

Reuters

UPDATE 1-Tribune employees to pay takeover bill for Zell

Mon Apr 2, 2007 7:50PM EDT

Market View

TRB (Tribune Co)

Last: \$32.76

Change: +0.08 (+0.24%)

Revenue (ttm): \$5,517.7M

EPS: 2.40

Market Cap: \$7,880.88M

Time: 4:02pm ET

At the Helm:

Dennis FitzSimons

Chairman of the Board, President, Chief Executive Officer

Salary: USD 950,385

Bonus: USD 250,000

Age: 56

Dennis J. FitzSimons became chairman of Tribune Company in January 2004, one year after becoming chief executive officer. He was named president and... [Full Bio](#)

By Robert MacMillan and Jessica Hall

NEW YORK/PHILADELPHIA, April 2 (Reuters) - Chicago real estate magnate Sam Zell edged out two billionaires to win the hand of Tribune Co. (TRB.N: [Quote](#), [Profile](#), [Research](#)), but it will be the media company's 20,000 workers who pay most of the \$8.2 billion price tag.

Tribune, publisher of the Los Angeles Times and Chicago Tribune and television broadcaster, will become privately held with an employee stock ownership plan (ESOP) owning most of the company. Zell will contribute \$315 million for the option to get 40 percent of outstanding shares.

"If in fact this is going to be a real partnership, then it could be a really good thing for the Tribune Co. If however it's just an investment vehicle, the employees need to be very, very cautious going forward," said Linda Foley, president of The Newspaper Guild-Communications Workers of America union.

Including debt, the Tribune deal is valued at \$13.2 billion. Tribune said it would sell the Chicago Cubs baseball team and a 25 percent interest in Comcast SportsNet Chicago to help pare debt.

"My first thought was have I just co-signed a loan for \$12 billion," Bill Salganik, president of The Washington-Baltimore Newspaper Guild, and a health business reporter for The Baltimore Sun.

That caution arises from employees' devastating experiences at companies such as Enron and WorldCom, where their retirement savings -- almost entirely invested in the stock of the companies they worked for -- were wiped out when the companies collapsed

Some employees worry that the stock plan will hurt them in the long run.

"We have to worry about our retirement and further budget cuts because the company is taking on so much debt," said one employee who declined to be identified.

Tribune and other U.S. newspaper publishers have suffered dips in advertising revenue and circulation as more people use the Internet to get news and entertainment.

The company had been considering a buyout or the spinoff of various divisions after its largest shareholders, the Chandler Trusts, aired their anger over the decline in its stock price last year. The ESOP gives Zell a creative way to fund the deal and several tax benefits compared with a traditional leveraged buyout that would be financed by debt.

Under the plan, Tribune will contribute money to the ESOP, which will invest in shares of the privately held company. The stock will be disbursed to eligible employees.

Contributions to the ESOP will be treated as paying off principal. As a result, both the principal and the interest can be deducted from the company's taxes -- rather than just interest.

"The positive for employees here is the possibility that the value of the stock will increase enormously if they can change the culture of the company and get engaged in improving its performance," said Joseph Blasi, professor at Rutgers University's graduate school of management and labor relations.

"The downside is that for many employees, a lot of their retirement assets will be tied up in the stock of one company," he said.

The success of ESOPs, which have been used at other newspaper companies and several airlines, has been mixed.

In 1994, United Airlines pilots, machinists and managers gained a 55 percent stake in the airline in exchange for cuts in wages and benefits. Employees lost control in 2003.

United faltered, in part, due to its traditional hierarchical structure, while employee-owned Southwest Airlines by contrast succeeded with a "very loose corporate culture," Corey Rosen, executive director of the National Center for Employee Ownership.

At the Peoria Journal-Star newspaper in Illinois, the ESOP plan proved so successful that the company's stock surged and many employees started putting in for early retirement. The ESOP lacked enough funds to buyout the shares of the retirees, which threatened the company's solvency.

The level of success at ESOP-related companies often depends on the degree to which the employees really get treated like owners, said Rosen.

"Unless the employees get all excited about running the company, they won't be," said John Morton, an independent newspaper analyst and head of Morton Research Inc.

"Obviously the employees have voting power that they might not have had before, (but) generally they wind up not having a profound influence on how the company is run," Morton said.

Some Tribune employees are skeptical about what amounts to investing in the company's current management.

"They are very top-down, they are very authoritarian and hierarchical, all of which are bad ways to run newspapers," said Michael Hill, a reporter with the The Baltimore Sun.

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News

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By Robert MacMillan and Jessica Hall

NEW YORK/PHILADELPHIA (Reuters) - Chicago real estate magnate Sam Zell may have edged out two billionaires to win the hand of Tribune Co., but it would be the media company's 20,000 rank-and-file workers who would pay most of the \$8.2 billion price using their retirement nest egg.

Tribune, publisher of the Los Angeles Times and Chicago Tribune and television broadcaster, would become privately held with an employee stock ownership plan (ESOP) owning most of the company. Zell would contribute \$315 million.

"If in fact this is going to be a real partnership, then it could be a really good thing for the Tribune Co. If, however, it's just an investment vehicle, the employees need to be very, very cautious going forward," said Linda Foley, president of The Newspaper Guild-Communications Workers of America union.

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Tribune and other U.S. newspaper publishers have suffered as advertising revenue and circulation have dipped. More people, particularly younger people, now get their news and entertainment from the Internet.

The company had been considering a buyout or the spin-off of various divisions after its largest shareholder, the Chandler Trusts, publicly aired their anger with the decline in its stock price last year.

The industry, in general, can use some new approaches -- and something that gives a real employee voice could be what we need," Salganik said.

The ESOP gives Zell a creative way to fund the deal and several tax benefits compared with a traditional leveraged buyout financed by debt.

Under the plan, instead of contributing to employees' 401K plans, Tribune would put money in the ESOP, which would invest in shares of the privately held company. The stock would be dispersed to eligible employees.

Contributions to the ESOP would be treated as paying off principal. As a result, both the principal and the interest could be deducted from the company's taxes, rather than just interest.

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