

PHILIP MORRIS U. S. A.
INTER - OFFICE CORRESPONDENCE
Richmond, Virginia

To: H. P. Jones Date: March 12, 1990
From: Stephen K. Piskor
Subject: Dallas Stadium Outdoor Sign Contract Renewal

I have reviewed the proposal made by the management of Texas Stadium for renewal of our contract for a three-sided billboard outside of the facility. The proposal calls for a ten-year lease with an up-front payment of \$2.5 million. This compares to our current lease, comprised of monthly payments of \$25,000. A summary of the proposal follows:

- O Initial Payment -- \$2.5 Million.
- O Lease Term -- 10 Years.
- O Annual Tax Benefit of Straight-Line Lease Amortization -- \$95,000.
- O NPV of Net Cash Flows -- \$1,769,418.
- O Commercial Paper Interest Rate -- 8.2% (5.08% After-Tax).
- O Equivalent Monthly Lease Payment - Pre-Tax -- \$29,763 (\$18,453 After-Tax).

The \$29,763 annual payment represents a 19.1 percent increase over the current rate. However, PM-USA's Media Department feels that the current fair market rate for the signage is approximately \$350,000 or \$29,200 monthly. Reducing the up-front payment to \$2.0 million reduces the equivalent monthly lease payment to \$23,810, a 4.8 percent decrease from the current rate. If the analysis were done using a 10-year bond rate of 10.25 percent for up-front payments of \$2.5 million and \$2.0 million, the equivalent monthly payments would be \$32,136 and \$25,709.

It should be noted that a two-thirds interest in the Dallas Cowboys and Texas Stadium was sold in February, 1989 to Oklahoma oilman, Jerry Jones, for \$145 million. Since the purchase, the team has performed poorly, attendance has suffered and the club has initiated an extensive cost-cutting program. Stadium management's proposal of an up-front payment could indicate a short-term cash crunch, which may position us to negotiate a lower up-front payment or obtain other concessions. However, the team's cash position will be aided by the new network and cable television contracts which take effect in the upcoming season.

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Some additional negotiating points which could be considered are as follows:

- 0 Reduce the up-front payment. For example, an up-front payment of about \$2.3 million would yield an equivalent monthly payment of \$27,500, which is a 10 percent increase over current rates. In addition, the base case above is performed from PM-USA's perspective; Texas Stadium management may have a different borrowing rate (e.g., Prime), and therefore may be willing to accept a lower up-front payment.
- 0 Consult with the Tax Department to determine if there is a way to structure the contract that would accelerate the amortization of the up-front payment, thereby reducing the equivalent monthly lease payment. However, this would require the lessee to recognize income on the payment faster. X

Other provisions which should be addressed in the contract are as follows:

- 0 Protection Against An Advertising Ban -- The contract should contain a provision which, at minimum, refunds to PM-USA the unamortized portion of the up-front payment on a straight-line basis in the event of an advertising ban or a voluntary "pull-back" of sports promotion on the part of the industry. In addition, a provision giving PM-USA interest on the unused portion could be considered. X
- 0 Since the signage is outside the stadium (on property owned by the Cowboys), a determination should be made as to whether this is sport events promotion or merely general advertising.
- 0 Given the length of the contract, PM-USA should have some type of security instrument to protect against an inability to pay in the event of an advertising ban, sale or relocation of the team, or team bankruptcy. This could take the form of a secured note with a declining balance tied to the amortization of the up-front payment, personal guarantees from team ownership, and bankruptcy insurance if considered necessary.
- 0 PM-USA's Credit Department should perform a detailed analysis of the ownership's financial condition. This would be useful in determining what types of collateral are necessary and provide an insight into their cash needs.

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- O PM-USA's Media Department should determine whether there are any other concessions we can obtain in addition to current signage. Stadium management may be inflexible on the up-front payment amount, but willing to negotiate other terms to make the deal more attractive.

Stephen K. Piskor

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Attachments

cc: J. Connolly
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