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MANAGEMENT CONSULTANTS

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June 29, 1981

Ms. Nancy P. Clott
Vice President & Media Director
Ted Bates & Co., Inc.
1515 Broadway
New York, N.Y. 10036

Dear Nancy:

It was a pleasure to meet you and Barry Kaplan again last Thursday to discuss the development of the enterprise that we here plan to incorporate as the National Cable Clearing House, Inc.

At the end of our meeting, you suggested that Ted Bates & Co. would consider making a research grant to encourage the development of the enterprise.

To facilitate your consideration, this letter describes our business objectives and outlines briefly our thoughts regarding the development of our enterprise. I relate our plans here with the understanding that Ted Bates & Co. will maintain them in confidence until we choose to make them public.

Business Objectives

At present, three services are required to facilitate advertising on cable television: the provision of 1) audited subscriber counts, 2) certificates (or affidavits) of performance for commercials, and 3) ratings. (Since all three are actually required for proper ratings, let me also designate the three respectively as 1) potential audience sizes, 2) clearances, and 3) HUT levels and Shares.)

We aim to make possible the provision of all three services. The first will be performed by the clearing house with a staff of auditors who will audit cable systems. Using a "black box" that we have designed and expect to patent, computer-based electronic signal collection systems will provide the second and third.

We plan to provide the first two services ourselves. We will certify cable network subscriber counts for network advertisers and individual system counts for local advertisers. Our computerized

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signal collection system will verify that commercials actually run. Our system will be highly economical and rapid in response time. We expect to certify over-the-air network and local commercials as well as cable commercials. We anticipate developing a comprehensive data bank of commercials run on television within three years. We will compete with Broadcast Advertiser Reports.

With regard to the third service--ratings--we plan to license the box and provide raw audience size data to Nielsen and/or Arbitron for the determination of program ratings.

The Black Box

The black box will collect electronic signals--short bursts of data that television commercials and programs will carry without viewers ever being aware of their presence. These data bursts will identify each commercial or program together with the network (or local originator) and time of telecast. (Conceptually they will resemble the product identification codes now carried on supermarket goods.) We should require only two such boxes to monitor all the commercials telecast over any given cable system. With only a few additional boxes, we can provide comprehensive coverage for over-the-air TV. At regular intervals, over telephone lines, the boxes will dump their data to central computers. The computers will sort and compare the data and report comprehensive commercial clearances.

An adaption of the black box will permit the collection of viewership data. With programs carrying electronic identification codes, ratings meters will no longer need to identify frequencies. All they must do is collect identification codes carried over those frequencies to which television sets in sample households are already tuned.

The trick is to persuade advertisers and program producers to implant the codes and networks to carry them. Our research suggests that one or more attempts failed in the early seventies to have such codes carried on programs and commercials broadcast over-the-air.

Obviously we believe that where codes failed in the seventies, they will succeed in the eighties. We believe that advances in technology have made our code system far less costly than those of the early seventies. More important, with the material increase in complexity that cable and the other new electronic media impose, we suggest that comprehensive clearance and ratings data can only be gathered economically through the use of such codes.

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Business Development

We have worked actively on the development of these services since February, 1981 pursuing two courses simultaneously: development of the black box and identification of major audit clients to minimize the start-up costs of the audit service.

In late April, we completed initial design of the black box. Our own research and that of our patent attorney have identified electronics manufacturers with whom we may wish to talk regarding cross-licensing and manufacturing. Our patent attorney has expressed an initial opinion that we should be able to obtain a patent. (We make no representations here or elsewhere that the Patent Bureau will actually award us a patent or that any patents we may be awarded will be held valid if challenged in court.) We expect to file the patent application in July, 1981. With final go-ahead from our attorney, we will build several prototype boxes to demonstrate our system. We will then approach Nielsen and Arbitron to discuss licensing agreements.

As we have developed the black box, we have also developed a business plan for its commercial introduction. Our objective is to introduce the box initially in high value applications in order to achieve positive cash flows rapidly and persuade advertisers to start encoding commercials as quickly as possible. We expect to start with new product testing applications. We will move as swiftly as possible to the monitoring of cable and over-the-air commercials. Ultimately, we believe that the members of the Screen Actors Guild and the American Federation of Television and Radio Artists are sufficiently concerned about residuals in the new electronic media, that our code system is sufficiently economical, and that its applications are sufficiently broad that encoding will become required industry practice after the next round of SAG and AFTRA contract negotiations.

Regarding the introduction of our audit service, we have approached initially the pay cable services: HBO, Showtime, and Warner-Amex. These are the companies for whom cable system audits have the highest value at present. (In fact, HBO has had an internal staff to audit affiliated cable systems for several years, and Showtime hired its first internal auditors last year.) We have suggested that it is much more economical for one central audit service to audit for everyone simultaneously rather than for each pay network individually to audit affiliates (most of which are coming to carry several pay networks) and an advertiser service to audit them, too.

I have spoken with the chief financial officers of all three pay networks. All three perceive clearly the economies of a centralized service. I believe that all three expect that they may come to use a central service, perhaps in the near future, and their doors remain open to us. But for several reasons, all are reluctant themselves to initiate a central service at this moment. Among other things, all are loathe to accept the risk that their subscriber statistics may leak.

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Clearly the next step is to discuss the audit service with advertiser-supported cable networks and with potential users of audited subscriber statistics such as yourselves.

Our Proposal

At present, two projects are immediately at hand.

First, we wish to gather, compare, and evaluate comprehensive data on the subscriber count claims currently being made by advertiser-supported cable networks. We also wish to question all relevant cable system operators regarding which networks they carry, how they carry them (full/part-time, tiered, etc.), and how many subscribers can view them. Such an evaluation, alone, should provide you considerable useful information. More important, we believe that thorough examination of the data will reveal a multitude of discrepancies and internal inconsistencies. The evaluation should demonstrate to cable network and system operators the degree to which they need our services. It should help us price the service. It should suggest which systems we should audit first.

Second, we must construct several prototype black boxes, demonstrate their feasibility, and initiate conversations with Nielsen and Arbitron.

Your support and financial assistance in either or both projects would be most valuable. For your benefit, Enclosure I to this letter outlines these two projects in slightly greater detail and estimates their costs.

Personnel

In order to evaluate our capacity to achieve our business objectives and perform these proposed projects, you may wish information regarding the personnel associated with our venture.

I will assume full-time responsibility as President and chief executive officer. Enclosure II presents a two page resume of my background. Four executives or professionals with backgrounds in finance, computer operations, law, and marketing will constitute the balance of our five person board. Enclosure III identifies them and summarizes their backgrounds briefly. All will serve in their personal capacities. All will receive copies of this letter. Their addresses appear below. Please feel free to contact them.

If you wish other references on me, I will be happy to supply them.

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Mark Grossman, who will be a director of our enterprise, will oversee our computer operation which is a central element of our business. Mr. Dennis Elliot who is chief financial officer of RCA American Communications (the division that operates RCA's satellites) can give you information on Mark Grossman's experience. Dennis Elliot's address appears below.

If you wish, I will be happy to put you in touch with our patent advisor.

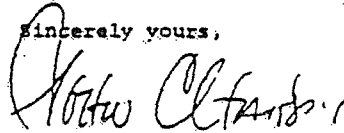
Conclusion

Your support and financial assistance has very considerable value to us much beyond dollars. It constitutes a clear mandate to request information from cable network and system operators. It demonstrates demand for the services that we propose to provide. It permits us to commence operations and start developing a track record that potential investors can evaluate in the future as we require investment capital.

We hope that you will encourage us to approach other advertising agencies and discuss similar support arrangements with them. The broader our base of support, the greater our strength will be.

I will telephone you in the next few days to determine how you wish to proceed. Meanwhile, many thanks for your interest and encouragement.

Sincerely yours,



John C. Harvey

JCH:se

cc: Mr. Barry Kaplan, Ted Bates & Co., Inc.

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