THE MERTON GROUP

MARKET RESEARCH REPORT[1]

TOWN OF RINDGE, NH

JULY 10, 2004

DRAFT

STATEMENT OF CONFIDENTIALITY AND OWNERSHIP

All of the analyses, findings, data and recommendations contained in this Report are the exclusive property of The Merton Group ("Merton") with offices located in Florham Park, New Jersey.

As of the date of this Report, Merton grants a perpetual, irrevocable royalty-free license to the Town of Rindge, New Hampshire (the "Town") to use this Report.

As required by the Code of Ethics of the National Council on Public Polls and the United States Privacy Act of 1974, Merton maintains the anonymity of respondents to surveys the firm conducts. No information will be released that might, in any way, reveal the identity of the respondent.

Moreover, no information regarding these findings will be released to a third party by the licensee, the Town, without the express written consent of an authorized representative of Merton.

TABLE OF CONTENTS

1. INTRODUCTION

In this Report, The Merton Group ("Merton") presents the results of the market research study performed as part of the Feasibility Study conducted for the Town of Rindge, NH (the "Town"). This market research was focused on determining the feasibility of providing **Merton Broadband Network (MBN)** services to the Town, with such infrastructure potentially financed by loans or bonds. The MBN services are 100 Mbps data access and potentially enhanced video services using fiber to the home (FTTH). The primary focus of the market research effort was to ascertain if the Town has the fundamental base of Internet users to convert and if this base of users would convert to the new service. A secondary objective was to ascertain what the interest and acceptance would be for new services such as digital video.

The main goal for this market research was simply:

"To establish the viability for conversion from an existing Internet service provider to an MBN interconnection in a wide enough user base to ensure loan/ bond coverage."

The study has several key objectives. They are as follows:

1. Ascertain the current use of Internet and cable/satellite TV by key demographic metrics like age; from this analysis to determine if there are certain demographic factors in the Town that are more favorable to conversion to the MBN.

2. Ascertain current Internet Service Providers' penetration by key demographic metrics

3. Ascertain conversion rates to MBN for existing Internet and cable/satellite TV users by key demographic metrics

4. Ascertain price points for MBN acceptance; these must reflect the range of offerings from simple dial up replacement to fully enhanced 100 Mbps Internet along with enhanced video, telephony, server hosting and whatever else may be of interest

This Report summarizes the statistics collected from a residential mail-in survey commissioned and conducted by the Town in Spring 2004.

2. METHODOLOGY

As part of the initial preparatory discussions for the market research effort, Merton suggested the following possible methodologies to the Town for conducting the survey associated with the study:

1. *Intercept Interview*
   A study conducted in person with respondents who are approached or intercepted in high traffic locations such as grocery stores or shopping malls.
2. *Mall Intercepts*
   Interviews conducted in shopping malls by randomly selecting people from among those present to be screened. The main part of the interview can take place either on the mall floor or inside the offices of a data collection company located within the mall.
3. *Telephone Survey*
   Respondents are interviewed via the telephone. The telephone interview is normally conducted from a central telephone facility.
4. *Mail-In Survey*
   A standard survey questionnaire is mailed to a randomly selected portion of the total population of residences and/or businesses, or where reasonable, to the entire population of such parcels.

Of the recommended methods, the Town chose to use the Mail-In Survey technique. The final questionnaires were prepared in close discussions with the Town. Two different forms of questionnaires were developed to reflect different price points for conversion to the MBN. The final form of questionnaires is attached as *Exhibit A.*

In Spring 2004, the Town of Rindge conducted a survey and achieved almost 300 responses. The questionnaires were not sent to businesses because they did not comprise the target market for purposes of the current MBN study.

The accuracy of projections obtained, in other words, how representative the surveyed population is of the entire Town population, depends heavily on the number of survey responses obtained. If 175 to 200 responses were obtained, then it would be possible to make projections with a +/- 7.5% accuracy with 95% confidence. With about 400 responses, the accuracy of the survey increases to +/- 5%. In other words, with about 400 responses, a sample survey of current Rindge residents would differ no more than +/- 5% than if all Rindge residents were contacted and included in the survey. Further, if the survey were replicated, the statistics would fall within the margin for error 95 out of 100 times.

Merton processed and analyzed the 292 responses to generate the results in this Report. This sample size, as explained above, yields accuracy in results of about +/- 5%.

3. HIGHLIGHTS

3.1 Internet Access Demographics

1. About 89% of Rindge households have Internet access
2. About 69% of Rindge homes use dial-up Internet access, 15% use cable modem, 1% use DSL and 5% use satellite; penetration of “broadband” is moderate at 21%.
3. About 18% of households use AoL, 4% use Verizon, 6% use MSN, 8% use Pine Tree, 10% use Earthlink, 3% use Netzero, 5% use Worldpath and the remaining 34% use other service providers.
4. About 38% of households are at least somewhat dissatisfied with their current Internet service.
5. About 58% of homes want higher speed in their Internet access, while 23% want cheaper rates and 8% want better service.

3.2 Cable TV Demographics

1. About 31% of Rindge homes have cable TV, 45% have satellite TV service only, and about 3% have both.
2. 32% use Pine Tree, 30% use DirecTV, 12% use Dish Network and almost 5% use other providers.
3. Currently, about 33% pay $40 or less per month for their cable/satellite TV service and Internet service combined. About 23% pay between $40 and $60, 21% pay between $60 and $80, 16% pay between $80 and $100, and almost 7% pay over $100.
4. About 40% of respondents want cheaper rates for their video service, while the remaining 60% want enhanced services including digital channels, video on demand and more choice of channels in addition to cheaper rates.

3.3 Telephone Demographics

1. About 59% of homes use a single line while 34% of households have two or more telephone lines. About 7% have no land lines, indicating that such homes perhaps use only cell phones.

3.4 Merton Broadband Network Services

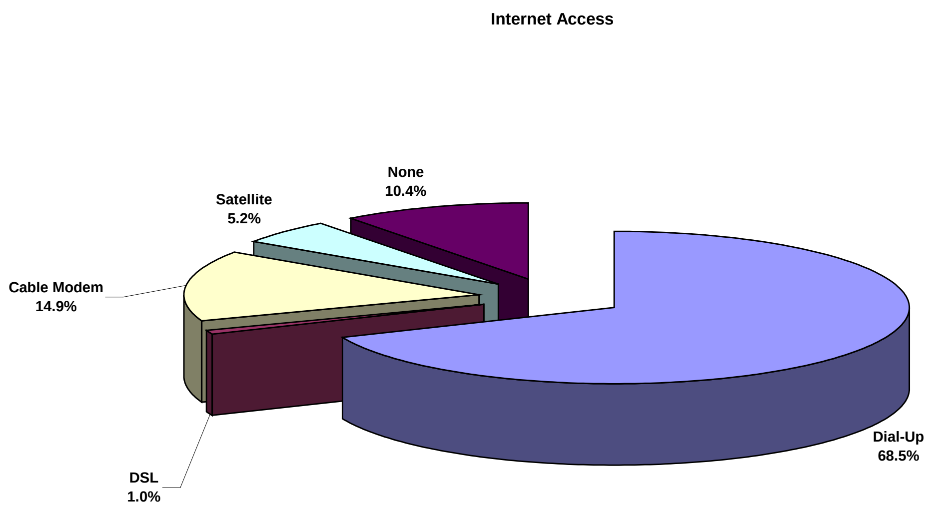
1. **About 52% of households are likely or very likely to switch to the MBN for broadband Internet access at the price of $40 per month.**
2. **About 50% of homes are likely or very likely to switch to the MBN for video services at the price of $40 per month.**

4. DETAILED RESULTS

4.1 Internet Market Statistics

4.1.1 Internet Access Usage

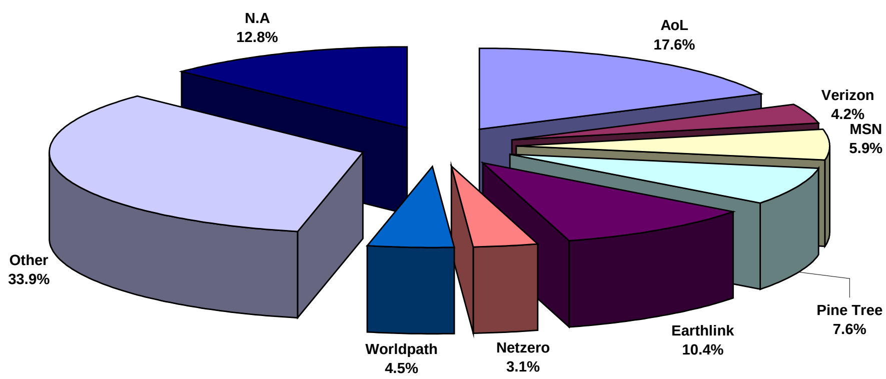
The survey asked the respondents what kind of Internet access service they had at home. The choices provided were dialup, cable modem, DSL and satellite. The results are shown below.



4.1.2 Internet Service Providers

The respondents were then asked who their ISP is; the choices provided were AoL, Verizon, and MSN. The results are show below. Clearly, the market is quite fragmented, with AoL and Earthlink holding the highest market share.

Internet Service Providers



4.1.3 ISP Market Share

The market share of the various ISPs in the Town, segmented by the service offered, is shown below.

Market Share Internet

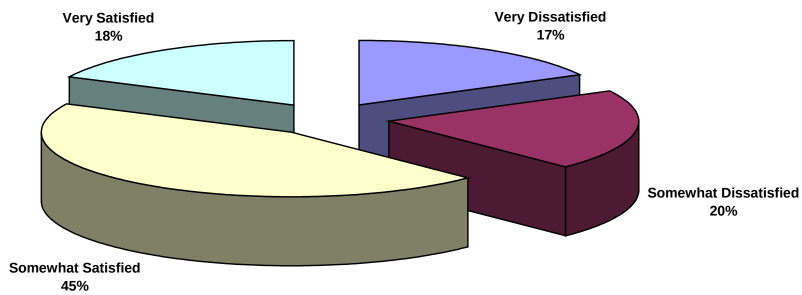
	Dial-Up	DSL	Cable Modem
AoL	16%	0%	1%
Verizon	3%	0%	0%
MSN	4%	0%	1%
Other	45%	1%	11%
N.A	1%	0%	1%

Dial-up is mostly from AoL and smaller ISPs, while cable modem is mostly provided by Pine Tree.

4.1.4 Satisfaction with Current Service

The survey was also targeted at determining the psychographic profile of Internet users in the Town. The respondents were polled on their degree of satisfaction with their current Internet service. The results indicate that most people are marginally satisfied.

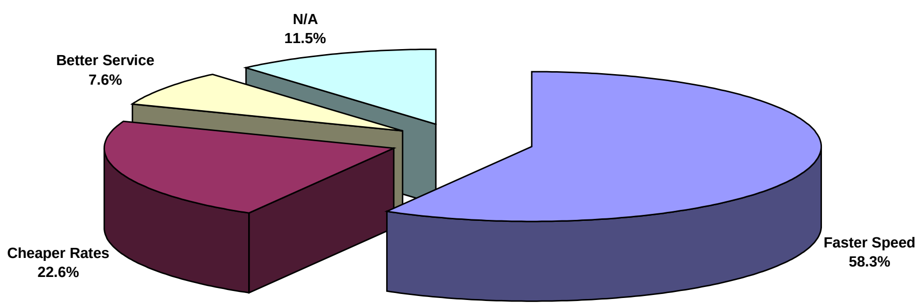
Satisfaction with Current Internet Service



4.1.5 Desired Improvement in Internet Access

The survey asked what the respondents would like to see changed/improved about their Internet access service. A majority of respondents wished to have faster speed.

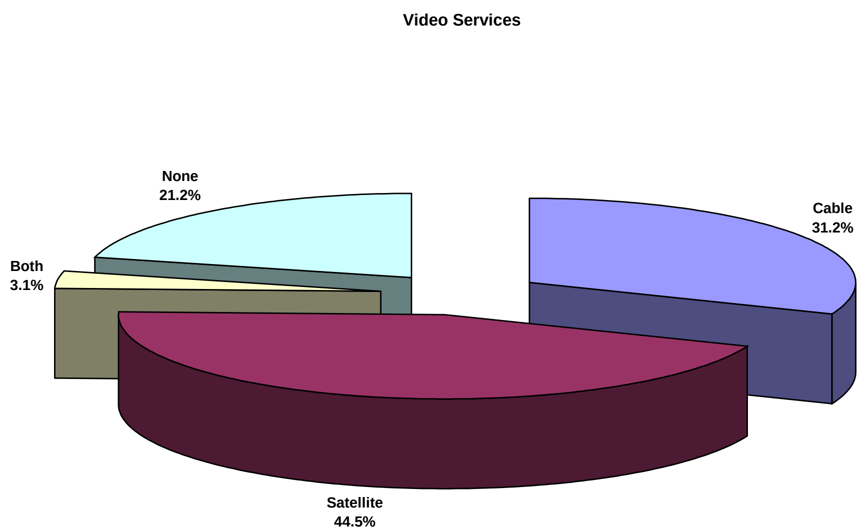
Desired Change in Internet Service



4.2 Cable TV Market Statistics

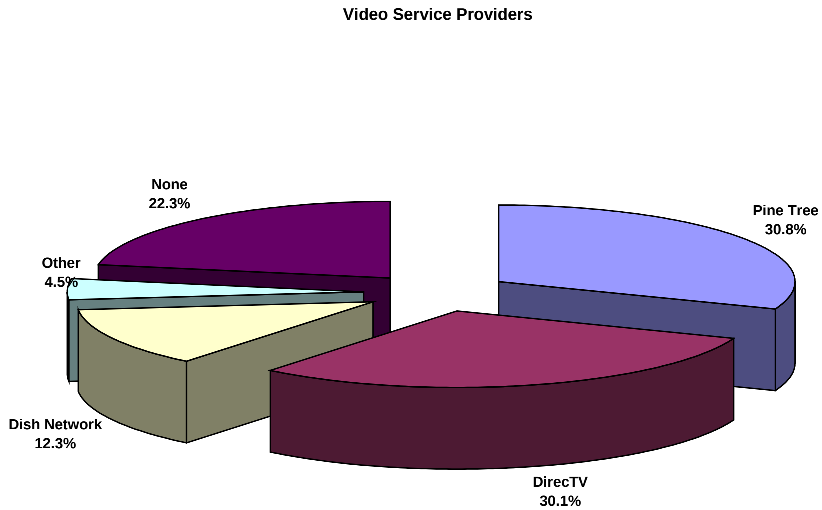
4.2.1 Cable / Satellite TV Usage

In order to understand the penetration of cable or similar services in the Town, the respondents were asked what kind of cable or dish TV service they used at home. The breakout is shown below.



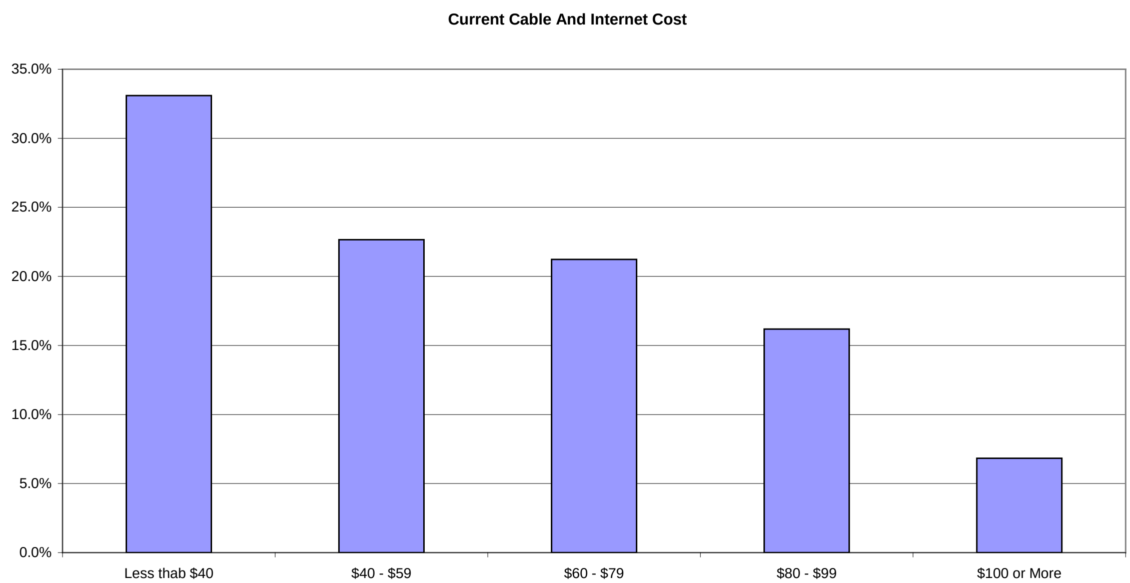
4.2.2 Cable / Satellite TV Provider

The survey also asked who the respondent's video service provider is. The results are shown below. Pine Tree is the cable TV franchisee in the Town. DirecTV has the largest share of the satellite market.



4.2.3 Current Internet and Video Cost

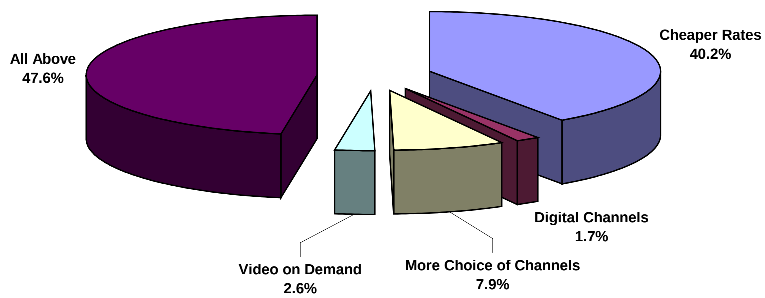
The respondents were queried on what they were currently paying per month for their video service (cable/satellite) and Internet service combined. The results show that about 45% of people pay more than $60 today for their services.



4.2.4 Desired Change in Video Service

The respondents were asked what specific changes or service enhancements they would like to see with their video service. The choices provided reflect both price as well as features. The results are shown below. About 40% of respondents would like to see cheaper rates for their video service, while the remaining 60% would like to see not just lower rates, but features like digital channels, video on demand and more choice of programming.

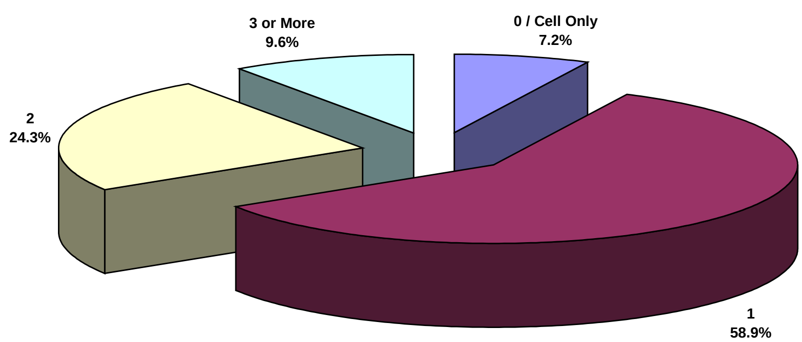
Desired Change in Video Service



4.3 Telephone Service Statistics

The survey was also targeted at understanding the current telephone service demographics in the Town. More importantly, the segment of the population, which uses more than one telephone line, represents the initial target market for conversion to the MBN. This is because a household is probably paying about $25 to their ISP and another $25 for the second telephone line dedicated to data/fax. With the MBN, the second telephone line could be eliminated, and the end-user could be paying the same total of $50 to an ISP for 10+ Mbps Internet access service. This segment of the population therefore represents the "low hanging fruit" for transfer to the MBN. The results are shown below; about 34% have more than one line.

Number Telephone Lines



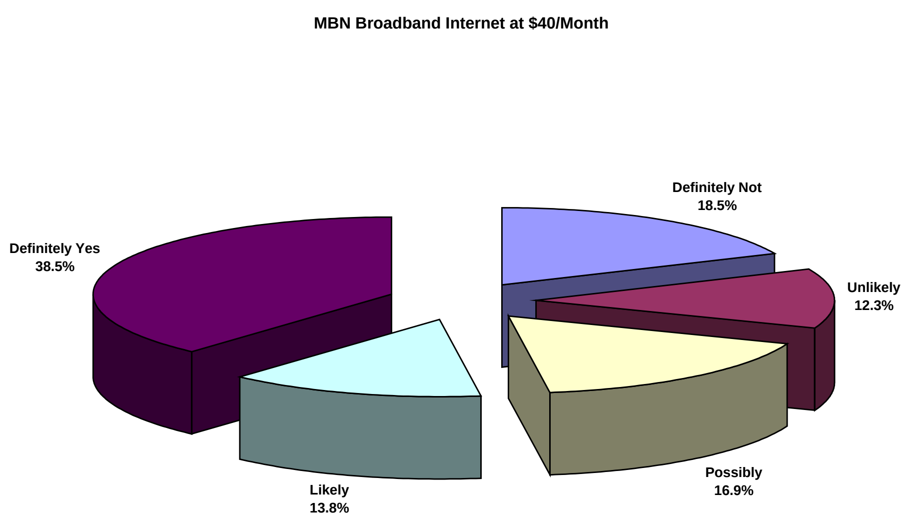
4.4 MBN Internet Access

As alluded to before, this market study is primarily targeted at measuring the adoption of new services enabled by the MBN, including 100 Mbps data service and enhanced digital cable services. This information is cross-tabbed with key demographic factors to understand which segments of the market will be the potential user base, and what the price sensitivity is of that potential user base.

The survey was targeted at determining the “take rate” or rate of adoption to MBN services at two different price points ($40 per month, $60 per month) for two different services (100 Mbps Internet access, enhanced digital video services). The questions were asked in two different forms of the questionnaire as alluded to before in order to eliminate any psychological biases in having two price points in the same questionnaire; respondents might be biased to be inclined to the lower price point and strongly disinclined to the higher price point if both appeared on the same questionnaire. The above adoption rates were then segmented by key demographic metrics, including age and current type of Internet/ cable TV connection.

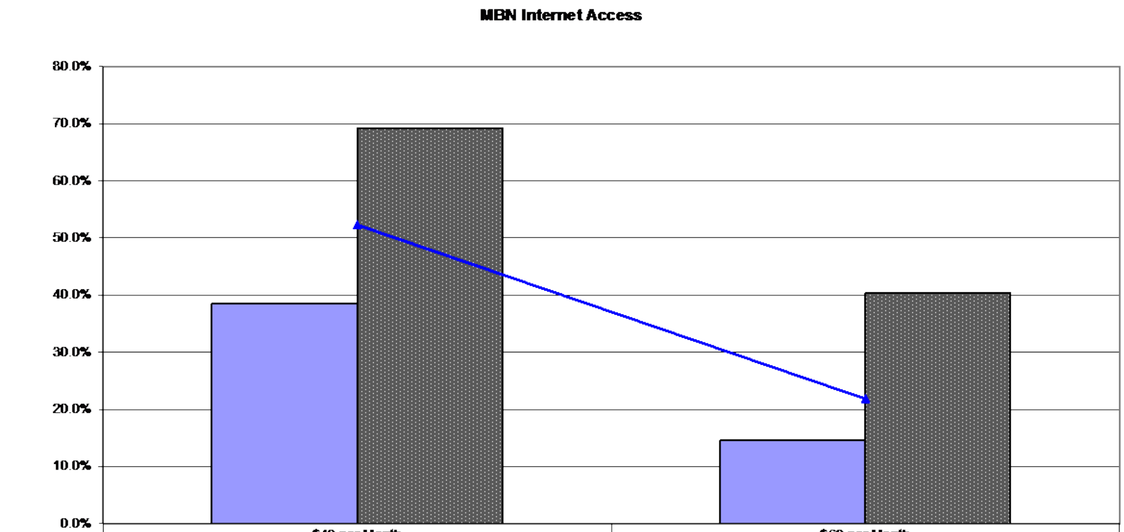
4.4.1 MBN Internet Adoption Rates

The respondents were asked the question how likely they would switch to a broadband Internet service that would be dramatically faster than what they currently have today. Two different forms of the questionnaire was developed to ask the above question at two different price points for the new service; $40/month and $60/month. The results are shown below for the price point of $40. The percentages in the Valid Percent column indicate the proportion of households responding with the respective affirmative or negative reaction. The results are very strong, with 52% likely or very likely to switch at $40. There is also good upside opportunity, measured by adding the number of “Possibly” responses, to increase market size.



4.4.2 MBN Internet Price Sensitivity

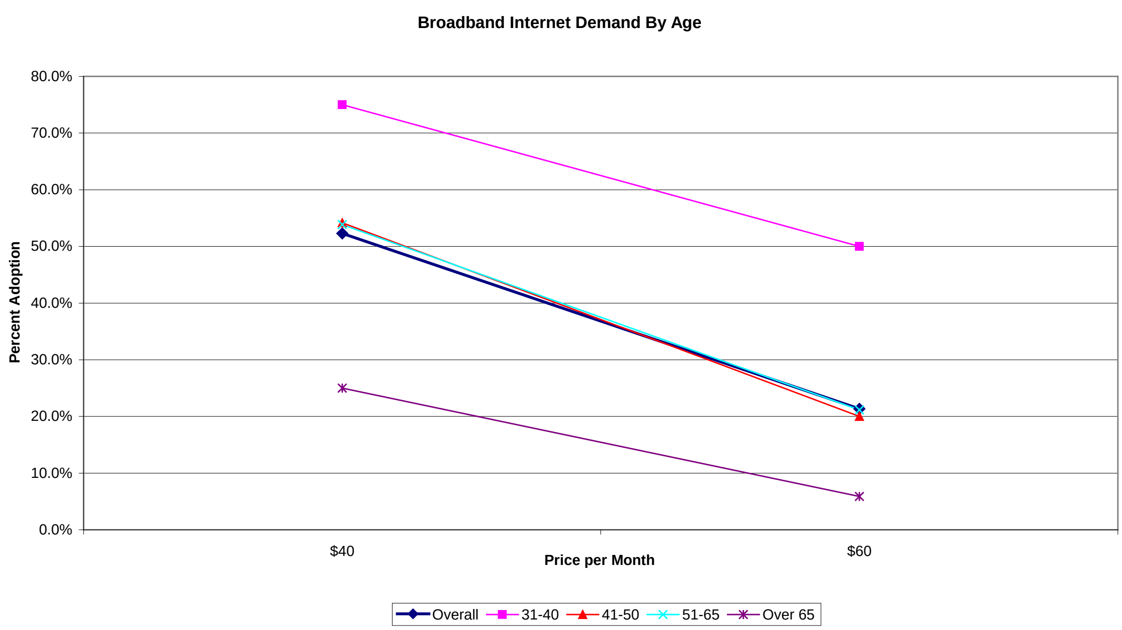
The “floor” or minimum potential market for Internet access on the MBN was established as those respondents who answered “Definitely Yes”. The “ceiling” or maximum potential market was defined as those who answered “Likely” and “Possibly” in addition. Merton, however, estimates the market potential as only those respondents who answered “Definitely Yes” and “Likely”. The results of these estimates are presented below. Clearly, the market potential for MBN broadband Internet is very strong if priced at $40 per month, and declines sharply if priced at $60/month. The implication is that the residents of the Town are very price sensitive to Internet access service.



	$40 per Month	$60 per Month
Floor	38.5%	14.6%
Ceiling	69.2%	40.4%
Estimate	52.3%	21.9%

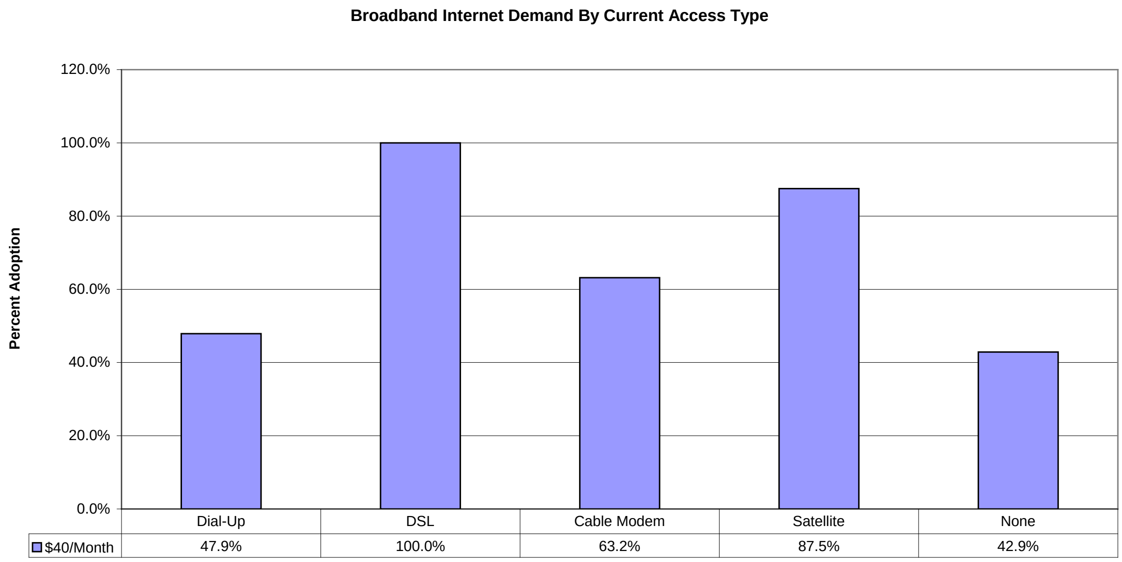
The above MBN Internet access results was further segmented by age of the respondent to get a better idea of which population segments to target for provision of MBN broadband Internet services. The results are presented in the chart below. These are the "demand curves" for MBN broadband Internet service.

- There is a wide difference in interest in broadband Internet access across different age groups, varying from 75% amongst the 31-40 respondents to about 25% amongst the senior citizens of the Town (over 65 years old) at the low end, at $40 per month.



4.4.3 MBN Internet Adoption by Current Access Type

The MBN broadband demand was also segmented by the type of Internet access service that the respondents currently have, i.e., dialup, cable modem, DSL or satellite. This greatly helps to better understand to what extent the current users of dial-up and DSL/cable modem type services would switch to a must faster service offered by the MBN. The analysis was performed at the price point of $40 per month. The results are shown in the chart below.

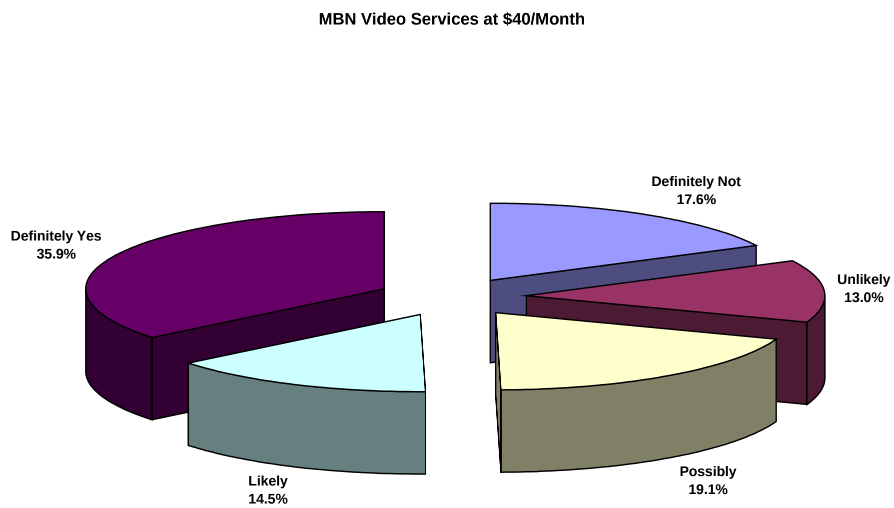


It is an interesting observation that about 100% of current DSL users, 63% of current cable modem users and 88% of satellite users are likely to switch to the MBN level broadband service (10-100 Mbps) if the price were $40 per month. This perhaps indicates a lack of satisfaction with current broadband services. Also, 48% of current dial-up users will switch, and 43% of users who do not have Internet access are willing to buy MBN Internet at $40. These results indicate a gross lack of broadband availability in the town at a price level or quality level that are desirable.

4.5 MBN Video Services

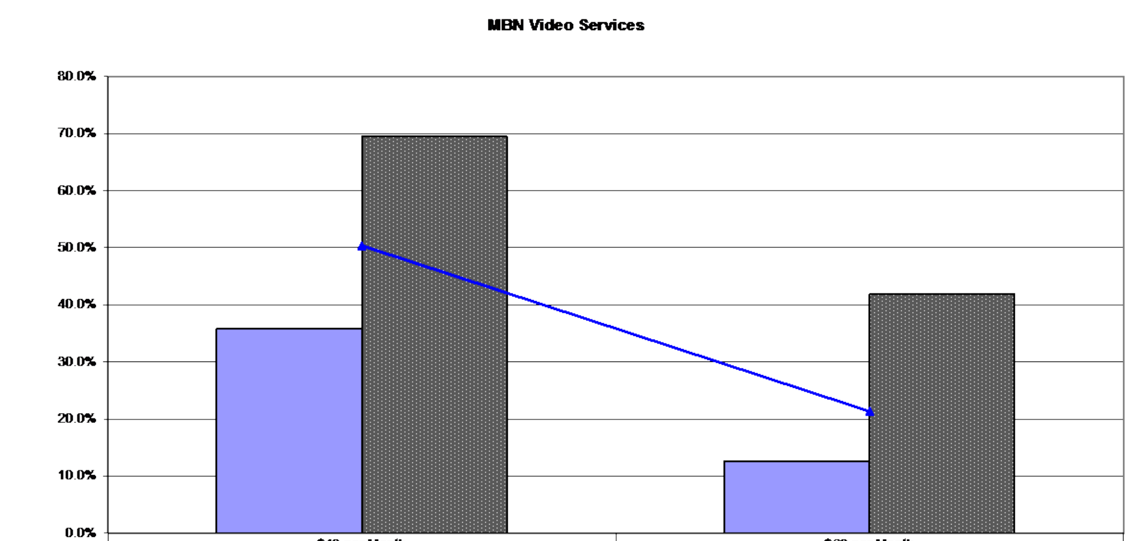
4.5.1 MBN Video Adoption Rates

The respondents were asked the question how likely they would switch to enhanced video services on the MBN that would provide dozens of channels of programming. The survey asked this question at the two different price points, $40/month and $60/month, in two different forms of questionnaires. The results are shown below. The table below shows the results at the $40 price point. The percentages in the Valid Percent column indicate the proportion of households responding with the respective affirmative or negative reaction. The results are very strong, with 50% likely or very likely to switch.



4.5.2 MBN Video Price Sensitivity

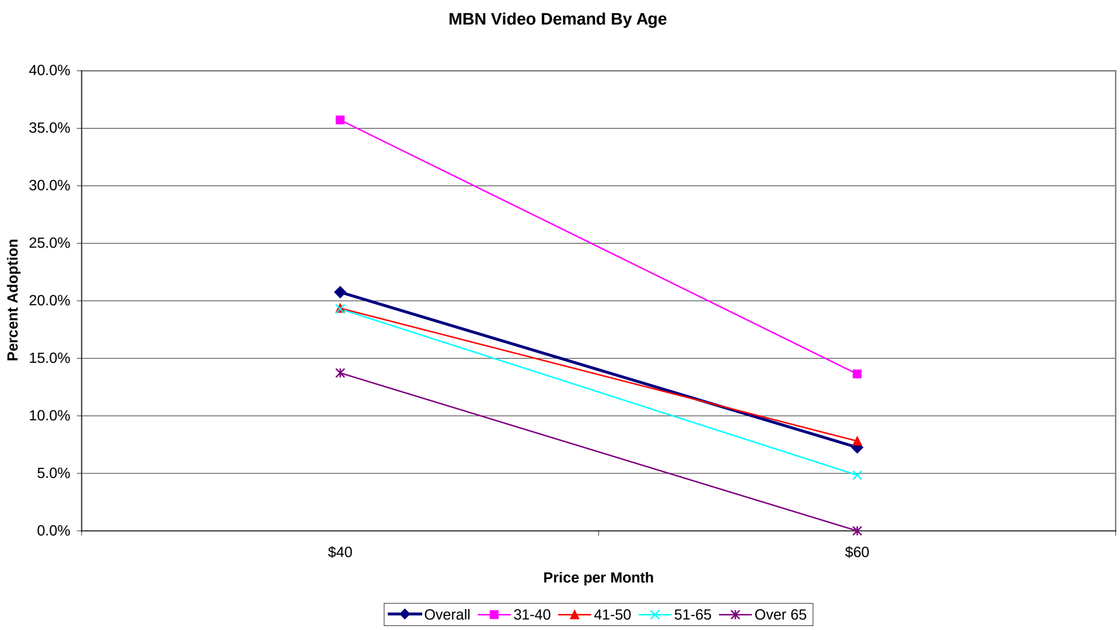
The “floor” or minimum potential market for enhanced video services on the MBN was established as those respondents who answered “Definitely Yes”. The “ceiling” or maximum potential market was defined as those who answered “Likely” and “Possibly” in addition. Merton, however, estimates the market potential as those respondents who answered “Definitely Yes” and “Likely”. The results of these estimates are presented below. The market for MBN video appears to have strong upside at $40, and has weaker demand at $60.



	$40 per Month	$60 per Month
Floor	35.9%	12.7%
Ceiling	69.5%	42.0%
Estimate	50.4%	21.3%

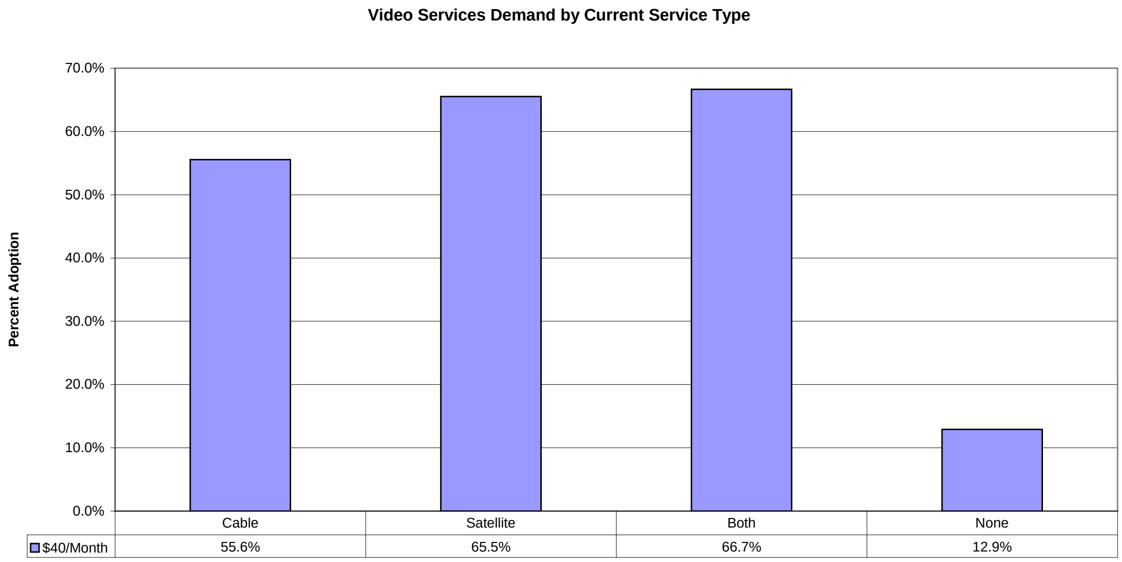
The above MBN video demand information was further segmented by age of the respondent to get a better idea of which population segments to target for provision of MBN video services. The results are presented in the chart below. These are the "demand curves" for MBN video.

- There is a large variation in interest in enhanced video services across different age groups, varying from 75% amongst the 31-40 age group to about 30% in the over 65 age group on the low end, at $40 per month.



4.5.3 MBN Video Adoption by Current Access Type

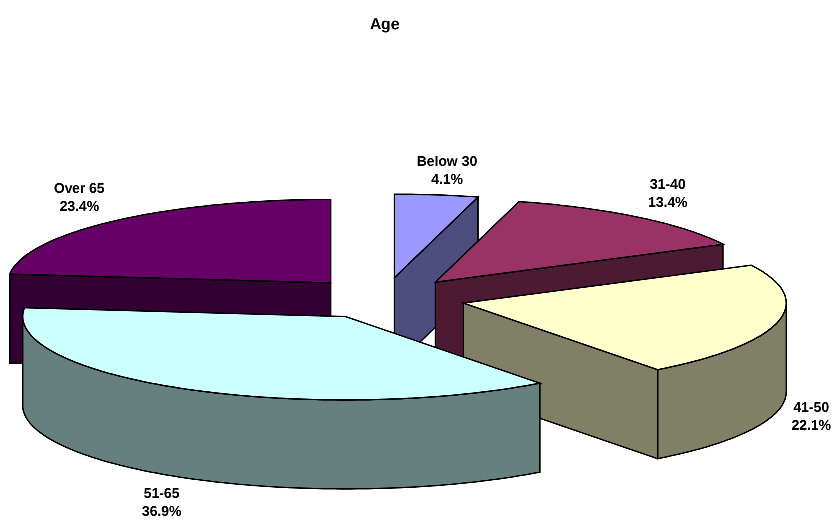
The demand for enhanced video services was also segmented by the type of cable/satellite service that the respondent currently subscribes to. The results are shown below.



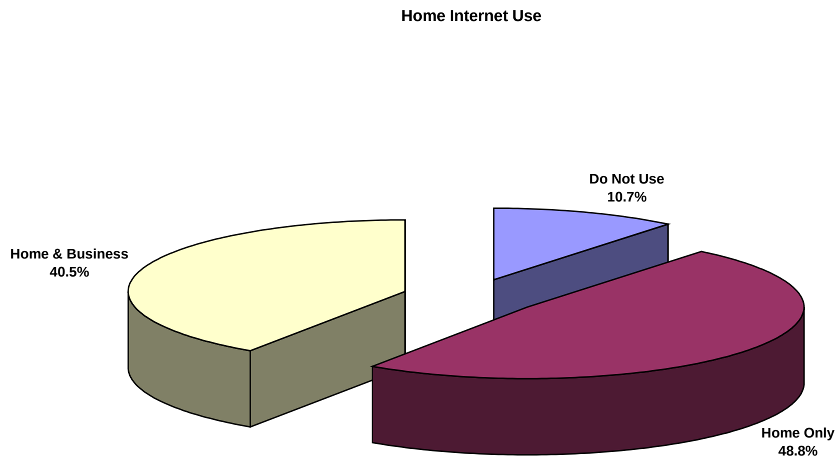
Clearly, there is a propensity for the current subscribers of both cable and satellite TV services to switch to MBN video at $40/month because they are likely paying more than $40 now. Residents who do not currently have video service do not appear to be interested in MBN video either.

4.6 General Demographics

4.6.1 Age



4.6.2 Home Internet Use



It is important to note that a high percentage of households in Rindge, about 40%, use the Internet at home for both personal and business use. This is a significant factor suggesting that these households would derive substantial benefits from the MBN for broadband Internet as well as other enhanced services.

5. EXHIBIT A: MARKET RESEARCH QUESTIONNAIRES