

March 16, 2007

Mr. Steven W. Pope MEA, PBC, SBA
P.O. Box 313
Old Saybrook, CT 06475

Dear Mr. Pope,

The two of us are principals of a successful company with a spotless reputation earned over the last twenty-eight years. Having devoted more than two decades together to developing the company we feel that we are at the point in our careers at which it is appropriate to explore the possibility of selling it. The purpose of this letter is to describe our company in some detail and to pursue the possibility of your firm helping us to effect a mutually advantageous transaction.

TSI Tailored Systems, Inc., was founded in 1979 as an “anything for a buck” computer software company. For the first few years of its existence – before the PC even hit the market – TSI designed customized administrative software systems for small local businesses using IBM mini-computers. It was fun, and we learned a great deal, but we soon realized that this approach was much too labor-intensive to be very profitable. We therefore searched for an industry for which we could design a marketable system. One of our first customers was an advertising agency. We developed from scratch a comprehensive administrative and accounting system for them. We called it GrandAd and marketed it successfully throughout the northeast during the eighties.

In the late eighties we recognized that market forces were against us. We began looking for a better niche. We had the chance to bid on the development of an administrative system for the sales promotion department of Macy’s East in 1988. Our market research revealed that there were no commercially available systems for the management of retail advertising. We therefore leapt at the opportunity, and we won the contract.

It was extremely hard work, but we pulled it off. We developed a multi-user fully integrated system to manage essentially all of the administrative aspects of advertising in all media. We called the system AdDept. It does not create the ads, but it can do almost everything else that a retail advertising department needs.

We enhanced and marketed AdDept throughout the nineties in a rather unusual way. We avoided the temptation to portray AdDept as a stand-alone system. Instead we sold it as a reliable structure on which TSI and the user would together construct a tailored system. If we had not done so, we would probably never have sold a second system. This approach limited the total number of installations feasible in any given year, but over the years it allowed us to enhance the system significantly without running much financial risk. The customers have in effect paid the developmental costs of the enhancements. All users received all of the code, but

the use of each system was constrained by a set of switches so that it functioned exactly the way that the user wanted it to. However, TSI has maintained ownership of 100% of the code and shares the marketing rights to AdDept with no one.

AdDept is currently installed and running in many of the largest retail advertising departments in America:

- Macy's East, Macy's West, Macy's North, Macy's Midwest, and (our most recent client) Macy's South.
- Saks Fifth Avenue.
- Neiman Marcus.
- Lord & Taylor
- The Bon-Ton/Elder Beerman.
- Belk department stores (private; including recently acquired Proffitt's and the Parisian).
- Gottschalks.
- Stage Stores.
- Dick's Sporting Goods.
- Filene's Basement.

The number of users in each installation varies from a handful to one hundred or even more. All of these companies have ongoing software maintenance contracts with TSI. We support their systems from our offices in Connecticut.

More than eighteen years after we started working on AdDept, it is still the only commercially available product for large retail advertisers. In fact, we have never heard of any system that is even roughly comparable. AdDept today contains well over three thousand programs. For many reasons we are convinced that it would be unreasonably costly for a potential competitor to attempt to enter the market at this stage.

1. TSI has twenty-five years of experience in administrative systems for advertising and eighteen years of experience in the retail arena. This experience cannot be purchased. It cannot be acquired without many years of blood, toil, tears, and sweat.
2. Starting from scratch, even experienced developers would require years to replicate AdDept, and that assumes that they made no fatal errors in the design.
3. TSI's approach to software development is somewhat different from that commonly taught in schools today. Our methodology is much more efficient, at least in our arena. It is undeniably ideal in development of a comprehensive multi-user administrative system such as AdDept.
4. Support costs for a system like AdDept would be prohibitively high without a substantial client base, but most of the largest retail advertisers already use AdDept. No startup could profitably provide the amount of support that users of such a complex system require. In contrast, the maintenance fee paid by our customers is less than the cost of one of their employees. Once the system is installed, they are never tempted to go shopping for a replacement to AdDept.

In short, AdDept is a mature product with a solid user base. It has consistently generated profits for TSI for the last decade. It is a monopoly with little or no chance of any competition in the foreseeable future.

In 2000 TSI began working in a second area. In this case we were interested in designing something that could generate a steady revenue stream without requiring much labor. Who wouldn't be? We hoped to be able to leverage our client base and our experience to find a second niche to fill. We settled on insertion orders.

An insertion order is a method of reserving space in a newspaper for either ads (called ROP in the newspaper business) or preprinted inserts. The traditional method of sending insertion orders is by fax. The largest purchasers of advertising in most daily newspapers in America uses AdDept.

We decided to develop an Internet service for insertion orders. The advertisers, instead of faxing each order to each paper (several of our advertisers use hundreds of newspapers every week), send all of their orders over the Internet to TSI's server. A program on our server processes the orders, sends e-mails to the affected parties, and posts the orders on the web. The entire process – even if hundreds of orders are involved – takes only a couple of minutes. The service is called **A*N**, “A cross N.” A stands for advertisers; N stands for newspapers.

What makes this service unique is that the program can process changes as well as new orders. The advertiser just sends all or part of the order again. **A*N** finds the changed items and highlights them for the newspaper. This virtually eliminates the possibility of misunderstandings that can lead to missed or erroneously placed ads. There are many other attractive features in **A*N**, too many to list in a letter.

TSI charges both the newspapers and the advertisers a modest monthly fee for this service. Both the advertisers and the newspapers think that the value exceeds the cost. Currently over 430 newspapers subscribe to the system. We are shooting for five hundred subscribers by the end of the year.

A*N uses a minimal amount of system resources and a negligible amount of bandwidth. It requires very little support from TSI personnel after the newspaper has used it for a week or two.

We have some great plans for **A*N**. Insertion orders for retail advertisers are really only the tip of the iceberg. In effect TSI owns the space in which newspapers and their largest advertisers communicate electronically. It should be feasible to expand its use to many other areas of communication between the two.

There is no other commercially available system that is even roughly like **A*N**. There are other ways to post orders on the web, but there is no other seamless system, and no other system actually manages the orders.

We think that TSI has a great deal more to offer than most companies of its size. Here are some of the reasons:

- TSI offers two valuable products in areas where there are absolutely no competitors.
- The barriers to entry in both areas are probably cost-prohibitive to anyone else.

- TSI's customers are larger and more stable than those of most small businesses.
- Because costs of sale are negligible, the profit margins are quite high.
- Both products offer considerable potential for both integration and development.
- The world's experts in the computerized administration of advertising work at TSI.

Does TSI sound like the kind of company that your firm might be interested in? We are in no rush to shed TSI. The company has no external debt, we are currently earning good salaries, our workplace is very comfortable, and we both enjoy the work well enough. On the other hand, we think that the company may have reached the stage that someone else might be able to do even more with it. We are both better at analysis and execution than we are at salesmanship. We are well aware that marketing has always been TSI's weakest suit.

If you are interested in helping us to pursue this, please send an e-mail to Mike_Wavada@TSI-TSI.com or Denise_Bessette@TSI-TSI.com. Please do not contact us by phone or mail, at least not at this time.

Thank you for your attention.

Mike Wavada
President

Denise Bessette
Vice President, Application Development