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11. The projections were made on the basis of the following assumptions:

Assumption 1. An STV system operating in a number of markets. Zenith-Teco state that STV franchise agreements have been entered into for the following cities with RKO: New York, Philadelphia, Washington, D.C., San Francisco, Hartford, and New Haven; with Marshall Field in Chicago and with Kaiser in Los Angeles. It is their opinion that a number of additional agreements, now in negotiation, will be concluded upon approval of nationwide STV by the Commission.

Assumption 2. STV will obtain a 10% market penetration. Based on this it is concluded that STV will be viable in the top 91 TV markets. At different levels of penetration (assuming the 20,000 subscriber break-even point) the number of viable markets is as follows:

50% penetration - Top 200 markets
20% penetration - Top 170 markets
10% penetration - Top 91 markets
5% penetration - Top 46 markets
3% penetration - Top 20 markets

(10% penetration of the Hartford market would result in 74,000 subscribers)

Assumption 3. Program product cost will average 35% of program income. Based on the figures shown in paragraph 8, program product cost in Hartford was 38% of program income during the first year, 35% during the second and 38% during the third year. Motion pictures, which are exhibited in theaters for 33 1/3% to 35% of the gross, were made available to STV in Hartford at the same prices.

Assumption 4. Station time will cost \$300,000 for small STV systems and \$400,000 for larger ones. Zenith-Teco anticipates paying \$300,000 for its STV time to a TV licensee in markets which can support up to 40,000 subscribers (assuming 10% penetration) and paying \$400,000 in markets which can support 75,000 (or more) subscribers.

Assumption 5. Decoder cost of \$131.38^{12/} and 5 years depreciation. This was the actual decoder cost in Hartford. On a 20,000 subscriber system (the break-even point) the annual depreciation of decoders would amount to \$525,520.

Assumption 6. A turnover rate of 20%. Based on the Hartford experience "and anticipated changes in operating methods and practices." Also 15-20 % turnover experienced by telephone companies. (Turnover rate in Hartford trial averaged 32%, see paragraph 7.)

Assumption 7. Program income will average a minimum of \$65 a year and decoder rental income \$39 a year per subscriber. Based on the Hartford experience adjusted to eliminate discounts and the assumption of a multi-market system resulting in more and better program product. This is also the basis for projections of program income of \$70 and \$75. (See paragraph 9 for Hartford discount experience and Conclusion 3 on inherent limit on spending. According to the Bureau of Labor Statistics ^{12/} in 1960 and 1961 urban families with incomes between \$4,000 and \$10,000 spent an average of \$30 a year and those with incomes of over \$10,000 an average of \$59 a year for movies, sporting events, concerts, plays, etc.)

^{12/} "Consumer Expenditures and Income", Bureau of Labor Statistics. July 1964 p. 237.

^{13/} Decoder price of \$125 plus \$6.38 for freight and use tax.