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Tribune Accepts Real Estate Magnate's Bid

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Sam Zell, a flamboyant Chicago real estate tycoon who has never run a newspaper, has won the battle of the billionaires for the Tribune Company, edging out a rival bid from Ronald W. Burkle and Eli Broad late last night.

Tribune announced today that it would take the company private and that its stockholders would receive \$34 a share. Mr. Zell is supporting the deal, which will add \$8.4 billion in debt, with a \$315 million investment and will join the board and become chairman.

The centerpiece of his proposal is a complex financial structure known as an employee stock ownership plan, which is to pay for much of the deal. The whole transaction is to be completed by Jan. 1.

The sale closes a contentious 10-month chapter in the 160-year history of the storied Tribune Company, which occupies the landmark Tribune Tower in downtown Chicago and owns The Los Angeles Times, The Chicago Tribune and other newspapers, 23 television stations and the Chicago Cubs baseball team. As part of the agreement, the company will sell the Cubs after this season.

The deal also ends the financial stake in Tribune of a great American newspaper dynasty: the Chandler family, whose patriarch, General Harrison Gray Otis, founded Times Mirror in 1884 and who became the biggest shareholder in Tribune when Tribune bought Times Mirror in 2000.

Mr. Zell, 65, the son of refugees who fled Poland on the eve of Hitler's invasion, is a self-made billionaire who has thrived on buying distressed businesses, turning them around and selling them at a profit. Newspapers, which face declining revenues and declining circulation, might fit that description, but Mr. Zell has not revealed how he might turn the company around.

Some employees fear that he could continue paring down the company, which has cut staff and costs over the last few years as its newspapers, like many others, have lost readers and advertisers to the Internet. Mr. Zell has said he would not break up the company by selling off its individual properties or spinning off the television stations.

But David Geffen, the Los Angeles music mogul who made an early bid for The Los Angeles Times, made it clear that he would still like to acquire the newspaper. "I remain interested and open to talking," he said.

The agreement comes about after a drawn-out, six-month auction, which seemed to meander as few credible bids emerged and Tribune raised the idea of refinancing itself. The auction suddenly accelerated over the weekend as the company pressed Mr. Zell to raise and at least match a \$34-

a-share offer from Mr. Broad and Mr. Burkle. He did so over the weekend, but the board initially rejected his offer on Sunday morning, accepting it late last night only after the company encouraged him again to match the Burkle-Broad bid.

But Mr. Broad and Mr. Burkle may not be out of the picture. They still could make a higher bid for the company, and Tribune could take it. Tribune set a relatively low breakup fee of \$25 million so that if it wanted to take a higher Broad-Burkle price — and avoid a possible lawsuit — it could back out of its deal with Mr. Zell and pay him only \$25 million.

Mr. Zell insists that his interest in Tribune was not editorial but economic. In a statement this morning, Mr. Zell called himself “a long-term investor,” and added, “I look forward to partnering with the management and employees as we build on the great heritage of Tribune Company.”

Asserting that he will not sell off the television stations sets him up for a regulatory battle in Washington. Any new owner needs waivers from the government to own newspapers and broadcast outlets in the same market.

Andrew Jay Schwartzman, a lawyer and president of the Media Access Project, which represents citizens in actions before the Federal Communications Commission, said his group and others would fiercely oppose any attempt by Mr. Zell to get such waivers.

“The main reason we oppose cross-ownership is to protect diversity of viewpoints, and in Zell’s case, to protect the broadcast properties as a public trust,” Mr. Schwartzman said. “Zell is a cost-cutter and has evidenced no interest in operating these properties with the same journalistic concerns that we expect of broadcast licensees.” By contrast, he said, Mr. Broad and Mr. Burkle had indicated that they would sell off the broadcast properties.

Mr. Zell’s proposal to implement an employee stock ownership plan is to occur in several stages, but the company was short on details today of how it would work. Joseph Blasi, a professor at the Rutgers School of Management and Labor Relations, said it does not appear that employees will be asked to make any concessions, but there are still risks for them.

“The biggest risk to employees is that they have a large amount of their retirement savings’ portfolio tied up in company stock without sufficient diversification and governance rights,” he said.

In a note to employees today, Denis FitzSimons, Tribune’s chairman and chief executive, told employees that the ownership plan would require no cash investment from them because it would be funded solely through company contributions, and they can still contribute to their 401(k) accounts.

Real Estate Tycoon Increases Bid for Tribune (April 2, 2007)

Buyer of Distressed Properties Sees Opportunity in Newspapers (March 26, 2007) Until the company goes private, Mr. Zell said, he will leave Mr. FitzSimons and there will be at least five

independent directors and an additional director affiliated with Mr. Zell. It is not clear how the company may be structured once it is private.

Under Mr. FitzSimons, Tribune has been battered by Wall Street demands for a higher stock price. Mr. FitzSimons said in a statement that as a private company, “Tribune will have greater flexibility to transform our publishing, interactive and broadcasting businesses with an eye toward long-term growth.”

Tribune’s purchase of Times Mirror, which owned The Los Angeles Times and Newsday, among other papers, was made with just such overlap in mind, so that Tribune could cross-promote the editorial and advertising functions of its newspapers and broadcast outlets. Tribune had success with this arrangement, which it called “synergy,” in Chicago, but failed to duplicate it in its two other big markets, New York and Los Angeles.

That failed synergy drew sharp public criticism from the Chandler family last June. The family also bemoaned the company’s sagging stock price, complaints that put into motion the auction that ended last night. The Chandler representatives on the board abstained from voting Sunday night but have agreed to vote in favor of the transaction, according to a company statement. The deal provides the family to exit Tribune, which is what both the family and the company came to seek after several months of acrimony.

Most newspaper companies have seen their stock price plummet in the last few years; Tribune closed Friday at \$32.11, having edged up in the last week in anticipation that a sale would pay big dividends. But it is down from its all-time high of \$60.88 in November 1999.

People close to the negotiations said that while Mr. Burkle and Mr. Broad had initially offered more money than Mr. Zell, company executives wanted the company to go to Mr. Zell. He had been in talks longer and the details of his proposal had already been worked out. To accept the Broad-Burkle bid would almost certainly have delayed any announcement of a sale, which the company had said it wanted to make by the end of March, which was Saturday.

Charles K. Bobrinskoy, vice chairman of Ariel Capital Management, a Chicago-based money management firm and one of Tribune’s biggest shareholders, said of the selection of Mr. Zell: “I as a shareholder put a high premium on certainty. Zell had a bid on the table that he was ready to sign. All Broad and Burkle had was something conceptual. When you’re trying to sell a company that’s been through everything this one has, with revenues falling and a perception that value is going down, getting something done in a concrete way is very valuable.”

But just as valuable, people close to the talks said, was that Mr. Zell was from Chicago and not Los Angeles, where the blood runs bad between Tribune and The Los Angeles Times. Their two cultures never meshed, and The Times, the fourth-biggest paper in the country, perceived itself as the dominant paper within the chain — something not accepted within Tribune Tower, where The Chicago Tribune has long flown the company flag. Tensions burst into public view last year when The Times’s publisher and editor said they would refuse to go along with new staff cuts proposed by Tribune; the company eventually forced them out.