

NATIONAL SPORTSSERVICES

VALUATION FOR SCRANTON- WILKES BARRE RED BARONS



Client: Lackawanna County
September 18, 2006



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Client: Lackawanna County

Service Provider: National Sports Services, a national sports marketing firm with decades of experience including franchise valuation, franchise brokering, team ownership, team operations and facility development.

Service Provided: Estimated franchise valuation for the Scranton-Wilkes Barre Red Barons franchise.

Methodology: Comparative analysis of recent Triple A franchise sales, to include variables such as franchise performance, market factors, stadium amenities and other factors which could positively or negatively impact the franchise value.



TABLE OF CONTENTS

Qualifications	Page 3
Methodology	Page 6
Industry Background	Page 7
Triple A Baseball	Page 9
Transaction #1	Page 11
Transaction #2	Page 12
Transaction #3	Page 13
Scranton Wilkes-Barre Red Barons	Page 14
Red Barons Valuation	Page 15
For Additional Information	Page 16

QUALIFICATIONS

National Sports Services (NSS) is a sports marketing firm with offices in Denver, Chattanooga, Tennessee and Topeka, Kansas.

The company has extensive experience in the sports industry, including direct ownership and operation of minor league sports franchises, stadium development and operations, facility lease negotiations, franchise valuations and buying and selling of franchises.

Since 1985, NSS has been involved with the operations of more than 40 sports franchises, driving vast improvements in franchise values and operating results. The firm's involvement has been instrumental in establishing more than three dozen attendance records, a key element in NSS receiving numerous league and industry awards for excellence in operations.

Along with team ownership experience, the company's personnel have served in the capacity of CEO, President, CFO and General Manager for numerous sports teams. National Sports Services and its strategic partners and affiliates represent some of the very best the sports industry has to offer with expertise in all fields within the industry.

NSS has represented numerous buyers and sellers of minor league sports franchises, including several affiliated baseball teams. Within the past year, the firm successfully represented the seller of a Triple A baseball franchise. Typical franchise brokering services include negotiations of sales price, which encompasses knowledge of franchise values and valuation factors for the industry.

NSS Experience – Sports Teams

In franchises associated with National Sports Services, fans come to expect an entertaining evening, quality food at reasonable prices, and service beyond expectations in all areas. With the efforts of National Sports Services, on 37 occasions their affiliated franchises have established all-time franchise attendance records:

Season	Hockey Team	League
2005	Pensacola Ice Pilots	ECHL
2005	Sarasota Arena/Hockey	ECHL
2004-Current	Stockton Thunder	ECHL
2004-Current	Cedar Rapids	United States
2002-Current	Gwinnett Gladiators	ECHL
2003	Texas Tornado	North American
2002-03	Colorado Eagles	Central

Season	Hockey Team	League
2002-03	Topeka ScareCrows	United States
2002-03	Wichita Falls Rustlers	North American
2002	Central Texas Blackhawks	North American
2000-02	Las Vegas Wranglers	West Coast
2001-02	Ottawa 67s	Ontario
2001	Colorado Gold Kings	West Coast
2001	Idaho Steelheads	West Coast
2000-01	Fresno Falcons	West Coast
2000-01	Anchorage Aces	West Coast
1997-00	Bakersfield Condors	West Coast
1998-00	Topeka ScareCrows	Central
1997-99	Quad City Mallards	United
1998-99	Missouri River Otters	United
1998-99	Rockford Ice Hogs	United
1996-98	Mobile Mysticks	ECHL

Season	Football Team	League
2005	Minnesota Vikings	<u>NFL</u>
2004-Current	Stockton Lightning	Af2

Season	Baseball Team	League
2005	Omaha Royals	Pacific Coast
1999-01	Lexington Legends	South Atlantic
1997-99	Massachusetts Mad Dogs	Northeastern
1997-98	Fort Wayne Wizards	Midwest
1997-98	Capital City Bombers	South Atlantic
1997-98	Mobile BayBears	Southern
1997	Madison Black Wolf	Northeastern
1997	Canton Crocodiles	Frontier
1996	Michigan Battle Cats	Midwest
1996	Delmarva Shorebirds	South Atlantic
1990-95	Chattanooga Lookouts	Southern
1994-95	Quad City River Bandits	Midwest
1991-94	Kinston Indians	Carolina
1991-92	Greensboro Hornets	South Atlantic
1988-92	Fayetteville Generals	South Atlantic
1985-89	Midland Angels	Texas
1987	Columbia Mets	South Atlantic

Matt Perry – CEO, National Sports Services

Matt Perry serves as Chief Executive Officer of National Sports Services. As CEO, Perry is actively involved in all phases of company operations, including servicing current clients and developing new facility, franchise investment and consulting opportunities.

Perry's extensive background includes 20 years of ownership and operations of sports franchises. While in the industry, he has been responsible for or involved with the entertainment of millions of fans at sporting events. With an emphasis on solid business practices, creating a fun environment and a focus on customer service, Perry has received several industry honors for excellence in franchise operations.

Perry's recent projects include comprehensive consulting services for a hockey franchise in Cedar Rapids, Iowa. He also continues to serve as Vice President and minority owner of the Gwinnett Gladiators, who play hockey in the popular ECHL. The successful Gladiators play in The Arena at Gwinnett Center, a \$65 million, state-of-the-art events center which opened to great fanfare in 2003.

Perry also co-owned the Wichita Falls Rustlers prior to the sale of the franchise in 2002. Perry was instrumental in the start up of the franchise, which culminated in the Rustlers attracting over 5,000 fans per game in the new, \$20 million Kay Yeager Coliseum. The Rustlers attendance in the inaugural season set the standard for all Junior A hockey teams in the U.S. and Canada.

Besides consulting for numerous teams over the past 20 years, Perry served as a top executive in all areas of day-to-day operations for the Midland Angels (Los Angeles Angels at Anaheim Double A affiliate), Columbia Mets (New York Mets Single A affiliate) and the Fayetteville Generals (Detroit Tigers Single A affiliate).

Perry's path to the sports world began when he graduated summa cum laude with a Bachelor of Science degree in Advertising with a Minor in Business from Southern Illinois University and a Masters degree in Sport Management from Ohio State University. He resides in Topeka, Kansas with his wife and three children.

METHODOLOGY

In an effort to establish the estimated value for the Red Barons franchise, National Sports Services will analyze the three most recent Triple A baseball transactions.

Two other Triple A transactions within the past three years will not be considered as they are not representative of industry norms. One sale involved a record price paid for a Minor League franchise due to operating net income exceeding \$2 million annually, and the other involved a dramatically undervalued sales price as a large corporate owner was divesting the franchise as it no longer fit their corporate mission.

The sales history of the three most recent Triple A franchises will provide the best barometer for valuing the Red Barons franchise for several reasons:

- All transactions are within the last six months and provide current comparables
- None of the three transactions is considered an aberration in establishing value (i.e., high levels of EBITDA, team entering new stadium, etc.)
- Triple A franchise transactions will be more relative than franchise sales at other levels (i.e., Single A, Double A), which generally are sold for figures substantially less than those at Triple A.

In performing such analysis, the firm will analyze the factors surrounding each franchise which aid in determining value, including:

Lease terms

- Stadium history and amenities
- Operating history
- Market factors
- Other valuation factors unique to each franchise

Due to confidentiality, franchises will not be mentioned by name.

INDUSTRY BACKGROUND



The National Association of Professional Baseball Leagues, now known as Minor League Baseball, was formed September 5, 1901. Fourteen leagues and 96 clubs were members during the first season in 1902. By 1909, there were 35 leagues and 246 clubs.

In the early 1900's the Federal League was formed to challenge Major League Baseball. Many minor league players were signed by the Federal League, shrinking the size of the minor league system. Once the Federal League was abated, the Minor Leagues flourished again.

By 1949, there were 59 leagues and 448 clubs with total attendance exceeding 39 million fans. The growth in the decade was only slowed by World War II, when there were only 66 teams and attendance fell below 6 million fans.

The growth in Minor League Baseball soon slowed with the advent of television and expansion at the Major League level. By 1964, there were only 20 leagues and 132 clubs, with attendance hovering around 10 million fans. Through consistent growth, the number of clubs rose to 158 by 1978.

By 1987, there were more than 160 teams and overall attendance exceeded 10 million fans for the first time since 1953. Consistent growth has followed, and by the centennial season in 2001, attendance reached nearly 39 million fans. The all-time attendance record, established in 1949, was surpassed in 2004 when 39,887,755 fans attended regular season games.

Minor League Baseball has been a continuing success story with the fans. Total regular season attendance has increased in 20 of the last 24 seasons and has surpassed 35 million for seven consecutive seasons. There are now 16 leagues and 181 teams, with three additional development leagues which do not charge admission.

Almost every player who ever played Major League Baseball got his start with a team in Minor League Baseball. The same holds true for umpires who get their start in the same fashion.

<u>League</u>	<u>Level</u>	<u>Number of Teams</u>
International	AAA	14
Pacific Coast	AAA	16
Eastern	AA	12
Southern	AA	10
Texas	AA	8
California	A	10

<u>League</u>	<u>Level</u>	<u>Number of Teams</u>
Carolina	A	8
Florida State	A	12
Midwest	A	14
South Atlantic	A	16
New York-Penn	Short A	14
Northwest	Short A	8
Appalachian	Rookie	10
Pioneer	Rookie	8
Arizona	Rookie	9
Gulf Coast	Rookie	12

Franchise Appreciation

Minor League Baseball franchises have seen substantial increases in their values over the years.

This run up in valuation has been driven by several factors, including:

- Slow down in Major League expansion, limiting the number of new minor league franchises. Limited supply of available Minor League teams created scarcity, and enhanced values of existing teams
- Teams relocated to more attractive markets
- Teams relocated to new stadiums, which further increased revenues and operating performance
- Minor League Baseball (MiLB) and Major League Baseball (MLB) renewed a long-term operating agreement whereby MLB would provide players, coaches and other benefits to MiLB
- More sophisticated owners and operators became involved, which further enhanced operating results
- Protected territories were established for MiLB teams
- Major League Baseball franchises skyrocketed to figures exceeding \$100 million making Minor League Baseball teams the affordable option for many investors wanting to own a professional baseball team

From franchise values of \$100,000 - \$1 million in the 1980's, values have risen to levels surpassing \$5 million at Single A, \$8 million at Double A and \$11 million at Triple A.

With this escalation in values, it is becoming more difficult to acquire an affiliated baseball franchise with the expectation of returns on investment exceeding 5% unless there are opportunities for developing new markets or new facilities or dramatic improvements to operational methods. While select few owners aren't concerned about return on investment, purchasers generally are anticipating further appreciation in the value of franchises to add to the returns on the investment.

TRIPLE A BASEBALL



As players progress, Triple A baseball is the highest level of Minor League player development, sitting right below Major League Baseball.

Triple A teams generally occupy the largest markets and stadiums in the Minor Leagues, and often derive the largest attendance figures. The larger crowds and facilities offer an attractive environment for players as they hone their skills.

Current Triple A teams include:

INTERNATIONAL LEAGUE

Team	Capacity	2006 Affiliate
Buffalo	18,150	Cleveland Indians
Charlotte	10,002	Chicago White Sox
Columbus	15,000	New York Yankees
Durham	10,000	Tampa Bay Devil Rays
Indianapolis	15,500	Pittsburgh Pirates
Louisville	13,200	Cincinnati Reds
Norfolk	12,067	New York Mets
Ottawa	10,332	Baltimore Orioles
Pawtucket	10,031	Boston Red Sox
Richmond	12,134	Atlanta Braves
Rochester	10,840	Minnesota Twins
Scranton/WB	10,982	Philadelphia Phillies
Syracuse	11,671	Toronto Blue Jays
Toledo	8,943	Detroit Tigers

PACIFIC COAST LEAGUE

Team	Capacity	2006 Affiliate
Albuquerque	10,510	Florida Marlins
Colorado Springs	9,000	Colorado Rockies
Fresno	12,500	San Francisco Giants
Iowa	10,800	Chicago Cubs
Las Vegas	9,334	Los Angeles Dodgers
Memphis	14,200	St. Louis Cardinals
Nashville	10,700	Milwaukee Brewers
New Orleans	11,000	Washington Nationals
Oklahoma	13,066	Texas Rangers
Omaha	24,000	Kansas City Royals
Portland	19,810	San Diego Padres

Team	Capacity	2006 Affiliate
Round Rock	10,000	Houston Astros
Sacramento	14,111	Oakland Athletics
Salt Lake	15,500	Los Angeles Angels
Tacoma	9,600	Seattle Mariners
Tucson	11,000	Arizona Diamondbacks

TRANSACTION #1

Sale: 2006

Sales Price: 50% of team sold for \$7.3 million.

Market Size: 800,000+

Stadium: Capacity exceeding 20,000 seats. Numerous remodeling efforts since 1969.

Median Household Income: \$49,747

Per Capita Income: \$23,239

Some College Education: 25%

Unemployment Rate: 4.3%

Team History: Triple A team from 1969 to 1997 as member of American Association. Team has played in current facility since outset.

Factors Affecting Sales Price:

1. One of most attractive facility leases in Minor League Baseball
- ~~2. Opportunity for new downtown stadium;~~
3. Team generates solid net income from operations

TRANSACTION #2

Sale: 2006

Sales Price: \$14 million. Sellers to assume losses from operation for "lame duck" 2007 season (estimated by parties at \$1 million) prior to team being relocated to another market.

Market Factors: Not applicable since buyers will relocate to new market.

Stadium: Capacity exceeding 10,000 seats. Constructed in 1993 at a cost of \$17 million.

Team History: Franchise began play in current market in 1993. Initially, team attracted large crowds. However, dwindling attendance and revenues have prompted the current owner to sell the team to buyers who will move the team to a new market where a state-of-the-art stadium is being constructed.

Factors Affecting Sales Price:

1. ~~Team lease allowed buyers to move team to another market without penalty~~
2. Supply and demand, and current transactions kept this transaction from being valued at a "fire sale" price
3. Seller agreed to absorb losses from operations in "lame duck" season in 2007.

Note: This transaction offers a good representation of the "stick value" of a Triple A baseball franchise since this team was purchased for relocation. The net value to the seller, after seller assumes losses for 2007 season, is estimated at \$13 million.

SCRANTON-WILKES BARRE RED BARONS



Market Size: 600,000+.

Stadium: Capacity exceeding 10,000 seats. Built in 1989 at a cost of \$25 million.

Median Household Income: \$45,204

Per Capita Income: \$20,948

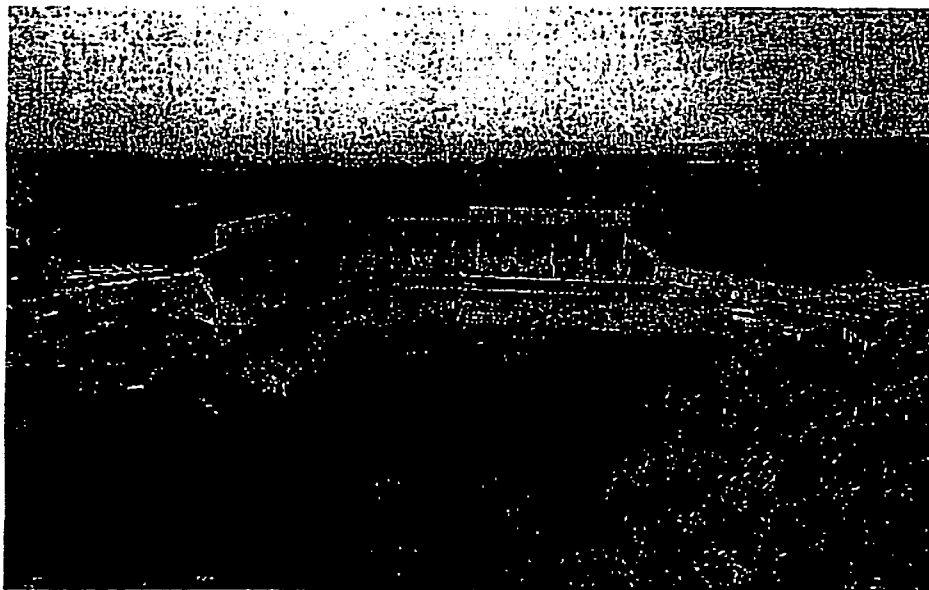
Some College Education: 28.4%

Unemployment Rate: 4.1%

Team History: Team has played in the North Division of the International League since its inception in 1989. Affiliated with Philadelphia Phillies since 1989, but in the process of pursuing new Major League affiliation.

Factors Affecting Sales Price:

1. Team to operate under new affiliation agreement after long history with the Phillies.
2. ~~For successful, long-term operations, franchise will require renovations of the current facility or a new facility.~~
3. Recent operating history is breakeven.
4. ~~Requirement that new owner commit to keep team in market in perpetuity.~~



TRANSACTION #3

Sale: 2006

Sales Price: \$11 million, plus transaction costs estimated at \$500,000.

Market Size: 700,000+

Stadium: Capacity exceeding 9,000 seats. Built in 1960 at a cost of approximately \$1 million. Numerous improvements since.

Median Household Income: \$45,204

Per Capita Income: \$20,948

Some College Education: 28.4%

Unemployment Rate: 4.1%

Team History: Triple A team and member of Pacific Coast League since 1960.

Factors Affecting Sales Price:

1. Team has prospectively been for sale for an extended period of time
2. Team operates in old stadium with limited amenities
3. Recent operating history is breakeven

RED BARONS FRANCHISE VALUATION

The three most recent Triple A sales franchises were:

- Team #1: \$14.6 million (based on \$7.3 million paid for 50%)
- Team #2: \$14 million (with seller assuming upwards of \$1 million in operating losses for 2007)
- Team #3: \$11 million (with buyer assuming approximately \$500,000 in transaction costs.

Assuming transaction figures of \$14.6 million, \$13 million (\$14 million less \$1 million in losses), and \$11 million (not including transaction costs since all acquisitions involve transaction costs), the average of the three figures is approximately ~~\$12.9 million~~.

This figure provides a good estimated value for a Triple A franchise which does not have unique factors dramatically affecting the value (i.e., new stadium, large profits from operations, etc.). In turn, this is a good estimate for the Triple A franchise in Scranton-Wilkes Barre.

~~The requirement that the team stay in the market in perpetuity could theoretically lower the perceived value of the franchise by another 2-5% if a prospective purchaser is concerned about losing the option to relocate the team should operations be unprofitable, or needed stadium improvements do not evolve.~~

~~The Red Barons play in a good Triple A facility, but one which will likely require renovations in the near future to upgrade amenities. Additionally, the team has seen ticket sales, overall revenues and EBITDA decrease rather dramatically in recent years and as compared to other Triple A franchises. Currently, EBITDA is approximately breakeven.~~

A new owner will need to reinvigorate attendance, revenues and operating results, which usually takes time, money and experience. In turn, the impact of a new Major League affiliation is an unknown, so no positive or negative impact on the value is implied at this time.

With the Red Barons franchise, there are no inherent factors such as consistent operating profits or a new stadium on the horizon which would drive the value above the estimated industry average of \$12.9 million. However, the market should take solace in the knowledge that the franchise has produced solid EBITDA several years prior, so the potential to return to profitability is there, especially with proper management of franchise operations.

FOR ADDITIONAL INFORMATION

Please contact Matt Perry at 785-478-1560 or matt@nsssports.com or visit www.NSSsports.com.

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