and public stations expected to receive construction permits in 2008





More Channels, More Service Conference

The conference provided a forum for dynamic leaders committed to change and growth of their public radio institutions.

In addition to hearing from PRC clients who shared their case stories, participants were motivated by keynote speeches from Orlando Bagwell (pictured left), director, Media, Arts & Culture at the Ford Foundation about why the Foundation invests in public media, Tom Thomas, Co-CEO of the Station Resource Group—a strategy and policy organization of public radio's leading stations—describing the public radio landscape and strategic challenges and opportunities and Skip Pizzi, public radio commentator and consultant from Microsoft speaking about radio's value and future.




PRC's More Channels, More Service Conference gathered more than 70 public radio professionals, governing board members, institutional licensee representatives and funders to promote strategic dialogue. Participants addressed four questions key to maximizing the growth and impact of public radio:

- What are the attributes of readiness for strategic action and growth opportunities?
- How do we create “learning” radio organizations in which people at all levels, individually and collectively, are continually increasing their capacity to produce results they really care about?
- What is the value and future of radio?
- How does public radio contribute to building local communities?



“The single greatest value was the opportunity for my board president to meet other licensee officials—board members and university officials. This greatly deepened her understanding of the structural and governance challenges facing public radio...and reinforced how important it is that our organization has a strategy to meet those challenges.”



Expanding arts and cultural programming on the airwaves in Florida

PARTNERSHIP STORIES

In September, Public Radio Capital (PRC) and American Public Media Group, the parent of Minnesota Public Radio and Southern California Public Radio, announced plans for a new classical music public radio service in Miami. PRC negotiated with Trinity International University on the sale of its contemporary Christian radio station, 89.7 Spirit FM WMCU, to a public radio buyer.

Like other colleges and universities facing budget challenges, the university wanted to apply proceeds from the sale of its 24-hour, 100,000 watt noncommercial radio frequency to financially support higher education. The school's governing board agreed to negotiate exclusively with PRC to accomplish its goal.

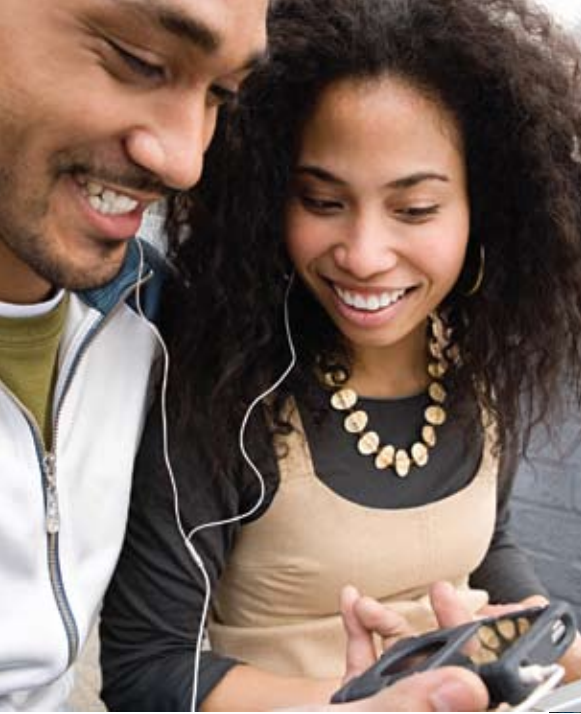
Over more than two years, with support from Argosy Foundation, PRC took the steps to buy the station itself if necessary. Ultimately, PRC was able to realize the transaction for public radio when American Public Media Group agreed to purchase and engaged PRC to represent them in the negotiations. The \$20 million transaction represents the largest sale of a noncommercial radio station on record.

Miami is the 12th largest metropolitan area in the country, with more than four million residents. The community has been without a full-time classical music service for the past seven years.

American Public Media Group and the newly named WKCP FM Classical South Florida station will now deliver an exceptionally strong classical radio service to South Florida audiences. American Public Media Group's core strengths in programming, station operations and development are expected to help the station quickly build a local identity and listener loyalty.

South Florida's new classical station promises to build audiences for classical music that will positively affect classical music performers, venues and nonprofit organizations locally and nationally. Through the transaction, PRC gained valuable experience that will pave the way for similar successes to expand public radio nationwide.

PRC estimates that as many as four major opportunities such as Miami are likely to occur in the top 10 markets over the next two years. When combined with smaller market opportunities, we anticipate new public radio stations reaching millions of listeners with new public radio formats and choices, vastly strengthening public radio locally and nationally.



PARTNERSHIP STORIES

Partnering with WXPN to expand music diversity in Pennsylvania

PRC represented WXPN, the University of Pennsylvania's nationally-recognized leader in Triple A (Adult Album Alternative) music, on an agreement to acquire a south central Pennsylvania broadcasting license from Christian network The Word FM, a service of Four Rivers Broadcasting Corporation with stations and translators across the state of Pennsylvania.

The acquisition enables WXPN's signal to be heard on WZXM 88.7 in the Lancaster, Lebanon and York communities. In addition, it improves the reception in some areas around Harrisburg, where WXPN is already broadcasting in the area on WXPB 88.1.

The \$4 million acquisition helps WXPN to reach approximately one million more listeners who now have the opportunity to connect to unique, diverse music. WXPN is a public radio pioneer in the Triple A format—a popular music mix for younger listeners—and a national model for linking listeners to new and significant contemporary artists in rock, blues, roots and folk music. WXPN produces World Cafe®, public radio's most popular program of popular music, which is syndicated by NPR.

"This was a rare investment opportunity that will enable WXPN to better serve the community," said Roger LaMay, WXPN general manager. "By increasing the signal's range through Public Radio Capital's partnership and assistance, we are providing access to about a million more listeners who will now have the opportunity to connect with WXPN artists. And, according to projections, this investment will pay for itself in seven to 10 years."

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PRC helps Colorado Public Radio air both news and classical on FM

PARTNERSHIP STORIES

PRC's upcoming purchase of 88.1 FM in Denver from EMF Broadcasting of Rocklin, Calif. will enable Colorado Public Radio (CPR) to air KVOD classical music programming on 88.1 FM, and KCFR news and information on 90.1 FM. KCFR has been broadcasting on a Denver AM frequency since 2001, when CPR separated its news and music formats into separate 24-hour services. PRC will purchase 88.1 FM using tax-exempt financing and lease it to CPR.

The purchase marks the completion of CPR's seven-year quest to expand its service by delivering both of its programming formats on FM in the metro area. EMF Broadcasting currently simulcasts K-LOVE Christian programming on 88.1 FM and 91.1 FM. The 91.1 frequency will not be affected by the CPR transaction, and will continue to carry K-LOVE programming.



"CPR is very excited about this opportunity to serve the metro area with two FM stations," said CPR President Max Wycisk. "This will be good news for all our listeners, supporters and the communities we serve. KCFR will be able to deliver national, international and expanded state news to a wider audience on 90.1 FM, and KVOD will continue to serve classical music listeners with a clear FM signal on 88.1."

The Colorado partnership is another example where PRC has stepped in to buy a station as a service to a local public radio organization, thereby broadening the reach of public radio. In 2004-2005, PRC purchased a frequency in Tulsa, obtained financing and leased it to Oklahoma State University (OSU) for the purpose of helping OSU expand its radio service into new territory on KOSN. In 2005-2006, PRC bought a frequency in Tacoma, Wash., which allowed Puget Sound Public Radio—KUOW in Seattle, KVSN in Olympia and now KXOT in Tacoma—to develop a second news and information format for listeners in both Tacoma and Seattle.



New Public Radio Fund provides critical short-term capital

In October, PRC launched its new Public Radio Fund to benefit public broadcasting organizations in need of short-term capital.

is needed to move quickly in buying new public radio stations. The Public Radio Fund is a solid new financial tool for acquiring these valuable channels and thereby increasing and diversifying public radio program services for more people in local communities across America.

Public broadcasters are invited to apply year-round for capital loans from the new Public Radio Fund. These loans may be used to fund a station acquisition through earnest money deposit, the acquisition of equipment, short-term station acquisition loans and to fund debt reserve funds to be held as a portion of a station acquisition financing package.

PRC has established an Advisory Council of leading financial, legal and communications experts to advise us in building the Fund, tracking performance and maximizing its effect for the good of public radio and the audiences it serves.

The Public Radio Fund has been a dream since the founding of Public Radio Capital seven years ago. Public broadcasters will finally have access to short-term capital from an organization that understands their business and the competitive forces in the marketplace.

The Public Radio Fund will allow public radio organizations to borrow affordable capital for asset-based projects, such as buying radio stations to expand program services to new audiences.

The Public Radio Fund has initial investment commitments of more than \$8.3 million from Calvert Social Investment Foundation, Ford Foundation, Nonprofit Finance Fund, National Public Radio, Inc., and individual investors. PRC plans to grow the Public Radio Fund with a short-term target of \$15 million and more than \$50 million in the long-term.

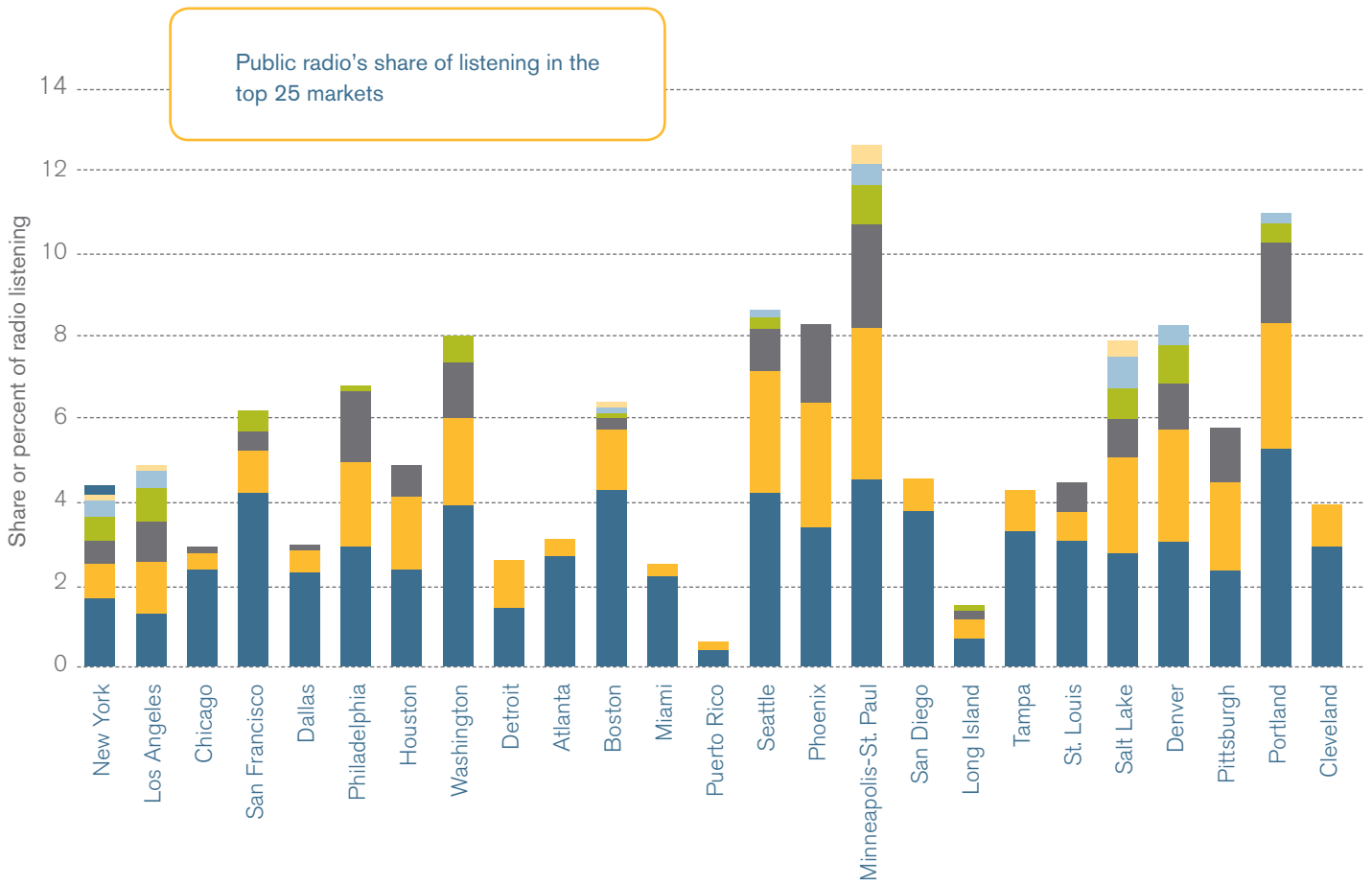
Because of the confidence of our initial investors, these funds can now be borrowed by public radio organizations when short-term capital



PUBLIC RADIO FUND

Successful stations bring more listeners into the public radio audience

This graph illustrates public radio's share of listening in the top 25 markets across the country. Each color represents a different station in each market. Successful public radio stations bring more listeners into the public radio audience, which raises the bar for all stations in a particular market. Strong and diverse public radio service helps to build community. Many markets across the country are missing out on the depth, variety, quality and civic asset that more public radio choices could provide.



Source: Arbitron, Radio Research Consortium (metro survey area, spring 2006)
 Courtesy of Station Resource Group

2007 Financial summary

Public Radio Capital had a strong financial year with more than \$2.3 million in revenue and support. Expenses were approximately \$2.08 million with a net increase of \$250,000 in assets for the year.

PRC received contributions from individuals and grants from the Ford Foundation and Otto Haas Charitable Trust #2 in excess of \$1 million toward activities to strengthen and expand public radio. In addition, \$500,000 was received from the Ford Foundation, Surdna Foundation, Annenberg Foundation, Otto Haas Charitable Trust #2, Doris Duke Charitable Trust and Rockefeller Brothers

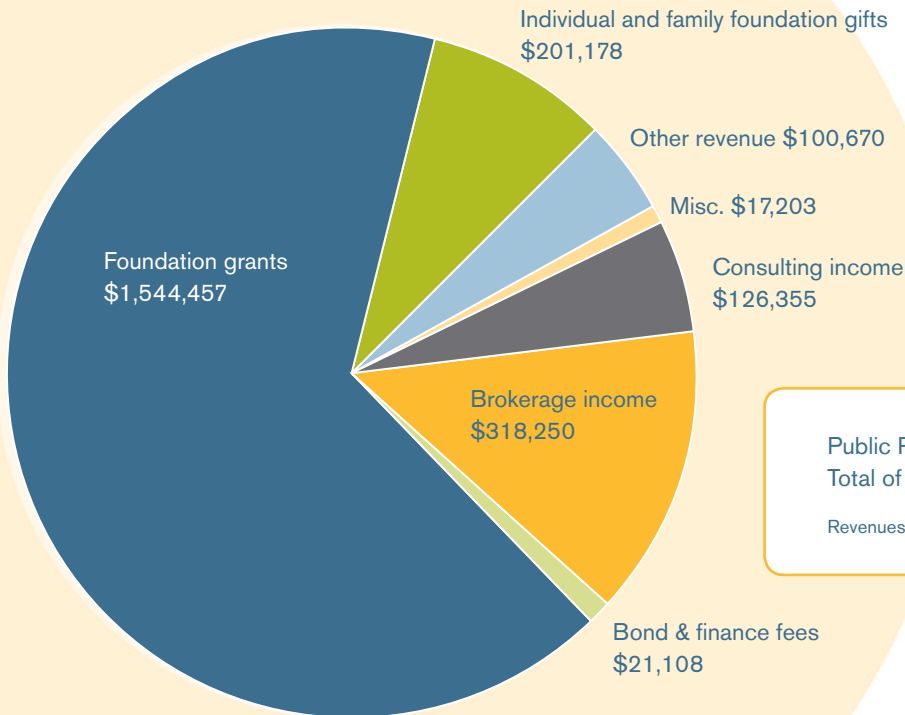
Fund in connection with PRC's work on the FCC's Noncommercial Filing Window project. Also, PRC was awarded a grant of \$166,000 from the Corporation for Public Broadcasting for its Station Renewal Project.

Earned income from fee-based work for clients was \$465,000. Fee-based work included consulting and brokerage income. Costs charged to our public broadcasting clients were below market because of the generosity of foundations and individuals who contribute to the overall mission of Public Radio Capital.

Public Radio Fund LLC, received a net asset grant of \$200,000 from the Ford Foundation. The Fund was launched in 2007 with contributions from the Ford Foundation, Calvert Social Investment Fund and Nonprofit Finance Fund. With commitments in excess of \$8.3 million, including \$2.5 million from National Public Radio, Inc., the Fund is now ready to make asset-backed loans to public radio organizations throughout the United States.

PRC owns three radio licenses and other assets valued at more than \$18 million.

PRC is well-positioned for growth to meet its mission of protecting, innovating, financing and expanding public radio services in communities nationwide.



Public Radio Capital Revenues
 Total of \$2,329,220
 Revenues excluding LLC activity



BOARD OF DIRECTORS

Public Radio Capital is governed by board members who represent all regions of the country and bring a wealth of experience in public broadcasting, business, finance, marketing and law.

Peter Baldwin
Dallas, Texas

Teresa Bryce
Philadelphia, Pennsylvania

Carolyn Grinstein, Secretary/Treasurer
Seattle, Washington

Marc Hand, Managing Director
San Francisco, California

Susan Harmon, Managing Director
Seattle, Washington

William King
Nashville, Tennessee

James Mabie, Vice Chair
Chicago, Illinois

Leo Martinez, Chair
San Francisco, California

Jan Nicholson, Past Chair
New York, New York

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St. Paul, Minnesota

Marc Hand, Managing Director and Co-Founder
San Francisco, California

Susan Harmon, Managing Director and Co-Founder
Seattle, Washington

Irene Hashimoto, Operations Administrator
Centennial, Colorado

Anne Benedict Hovland, Director of Development
Stillwater, Minnesota

Evrans Kavlak, Financial & Credit Analyst
Los Angeles, California

Erik Langner, Director of Acquisitions
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Erin Moran, Chief Financial Officer
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