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Tribune Agrees to Billionaire Zell's \$8.2 Billion Bid (Update7)

By Andy Fixmer and Leon Lazaroff

April 2 (Bloomberg) -- Tribune Co., owner of the Chicago Tribune and Los Angeles Times, plans to go private by selling itself for \$8.2 billion to billionaire Sam Zell and employees of the company.

Chicago-based Tribune, which spent six months looking for a buyer, chose a deal with a local investor rather than a similar offer from California businessmen Ron Burkle and Eli Broad. The company will take on \$8.4 billion in debt to fund the \$34-a- share offer. Zell said he will pay down debt by selling the Chicago Cubs baseball team.

``This looks to be about as good a deal as Tribune was going to get, and gives them the comfort of being acquired by a fellow Chicagoan," said John Morton, an independent newspaper analyst in Silver Spring, Maryland. ``Investors have to be relieved."

Zell, who made his fortune in real estate, will become chairman and invest \$315 million of his own money, giving him a warrant to buy 40 percent of the company. An employee stock ownership plan will be created, which will own all the shares, Tribune said today in a statement.

Tribune, owner of nine newspapers and 23 television stations as well as the Cubs, agreed to Zell's proposal after he raised his offer over the weekend to match Burkle and Broad. As the auction dragged on, Tribune's revenue declined and the stock price dropped as low as \$28.81.

While the price is 6 percent above Tribune's close last week, it is in line with where the shares were trading in September after the company put itself up for sale.

Shares of Tribune, which ranks second to Gannett Co. among newspaper publishers by sales, rose 70 cents, or 2.2 percent, to \$32.81 at 4 p.m. in New York Stock Exchange composite trading. They had dropped almost 30 percent in the two years before Tribune put itself up for sale.

Cubs for Sale

``Given everything that is going on, we think this is a very good outcome," said Charles Bobrinskoy, vice chairman of Ariel Capital Management in Chicago, which owns 6 percent of Tribune. ``You've got to take into account the fact that this has been a challenging time for newspaper companies."

Zell, 65, said he plans to sell the Cubs, a Major League Baseball team, to reduce debt, which would balloon to almost \$14 billion before assets sales.

“Tribune will take on a lot of debt at a time when its cash flow is declining,” John Puchalla, media analyst at Moody's Investors Service in New York, said today. Puchalla put his Ba1 rating on Tribune debt on review for a downgrade. “It will be important to see how they intend to mitigate that debt.”

Moody's has Tribune debt on “negative outlook,” indicating any change to the rating is likely to be lower. Standard & Poor's and Fitch both cut their ratings on Tribune two levels to BB-.

Tender Offers

The transaction will occur in two tender offers, Tribune said today. The first, for 126 million shares, will be completed in the second quarter. The second will be finished in the fourth quarter, the company said. The company will borrow in two \$4.2 billion increments to buy the stock.

Merrill Lynch & Co. and JPMorgan Chase & Co. will finance the deal. Merrill advised Tribune, with Citigroup Inc. JPMorgan advised Zell.

Tribune's 5.25 percent notes due in 2015 rose 1.62 cents on the dollar to 88.8 cents, bringing the yield to 7.04 percent, according to the Trace reporting system of the NASD.

The perceived risk of owning Tribune's bonds rose, indicating deterioration in the perception of credit quality.

Credit-default swaps based on \$10 million of the company's bonds jumped \$20,000 to \$265,000 today in New York, according to prices compiled by CMA Datavision.

The five-year contracts, used to speculate on the company's ability to repay its debt, have surged more than \$100,000 since March 23, London-based CMA data show.

Employee Plan

While the employee share plan will own the company, it won't be liable for the debt, which will be taken on by Tribune Co. The plan will be funded by contributions from Tribune of about 5 percent of employees' compensation. Employees will also have the option to invest more in the plan, Tribune said.

“Employees end up owning the stock but they don't pledge any personal collateral for the debt used to buy that stock,” said Joseph Blasi, a professor at Rutgers University School of Management and Labor Relations in New Brunswick, New Jersey. “Tribune employees are getting the opportunity that financiers get when they buy huge companies.”

Zell's Optimistic

Under the terms of the agreement, Tribune is entitled to consider other offers, giving Burkle and Broad an opportunity to return with a better offer. The breakup fee is \$25 million. Karen Denne,

a spokeswoman for Broad, declined to comment. Frank Quintero, a spokesman for Burkle, wasn't immediately available.

Zell, who sold Equity Office Properties Trust, his hometown-based real estate investment trust, to Blackstone Group LP for \$39 billion, said this month that he is more optimistic about the industry than others.

"I'm not quite as bearish as most people about the print side of the business," Zell said in a March 12 interview. In the same interview, Zell said he didn't have any interest in influencing editorial policy, saying his main concerns were "solely economic."

Zell has made money in media before. In the 1990s, Zell and a Chicago investment banker bought control of radio company Jacor Communications for about \$79 million. When Clear Channel Communications Inc. bought Jacor for \$4.4 billion in 1999, the Zell/Chilmark Fund LP earned a profit of more than \$1 billion.

'Greater Flexibility'

Chief Executive Officer Dennis FitzSimons, who put the company up for sale under pressure from the Chandler family, will remain CEO and will be on the board, Tribune said. The Chandler family, which became the largest shareholder after their 2000 sale of Times Mirror Co. to Tribune, agreed to approve the transaction, Tribune said.

"As a private company, Tribune will have greater flexibility to transform our publishing, interactive and broadcasting businesses," FitzSimons said in the statement.

Zell's interest in Tribune in February came after an initial deadline passed and bids by Broad and Burkle and an offer from the Chandlers failed to meet Tribune's goals.

Burkle, 54, and Broad, 73, made an 11th-hour effort to wrest back the deal, changing their offer to include an employee stock ownership plan that would help finance the transaction and reduce the amount of debt assumed by Tribune.

Chandlers Exit

The transaction enables the Chandler family to sell its 20 percent stake in Tribune, ending 125 years of ownership in the Los Angeles Times.

The Chandlers, who sold Times Mirror for \$7.6 billion, called for a breakup of the company after saying its strategy of cross-ownership of newspapers, TV stations and Web sites in the biggest U.S. markets "has failed."

The sale faces opposition from public interest groups who will ask the U.S. Federal Communications Commission to force Tribune to sell assets in markets where it operates both a television station and a newspaper.

In 1975 the FCC banned media companies from owning TV stations and newspapers in the same market. Companies including Tribune, which owned the Chicago Tribune and WGN-TV, were allowed to keep existing properties.

“A sale to Zell will have to surmount fierce opposition to obtain FCC approval,” Andrew Schwartzman, president of the Media Access Group, a public interest law firm specializing in media ownership policy, said in an e-mailed statement.

Public Since 1983

Tribune traces its roots back to 1847 with the creation of the Chicago Daily Tribune. Joseph Medill became editor and part owner in 1855. His grandson Robert McCormick, known as “The Colonel,” ran the company from 1920 until his death in 1955, expanding into more newspapers and television stations.

The company went public in 1983 at \$26.75 a share, equivalent to \$3.34 after stock splits. It peaked at \$60 in October 1999 before slowing ad sales prompted its descent.

Tribune's decline in advertising revenue has been reflected across the industry. Ad sales at the four largest U.S. newspaper publishers, including New York Times Co., Gannett Co. and McClatchy Co., fell an average 5 percent last month from February 2006. Knight Ridder Inc. sold itself to Sacramento, California-based McClatchy last year after pressure from shareholders to boost its stock price.

“The general thesis back in the '90s was that you could combine media properties like newspapers and broadcasters very easily,” said Hal Vogel, an independent media analyst in New York. “Then the Internet came along and now we have two dysfunctional businesses, and a lot of finger pointing and retribution between Tribune shareholders and management.”

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