

J.A. Ryman Company

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PRELIMINARY FEASIBILITY STUDY AND REPORT

PROPOSED NEW FM RADIO STATION

NEDERLAND, TEXAS

Prepared at the request of Ronald D. Haney

PURPOSE

The purpose of this report is to estimate the feasibility of a proposed new FM Radio Station in Nederland, Texas.

We have attempted to establish a reasonable base for the opinions as they are outlined both on a technological forecasting and a subjective forecasting basis. Data of an informational nature that has been furnished to us by our client is assumed to be true and correct; in addition, due to the nature of this report, certain other assumptions were made, some of which are outlined in Appendix 1.

As a part of this report, we have attempted to establish a reasonable value basis for the elements of the proposed station as they would contribute to the operating whole. Individual asset elements of a broadcast property may have little significant value when not considered as a part of the interacting whole, therefore, all probabilities stated are related to the system as a working whole rather than to the individual element. Any statement of probability will consider all aspects of value; direct tangible value, as well as indirect non tangible contributing value, as well as the specific value of immediate access to the station as an operating whole.

Neither the J.A. Ryman Company, nor any of its employees have a present or future contemplated interest in the proposed

new station. The fee for this study and report is neither based on, nor contingent upon the results found.

This study and report and all related data is confidential and the J.A. Ryman Company will not release a copy of, or relinquish any information regarding the study or report without the specific written authorization of the client unless directed to do so by appropriate court order.

GENERAL CONCLUSION

This feasibility study and report is made on the basis of information gathered during market research and information furnished by others. We submit herewith our preliminary assesment of the feasibility of the proposed new FM Radio station in Nederland, Texas.

After careful study and investigation, and for reasons that are set forth in general in this report, and on the basis of general industry data and research sources, it is our opinion that the project is feasible assuming that good planning and professional management techniques are utilized.

Any quote of the finding of this report must contain all qualification data and a statement of the contingent and limiting conditions.

John A. Ryman

June 5, 1981

STATEMENT OF CONTINGENT AND LIMITING CONDITIONS

This feasibility report is subject to the following conditions and to such other specific and contingent limiting conditions as are set forth in the report.

No responsibility is assumed for matters of a legal nature affecting the project studied or the rights thereto, nor is any opinion rendered relating to the rights, which for the purposes of this report are assumed to exist.

It is assumed that there are no hidden or non apparent conditions of property, equipment, structure, or economics that would make it more feasible or less feasible. No responsibility is assumed for discovery of such conditions or engineering that may be required to discover such factors.

Information, estimates, and opinions furnished to us and contained in this report were obtained from sources that are considered reliable, and such information, estimates, and opinions are assumed to be true and correct, however, we cannot assume responsibility for, nor warrant the accuracy of such information.

Possession of this report, or a copy of this report does not carry with it the right of publication, nor may it be used by any person other than the client and only then with the proper qualification.

Neither the appraiser nor a representative of the J.A. Ryman Company is required to give testimony, or to appear in

court by any reason of this feasibility study or report, with reference to any statement, conclusion, or evaluation in question, unless arrangements have been previously made for such testimony or appearance.

All conclusions and evaluations contained in this report are an expression of opinion only and should be viewed as such. No other representation or warranty is expressed or implied.

1979 RETAIL SALES BY STORE GROUP--WITH 1977 CENSUS DATA

Metropolitan Area County	Year	Food Stores		Eating & Drinking Places	General Merchandise Stores		Apparel & Acces. Stores		Furn./ Home Furn./ Stores		Auto. Dealers Total (\$000)	Gas. Serv. Stat. Total (\$000)	Bldg. Mtls. & Hdwe. Total (\$000)	Drug Store Total (\$000)
		Total (\$000)	Super Markets (\$000)		Total (\$000)	Dept. Stores (\$000)	Total (\$000)	Appli. Total (\$000)	Furn. Home Furn. (\$000)					
Metropolitan Area County	1979	1,731,403	384,952	131,100	211,898	168,068	97,394	88,876	46,018	30,024	130,060	127,449	46,22	
	1977	1,329,457	297,134	96,606	165,123	128,318	74,440	63,146	32,704	320,944	92,741	88,236	37,31	
Metropolitan Area County	1979	161,255	40,169	4,959	4,185	1,886	2,753	1,751	1,351	49,279	15,061	29,207	5,52	
	1977	110,206	26,202	3,693	3,711	1,644	2,317	1,581	1,171	35,181	9,457	18,370	3,56	
Metropolitan Area County	1979	1,256,295	263,444	109,027	183,927	157,961	79,147	72,610	36,548	271,526	73,743	72,696	31,83	
	1977	982,211	203,059	79,444	142,371	120,204	59,557	52,469	26,410	228,808	56,185	52,970	26,71	
Metropolitan Area County	1979	313,853	81,339	17,134	23,786	8,221	15,489	14,515	8,119	69,219	42,256	25,546	8,88	
	1977	236,040	62,873	13,469	19,041	6,470	12,556	9,159	5,123	56,955	27,099	16,896	7,03	

HOUSEHOLDS BY EFFECTIVE BUYING INCOME (EBI) GROUP

	Households by EBI Group										Median House- hold EBI	AVG. House- hold EBI	Per Capita EBI
	12/31/19 Total House- holds (Thous.)	Under \$2,000	\$3,000 To \$4,999	\$5,000 To \$7,999	\$8,000 To \$9,999	\$10,000 To \$14,999	\$15,000 To \$24,999	\$25,000 To \$49,999	\$50,000 Or More				
Metropolitan Area	132.2	9,376	7,337	9,360	5,775	15,212	39,283	41,010	4,847	20,085	21,987	7,925	
Outside Metropolitan Area	13.1	1,095	1,106	1,074	585	1,596	4,101	3,295	248	18,224	18,906	6,302	
Jefferson	89.8	6,630	4,839	6,479	4,119	10,738	26,045	27,281	3,669	19,810	22,102	8,042	
County	29.3	1,651	1,392	1,807	1,071	2,878	9,137	10,434	930	21,799	23,013	8,355	

POPULATION, EFFECTIVE BUYING INCOME, RETAIL SALES, AND BUYING POWER INDEX (BPI)

	12/31/79		% Change 1970-79	Pop. Per Sq. Mi.	12/31/79 Hseholds (Thous.)	% Of U.S.	1979 EBI (\$000)	% Of U.S.	1979 Retail Sales (\$000)	% Of U.S.	Buying Power Index BPI	Grad. Buying Power Indexes		
	Pop. (Thous.)	% Of U.S.										EPP Econ. Priced Prod.	MPP Mod.-Priced Prod.	FPP Prem. Priced Prod.
Albany	366.8	.1656	5.5	166	132.2	.1689	2,906,718	.1796	1,713,403	.1951	.1815	.1678	.1629	.2017
Bartlett	39.3	.0178	31.0	44	13.1	.0167	247,669	.0153	161,255	.0181	.0167	.0190	.0162	.0134
Jefferson	246.8	.1114	.2	260	89.8	.1148	1,984,779	.1226	1,256,295	.1416	.1261	.1155	.1141	.1448
Montgomery	80.7	.0364	13.4	225	29.3	.0374	674,270	.0417	313,853	.0354	.0387	.0333	.0326	.0435

POPULATION BY AGE AND SEX

CITY	12/31/79 Total Pop. (Thous.)	Sex		Pop. by Sex	Population by Age and Sex										Median Age By Sex
		Male	Female		0-5 Years	6-11 Years	12-17 Years	18-24 Years	25-34 Years	35-44 Years	45-54 Years	55-64 Years	65 & Over		
Arthur-	366.8	Male	Female	178,804 187,996	15,820 15,253	17,616 16,805	21,388 20,852	22,871 22,977	27,464 29,247	22,317 23,611	19,521 20,237	17,479 18,457	14,328 20,357	29.3 31.2	
Arthur-	39.3	Male	Female	19,312 19,988	1,921 1,856	1,988 1,921	2,351 2,189	2,004 2,092	2,976 3,211	2,279 2,382	1,880 1,947	1,951 2,095	1,962 2,295	29.7 31.0	
Arthur-	246.8	Male	Female	119,614 127,186	10,144 9,779	11,337 10,848	14,109 13,992	16,185 15,836	17,367 18,533	14,736 16,133	13,584 14,192	12,174 13,035	9,978 14,838	29.6 32.1	
Arthur-	80.7	Male	Female	39,878 40,822	3,755 3,618	4,291 4,036	4,928 4,671	4,682 5,049	7,121 7,503	5,302 5,296	4,057 4,098	3,354 3,327	2,388 3,224	28.2 29.0	

HOUSEHOLDS BY AGE OF HEAD AND NUMBER OF PERSONS

METRO AREA County	12/31/79 Total Hse.- holds (Thous.)	Households by Age of Head							Households by Number of Persons						Avg. Hse.- hold Size
		Under 25 Years	25-34 Years	35-44 Years	45-54 Years	55-64 Years	65 & Over	1	2	3	4	5	More		
		Franklin	132.2	10,443	27,808	25,424	22,727	21,702	24,096	29,798	40,219	24,165	20,955	10,440	
Hardin	13.1	882	2,710	2,372	1,999	2,216	2,921	2,302	4,117	2,285	2,472	1,128	796	3.00	
Jefferson	89.8	7,075	17,567	16,866	15,826	15,219	17,247	21,270	27,180	15,966	13,940	6,935	4,509	2.75	
Orange	29.3	2,486	7,531	6,186	4,902	4,267	3,928	6,226	8,922	5,914	4,543	2,377	1,318	2.75	

Source Data:

Unless otherwise indicated, all projections and estimates this section,
Sales & Marketing Management, or 1980 Survey of Buying Power Data Service.

COMPETITIVE STATIONS IN MARKET

<u>STATION</u>	<u>FORMAT</u>	<u>CITY OF LICENSE</u>	<u>TECHNICAL</u>
KJET-AM	N/T	Beaumont	1KW DT@1380
KLVI-AM	C/W	Beaumont	5KW(DA-N) @560
KOLE-AM	A/C	Port Arthur	1KWD/250W/N @1340
KALO-AM	Black	Beaumont	1KW(DA-1) @990
KZZB-FM	Rock	Beaumont	60KW/238' @95.1
KAYD-FM	Rock	Beaumont	50KW/320' @97.5
KHYS-FM	Rock	Port Arthur	65KW/400' @98.5
KIOC-FM	Rock	Orange	100KW/1060' @106.1
KQXY-FM	B/M	Beaumont	100KW/645' @94.1
KWIC-FM	Rock	Beaumont	100KW/389' @107.7
KYKR-FM	C/W	Port Arthur	100KW/500' @93.3
KZOM-FM	Rock	Orange	40KW/440' @104.5
KAYC-AM	Rock	Beaumont	1KWD/250W/N @1450
KEAM-AM	Religious	Nederland	5KWDT(DA) @1510
KOGT-AM	C/W	Orange	1KW(DA-N) @1600
KDLF-AM	MOR/GOS	Port Neches	500WDT(DA) @1150
KPAC-AM	Combo	Port Arthur	5KW/D/1KW/N(DA-N) @1250

For the purposes of this listing, the term Rock is used in place of format terms such as Adult Contemporary, Contemporary, Hit Oriented Rock, Album Oriented Rock, etc. because of lack of standard definition. A complete and through analysis should be made before the proposed new FM format is determined.

EVALUATION

Standard Rate And Data Service ranks the Beaumont-Port Arthur-Orange Metropolitan Market on a comparative National Basis in the following manner:

107	Population
104	Number of Households
95	Consumer Spendable Income
57	CSI Per Household
92	Total Retail Sales
69	TRS Per Household
81	Food Sales
88	Drug Sales
99	General Merchandise Sales
80	Apparel Sales
97	Home Furnishing Sales
75	Automotive Sales
104	Passenger Cars

Annual reports filed with the Federal Communications Commission for the calendar year 1979 (the latest information available as of this writing) for the 14 stations filing show the following totals:

\$3,400,379	Local Revenue
631,107	National/Regional Revenue

36,840	Network Revenue
324,129	Commissions
3,744,960	Net Revenue
4,733,147	Total Expenses*
-988,187	Income

Note: above totals taken from various tables and charts; straight line calculations vary slightly.

*Includes depreciation, interest payments, and payments to officers, owners, and stockholders if applicable.

An examination of various research reports indicates that between 55 and 65 percent of the radio audience in the market is listening to an FM station, which is a 10 to 15 percent increase over the previous year.

A table compiled by Paul Kagan Associates, Inc. indicates that 1978 revenues expressed as a percentage of retail sales is .26%. A projection of that percentage utilizing the 1984 Retail Sales Projection would forecast 1984 Radio Revenues at \$7,995,279. If the new station could achieve only a 5.0 Market Share, a satisfactory sales projection would be \$399,763. annually. Utilizing 1979 reported revenues, the same market share could produce \$203,454. It is reasonable to assume that with frugal management, the new station could survive at these levels of operation. It is also reasonable to assume that with an aggressive programming and sales effort, it is possible to far exceed these minimal levels and to establish an extremely profitable operation while building a property with significant

value. It should be noted that such assumptions, while reasonable, are highly contingent upon the management quality, strategies utilized, and the acceptance and adoption of the new facility by both the advertising community and the listening audience.

VALUE COMMENT

No yardstick exists by which one can easily project the accurate fair market value of a radio broadcasting facility. Each individual station is unique and is matched to a specific market; the result is a number of variables that are particularly difficult to predict. The radio broadcasting industry itself consists of just over eight thousand commercial stations nationwide. Station values reflect the several factors of the market served, technical facility allowed, extent of competition, history of previous success, quality of assets, and whether FM, AM, or AM/FM facilities are involved.

A comparable sales approach is a basis of determining value, however the comparable approach must be weighted by the factors unique to the individual situation. Since most broadcasting companies are closely held with stock not widely traded, recent sales experience can be a significant factor.

Radio broadcast frequencies are limited in number and their use is closely regulated. Allocation of frequencies, licensing, and regulation of broadcast stations are a function of the Federal Communications Commission. Prices commanded by existing stations reflect the scarcity of frequencies as well as a variable spectrum of market conditions.

As an industry segment, FM has shown tremendous growth over the past decade. The growth pattern has not been uniform throughout all levels of the industry; it began in the larger markets, and is reaching the smaller markets more slowly. In

large and medium markets, FM has achieved virtual audience parity with AM in many demographic elements. An example of FM growth is found in the total net broadcast revenues for independent FM stations:

<u>Year</u>	<u>Net Revenue</u>
1969	\$ 33,400,000
1970	40,600,000
1971	53,200,000
1972	77,400,000
1973	96,100,000
1974	128,000,000
1975	142,900,000
1976	180,000,000
1977	225,300,000
1978	285,300,000
1979	361,500,000

It is important to note that the growth of FM revenue has not been at the expense of AM, which during the same period has shown excellent growth (revenues of AM/FM combinations included when reported as such):

<u>Year</u>	<u>Net Revenue</u>
1969	\$1,004,500,000
1970	1,104,700,000
1971	1,137,700,000
1972	1,246,100,000
1973	1,316,100,000
1974	1,369,300,000

1975	1,430,200,000
1976	1,622,600,000
1977	1,761,400,000
1978	1,974,900,000
1979	2,080,000,000

When sold, FM stations have been commanding extremely high multiples of revenue as a result of the strong growth patterns. Our opinions of value are based partly on proven track records of radio stations as profit producers. It should also be noted that there is a strong demonstrated market for FM stations that have not yet developed into strong revenue producers.

A potential buyer estimates future earnings by projecting past operating results over future time periods. Since earnings are derived from revenues, stations with larger revenues usually have a higher profit potential and market value; obviously the maximizing of revenues is an objective common to all station managements.

There is no known exact formula into which factors affecting station earning potential can be inserted to obtain an estimate of market value. Values based on multiples of revenue (which assume certain levels of cash flow) are indicative, but not sufficient for most purposes. The final estimate of market value must reflect qualitative analysis of a number of factors, both alone and in various combinations. The validity of the estimate depends to a large degree on the integrity and magnitude of the qualitative input.

As in other business acquisitions or start-ups, the

primary objective is to obtain rights to future earnings. The amount of the future earnings establishes the upper limit of the price that a knowledgeable buyer is willing to pay. Future earning potential of radio stations are highly contingent on management effectiveness, market size and growth rate in terms of both population and retail sales, competition, technical facilities, economic environment as well as regulatory and industry trends.

Two stations in the same market may have the same past and potential revenues, but have differing market values as a result of differentials in operating costs, format, or specifications of technical license which may require a significantly higher level of operating technology.

Cash flow is a widely used term in reference to radio station values. The term as used in this instance may vary somewhat from the normal accounting sense in that it is the net income after operating expense but before depreciation, amortization, interest, taxes, and in some cases superfluous operating expenses. Expressions of value based on cash flow are generally a form of investment analysis and are directed toward an isolation of the real cash income available to the owner for servicing debt; the payback ability of the facility, and a measurement of the time required for the business to generate a cash inflow equal to the cash requirement (including desired ROI).

STATEMENT OF QUALIFICATIONS: JOHN A. RYMAN

John A. Ryman of the J.A. Ryman Company of Dallas, Texas, has the following qualifications as a respected member of the broadcasting community:

First Class Engineering License issued by the Federal Communications Commission in force for over fifteen years.

Continuous employment in commercial broadcasting for almost twenty years. Experienced in all phases of broadcasting; general manager, operations manager, program director, chief engineer, and responsibility for group operations.

Nationally recognized as a station broker, appraiser, and management consultant.

Author of various published articles on various topics relating to broadcasting.

Appearances as a featured speaker on subjects of broadcasting before a variety of organizations, including professional broadcast associations.

Member of a wide variety of professional organizations

including:

National Association Of Broadcasters

National Association of Black Owned Broadcasters

Various state broadcaster associations

American Society of Professional Consultants

Service to a broad and diverse Nationwide client base.

Appendix 1

STATEMENT OF ASSUMPTIONS

For the purposes of this report, certain assumptions were made that include, but are not limited to the following listing:

1. It is assumed that the National and Local economies will not experience a sudden and rapid decline.
2. It is assumed that technological advances will not progress at a rate that will require further major expenditures within the first three years of operation.
3. It is assumed that there will be no new major competitive forces in the marketplace within the first three years of operation.
4. It is assumed that management will exhibit positive attributes and will strive for excellence.
5. It is assumed that professional personnel will be available for all staff positions as planned.
6. It is assumed that an interference free signal can be delivered in the primary cities of Beaumont, Port Arthur, and Orange.

Appendix 2

Research sources that were reviewed in the preparation of this report, but not necessarily quoted include, but are not limited to:

Broadcasting Magazine

Broadcasting Yearbook

Radio & Television Age

Blair Fifteenth Edition Statistical Trends In Broadcasting

Standard Rate and Data Service

Sales Marketing And Management

SM&M Data Service

American Radio

Broadcast Investor

Editor And Publisher Yearbook