

program expenditure per subscriber: annual program expenditure per subscriber at \$65, \$70, and \$75. The \$65 program expenditure figure approximates the average program expenditure per subscriber during the first two years of the Hartford trial.¹⁷ In our opinion, the \$70 and \$75 annual per-subscriber program expenditure columns are equally realistic, since it is reasonable to assume that an expanded subscription system operating in a number of markets would have available a greater quantity and, in some respects, an improved quality of box-office attractions over that which it was possible to develop during the short period of the Hartford single-market subscription trial. Thus, it is assumed that first run and hard ticket feature films, more and better Broadway plays, etc. will become available.

While the assumptions which we have utilized in making these projections are based primarily on actual Hartford operating experience, we have made several revisions to reflect policy changes and operating improvements resulting from the experience gained during the test. We have also incorporated cost factors resulting from several recent technical improvements in decoder design developed as a result of experience gained in Hartford. The more significant of these revisions may be summarized as follows:

(1) For the purpose of generating a significant number of subscribers at the outset of the Hartford trial, RKO adopted a policy of offering the service free of the equipment rental fee during the first three months and certain summer vacation months. While this policy has been continued throughout the Hartford trial, it is the opinion of both RKO and Zenith that further continuation of this policy will serve no useful future business purpose if subscription television is extended on a nation-wide basis. This change of policy is reflected in the financial studies set forth in Table 5-8, inclusive.

(2) We have incorporated into our cost projections the assumption that subscription television programs will be broadcast in color and that the Phonevision subscription equipment will include all components necessary to encode and decode subscription programs in both color and black and white. The cost savings which will result from

¹⁷ The \$65 program expenditure figure has been adjusted to eliminate certain subscriber discounts allowed during Hartford Trial. Average annual program expenditure per subscriber during the first two years of the Hartford trial was \$62.16. Exhibit 3 attached hereto sets forth the average dollar program expenditure by month for the first two years of the Hartford trial and also shows the total amount spent on programs for each month during this period.