

## Two Local Companies Go Head to Head to Develop Pay Satellite Radio

By Paul Farhi  
Washington Post Staff Writer

David Margolese concedes that the concept—pay radio—is a little difficult to get one's mind around at first. But he offers a useful comparison: "Think of cable TV around 1970," he said. "If you told people then they'd be paying to watch TV they might have laughed—until you told them that it would offer them more choice, more variety, and better reception than they ever had."

No one pays to listen to the radio today, of course. But by late 1999, two companies based in the Washington area aim to revolutionize a medium that hasn't changed much since the early 1920s. CD Radio Inc. of Washington, which Margolese founded and heads, and American Mobile Radio Corp. (AMRC) of Reston are racing each other to become the first to offer digital audio radio service.

DARS, as it's known, is merely a fancy acronym for pay-for-play radio. Within two years, the two companies plan to launch satellites that will be able to beam 30 to 50 channels of interference-free, compact-disc quality audio to receiving antennas no bigger than a silver dollar. The antenna feeds a special digital radio, which can pick up both the satellite signals and nearby AM and FM stations.

While that may sound like a newfangled way to do something Marconi long ago made simple, DARS has several obvious things going for it. First, it's a wireless technology, which means it can be used in the car, where most radio listening occurs. Second, since the satellites provide continental coverage, a listener can tune to the

same satellite station from one end of the country to another—a potential godsend for truckers and other long-haul travelers. And third, most of the music and informational programming provided by CD Radio and AMRC will be commercial-free.

Margolese, 39, envisions offering some of the things "terrestrial" radio stations provide today, plus many things they don't: all-gospel music channels, or all-reggae, opera, blues, chamber music, uninterrupted symphonies or jazz in multiple permutations. "Do you think people in Omaha can turn on the radio [now] and listen to reggae music?" he asks rhetorically.

The principal difference from AM and FM stations is that satellite radio will come with a monthly bill. CD Radio and AMRC are still studying how to approach the market, but both say they will charge between \$5 and \$12 per month for their services. That's on top of the hardware, which will cost about \$150 more than a standard radio.

"The way I view it is people want choice, and they are willing to pay for it," said Lon Levin, a former Federal Communications Commission official who now is president of AMRC. "No matter how many [TV] channels people get on cable or DBS [direct-broadcast satellite] they always want more."

CD Radio and AMRC have already put a big down payment on that idea. Last month, the two companies were high bidders in a government auction of DARS licenses. AMRC bid \$89 million for its slot, and CD Radio paid \$83 million (the licenses are identical; the price difference reflects differing approaches to the auction). That's a pretty stiff price just for the right to do business (until some political maneuvering last fall, CD Radio looked as if it was

going to get its license for free), but the licenses ensure that the two companies will have the pay radio market all to themselves.

More investment lies ahead. Margolese, a Canadian citizen who was one of the earliest advocates of pay radio, estimates that both companies will have to spend about \$500 million each before signing up their first customer. The outlay will primarily cover the cost of building, launching and insuring the satellites.

Neither company, however, figures to have trouble coming up with the cash. AMRC is a subsidiary of American Mobile Satellite Corp., a Reston-based wireless phone company that is in turn part owned by public shareholders and some very deep pockets—AT&T Corp., General Motors' Hughes Electronics Corp. and Singapore Telecom.

CD Radio is owned by Margolese (19 percent); Darlene Friedland (28 percent), who is a member of a wealthy industrial family; Robertson Stephens & Co. (14 percent), a mid-sized investment bank headquartered in San Francisco; and public shareholders. The company had no trouble raising \$135 million in a private placement earlier this year, which Margolese said easily will cover this year's expenses.

Robert B. Kaimowitz, a satellite industry analyst with Unterberg Harris in New York, calls CD Radio "one of the most compelling business opportunities" he has seen in telecommunications. Based on "conservative" expectations, he projects that CD Radio could have 7.5 million subscribers generating an annual cash flow of about \$633 million by the year 2003. But Kaimowitz cautions that there are

significant risks: an unproven market, possible satellite failures, and a potential drain on revenues and cash flow if CD Radio winds up subsidizing hardware makers, as companies in the satellite TV market now do.

For Margolese, it's a relief just to still be in the pay-radio business. An entrepreneur who hit it big by the age of 30 in the Canadian paging and cellular business, Margolese was drawn to the idea of a satellite radio service after he made an investment in DMX, which delivers audio programming to homes via cable TV wires. He has spent the last seven years trying to get his venture off the ground. "It's been a long, hard journey," he said one recent afternoon in his sparsely furnished District office. "It's a minor miracle we are where we are today."

Money was never Margolese's problem, and neither was technology (CD Radio's co-founder and president, Robert Briskman, invented the coin-sized antenna). From the beginning, the real problem was politics. The FCC repeatedly delayed the DARS licensing process under heavy lobbying pressure from the National Association of Broadcasters, which represents owners of the nation's 12,000 radio stations.

"We argued that DARS was a threat to the local service that radio stations provide their communities," said NAB spokesman Dennis Wharton. The industry's fear, said Wharton, is that DARS services will pull listeners away from local stations, thereby undercutting their ability to pay for news, weather and sports programming. The trade association made much the same argument to forestall the development of cable and satellite TV as well.

The flaw in that argument is that many radio stations have cut back on local news even without pay competition. In any case, the NAB was successful in delaying the launch of the satellite services while "terrestrial" radio technology improved; radio stations are now in the process of developing their own digital signals, which will improve their audio quality.

"At the end of the day," said Margolese, "you just have to put your head down and keep going. I believe totally in the power of this idea. It is such a great idea."

### RADIO DAYS

We are a nation of radio-listeners. According to recent surveys by Mediamark Research Inc., 83 percent of American adults listen to the radio. To meet the demand for greater variety, the number of radio stations grew 21 percent from 1980 to 1994.



CD Radio founders David Margolese, left, and Robert Briskman display one of the tiny satellite antennas for pay-for-play radio.

BY BILL O'LEARY—THE WASHINGTON POST