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A Radio or Television Station In The Future?

A Guide To Broadcast Acquisitions

By Ruth H. Doumlele

A broadcasting station in your client's future, or in your company's acquisition plans? Then, good counseling from the accountant is in order, because this highly specialized field has its own peculiar terminology, risks and challenges. Before negotiations are complete good brokerage, legal and engineering counsel must also be sought, but meanwhile the informed advice of an accountant can be invaluable.

An active market exists for broadcast licenses, as they are the only means an investor has to enter the broadcast industry. Their scarcity enhances the value of any property under consideration, and the field is crowded with many companies vying for the more choice properties.

The industry is regulated by the Federal Communications Commission (FCC) and all sales or transfers must be approved by this agency. Over 8,000 broadcast and telecast licenses have been granted by the FCC. In 1978 transactions totaling \$651,728,398 were approved. Present FCC regulations limit ownership of broadcast properties to twenty-one, or seven television stations, seven FMs and seven AMs. Many properties go on the market through divestiture when two companies merge and must dispose of some of their properties, or when a company prospers and "trades up", acquiring larger stations or stations in a larger market.

Assistance with the Purchase. Expert advice is necessary to guide the novice through the process of finding a station which may be financially and geographically appealing. A broadcast broker's function is similar to that of a real estate broker in soliciting listings of stations to be sold and seeking properties in specific locations desired by clients.

Engineering firms specialize in checking out the technical equipment and the range of the signal. Some Washington, D.C. legal firms deal exclusively with the preparation and submissions of license applications to the FCC and with other legal aspects of compliance with the FCC. Commercial firms conduct seminars designed to assist prospective buyers. The National Association of Broadcasters also offers expert advice. The broker must be provided with information on the company's background and reasons for purchasing.

In turn, arrangements will be made for a meeting with the present station owner for the prospective buyer to visit the station. In order to maintain employee morale and confidentiality, the visit must be very discreet.

General Considerations

Evaluation of Properties. The broker provides the prospective buyer with information on the market: size, population, and numbers of radio and TV stations, as well as statistical data on industry in the

area, ethnic makeup and whether the metro market is growing or declining economically. The broker will offer comparisons of the AMs, FMs, daytimers, full time stations, UHF and VHF television stations. Other useful information includes the various formats being used by the stations, such as middle-of-the road, beautiful music, country, or rock, and how the stations have been rated in the audience surveys.

Technical considerations are important. A directional antenna, compared with a nondirectional one, changes service patterns at night to prevent interference. Night broadcasting may utilize skywaves while daytime broadcasting is dependent upon ground waves. There are four classes of amplitude modulation stations. A Class I, usually 50 kilowatts but never less than 10 kilowatts, serves large centers of population and rural areas, operating on a clear channel. A Class II is a secondary station on a clear channel, from 250 watts to 50 kilowatts and serves a population center and adjacent rural areas. A Class III shares a regional channel with numerous similar stations of 500 watts to 5 kilowatts of power. A Class IV is on a local channel shared with similar stations with power of 1 kilowatt in the day and 250 watts at night. AM stations operate in the lower frequencies from 535-1605 kilohertz. Frequency modulation stations cover a higher portion of the radio spectrum, providing high fidelity broadcasting. A Class A FM has low power with a maximum of 3 kilowatts of effective radiated power. A Class B has a maximum of 50 kilowatts while a Class C has 100 kilowatts, Antenna heights are limited to 300 feet above average terrain for Class A, 500 feet for Class B and 2,000 feet for Class C. If the heights are greater, then power reduction is required but minimum power requirement must be met.

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Many methods are employed to arrive at a realistic purchase price

Other Determinants. Many methods are employed to arrive at a realistic purchase price, such as multiples of gross revenues for the year, multiples of cumulative cash flow, and discounted cash flow. However, factors such as whether real estate is to be transferred or just a license is to be purchased make exact guidelines, applicable in all cases, unrealistic or impossible. The period of time under the present ownership is important. FCC rules require that stations owned less than three years may not be sold except under the "hardship condition." That is, a profit may not be realized on this type of sale. The appraised value of a station may be defined as the price at which the station may be sold, assuming a willing buyer, a willing seller and the necessary time for completion of the transaction.

Negotiations. When the purchaser is satisfied with the market, likes the station, thinks the format is good, believes the network affiliation suitable, and deems the asking price within range, a preliminary offer is made. A letter should set forth the terms of the offer, provided that certain criteria are met.

The most important decision is whether the offer is made on the assets of the station or on the capital stock. If an asset arrangement is contemplated a broadcast appraiser can offer valuable assistance. Using the allocate value approach, replacement costs for all categories of assets, both tangible and intangible, are determined. Then an applicable factor is applied to determine the fair market value, which becomes the potential sales price. These values usually provide a substantial tax saving through depreciation deductions. A capital stock transaction might require a decision based on tax loss carry-forward, tax recapture based on depreciation taken, and/or the value of assets over liabilities.

The letter submitting the offer should request audited financial statements for the last five years, 324's (annual financial statements to the FCC) for the last three years, an unaudited financial statement for the period since the last audit, information on all real estate and other property owned, leases in force and whether assignable, and the number of employees and positions. Details of any Equal Employment Opportunity problems and union affiliation should be obtained. The current rate card should be examined to determine if the *time sold* is realistically priced and how it compares with other stations in the market.

In-depth examination of the accounting information is necessary

Financial and Legal Considerations

In-depth examination of the accounting information is necessary. How many actual dollars were generated in sales? How much were trade sales? Is the station over or under staffed? Were there hidden promotional deals which might tend to inflate sales for a specific period? Were large amounts of money charged as management fees? Will the lease for the tower and transmitter site expire shortly and require a costly relocation? Has the engineering consultant recommended replacement of existing equipment? Answers to these questions will help determine the amount of the final offer.

When tentative arrangements for financing have been made a non-compete fee, which is compensation for the seller not to compete in the market for a specified number of years, may be offered. This may be paid in advance or on an annual basis and is considered ordinary income to the recipient. This fee, and the purchase price, comprise the total consideration to be paid.

The purchaser must now examine various ways of paying for the station, in order to meet the debt service. Some sellers require cash but

often a sale may be made on terms. To qualify for an installment sale the down payment, plus amounts received on the principal amount, cannot exceed 30% in the year of sale. Sometimes the contract will utilize a balloon payment at the end, in addition to the regular payments.

Final arrangements must be compatible with the cash flow requirements. For instance, must the station generate enough cash flow from the outset to pay for itself, in addition to other cash payments? Can it operate at a loss for a period of time in order to build up equity in a going concern? Only the purchaser can decide whether an agreement is reasonable or feasible.

The purchase contract will state the terms of the sale and include an inventory of what is sold, as well as a security agreement, if one is necessary. A deadline for submission to the FCC for approval is usually noted and there will be a stipulation that the transfer of control will not take place until the Commission has given its consent. Notice of the agreement to sell must be filed with the FCC by the licensee-seller.

The FCC Application. An application for FCC approval for the license transfer is filed on a Form 314 for an asset sale and Form 315 for a stock sale. Two parts must be completed, one section by the assignor/seller and the other by the assignee/buyer. The seller must demonstrate that the station has been operated in a satisfactory manner. There must be a detailing of program, public service, news and commercial practices to prove that they conform to previous commitments to the FCC.

The assignee/buyer part of the application is much more detailed. Information on legal and financial qualifications, proposed programming and commercial practices and plans for insuring equal employment opportunities to women and minorities must be provided.

Legal information required includes corporate structure, stock interests and other media interests and citizenship of the stockholders. Biographical information, business interests and media activities of each principal must be included.

Proof of financial ability to pay the cash necessary at closing, the debt service and costs such as the station's operating expenses for the

One must prove an in-depth knowledge of the area and its needs

first ninety days, are all detailed in the plan of financing. If a loan is necessary, a letter must be included stating that the loan will be made and the terms of payment, interest and any collateral required. Submission of a balance sheet helps demonstrate financial stability of the purchaser.

An ascertainment of the community served by the broadcast station is an essential part of the application. One must prove an in-depth knowledge of the area and its needs, and the planned programming service must address itself to these needs, through community service programs, open for opinion time, and the like.

This ascertainment is accomplished through two procedures. First, an ascertainment of the general public is conducted to seek out information on the needs and problems from the community at large. Secondly, management level employees interview leaders who are representative of the area's civic organizations, educational institutions, fraternal and political associations and religious and business groups. From the material obtained in these interviews, a program is planned through public affairs, news, public service and other non-entertainment material which responds to these needs and problems. Additionally, the station is committed to implementing the equal opportunity program which seeks out the employment and training of women and minorities.

Additional information must be provided as to the maximum commercial announcements per hour planned, as well as the total hours and minutes of news to be disseminated weekly.

When all of this information has been compiled and edited into a suitable vehicle, the FCC attorney will then review the application and submit it to the FCC. During the next thirty days a petition to deny the license transfer may be filed by another party. If the application has been prepared properly and in a

straightforward manner, and the requirements fulfilled, the commission will review after the initial thirty days. If the workload of the commission is not excessive it is possible to receive approval, for a radio station, in about three months. For a television property, the period of time will be considerably longer.

Takeover time is usually at 11:59 P.M.

The Takeover. After the FCC has granted the approval of the transfer of the license and the required waiting period has elapsed, the time for closing is set. A number of documents will be exchanged, including payment to the seller. An attorney's services will be invaluable here; s/he will know what is needed and will arrange for everything necessary to insure a smooth and rapid takeover.

Takeover time is usually 11:59 P.M. in order to make prorations of income and expenses as simple as possible. Systems and procedures planned months before must now come to fruition.

Within thirty days the new owner must file an Ownership Report with the FCC as notification that s/he has assumed operation of the station. The property and the license to operate are now the responsibility of the buyer, who must seek and find a fine balance in conducting a prosperous business, serving the community and conforming to all the commitments made to the Federal Communications Commission. Ω

REFERENCES

- Broadcasting Year Book — 1979.*
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Ruth H. Doumlele is associated with *Neighborhood Communications Corp. of Richmond, Virginia*. She is a member of ASWA and is on the Editorial Board of **The Woman CPA**.

DIRECTOR OF SCHOOL OF ACCOUNTANCY MISSISSIPPI STATE UNIVERSITY

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The School of Accountancy is an autonomous unit of the College of Business and Industry with The Director reporting to the Dean of the College. Initiated on July 1, 1979, succeeding an accounting department that operated for over forty years, the School currently has approximately 700 students and 12 full-time faculty members. The School offers the BPA and MPA degree and cooperates with the College of Business in offering the MBA and DBA degrees.

The Director should possess an appropriate doctorate degree and the Certified Public Accountant Certificate. Teaching experience is required; accounting practice or consulting experience is desirable.

Application and recommendations should be directed to:

W.A. Simmons, Professor of Accounting
P.O. Box 77
Mississippi State, MS 39762

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