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Tribune outlook still murky after buyout

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AP Photo/Jeff Roberson

CHICAGO (AP) -- Tribune Co.'s embrace of an \$8.2 billion buyout offer from real estate mogul Sam Zell leaves the outlook for the nation's second-largest newspaper publisher as murky as when it began a business review in September.

"The transaction leaves little room for error, particularly in this challenging newspaper operating environment," Goldman Sachs analyst Peter P. Appert wrote in a research note Tuesday.

A hefty chunk of new debt will be required to pay the \$34-a-share cash buyout offer that the media company accepted on Monday. Zell is counting on repaying the debt largely through tax benefits from a new employee stock ownership plan that would supplement existing retirement accounts for the company's 20,000 workers.

Aside from selling the Chicago Cubs baseball team and its stake in Comcast SportsNet, Zell and Tribune executives were mum about prospects for the rest of the company's assets. Nine newspapers - ranging in size from the Los Angeles Times and Chicago Tribune to the Daily Press in Newport News, Va. - and 23 television stations will remain after two papers in Connecticut are sold.

"Whether someone whose experience is in commercial real estate - in steel and cement and bricks and leases - can navigate the ungainly media structure for success remains to be seen," said Rich Hanley, a journalism professor at Connecticut's Quinnipiac University. "This is unlike any other business he's touched. ... The stakes are very high."

Dennis FitzSimons, Tribune's chairman, president and CEO, said there are no plans to sell Tribune's newspapers or TV stations. But officials said there likely would be "limited staff reductions" within the company's individual business units. Most of the cuts would come through attrition, but there was no timetable for when they might be made.

"This is a good outcome for our shareholders and a good outcome for our employees," FitzSimons said in an interview with The Associated Press.

But industry observers said more divestitures or spinoffs are likely, especially as Zell learns the ropes of the newspaper business and a company that has been losing readers and advertisers to the Internet.

"There tends to be a fairly long learning curve with respect to how newspapers operate," said Sammy Pappert III, the chief executive of Dallas-based newspaper consultant Belden Associates.

The company's complex deal with Zell has a relatively small breakup fee - \$25 million - leaving open the possibility of another counter bid from Los Angeles billionaires Eli Broad and Ron Burkle, who also submitted \$34-per-share offers for Tribune.

"A low breakup fee could encourage a trumping bid from the Ron Burkle/Eli Broad partnership or another bidder, but this seems unlikely given the lengthy and very public nature of the review process," Citigroup analyst William G. Bird wrote in a research note.

Representatives for the pair declined to comment Monday.

Zell plans to invest \$315 million in the media company and eventually will become chairman of Tribune's board when the buyout is complete sometime in the fourth quarter. The offer needs shareholder approval.

The buyout will be conducted as a two-part deal, the company said. The first stage, expected to be completed in the second quarter, will involve a cash tender offer of \$34 per share for 126 million shares, more than half the outstanding Tribune shares. The remaining shares will be purchased later at the same price.

Tribune has about 240 million shares outstanding, according to a regulatory filing.

"The strategic review process was rigorous and thorough," William Osborn, a Tribune director who led the review process, said in a statement. "We determined that this course of action provides the greatest certainty for achieving the highest value for all shareholders and is in the best interest of investors and employees."

The buyout already has the support of two of Tribune's largest shareholders, including the Chandler family, which has about a 20 percent stake in the media company.

Tribune purchased Times Mirror Co. from the Chandler family in 2000 for about \$6.5 billion. In the years following the deal, Tribune's stock began to fall, dropping about 50 percent from early 2004 until last spring. It has languished just above \$30 per share for months.

Charles Bobrinsky, vice chairman of Ariel Capital Management, said his money management firm also would support the Zell deal. Ariel Capital owns about 6.1 percent of Tribune shares.

"These are clearly challenging times for all newspaper companies, but we're very pleased by today's announcement and plan to support the proposed transaction," Bobrinsky said.

Opponents of media consolidation predicted a staunch fight with regulators in Washington, especially regarding Tribune's cross-ownership of TV stations and newspapers in the same media market.

"There will be fierce opposition to the sale and it will be used as a vehicle to underscore the fight over media consolidation at the FCC and in Congress," said Andy Schwartzman, president of Washington-based Media Access Project.

Tribune said Zell will use an employee stock ownership plan to finance part of the deal and lower the taxes on any sale. The ESOP, which resembles a profit-sharing plan, will become the majority owner of Tribune once the deal is complete. Zell will be entitled to buy 40 percent of the company's common stock.

"I am delighted to be associated with Tribune Co., which I believe is a world-class publishing and broadcasting enterprise," Zell said in a statement. "As a long-term investor, I look forward to partnering with the management and employees as we build on the great heritage of Tribune Co."

An ESOP allows the company to borrow money and repay loans using pretax dollars. Payments of both interest and principle are tax-deductible and would create more leverage for a buyer.

"The ESOP can only help pay down this mountain of debt with a positive corporate culture that drives performance but does not deflate the motivation of workers," said Joseph Blasi, a professor at Rutgers University who is an expert on the structures.

Bear Stearns analyst Alexia Quadrani said that after the deal is completed, Tribune will have about \$13.4 billion in net debt. The company has about \$5 billion in debt now.

"After an exhaustive six month review we believe this complicated and heavily levered transaction is another indication of the waning interest in the newspaper business given the ongoing secular challenges that are weighing on the fundamental outlook," she wrote in a research note published Monday.

Analysts have estimated that the Cubs could fetch \$600 million or more. Tribune bought the team in 1981 for \$20.5 million.

Its strength as a sports franchise - and the lure of potentially steering them to their first championship in a century - has attracted the interest of many potential buyers. Billionaire entrepreneur Mark Cuban, actor Bill Murray and columnist George Will are among those rumored to have interest, along with numerous Chicago business figures.

Tribune's share price fell about 50 percent from early 2004 until last spring and has remained just above \$30 for months, down from an all-time high above \$60 in 1999.

Zell, 65, made his fortune reviving moribund real estate. After a bidding war culminated in February, he sold his Equity Office Properties Trust to the private equity firm Blackstone Group for \$23 billion.

Tribune shares climbed 70 cents, or 2.2 percent, to close at \$32.81 in trading Monday on the New York Stock Exchange.

AP Business Writer Dave Carpenter contributed to this report.

Dow Jones News Wire/Marketwatch

Tribune accepts Zell's \$34-a-share bid
Deal revolves around ESOP; baseball's Cubs on block
By Angela Moore & Russ Britt, MarketWatch
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NEW YORK (MarketWatch) -- Chicago billionaire Sam Zell won the bidding war for Tribune Co., which has agreed to go private in an \$8.2 billion deal that includes a heavy investment by the media giant's employees, the company said Monday.

Tribune (TRB : Tribune Company) also said that it will sell the Chicago Cubs after the 2007 baseball season, as well as the company's 25% interest in Comcast SportsNet Chicago.

The deal finally marks the end of a long bidding process for the owner of the Chicago Tribune and Los Angeles Times. As it turned out, the deal is not worth much more than \$8 billion paid when Tribune bought the L.A. Times and its parent, Times-Mirror, seven years ago.

Shares of Tribune moved up as much as 3% in Monday's trading, and ended the day higher by 70 cents, or 2.2%, to \$32.81. The \$34-a-share offer represents a premium of nearly 6% to Friday's closing price of \$32.11.

If the deal's completed, Tribune would be privately held, with an employee stock ownership plan, or ESOP, holding all of Tribune's then-outstanding common stock and Zell holding a subordinate note and a warrant entitling him to acquire 40% of Tribune's common shares. Zell is to join the Tribune board upon completion of his initial investment and to become chairman when the deal closes.

The offer from storied real-estate magnate Zell beat out a rival bid from Los Angeles philanthropist and real-estate developer Eli Broad and supermarket titan Ron Burkle, and ends a protracted process for the company, whose holdings include 11 newspapers, including the Chicago Tribune and the Los Angeles Times, as well as 23 television stations and the storied baseball franchise and its Wrigley Field home.

Tribune said Broad and Burkle had also offered \$34 a share for the company.

The Zell pact features a \$25 million breakup fee, and Tribune's board has retained the right to entertain other bids, the company said.

"As a private company, Tribune will have greater flexibility to transform our publishing/interactive and broadcasting businesses with an eye toward long-term growth. Importantly, our employees will have a significant stake in the company's future," Dennis FitzSimons, Tribune's chairman and chief executive, said in a press release.

Troubles continue

But announcement of the deal doesn't spell the end of Tribune's troubles.

Moody's Investors Service put the company's Ba1 corporate family rating and its debt-instrument ratings on review for possible downgrade at midday Monday. Tribune's corporate family rating likely will be reduced to B2, Moody's said.

"Leverage will increase significantly as a result of the privatization plan at a time of pressure on the company's advertising revenue and operating margins, and Moody's will focus the review on Tribune's plans to reduce debt through cash generation and asset sales," Moody's said in a press release.

Analysts said the arduous bidding process for the company pointed out how little interest there was from the private-equity sector, whose appetite in recent months has otherwise been voracious.

Laura Martin of Soleil Securities said there's a significant risk to employees, as much of their retirement investments will be tied up in Tribune's financial performance. "This smacks more of financial engineering than true value creation," Martin said in an interview.

Others agreed in their morning notes to investors.

"After an exhaustive six-month review, we believe this complicated and heavily levered transaction is another indication of the waning interest in the newspaper business given the ongoing secular challenges that are weighing on the fundamental outlook," Bear Stearns' Alexia Quadrani said in a note.

Employee buyouts usually work in small and midsize companies but have generally been less successful in cases involving large firms the size of Tribune, said Joseph Blasi, a professor specializing in human resources at Rutgers University.

One example of a big employee buyout was United Airlines -- a deal that, it turned out, was fraught with miscues. There, the company's board didn't function well, union-management tensions emerged, and the carrier wasn't able to get across the point of employee empowerment, Blasi said.

For Zell's plan to succeed "is going to be a tall order," Blasi said. "Can it be done? Sure, it can be done."

And in light of the state of the newspaper industry, experiments like this may be necessary to cure what ails old-line media.

"I think this is definitely going to begin a trend," Blasi said.

Stricken industry

The problems facing the newspaper industry have been well-documented in recent years. Print newspapers have been hit by an advertising environment that has been weak for more than three years, with particular spending declines among traditional newspaper advertisers such as auto manufacturers and dealers and department stores. A shift from

print readership to online news consumption has hurt as well, especially in large metropolitan markets.

Circulation is on the decline, and newspapers have the added handicap of not being able to solicit new subscribers by phone as they did for decades. The Do Not Call registry, implemented in 2003, allows many consumers to avoid telemarketing calls.

'I think this is definitely going to begin a trend.'

— Joseph Blasi, Rutgers University

Zell himself is supporting the deal with a \$315 million investment, and shareholders will receive their consideration through a two-stage transaction.

The first stage of the transaction centers on a cash tender offer for about 126 million shares at \$34 each. The tender offer will be funded by incremental borrowing and a \$250 million investment from Zell. It is anticipated to be completed in the second quarter.

The second stage is a merger expected to close in the fourth quarter of 2007 in which the remaining publicly held shares are to be acquired at the same \$34 price.

Zell, who has been reported to have raked in nearly \$1 billion personally from the recent sale of his Equity Office Properties to the private-equity firm Blackstone, will make an additional investment of \$65 million, bringing his investment in Tribune to \$315 million, according to the deal's terms.

The Tribune board, on the recommendation of a special committee of directors, approved the agreements and has recommended that Tribune shareholders give the Zell offer their blessing.

Representatives of Tribune's largest shareholder, Chandler Trusts, abstained from voting as directors. However, the Chandler Trusts - which controlled Los Angeles Times parent Times Mirror Co. until Tribune's 2000 acquisition - have agreed to vote in favor of the transaction.

Other bids welcomed

Up to the time of shareholder approval, Tribune's board will be able to consider unsolicited alternative proposals, the company said. In the event such a superior proposal is selected, the breakup fee due Zell would be \$25 million.

If the Zell deal is finalized, Tribune is to be led by a board of directors with an independent majority. FitzSimons, as chief executive, would remain a member of the board, sitting alongside at least five independent directors and an additional director affiliated with Zell.

In conjunction with the execution of those agreements, Tribune said it would suspend its regular quarterly dividend.

Tribune has commitments from Citigroup, Merrill Lynch and J.P. Morgan Chase to fund the transactions.

In the first stage, Tribune is to raise \$7 billion of new debt, of which \$4.2 billion is to be used to complete the tender offer and the remaining \$2.8 billion being applied to a refinancing of existing bank-credit facilities.

In the second stage, Tribune is to raise an additional \$4.2 billion of debt, which would be used to buy all remaining outstanding shares of the company.

Tribune's existing publicly traded bonds are expected to remain outstanding.

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USA Today

No fable: ESOPs gaining in popularity

By Edward Iwata, USA TODAY

Employee stock ownership plans, such as the one proposed Monday in the deal between the Tribune Co. (TRB) and real estate tycoon Sam Zell, are neither an elixir for success or a formula for failure.

The potential upside: Workers own a stake in their companies' fate, and there are corporate income tax benefits and other tax breaks. The potential downside: heavy debt and loss of workers' retirement kitties if their firm tanks.

"Often people view employee ownership either through rose-colored glasses or in a negative way," says Douglas Kruse, a professor at Rutgers University's School of Management and Labor Relations. "In fact, it's clear that employee ownership is only one factor among many that influence whether a company does well."

ESOPs have gained popularity over the past 20 years, often as an "exit strategy" or a leveraged buyout tool for troubled or slow-growing companies. Some 9,200 firms and 10 million workers take part in ESOPs with \$600 billion in assets, according to the National Center for Employee Ownership.

A 2000 study by Kruse and Harvard University business professor Joseph Blasi found that companies with ESOPs saw their annual sales grow 2% faster than companies without ESOPs. Other studies show that firms with employee ownership boast greater productivity and survive longer over the long run than firms without ESOPs.

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Their success depends on a range of factors, from a firm's management culture to how the business is run from the get-go. One common element, according to Kruse and other ESOP experts: The plans succeed at firms with strong, team-oriented cultures and decision-making made by employees who believe in their firms.

"The ownership culture really makes a difference, where management is a facilitator, not a dictator," says Corey Rosen, NCEO executive director. "Companies with a lot of employee teams clearly do well."

Healthy companies with ESOPs include Publix Supermarkets, a grocery chain based in Lakeland, Fla., with 136,000 workers; Science Applications, a San Diego-based computer systems firm and W.L. Gore Associates, a company in Newark, Del., that makes Gore-Tex waterproof material.

By contrast, United Airlines and Polaroid used ESOPs years ago, but it didn't cure their ailments. The companies were driven into bankruptcy-court protection by poor business strategies and management and heavy debt from their ESOPs and other financing. "An ESOP is not a magical elixir for a bad business model," Rosen says.

An ESOP is an employee benefit plan in which a trust is set up to accept tax-deductible contributions of a company's stock. The trust distributes shares to employees' accounts, and it also can buy more company shares.

Based on Monday's brief announcement, Tribune employees may be better off than before, Rosen says. They'll have more diversified assets in their retirement plans, and the Tribune will make higher employer contributions.

The likely alternative would have been peddling the company to merger-hungry investors who would have made deep cuts. "You sell assets, lay off people and cut benefits," Rosen says. "That's the exit strategy that Wall Street favors."

In a statement from The Newspaper Guild-CWA, which represents 20,000 Tribune Co. employees, President Linda Foley said the ESOP can be "a positive partnership" that benefits everyone, or "a frustrating experience for worker-investors" who end up bearing much of the risk.

For the ESOP to work well, Foley said, employees must have a voice in the plan and its implementation.

10 biggest worker-owned companies

Biggest employee-owned U.S. companies, by workforce. Employees' stake is 100%, except for two companies noted.

Key: ESOP: Employee stock ownership plan; PS: Profit-sharing trust; SP: Stock purchase plan

Company City State Plan Industry Employees

Publix Supermarkets Lakeland Fla. ESOP, SP Supermarkets 136,000

Hy-Vee W. Des Moines Iowa PS Supermarkets 46,000

Science Applications Intl.1 San Diego Calif. ESOP, SP R&D and computer systems
43,000

Price Chopper2 Schenectady N.Y. ESOP Supermarkets 22,000

CH2M Hill Denver Colo. SP Engineering/construction 18,000

Lifetouch Minneapolis Minn. ESOP Photography 18,000

Nypro Clinton Mass. ESOP Plastics manufacturing 13,000

Parsons Pasadena Calif. ESOP Engineering/construction 10,000

Houchens Industries Bowling Green Ky. ESOP Supermarkets 9,300

Amsted Industries Chicago Ill. ESOP Industrial manufacturing 9,100

1 = 80%; 2 = stake unknown

Source: National Center for Employee Ownership

END